

MONTHLY ECONOMIC BRIEF

July 2019



Highlights

- The Zimbabwe Anti-Corruption Commission hit the ground running.
- 2019 full year budget revised from ZWL\$8.2 billion to ZWL\$18.6 billion.
- Average electricity tariff revised up by up to 356%.
- Inflation reached a new post hyperinflation (2008) peak of 176% in June 2019.
- ZSE total market capitalization retreated 8.8% to ZWL\$24.8 billion in July 2019.

Housecleaning issues...

On the 15th of July 2019 President Mnangagwa appointed an eight member commission to lead the Zimbabwe Anti-Corruption Commission (ZACC). The eight were selected from a pool of 12 recommended by Parliament following public interviews of 38 candidates. ZACC is broadly expected to zero-in on alleged irregularities stemming from the Auditor General's report, the NSSA audit report, Hwange Colliery issues as well as Command agriculture concerns.

Earlier to the appointments, ZACC officers had been endowed with arresting powers under Statutory Instrument (SI) 143 of 2019. The move is envisioned to enhance ZACC's effectiveness in addressing corruption. By the end of July 2019, ZACC had made several high profile arrests on serious graft allegations. A major highlight was the arrest of current Minister of Tourism Hon. Prisca Mupfumira. ZACC has promised more action as the anti-corruption drive advances.

Skating on thin ice...

The United States imposed targeted sanctions on Zimbabwe's Ambassador to Tanzania; Anselem Nhamo Sanyatwe (and his wife). He faces allegations of leading security forces that killed several civilians during post-election protests on 1 August 2018. The (targeted) measure is of no direct consequence to the macro economy, but is of grave symbolic importance. It ostensibly sends a warning that the 'international community' is watching and is growing less accommodative.

More pain... as per plan (TSP)

Treasury registered a cash budget surplus of ZWL\$804 million in H1'2019, from ZWL\$4.9 billion in revenues. This notwithstanding, and citing the need to deliver social safety nets as well as funding infrastructure and agriculture; Treasury projects a full year deficit of ZWL\$4.6 billion (4% of GDP) after increasing its full year spending target by 142% to ZWL\$18.6 billion. A noteworthy positive in the budget mix is a 38% capital spending allocation.

The budget tone is in synch with the Transitional Stabilization Program (TSP) covering Oct'2018 to Dec'2020. As such, the budget seems focused on delivering TSP quantitative targets; maintaining a painful, though arguably necessary austere course. Tax relief measures such as individual income tax revisions are likely to be dwarfed by upward revisions in public service fees. The near-term net effect is a depressed aggregate forward earnings outlook.

Load shedding: turning the corner?

Electricity supply constraints persisted, with load shedding of up to 18 hours per day. The adverse impact of load shedding escalated to the extent of some mobile operators temporarily shutting down services. Fuel supplies were also strained as households and businesses resorted to 'backup' generators. Effective 1 August 2019, power tariffs were increased by up to 356%. The tariff hike is envisioned to improve import ability and electricity infrastructure investment.

Inflation... still no ceiling in sight?

Average consumer prices increased by 176% over the 12 months to June 2019 according to ZIMSTAT. On a monthly basis, June 2019 inflation was 39%. Inflation pressures are mostly attributable to (ongoing) exchange rate pass-through effects on imported product prices.

The Minister of Finance proposed a suspension on the publication of year on year inflation until Feb'2020. He reportedly cited distorted base effects following a change in currency in Feb'2019. Technicalities behind the measure remain arguable, yet the impact is likely net-negative. Of primary concern is that it could open inflation reporting to destabilizing malcontents.





United States Dollar on the front foot

The Dollar advanced 1.9% and 0.1% against the Euro and South African Rand (ZAR) to US\$1.1 per Euro and ZAR14.2 per dollar, respectively, during the month ended 31 July 2019. Dollar appreciation was in-part a recovery from earlier fears that U.S authorities were warming up to the idea of undervaluing the dollar to make U.S exports more competitive. The ZWL\$ retreated 29.9% against the dollar in July 2019, closing at ZWL\$9.45 to the dollar. Cumulatively, the ZWL\$ has retreated 73.5% from ZWL\$2.5 per dollar since the lifting of the hard peg in February 2019, as it tries to establish a steady state value.

Commodities closed mixed

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

Commodity	Price	Jul'19	YTD'19
Nickel (usd/ton)	14 200.00	12.16%	23.05%
Crude Oil (usd/bbl)	65.13	-2.10%	21.10%
Gold (usd/oz)	1 431.20	1.30%	11.51%
Platinum (usd/oz)	874.70	7.09%	9.81%
Coffee (usc/lb)	99.00	-9.05%	-1.39%
Maize (usd/ton)	165.44	-6.82%	11.84%
Wheat (usd/ton)	493.75	-9.07%	-2.81%
Sugar (usc/lb)	12.19	-4.69%	-0.49%
Cotton lint (usc/lb)	63.37	-4.27%	-12.71%

Nickel prices registered an aggressive upswing, supported by worries of a possible ore export ban by major producer Indonesia. The ban was set for 2022, but market rumour of the ban being pulled to 2019 spurred speculative demand.

Government back on the market

The first Treasury Bills (TBs) auction since 2012 was conducted, 'only to test the market and map a yield curve as Treasury has no need for the money'. ZWL\$80 million was offered over 91, 182, and 365 days; of which ZWL\$23 million was allotted at weighted average rates of 16.5%, 19.6% and 17%, respectively. Bids totaled ZWL\$51 million ranging from 13% to 47%. Bid rates partly capture inflation expectations.

Equities reversing earlier gains

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

Sector/Index	Value	Jul'19	YTD'19
Commodities	2 209.77	-8.3%	29.9%
Consumer	1 088.14	-7.5%	25.0%
Financial	1 198.87	-13.2%	29.6%
Listed Property	258.67	-15.0%	21.3%
Manufacturing	471.43	2.6%	48.7%
Industrial	624.41	-8.6%	28.2%
Mining	244.58	-4.2%	7.4%
Top 10	175.98	-13.6%	21.3%
All Share	187.12	-11.2%	28.0%
Market Cap (ZWL bn)	24.846	-8.8%	27.2%

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

Top 3	Price ZWLc	Jul'19	YTD'19
POWERSPEED	36,00	44,00%	157,14%
ZIMPLOW	50,25	25,63%	104,93%
BINDURA	10,50	24,85%	11,11%

Bottom 3	Price ZWLc	Jul'19	YTD'19
FML	5,10	-34,62%	-27,35%
EDGARS	16,00	-33,33%	56,86%
TURNALL	8,00	-27,27%	59,36%

ZSE trades retreated 19% to ZWL\$191 million in July 2019. Locals sold out of the market as foreign investors were net buyers, with net portfolio inflows of ZWL\$22.4 million. Since the beginning of the year net foreign inflows reached ZWL\$18.1 million, compared to ZWL\$68.7 million in the corresponding period last year.

Economic Outlook

Risks are skewed downwards. The confluence of fiscal consolidation and liquidity tightening against galloping consumer inflation weighs heavily on the aggregate earnings outlook. Policy efficacy is threatened by the generalized paucity of market confidence as a catalyst. Overall, recession and excess inflation conditions dominate the near-term outlook.

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