

MONTHLY ECONOMIC BRIEF

August 2019



Highlights

- US and EU condemned alleged human rights abuses in Zimbabwe.
- SADC against sanctions on Zimbabwe - as they militate against regional growth.
- July 2019 year to date trade deficit reached US\$674 million.
- Implied inflation reached a new post hyperinflation (2008) peak of 230% in Jul'19.
- ZSE total market capitalization retreated 13.1% to ZWL\$21.6 billion in August 2019.

Increasingly fragile relations

Reports of politically inclined abductions, intimidation and torture spiked during the month under review. The main opposition MDC alleged several abductions and torture of senior party members by suspected State security agents. Heavy police presence characterized most urban areas after MDC protesters vowed to defy police prohibition orders against MDC planned mass public protests.

Heads of Mission of the Delegation of the United States (US) and the European Union (EU) issued a joint statement condemning alleged human rights violations in Zimbabwe. Government said it was 'taken aback by the intrusive and judgmental attitude and the shocking partisanship informing the joint statement'. The increasingly fragile relationship between Zimbabwe and the US and EU threatens full international re-engagement.

SADC against sanctions

Foreign Affairs and International Trade Minister Dr. Sibusiso Moyo reportedly said the removal of sanctions on Zimbabwe will increase investment and aid the implementation of land and security sector reforms. He reiterated that government has already commenced reforms in many areas. He also disclosed that government and displaced commercial farmers were in negotiations on a final compensation figure.

The Southern African Development Community (SADC) declared 25 October 2019 a 'Solidarity

day' against sanctions imposed on Zimbabwe by the US and EU. SADC resolved to 'conduct various activities' in the respective SADC countries on the day to show displeasure and call on the immediate removal of the sanctions. SADC cites the sanctions on Zimbabwe as militating against regional growth.

YTD trade deficit to Jul'19 narrowed by 63%

Zimbabwe's net trade deficit for July 2019 closed at US\$54 million, 75% down from the prior month. The average monthly deficit since the beginning of the year is US\$100. Cumulatively, the year to date trade deficit reached US\$674 million, down 63% from US\$1.8 billion recorded in the same period last year.

A narrower trade deficit sounds well for foreign currency management. On the flipside, it signals declining effective domestic demand from restricted import ability; attributable to weak incomes and foreign currency constraints.

New import regulations for individuals

The Zimbabwe Revenue Authority (ZIMRA) issued new regulations; for the importation of commercial goods by individuals. Effective 9 September 2019, all individuals importing commercial goods (exceeding ZWL\$8,000) will be required to have a Business Partner Number from ZIMRA. The regulation is envisioned to aid formalization of Small to Medium Enterprises. The additional cost is likely to be transferred to consumers, further fuelling inflation.

Inflationary pressures persisted

According to the Zimbabwe Statistical Agency (ZIMSTAT); month on month inflation for July 2019 was 20.1%, down from 39.3% in the preceding month. The implied (using old-currency CPI base) year to date and year on year inflation rates would be 135% and 230.4%, respectively. In a Budget Statement last month, Government announced that it is suspending the publication of annual inflation citing a distorted base following a currency change in February 2019.

The outlook remains broadly inflationary in light of persistent exchange rate depreciation and associated pass through effects on ZW\$ consumer prices.





United States Dollar on the front foot

The United States Dollar (US\$) closed the month to 31 August 2019 stronger by 8.2% against the South African Rand (ZAR). This is partly a result of the US-China trade war which weighed down emerging market currencies, as well as concerns around South Africa's power utility Eskom raising fears over South Africa's fiscal outlook.

The Euro fell to its lowest level since May 2017. Euro depreciation was mostly attributable to continued Brexit uncertainty, particularly given the increased chance of a no-deal Brexit under Prime Minister Boris Johnson's administration. The general economic slowdown in Europe was also a contributing factor.

Commodities closed mixed

International commodity prices closed the month to 31 August 2019 mixed as shown below.

Commodity	Price	Aug'19	YTD'19
Nickel (usd/ton)	16 340,00	15,07%	41,59%
Crude Oil (usd/bbl)	60,83	-6,60%	13,11%
Gold (usd/oz)	1 526,23	6,64%	18,91%
Platinum (usd/oz)	925,40	5,80%	16,18%
Coffee (usc/lb)	95,65	-3,38%	-4,73%
Maize (usd/ton)	146,94	-11,18%	-0,67%
Wheat (usd/ton)	465,50	-5,72%	-8,37%
Sugar (usc/lb)	11,19	-8,20%	-8,65%
Cotton lint (usc/lb)	58,86	-7,12%	-18,93%

Global supply concerns continued to prop up nickel prices in light of a ban on raw nickel exports by the world's largest producer - Indonesia. Oil prices softened in line with depressed global demand as the US-China trade gridlock drags on - weighing on global manufacturing and oil demand.

Treasury still mapping the yield curve

Following the first Treasury Bills auction since 2012 in July 2019, 'only to test the market and map a yield curve as Treasury had no need for the money' on 22 August 2019, Treasury issued ZWL\$60 million at an average rate of 14.4% over 365 days from total bids of ZWL\$121 million.

Equities reversing earlier gains

The ZSE closed August 2019 predominantly bearish, as highlighted below.

Sector/Index	Value	Aug'19	YTD'19
Commodities	1840.77	-16.7%	8.3%
Consumer	914.20	-15.9%	4.9%
Financial	1091.90	-8.9%	18.1%
Listed Property	296.23	14.5%	38.9%
Manufacturing	445.26	-5.6%	40.4%
Industrial	553.59	-11.3%	13.6%
Mining	261.66	6.9%	14.9%
Top 10	148.96	-15.4%	2.7%
All Share	166.36	-11.1%	13.8%
Market Cap (ZWL bn)	21.600	-13.1%	10.6%

The following tables highlight the ZSE top and bottom three performing stocks for August 2019.

Top 3	Price ZWLc	Aug'19	YTD'19
FML	6.40	25.49%	-8.83%
DAWN	4.90	22.50%	96.00%
ARISTON	5.45	20.04%	127.08%

Bottom 3	Price ZWLc	Aug'19	YTD'19
SIMBISA	55.00	-44.99%	-24.20%
POWERSPEED	25.00	-30.56%	78.57%
OK	29.50	-26.25%	3.44%

The total value of trades on the local bourse decreased by 42.9% to ZWL\$108.9 million during the month ended 31 August 2019. The average daily value of trades closed the period under review at ZWL\$5.4 million, down 34.4%, compared to the prior month.

Economic Outlook

The near-term outlook is austere, dominated by a fragile political space, utility supply and cost constraints, tight liquidity as well as excessive inflation. The confluence of these factors weighs on the aggregate earnings outlook. The risk of further ZWL\$ depreciation anchors our inflation expectations. Prospects of an economic recovery hinges on a calm political environment and continued efforts of reengaging with the mainstream international community.

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