

# MONTHLY ECONOMIC BRIEF

## October 2019



### Highlights

- Government projects growth of 4.6% in 2020 recovering from a contraction of 6.5% in 2019
- Debate over sanctions widening the rift between Zimbabwe and the US
- The RBZ will be introducing a new ZWL\$2 and ZWL\$5 bank note
- Trade balance narrows by 62.3%
- ZSE total market capitalization advanced 2.1% to ZWL\$31.558 billion in October 2019.

### 2020 Pre-budget strategy...

The 2020 pre-budget strategy paper targets GDP growth of 4.6% next year, a noteworthy rebound from a projected contraction of 6.5% in 2019. Nominal GDP is projected to be ZWL\$209.3 billion in 2020, revenues are expected at ZWL\$24.8 billion (11.8% of GDP), while national expenditures are estimated at ZWL\$28.5 billion (13.6% of GDP). Resultantly, a ZWL\$3.7 billion (1.8% of GDP) budget deficit is projected.

The 2020 growth forecast is premised on the assumption of improved foreign currency availability and a decent rainfall season supporting aggregate demand.

### Sanctions debate worsening relations...

Government declared the 25th of October a public holiday to push for the lifting of sanctions. The government wants sanctions lifted because they are 'blocking lines of credit and trade'. The US Ambassador to Zimbabwe however said that sanctions are not behind the economic deterioration. Instead he attributed the deterioration to corruption, economic mismanagement and policy inconsistency.

Meanwhile the foreign affairs minister has threatened to expel the US ambassador on the basis of political interference. This move suggests a further strain in Zim-US relations. The international community has expressed the need for political reforms in Zimbabwe as a key pre-condition for investment. Without these political reforms it is likely that the country will continue to experience international isolation.

### New bank notes coming...

The RBZ will be introducing a new ZWL\$2 and ZWL\$5 bank note on the 11<sup>th</sup> of November. The reason behind this move has remained unclear to many economic agents, igniting fears of printing of cash which resulted in hyperinflation in 2008. Authorities however have 'reassured' the nation that cash in circulation will be kept within 10% - 15% of money supply.

### Hyperinflationary accounting ...

Zimbabwe's listed companies will start presenting their financial statements using IAS 29 - Financial Reporting in Hyperinflationary Economies following approval by the Public Accountants and Auditors Board (PAAB).

Month-on-month inflation rate marginally decreased by 0.35 percentage points in September 2019 to 17.72% from 18.07% in August 2019. The implied year-on-year inflation drawn from the official price statistics shows a significant increase to 353.3% from the August figure of 288.5%. Drivers of inflation are increases in food prices which increased by 19.55% in September.

### Improvement in the trade balance...

Zimbabwe's net trade position recorded a technical improvement in the month of September 2019. The September 2019 trade deficit was US\$25.3m which is a 34.8% decrease from the previous month. Between January and September 2019 the trade deficit was US\$743.9m which is a notable 62.3% decline from US\$1.9b recorded in the same period in 2018.

The closing trade gap is largely attributed to a high gold price even though Gold output for the year is down. Improved imports during the year have also played a significant role. Government targets to end the year with a trade deficit of US\$1 billion, compared to a closing deficit of US\$2.4bn for the full year 2018.

### Public Doctors strike...

Medical doctors in Zimbabwe have been on strike for more than 2 months, citing incapacitation because of salaries having been





eroded by inflation. They are also asking for improved working conditions and resources in public hospitals so that they can give their patients adequate medical services.

The Government recently dismissed 211 doctors for engaging in an illegal strike. The strike has seriously compromised health delivery system in the country.

### US\$ mixed performance

The United States dollar (USD) closed the month of October 2019 mixed as a result of the trade war between the US and China and relatively weaker economic performance in the US, shown by retail sales falling for the first time in 7 months. The South African Rand (ZAR) on the other hand strengthened during October, on the back of improved investor confidence.

The ZWL\$ retreated 3.13% against the US\$ in October 2019 closing the month under review at ZWL\$15.67 per US\$.

### Commodities prices under pressure

International commodity prices closed the month to 31 October 2019 mostly positive as shown below.

| Commodity            | Price     | Oct'19 | YTD'19  |
|----------------------|-----------|--------|---------|
| Nickel (usd/ton)     | 16,890.00 | -2.96% | 46.36%  |
| Crude Oil (usd/bbl)  | 60.3600   | -0.97% | 12.24%  |
| Gold (usd/oz)        | 1,507.84  | 1.60%  | 17.48%  |
| Platinum (usd/oz)    | 936.09    | 2.25%  | 17.52%  |
| Coffee (usc/lb)      | 101.00    | 0.35%  | 0.60%   |
| Maize (usd/ton)      | 152.94    | 4.37%  | 3.39%   |
| Wheat (usd/ton)      | 507.00    | 3.73%  | -0.20%  |
| Sugar (usc/lb)       | 12.31     | -2.84% | 0.49%   |
| Cotton lint (usc/lb) | 65.12     | 7.30%  | -10.30% |

Depressed global demand was a major factor in the decline of crude oil price although there is upward pressure from the tension between Iran and Saudi Arabia. Cotton prices on the other hand recovered from an oversell in the previous months.

### Equities closed October 2019 firmer

The ZSE closed October 2019 bullish, with gains across all indices as highlighted below.

| Sector/Index               | Value         | Oct'19       | YTD'19       |
|----------------------------|---------------|--------------|--------------|
| Commodities                | 3092.14       | 33.3%        | 67.0%        |
| Consumer                   | 1338.09       | 46.7%        | 54.0%        |
| Financial                  | 1493.19       | 31.8%        | 55.6%        |
| Listed Property            | 423.89        | 16.6%        | 62.0%        |
| Manufacturing              | 739.45        | 45.6%        | 104.4%       |
| <b>Industrial</b>          | <b>800.15</b> | <b>39.9%</b> | <b>59.0%</b> |
| <b>Mining</b>              | <b>265.04</b> | <b>21.4%</b> | <b>39.5%</b> |
| <b>Top 10</b>              | <b>221.94</b> | <b>46.4%</b> | <b>50.4%</b> |
| <b>All Share</b>           | <b>239.44</b> | <b>39.8%</b> | <b>59.0%</b> |
| <b>Market Cap (ZWL bn)</b> | <b>31,558</b> | <b>2.6%</b>  | <b>61.6%</b> |

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

| Top 3     | Price ZWLc | Oct'19  | YTD'19    |
|-----------|------------|---------|-----------|
| ARISTON   | 19.05      | 124.12% | 693.75%   |
| MEDTECH   | 0.76       | 58.33%  | 3,700.00% |
| DAIRIBORD | 56.25      | 51.01%  | 241.95%   |

| Bottom 3    | Price ZWLc | Oct'19  | YTD'19  |
|-------------|------------|---------|---------|
| SEED CO LTD | 158.00     | -28.18% | -23.96% |
| BNC         | 13.00      | -27.78% | 37.57%  |
| FCB         | 9.30       | -22.18% | 57.63%  |

Total ZSE trades firmed 29.9% in October 2019 to ZWL\$216 million. Foreign investors were net buyers on the local bourse, closing on a net portfolio inflow position of ZWL\$ 5.4 million.

### Economic Outlook

Government growth projections seem ambitious in light of inherent structural vulnerabilities. Foreign policy is showing concerning signs of relapse. Fiscal relapse is also increasingly tangible as earlier surpluses could be reversed. Associated deficit funding needs threaten monetary policy stability.

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