

MONTHLY ECONOMIC BRIEF

September 2019



Highlights

- President Mnangagwa presented his State of the Nation Address.
- The IMF completed its first Staff Monitored Program review.
- The RBZ further tightened monetary policy in an attempt to strengthen the ZWL\$.
- Implied inflation (using old base) would be 288.6% in August 2019.
- ZSE total market capitalization advanced 40% to ZWL\$30.770 billion.

End of an era?

Former President Robert Gabriel Mugabe died on the 6th of September 2019. He was 95 years old. As with his 37 year rule that ended in November 2017; the market struggled to find consensus on his legacy. He was buried at his rural home according to his reported deathbed wish. This was despite earlier government communication that he was to be buried at the national heroes' shrine - ostensibly signaling widening polarization between the 'old and new' political administrations.

Slow transition...

In his State of the Nation Address (SONA), President Mnangagwa reiterated that authorities are systematically pursuing the transitional stabilization program. A budget surplus in H1'19 allowed government to absorb unplanned spending such as post-cyclone rehabilitation, public wage adjustments and social safety nets. Government set aside ZWL\$1.8 bn to augment command agriculture funding (ZWL\$2.8 bn from the private sector), as well as inputs for vulnerable households.

To address prevailing electricity shortages; President Mnangagwa said government restored cost reflective electricity tariffs and increased imports. He also attributed relative fuel availability to cost reflective pricing. The SONA suggests an appreciation of prevailing conditions, though legacy concerns around policy inconsistency and compromised market confidence weigh heavily on the overall outlook.

IMF predicts steeply negative 2019 growth

The International Monetary Fund (IMF) staff predict that Zimbabwe's 2019 GDP growth will be 'steeply negative'; while pressure on the exchange rate has increased - partly due to weakening confidence and recent monetary expansion. The IMF noted key challenges as containing national spending and rebuilding confidence in the local currency. Going forward, the IMF prescribed intensified effort on both economic and political reforms. The assertions were made at the conclusion of the first review of the IMF Staff Monitored Program.

MPS - still work in progress

The 2019 mid-term monetary policy themed 'transition to normalcy' was notably skewed towards supporting the ZWL\$. Highlights included an increase in the overnight rate from 50% to 70% and the (planned) introduction of US\$ denominated bonds. Further, government issued legislation outlawing the use of foreign currencies for quoting and settlement of all local transactions. Violation of the legislation attracts civil and/or criminal penalties.

The transition towards orthodox monetary policy tools such as the overnight rate underpins the policy theme. Higher interest rates are envisioned to restrain money supply growth and contain inflation. The US\$ savings bond is envisioned to avail free funds for productive activities. The concomitant risk is that the market might view the US\$ bond as signaling re-dollarization. Overall, the tight monetary policy stance remains growth inhibiting and exchange rate fragility is likely to persist in the absence of tangible foreign currency supply interventions.

No ceiling to price increases...

According to the Zimbabwe Statistical Agency (ZIMSTAT); the total consumption poverty datum line (PDL) for August 2019 was ZWL\$365.40 per person. The August 2019 PDL increased by 13% compared to the prior month. Over the same period, the ZIMSTAT monthly inflation was 18.1%. Using the old base (old currency), year to date inflation for August 2019 would be 177.8%; while year on year inflation would be 288.6% - compared to 4.8% in the corresponding period last year.





The United States Dollar closed mixed

The United States Dollar (USD) closed the month ended 30 September 2019 mixed against most currencies. US manufacturing activity contracted to its weakest in more than a decade; seemingly due to sustained trade tensions with China. Persistent uncertainties regarding Britain's Euro Area exist however presented some USD support.

The USD advanced 1.2% against the Euro, closing the month under review at US\$1.1 per Euro. Against the South African Rand (ZAR), the USD retreated 1.6% to close the month to 30 September 2019 at ZAR15.1 to the USD.

Commodities closed bullish

International commodity price movements closed the month to 30 September 2019 predominantly positive as highlighted below.

Commodity	Price	Sept'19	YTD'19
Nickel (usd/ton)	17 405.00	6.52%	50.82%
Crude Oil (usd/bbl)	60.95	0.20%	13.33%
Gold (usd/oz)	1 484.05	-2.76%	15.63%
Platinum (usd/oz)	915.48	-1.07%	14.93%
Coffee (usc/lb)	100.65	5.23%	0.25%
Maize (usd/ton)	146.55	-0.27%	-0.93%
Wheat (usd/ton)	488.75	4.99%	-3.79%
Sugar (usc/lb)	12.67	13.23%	3.43%
Cotton lint (usc/lb)	60.69	3.11%	-16.40%

Confusing US-China trade signs exacerbated by Brexit uncertainty in August 2019 weighed down the price of gold as optimism outweighed downside risks - depressing safe haven demand.

92 day TBs oversubscribed

For the third straight month since July 2019, the RBZ issued TBs on an open tender basis. The first issuance in July 2019 was meant to map the yield curve while subsequent issuances are 'to fund government programs' and have conspicuously grown in amount. During the month under review, the RBZ issued 92 day TBs worth ZWL\$102 mn at an average interest rate of 13.7%. The offer was four times oversubscribed.

Equities on the rebound

The ZSE closed September 2019 in bullish territory, as highlighted below.

Sector/Index	Value	Sept'19	YTD'19
Commodities	2 839.75	33.31%	66.99%
Consumer	1 341.36	46.73%	54.04%
Financial	1 438.84	31.77%	55.57%
Listed Property	345.34	16.58%	62.00%
Manufacturing	648.23	45.58%	104.4%
Industrial	774.55	39.91%	59.00%
Mining	317.75	21.44%	39.54%
Top 10	218.09	46.41%	50.39%
All Share	232.52	39.77%	59.00%
Market Cap (ZWL b)	30.770	40.01%	57.52%

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

Top 3	Price ZWLc	Sept'19	YTD'19
SIMBISA	146,95	167,18%	102,52%
OK	70,37	138,54%	146,74%
PPC	424,75	111,94%	123,55%

Bottom 3	Price ZWLc	Sept'19	YTD'19
AFDIS	165,00	-8,33%	7,84%
RIOZIM	218,00	-1,80%	15,34%
TSL	74,00	-1,66%	22,82%

The total value of trades on the local bourse increased by 53% to ZWL\$166.6 mn; driven by increased buying activity by locals. Foreign investors were net sellers at ZWL\$1.7 mn, bringing year to date foreign portfolio inflows to ZWL\$29.6 mn, from ZWL\$63.3 mn last year.

Economic Outlook

A generalized fatigue clouds the environment. Broadly battered sentiment weighs heavily on near-term recovery prospects, exacerbated by continued strategic isolation from mainstream foreign capital and an incessant work in progress policy stance. Rising social misery poses a muted but noteworthy threat to overall environment stability. We anticipate muddling-through and survivalist tendencies to persist.

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