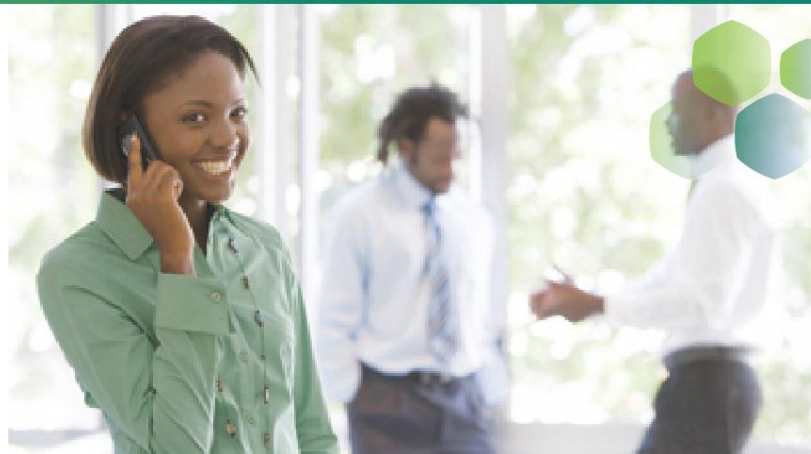


# Monthly Economic Brief

## November 2018



### Highlights

**Commonwealth Observer Group could not fully endorse Zimbabwe's 2018 election process.**

**Zimbabwe lost an appeal against a US\$195 million compensation claim for a displaced farmer.**

**2019 national budget targets 5% (of GDP) budget deficit, down from 11.8% in 2018.**

**Consumer inflation reached a post-hyperinflation peak of 20.9% in October 2018.**

**ZSE market capitalization retreated 3.6% to close November 2018 at \$17.433 billion.**

#### International re-engagement 'at risk'

The Commonwealth Observer Group presented its final report on Zimbabwe's 2018 elections. The Group highlighted improvements from prior elections while noting some concerns that 'unlevelled the playing field.' Resultantly, the Group 'could not endorse all aspects of the process as credible, inclusive and peaceful.' The report will be assessed by the Commonwealth as one aspect under Zimbabwe's readmission process. Consequently, the pace and magnitude of Zimbabwe's international reintegration hinges significantly on the report.

#### Zimbabwe ordered to honour compensation claim

The World Bank affiliated International Centre for Settlement of Investment Disputes (ICSID) rejected Zimbabwe's application to annul US\$195 million compensation to a displaced former commercial farmer (Adam von Pezold *et al*). Government had earlier set aside \$53 million towards compensation of displaced farmers in its 2019 national budget, against total claims estimated between \$3 billion and \$9 billion by approximately 4,000 displaced former farmers - underlining inherent fiscal pressures.

#### Auditor-General's public audit report...

The Auditor-General's 2017 public audit report noted Treasury's failure to properly record public debt. The report cited some foreign loans being erroneously classified as domestic debt. The report also noted that Treasury does not have access to the Zimbabwe Revenue Authority's internal system thereby compromising transparency in the principal-agent relationship.

The same report showed that the Zimbabwe Electricity Transmission and Distribution Company closed 2017 with accumulated losses of \$524.9 mln, up from \$444.3 mln prior year. The company registered negative working capital of \$687.3 mln over the same period and has defaulted on foreign loan repayments. Treasury recently reiterated its intent to restructure State Owned Entities.

#### 2019 budget targets austerity for prosperity

Finance Minister Hon. Prof. Mthuli Ncube presented the 2019 national budget (themed *Austerity for Prosperity*). The budget fits within the broader two-year Transitional Stabilization Program towards Vision 2030 - upper middle class economy. The budget identifies chronic deficits as the underlying cause of wide-spread (and well documented) fiscal and monetary vulnerability. Policy proposals include refinement of the financial transaction tax (2%) accompanied by a salary cut for senior public employees and tight borrowing limits.

The budget targets a budget deficit of 5% of GDP in 2019, down from 11.8% in 2018. Revenue is projected to increase by 24.5% to \$6.6 billion with expenditure remaining flat at \$8.2 billion. A projected budget deficit of \$1.6 billion; TB maturities of \$2.2 billion; RBZ overdraft position of \$2.5 billion and external debt repayment \$0.2 billion in 2019 raises a financing requirement of approximately \$6.5 billion.

Treasury committed to maintain value of electronic balances at the current parity with US\$ - in order to protect people's savings and balance sheets.'

## Consumer priced spiked in October 2018

Consumer inflation reached a post-hyperinflation peak of 20.9% in October 2018, up from 5.4% in the preceding month. Monthly inflation surged from 0.9% in the prior month to 16.4%; driving year to date inflation to 19.3%, against 2.2% in the corresponding period last year. Tradable goods drove inflation pressures. Reports of a climb-down from the October 2018 consumer price peak raise a muted, yet real, possibility of monthly deflation in November 2018.

The poverty datum line for an average of five people closed October 2018 at \$691.00, up 15.5% from the \$598.13 registered in the prior month.

## Dollar on the back foot...

The United States and China called a truce on their trade tiff - allowing a 90 days period for reconciliatory talks. Escalating trade tensions between the world's two largest economies had driven safe haven demand for the defensive United States Dollar (US\$). United States President Donald Trump and his Chinese counterpart Xi Jinping agreed on the truce at the 2018 G20 summit, leading to a US\$ sell-off.

The G20 development also buoyed emerging market currencies, in line with an arguably improved global demand outlook for commodity exports. The US\$ retreated 0.1% against the Euro to close the month ended 30 November 2018 at \$1.14 per Euro. Against the South African Rand (ZAR), the US\$ retreated a noteworthy 6.4% to ZAR13.69 per US\$.

## Commodity prices struggled for direction

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

Commodity	Price	Nov'18	YTD
Nickel (usd/ton)	10 885,00	-6,97%	-9,97%
Crude Oil (usd/barrel)	58,71	-23,03%	-11,69%
Gold (usd/oz)	1 220,91	0,27%	-5,84%
Platinum (usd/oz)	808,75	-3,22%	-13,01%
Coffee (usd/lb)	111,40	-1,02%	-10,74%
Maize (usd/ton)	147,04	2,61%	6,56%
Wheat	510,00	3,03%	19,58%
Sugar (usc/lb)	12,83	-3,32%	-14,24%
Cotton lint (usc/lb)	78,75	2,43%	0,20%

Oil prices dipped significantly on global glut concerns from production outstripping demand. The dip in oil prices is broadly expected to translate into a *de facto* global tax cut - mitigating inflation pressures.

## The ZSE closed slightly weaker

The local bourse traded sideways during the month ended 30 November 2018, with the industrial index closing 2.03% lower as highlighted below.

Sector/Index	Value	Nov'18	YTD
Commodities	1698,42	-9,20%	71,56%
Consumer	1001,97	-3,88%	102,16%
Financial	249,11	5,66%	32,99%
Listed Property	211,82	-2,17%	5,82%
Manufacturing	294,37	3,64%	50,60%
<b>Industrial</b>	<b>538,66</b>	<b>-2,03%</b>	<b>61,75%</b>
<b>Mining</b>	<b>208,56</b>	<b>-4,04%</b>	<b>46,46%</b>
<b>Top Ten</b>	<b>164,98</b>	<b>-1,49%</b>	<b>64,98%</b>
<b>All Share</b>	<b>160,40</b>	<b>-2,09%</b>	<b>60,40%</b>
<b>Market Cap (\$ bln)</b>	<b>17 433</b>	<b>-3,64%</b>	<b>72,26%</b>

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

Top 3 Performers	Price USc	Nov'18	YTD
RTG	2,00	37,93%	100,00%
NMBZ	24,00	20,00%	166,67%
ZB	39,50	19,34%	9,72%

Bottom Performers	Price USc	Nov'18	YTD
AFSUN	10,00	-32,20%	108,33%
FML	14,74	-24,41%	-24,41%
HIPPO	170,50	-23,88%	-3,13%

ZSE total value of trades retreated 26.8% to \$118 million in November 2018. The daily average value of trades during the month under review also shed 23.5% to \$5.4 million. Foreign investor participation decreased from 34.6% to 31.3% as foreign investors sold out of the local bourse.

## Economic Outlook

Budget proposals are in line with the Transitional Stabilisation Program (Oct'2018 to Dec'2020) blueprint. As such, policy pronouncements are skewed towards stabilization rather than growth. Fiscal consolidation presents a likely dip in aggregate earnings, supporting a sustainable post-rebalancing positive outlook.

Currency uncertainty remains a pain point, a particularly fragile one in the context of value preservation. This notwithstanding, the transmission mechanism from fiscal to monetary policy suggests fiscal consolidation could feed into enhanced monetary policy efficacy. Overall, caution remains necessary when trading in monetary assets.

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