

MONTHLY ECONOMIC BRIEF

February 2020



Highlights

- IMF projects Zimbabwe's 2020 GDP growth at 0.8% and inflation of 52%.
- Government introduced an employee mutual fund and subsidized commodity shops.
- RBZ is targeting reserve money growth below 10% for 2020 (from 167% last year).
- January 2020 monthly inflation was 2.2%, down from 16.6% in the prior month.
- ZSE market capitalization advanced 38.3% to ZWL\$58.291 billion in December 2019.

Crises and missteps threaten growth

The IMF noted that Zimbabwe is facing economic and humanitarian crises, compounded by mixed reform implementation and 'policy missteps' by authorities. Further, the IMF opined that its informal technical assistance program (SMP) with Zimbabwe is now off track. Finally, the IMF revised Zimbabwe's 2020 growth forecast from 2.7% to 0.8% (against -8.3% last year). Inflation and exchange rate projections to year-end were set at 52% and ZWL\$24.5, respectively.

A boots-on-ground-perspective assumes the IMF forecasts as a best-case scenario, particularly on inflation and exchange rates. Adverse exchange rate and inflation risks are still dominant; fueled by the inherent risk of unbudgeted and arguably inescapable fiscal pressures. The growth forecast seems symbolic in expressing that there will be no material growth in 2020. Overall, prospects of full international reengagement seem distant under the prevailing (economic) framework.

EU updates sanctions list

The European Union (EU) has removed top Government officials from its sanctions list and promised to move towards a "more constructive EU-Zimbabwe relationship". The EU renewed sanctions against Zimbabwe Defence Company for another year. The United States however extended sanctions on Zimbabwe for another year for failure to implement Political and Economic reforms.

New incentive measures for workers

Government launched an employee mutual fund. All public workers will be charged (with an opt-out-option) 2.5% on their gross earnings towards the fund. The contributions will be augmented by a ZWL\$100 mln injection from government. The pooled funds are meant for lending to public workers at concessionary rates. Further, government plans to set up shops with subsidized commodities for public employees (Silo Shops) as well as army personnel (Garrison Shops).

RBZ targets inflation below 50% by year-end

The Reserve Bank of Zimbabwe (RBZ) 2020 monetary policy targets reserve money growth below 10%. Consumer inflation is projected to close the year below 50%. In 2019, reserve money growth closed at 167%.

All banks closed 2019 ahead of regulatory capital requirements, though one bank was below the prudential 30% liquidity threshold. To deal with the uneven distribution of deposits, the RBZ plans to offer debt instruments to 200 entities (holding 50% of total deposits). To address cash shortages, new notes and coins are being imported, targeting a cash to deposits ratio of 10%. Overall, policy efficacy is likely to hinge on the degree to which policy prescriptions reach the informal market.

Industry utilizing 36.4% of installed capacity

Manufacturing companies were operating at 36.4% of their installed capacity in 2019, down from 48% in the prior year. All things normal, declining capacity utilization would be associated with shrinking demand. The decline could also be representative of production bottlenecks: such as and not limited to utility supply constraints, import constraints and a generally high production cost base.

Consumer prices increased 2.2% in Jan'20

Average consumer prices increased by 2.2% in January 2020, down from 16.6% in the prior month. Compared to January 2019, consumer prices increased by 473.3% (on the pre-ZWL\$ currency basis). The likelihood of continued single digit monthly inflation is compromised by inherent exchange rate vulnerability.



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Dollar on the front-foot

The United States Dollar (US\$) lived up to its haven status in February 2020, maintaining its historic correlation with global market volatility. Panic across most asset classes, fueled by a novel global epidemic in the form of 'Coronavirus', led to portfolio shifts towards the US\$.

The US\$ firmed 4.2% and 0.9%, against the South African Rand (ZAR) and the Euro; closing the month under review at ZAR15.36 per US\$ and US\$1.09 per Euro, respectively. Against the Zimbabwean Dollar, the US\$ firmed 3.4% to ZWL\$17.96 per US\$ on the interbank market.

Weak demand weighed down commodities

Depressed global economic activity weighed on international commodity prices as highlighted in the following table.

Commodity	Price	Feb'20	YTD'20
Nickel (usd/ton)	12,275.00	-2.04%	-13.68%
Crude Oil (usd/bbl)	51.11	-12.54%	-23.44%
Gold (usd/oz)	1,622.44	2.75%	6.54%
Platinum (usd/oz)	874.13	-8.88%	-9.83%
Coffee (usc/lb)	111.40	10.57%	-15.57%
Maize (usd/ton)	144.68	-3.10%	-4.98%
Wheat (usd/ton)	522.75	-6.69%	-6.15%
Sugar (usc/lb)	14.02	-4.37%	3.70%
Cotton lint (usc/lb)	61.25	-10.56%	-12.06%

As was the case with US\$, gold's safe-haven attractiveness prevailed. China, the Coronavirus epicenter, accounts for more than half of global base metal consumption. Crude oil prices were also notably down due to low demand and the economic impact from the coronavirus. Cotton notably also went against the general trend, though mostly towards price correction from an earlier dip.

Latest TB issuance oversubscribed...

The Reserve Bank of Zimbabwe issued ZWL\$200 mln worth of TBs with tenure of 272 days on an open tender basis. The proceeds of the issue are meant to fund government operations. The issue was oversubscribed by ZWL\$70 million with bids ranging from 14% to 30%. Allotment was at 14%.

Local equities advanced...

Local equities gained ZWL\$16.14 billion in value during the month ended 29 February 2020. All the major indices on the local bourse closed in positive territory as summarized below.

Sector/Index	Value	Feb'20	YTD'20
ZSE All Share	473.13	42.1%	105.6%
ZSE Top 10	399.69	27.6%	97.2%
ZSE Industrial	1564.9	40.7%	104.2%
ZSE Market Cap (ZWL billions)	58,291	38.3%	95.7%

The following tables highlight the ZSE top and bottom performing stocks in February 2020.

Top 3	Price ZWLc	Feb'20	YTD'20
Cafca	993.00	313.75%	457.80%
Hippo	691.00	254.36%	254.36%
Truworths	8.06	253.51%	253.51%

Bottom 3	Price ZWLc	Feb'20	YTD'20
Zimplow	96.00	-12.91%	58.68%
Zimpapers	30.00	-6.25%	123.88%
FBC Holdings	90.00	-1.04%	37.93%

Monthly trades gained 18.05% to an all-time peak at ZWL\$360 mln in February 2020. Daily trades averaged ZWL\$18 mln, up 29.9%. Foreign investors registered a net monthly net sell off of ZWL\$53.9 mln. Foreign trades made up 21.4% of trades during the month. Overall equity trades were supported by their inflation hedge attractiveness.

Economic Outlook

Monetary policy proposals seem intuitively sound, yet their efficacy is considerably compromised by the economy's dual nature. In the absence of macro-economic policy that filters through to the growing informal sector, the (ongoing) policy reform transition is likely to last longer than initially envisioned. International reengagement progress has so far been painfully slow. Monetary policy still anchors environment risks over the foreseeable outlook, with noteworthy spillover adverse effects on overall environment stability.

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