

MONTHLY ECONOMIC BRIEF

MARCH 2019



Highlights

- Sustained strategic isolation threatens foreign funds inflows.
- Cyclone 'Idai' left unprecedented human and physical asset damage.
- RTGS\$ depreciation on the interbank auction platform persisted post partial liberalization.
- Average consumer prices increased by 59.4% between February 2018 and February 2019.
- ZSE total market capitalization retreated 18.4% to ZWL16.235 bn in February 2019.

US sanctions on Zimbabwe extended

The United States extended sanctions on Zimbabwe citing an 'unusual and extraordinary threat to American foreign policy'. In a statement, the United States Embassy in Harare reiterated that sanctions on Zimbabwe are targeted and not meant to harm the ordinary Zimbabwean. The United States targeted sanctions list for Zimbabwe includes 84 individuals and 56 entities - accused of gross corruption and/or human rights abuses.

The impact of sanctions is likely to go beyond the targeted list, due to the influence of the targeted individuals and entities. Zimbabwe has been on an international re-engagement drive, emphasizing the need to lift sanctions. Sustained sanctions suggest need for further policy reviews towards full international reintegration. Compromised foreign relations threaten debt rescheduling and foreign funding prospects.

Acts of God expose structural fragility

In February 2019, the United Nations (UN) warned that more than five million people in Zimbabwe required food aid due to El-Nino-induced drought conditions. A month later, the already dire situation was worsened by tropical cyclone 'Idai' damage of unprecedented magnitude that hit Zimbabwe, Mozambique and Malawi. The UN estimated that more than 250 people died, 90,000 people were displaced and 300 are 'missing' in Zimbabwe only. The UN also estimates that 95% of physical infrastructure was damaged in Chimanimani district.

Cyclone Idai's true economic cost is yet to be fully quantified. What is certain though, is a drain on an already compromised fiscus - with ZWL100 million having been set aside for relief and rehabilitation efforts. Private sector and international support to complement government efforts has been particularly encouraging - despite occasional allegations of misappropriation and politicization of aid. The natural catastrophes exposed the country's fragility as a small, partially isolated, economy.

Tobacco marketing season off to a slow start

The 2019 tobacco marketing season opened on 20 March 2019. A Central Bank directive that farmers be paid in ZWL and apply for settlement of 50% of net sales proceeds in their FCA accounts attracted adverse sentiment with some farmers demanding full settlement in hard US\$. The directive has since been amended to make it more acceptable. In the first eight trading days to 31 March 2019, deliveries to the auction floors closed at 0.5 mn tons, down 93% from 6.8 mn kgs in the corresponding period last year.

Treasury intervention led to tobacco trading being exempted from the intermediate money transfer tax (2%). This notwithstanding, some farmers and merchants still expressed concern at the settlement currency and generalized settlement complexities. Further, some farmers have reportedly called on government to intervene and ensure improved auction prices. Such price intervention however, would threaten the efficiency of the auction system.

ZWL weakness driving inflation

The ZWL closed March 2019 at ZWL3.01 against the US\$; about 20% weaker from ZWL2.50 at the beginning of the month. Consequently, the cost of imports increased in local currency terms. The RBZ reportedly estimates that about US\$3 million is trading on the auction platform daily. This notwithstanding, some importers are still not able to access foreign currency on the auction platform - sustaining the risk of a foreign currency crunch.

Average consumer prices increased by 1.67% in February 2019, compared to 10.75% in the prior month. Between December 2018 and February 2019, the average price increase reached 12.6%,



compared to 0.38% in the corresponding period last year. On a year on year basis, the period between February 2018 and February 2019 registered inflation of 59.39%, mostly attributable to price adjustments over the period October 2018 to January 2019.

US\$ on the front foot

The United States Dollar (US\$) closed the month under review stronger against most trading currencies. Dollar strength was supported by rising U.S Treasury yields associated with relatively tighter monetary policy attracting fund flows into the United States. The US\$ closed the month to 31 March 2019 at US\$1.12 per Euro, 1.3% firmer. It was also 5.4% firmer against the ZAR at ZAR14.63 per US\$ over the same period.

Euro depreciation was exacerbated by expectations of European Central Bank (ECB) monetary easing as Euro Area inflation closed March 2019 at 1.4% - against an ECB target of 2%. ZAR depreciation was premised on generalized fears of a likely credit rating downgrade and associated portfolio outflows.

Strong dollar weighed on commodity prices

International commodity prices closed predominantly softer during the month under review, as highlighted in the table below.

Commodity	Price	Mar'19	YTD'19
Nickel (usd/ton)	12 775,00	-0,78%	10,70%
Crude Oil (usd/bbl)	68,14	3,48%	26,70%
Gold (usd/oz)	1 291,66	-2,57%	0,64%
Platinum (usd/oz)	848,52	-3,04%	6,53%
Coffee (usc/lb)	94,35	-5,13%	-6,03%
Maize (usd/ton)	146,94	-0,27%	-0,67%
Wheat (usd/ton)	461,75	-1,28%	-9,10%
Sugar (usc/lb)	12,54	-2,49%	2,37%
Cotton lint (usc/lb)	75,98	5,28%	4,66%

Oil went against the general trend; firming 3.48% in line with supply side constraints as the Organization of Petroleum Exporting Countries (OPEC) maintained global production cuts and geopolitical supply risks persisted. On a year to date basis, oil prices advanced a noteworthy 26.7%. Net oil importers face inflationary pressures from the price increase.

Equities re-rating downwards

The ZSE industrial index retreated 17.9% during the month ended 31 March 2019, with all major ZSE indices closing the month weaker as highlighted in the following table.

Sector/Index	Value	Mar'19	YTD'19
Commodities	1475,35	-17,73%	-13,24%
Consumer	716,65	-18,39%	-17,70%
Financial	729,89	-22,68%	-21,08%
Listed Property	201,73	-13,85%	-5,37%
Manufacturing	348,07	2,12%	9,77%
Industrial	405,57	-17,92%	-16,74%
Mining	193,98	-6,30%	-14,81%
Top Ten	114,61	-21,18%	-20,97%
All Share	121,66	-17,86%	-16,81%
Market Cap (ZWL mn)	16 234,71	-18,39%	-16,89%

ZSE losses were on the back of the introduction of an interbank forex market system which kicked off at a favorable rate than the parallel market rate. The anticipation of an interest rate increase post the introduction of a overnight accommodation rate at 15% and the mopping up of ZWL also contributed to the weakness in domestic equities.

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

Top 3	Price ZWLc	Mar'19	YTD'19
MEDTECH	0,09	50,00%	350,00%
WILLDALE	1,90	26,67%	118,39%
ZIMRE	2,64	25,12%	3,13%

Bottom 3	Price ZWLc	Mar'19	YTD'19
CASSAVA	100,03	-30,89%	-30,10%
PPC	132,00	-30,53%	-30,53%
SEEDCO	143,00	-26,67%	-31,18%

Total ZSE trades on the local bourse declined by 76.1% to ZWL70.8 million during the month ended 31 March 2019. The average daily value of trades closed at ZWL3.4 million, down 78.3%, during the same period.

Economic Outlook

Zimbabwe is still in political-economic transition. The pace and potency of policy reform has been less than earlier anticipated - despite noteworthy progress being registered. Domestic policy reform momentum faces a significant threat from negative externalities; notably adverse weather, sustained strategic isolation, as well as commodity and price fluctuations.

In the absence of tangible reforms towards enhanced international reintegration as well as public and investor confidence rebuilding; we broadly maintain a sub-optimal view on the foreseeable outlook. Overall, the environment still prescribes caution.

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