

Monthly Economic Brief

December 2018



Highlights

President Mnangagwa was reaffirmed as the ruling party's 2023 presidential election candidate.

National gold outturn closed 2018 at an all-time peak (33.2 tons).

Inflation reached a post-hyperinflation peak of 31% in November 2018.

Currency and associated pricing distortions fuelled wide-spread wage increase pressures.

ZSE market capitalization advanced 12.05% to close December 2018 at \$19.534 billion.

Ruling party annual conference highlights...

The ruling ZANU-PF held its 17th annual national people's conference. Delegates reaffirmed President Mnangagwa as the party's candidate for the 2023 elections. Delegates also resolved to implement a zero tolerance on corruption agenda and intensify international reengagement efforts. Other resolutions included resumption of the youth service program in the first quarter of 2019 and that all war veterans must be allocated farmland. Overall, the party resolutions leave an arguably blurred line between party and national economic policies.

Political undertones rising, post elections

Post-election political fragility persisted, with the opposition MDC Alliance reportedly embarking on a regional outreach drive - to seek the intervention of African leaders in 'Zimbabwe's political and economic situation'. Going into 2019, the MDC Alliance reportedly declared a year of 'rolling mass action against the ZANU-PF regime'. Reports of civil and international organizations trying to broker 'talks' between the ruling ZANU-PF and opposition MDC Alliance have persisted, sustaining generalized uncertainty on the political-economy's outlook.

Gold outturn closed 2018 strongly; outlook weak...

National gold output closed 2018 at a record peak of 33.2 tons, representing growth of 34% from the 24.8 tons produced during the same period prior year. The previous annual peak was 27.1 tons, registered in 1999, while the lowest recorded annual outturn was 3.5 tons in 2008. Of concern is that average monthly output declined by 75% from 2.8 tons during the first 9 months of 2018 to 1.6 tons in the final quarter, in-part due to government policy which allocated less foreign currency to miners. Crudely extrapolating into 2019; a decline in aggregate output seems likely.

Revenue growth diluted by spending pressure

Preliminary estimates suggest that the Zimbabwe Revenue Authority (ZIMRA) exceeded its 2018 revenue target of \$4.3 billion. ZIMRA is estimated to have collected revenue in the region of \$5 billion. Growth in collections is encouraging, particularly in the context of previous chronic budget deficits and associated destabilizing spill-over effects on monetary policy.

Going forward, effective budget rebalancing will hinge significantly on authorities' ability to contain costs. Cost containment is notably compromised by public wage increase demands as well as predictions of an impending drought. Consequently, revenue growth has to significantly exceed the likely growth in spending to curtail further budget deficits.

Currency, pricing and incomes 'Molotov cocktail'...

Foreign currency shortages intensified, resulting in widespread pricing distortions as government insisted on parity between RTGS FCAs and Nostro FCAs. Consumer inflation reached a post-hyperinflation peak of 31% in November 2018, up from 20.9% in the preceding month. Monthly inflation was 9.2% against 16.4% in the prior month; driving year to date inflation to 30.3%. Inherent monetary policy imbalances fuelled multi-tier pricing frameworks with some market players exclusively

demanding hard currency settlement for their goods and services, ostensibly as a policy hedge.

In line with the inflated cost of living; wage increase pressures via industrial action ensued, led by public doctors (effective 1 Dec'18), with support from nurses and teachers. Payment in United States Dollars stood out among striking workers' demands - underlining the markets' compromised confidence in local (quasi) currencies. The concomitant risk is a further (cost-push) increase in general consumer prices.

Going forward, in light of the compromised sustainability of the status quo, we anticipate a movement in currency regime either towards re-dollarization as the market has dictated or de-dollarization. Either of the two would mitigate prevailing exchange rate distortions.

Dollar traded mixed...

The US\$ traded mixed during the month ended 31 December 2018, in line with mixed global themes. Key themes fuelling currency market volatility included tensions around the United Kingdom's Brexit deal, thawing relations between China and the United States following trade war concerns and South Africa's impending 2019 general elections.

The United States Dollar (US\$) traded within a narrow range against the Euro, closing the month under review 0.52% weaker at US\$1.14 per Euro. Against the South African Rand (ZAR), the US\$ advanced 5.28% to close the month at ZAR14.41 per dollar.

Commodity prices struggled for direction

International commodity prices closed the month under review mixed as highlighted below.

Commodity	Price	Dec'18	YTD
Nickel (usd/ton)	11 540,00	6,02%	-4,55%
Crude Oil (usd/barrel)	53,78	-8,40%	-19,10%
Gold (usd/oz)	1 283,48	5,12%	-1,01%
Platinum (usd/oz)	796,53	-1,51%	-14,32%
Coffee (usc/lb)	100,40	-9,87%	-19,55%
Maize (usd/ton)	147,92	0,60%	7,20%
Wheat	508,00	-0,39%	19,11%
Sugar (usc/lb)	12,25	-4,52%	-18,11%
Cotton lint (usc/lb)	72,60	-7,81%	-7,62%

Oil prices dipped further on global glut concerns from production outstripping demand. The dip in oil prices is broadly expected to translate into a *de facto* tax cut for oil and petroleum-product importers - mitigating inflation pressures, all else constant.

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Locals continued to dominate ZSE trades

The local bourse closed the month to 31 December 2018 weaker, with the benchmark ZSE industrial index closing 9.57% softer, as highlighted below.

Sector/Index	Value	Dec'18	YTD
Commodities	1700,53	0,12%	71,77%
Consumer	870,81	-13,09%	75,69%
Financial	924,87	271,28%*	393,76%
Listed Property	213,17	0,64%	6,50%
Manufacturing	317,10	7,72%	62,23%
Industrial	487,13	-9,57%	46,28%
Mining	227,71	9,18%	59,91%
Top Ten	145,02	-12,10%	45,02%
All Share	146,24	-8,83%	46,24%
Market Cap (\$ bln)	19 534	12,05%	93,02%

*Cassava shares listed in November but price rebased to Jan 2018

ZSE market capitalisation gained 12.05% during the month under review to extend full year gains to 93.02% - supported by a combination of share price increases; new listings (Cassava) and issue of additional shares by listed companies.

The following tables highlight the ZSE top and bottom three performing stocks for December 2018.

Top 3 Performers	Price USc	Dec'18	YTD
NTS	1,80	44,00%	56,52%
NAMPACK	30,00	39,53%	66,67%
BINDURA	9,45	34,62%	71,20%

Bottom Performers	Price USc	Dec'18	YTD
MEDTECH	0,02	-33,33%	-60,00%
MASIMBA	7,56	-26,17%	5,00%
FIDELITY	8,75	-19,72%	-20,45%

Locals dominated the market as foreign investor participation eased from 31.3% to 26.2% in December 2018. Cumulative net foreign portfolio inflows reached \$52.8 million in 2018, compared to net outflows of \$108.7 million in the prior year.

Economic Outlook

Inherent political undertones, exacerbated by rising public disquiet over generally tough economic conditions pose a threat to environment stability. Currency distortions and associated spill-over effects on pricing matrices pose the single largest macroeconomic theme ahead of the 2019 monetary policy statement. Overall, the risk of a reactionary policy relapse threatens sustainable recovery prospects.