

MONTHLY ECONOMIC BRIEF

December 2019



Highlights

- Approximately 7.7 million Zimbabweans are food insecure - WFP.
- Cabinet resolved to reverse presidential election running mate clause.
- November 2019 poverty datum line increased by 15.7% to ZWL\$731.30 per person.
- Zimbabwe's human development ranking improved by three places to 150/189.
- ZSE total market capitalization retreated 5.5% to ZWL\$29.790 billion in December 2019.

One in two considered food insecure

The World Food Program (WFP) estimates that 7.7 mn Zimbabweans (about one in two) are food insecure, mostly due to drought conditions. The WFP warns that about US\$300 million is required in aid, as the country faces its worst hunger crisis in a decade. The risk of famine has been amplified, amid concerns the WFP could run out of funding as early as February 2020. The Famine Early Warning Systems Network classified Zimbabwe at Phase Three food crisis - signaling 'widespread acute malnutrition'.

Drought effects on households are exacerbated by broadly challenging macro-economic conditions - characterized by a tight fiscal and monetary stance towards policy rebalancing. Resultantly, the combination of depleting savings, rising consumer prices and dry fields suggests a harsh near-term outlook for the average household.

Workers reacting to galloping inflation...

Public service employees threatened industrial action alleging government's failure to honor earlier promises; particularly citing a 'festive season cost of living adjustment.' Meanwhile, the monthly poverty datum line for an urban family of five increased by 15.7% to ZWL\$3,656.48 (ZWL\$731.30 per person) in November 2019, up from ZWL\$3159.52 (ZWL\$631.90 per person) in the prior month. Monthly inflation was 17.5% in November 2019, translating to implied (pre-ZWL\$ base) year on year inflation of 481.1%.

Grain subsidy retained

Government retained subsidies on selected goods, including maize meal. Earlier, the 2020 national budget had proposed the lifting of such subsidies, citing their draining effect on national accounts. The policy reversal threatens overall policy certainty, though seemingly necessary and rational in the context of prevailing drought and associated food shortages. The tough trade-off between fiscal consolidation and social protection needs underlines the fragility of any near-term semblance of fiscal balance.

Sanctions debate worsening relations...

The 2019 Human Development Index (HDI) by the United Nations Development Program (UNDP) ranked Zimbabwe 150 out of 189 countries. In the prior year, Zimbabwe ranked 153, suggesting a slight improvement in human development. The UNDP classified Zimbabwe in the Medium Development category, together with Cameroon, while countries such as Rwanda and Nigeria are classified as Low Development. Norway leads global development standards, being classified as Very High Development.

The HDI is based on three development pillars; long and healthy life (measured by life expectancy), access to knowledge (expected and average years of schooling) as well as standard of living (GNI per capita). The UNDP noted that between 1990 and 2018; Zimbabwe's life expectancy improved by 3.1 years while expected years of schooling increased by 0.7 years. Weighing on development though is GNI per capita (standard of living), which shrunk by an estimated 1.2% over the same period.

Constitutional amendment...

The ruling ZANU-PF's annual conference endorsed President Mnangagwa as the party's sole 2023 Presidential election candidate. Meanwhile, the government gazetted the Constitutional Amendment Bill - repealing sections of the new (2013) constitution on Presidential running mates. Resultantly, the Bill empowers the president to hire and fire his deputies on various grounds, such as and not limited to physical incapacitation. The Bill is envisioned to go through public consultation, followed by Parliamentary debate in April 2020.





US\$ on the backfoot

Signs of thawing (trade) relations between the United States and China weighed on the United States Dollar (US\$) for most of December 2019. Resultantly, the US\$ retreated against most major trading currencies. The US\$ shed 1.7% against the Euro, closing the month under review at US\$1.12 per Euro. Against the South African Rand (ZAR), the US\$ retreated 4.7% to ZAR14.05 per US\$, during the period under review.

The ZWL\$ retreated 3.1% against the US\$ in December 2019, closing the month to 31 December 2019 at ZWL\$16.77 per US\$. The ZWL\$ shed 94% since parity with the US\$ was lifted in February 2019.

Commodity prices advanced

The month to 31 December 2019 closed with firm commodity price increases as highlighted in the table below.

Commodity	Price	Dec'19	FY'19
Nickel (usd/ton)	14 220,00	1,14%	23,22%
Crude Oil (usd/bbl)	66,7600	5,27%	24,14%
Gold (usd/oz)	1 522,84	4,57%	18,65%
Platinum (usd/oz)	969,39	7,81%	21,70%
Coffee (usc/lb)	131,95	12,54%	31,42%
Maize (usd/ton)	152,26	3,62%	2,93%
Wheat (usd/ton)	557,00	5,74%	9,65%
Sugar (usc/lb)	13,52	4,81%	10,37%
Cotton lint (usc/lb)	69,65	6,03%	-4,06%

The inverse relationship between commodity prices and the US\$ persisted as US\$ weakness propped up commodity (US\$ denominated) demand.

Coffee prices advanced the most during the month under review, with price support mostly driven by rising demand from Asia against depressed supply from major producers such as Brazil and Vietnam. Cotton prices closed the year weaker from their opening position, despite a late upturn. Cotton prices over the year were broadly weighed down by more competitively priced synthetic alternatives.

Equities closed Dec'19 predominantly softer

The ZSE industrial index retreated 4.4% in December 2019. The following table summarizes ZSE returns over the period under review.

Sector/Index	Value	Dec'19	FY'19
Commodities	2679.49	-14.8%	57.6%
Consumer	1237.46	-6.8%	42.1%
Financial	1467.99	0.7%	58.7%
Listed Property	550.19	3.1%	158.1%
Manufacturing	716.86	-2.2%	126.1%
Industrial	766.34	-4.4%	57.3%
Mining	316.66	-8.1%	39.1%
Top 10	202.68	-6.3%	39.8%
All Share	230.08	-4.5%	57.3%
Market Cap (ZWL bn)	29.790	-5.5%	52.5%

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

Top 3	Price ZWLc	Dec'19	FY'19
ART	13.00	62.50%	47.73%
EDGARS	17.85	35.48%	105.88%
ZIMRE	15.00	30.43%	485.94%

Bottom 3	Price ZWLc	Dec'19	FY'19
AFSUN	25.00	-42.50%	150.00%
OK	56.36	-37.05%	93.69%
POWERSPEED	20.00	-31.03%	42.86%

ZSE total trades closed December 2019 at ZWL\$190.9 mn; up 44.8% from the prior month. Foreign investors were net sellers at ZWL\$5.3 mn, bringing cumulative year to date foreign portfolio inflows to ZWL\$30.7 mn, compared to inflows of ZWL\$52.8 mn in 2018.

Economic Outlook

Symptoms of political-economy policy relapse threaten full international reintegration and associated support. Domestic policy reforms seem inadequate to deliver sustainable recovery, more so given adverse externalities such as drought and international commodity vulnerabilities. We maintain a flat to negative outlook over the foreseeable outlook.

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