

# MONTHLY ECONOMIC BRIEF

## March 2020



### Highlights

- **Eight COVID-19 cases recorded as pandemic kills one person in Zimbabwe**
- **Government announces a ZWL\$500 million Fiscal stimulus package**
- **RBZ allows the use of free funds to settle local transactions.**
- **US extends sanctions list**
- **February inflation highest in 11 years**

### Covid-19 heightens country risk

As at end of March, Zimbabwe had recorded 8 confirmed cases of COVID-19 after 241 tests. The pandemic caused the death of 1 person. President Mnangagwa has since declared COVID-19 a national disaster and announced a 21-day lockdown for all non-essential services.

Earlier, doctors and nurse had threatened to down tools due to inadequate Personal Protective Equipment (PPE). Donations from the donor community including the Jack Ma foundation averted the strike.

### ZWL\$0.5 billion fiscal stimulus package

In line with global responses, Treasury has availed ZWL\$500 mln (0.13% of GDP) to fight COVID-19 and support 1 mln households. The US package is 10% of GDP, while Nigeria's is 3% of GDP, respectively. Though too small (US\$20 mln), the unbudgeted expenditure, in the absence of reserves, will impose further strain on the already weak budgetary position leading to potential deficit monetization. Government will mobilise the required foreign currency from 'all possible sources.'

Meanwhile, Government has also launched a US\$2.2 bln Humanitarian Response Plan (relief fund) to fight COVID-19 and other natural disasters such as the draught.

### Floating system 'temporarily' abandoned

The Central bank launched a managed Reuters-based floating exchange rate system. The Zimbabwean dollar fell by 27.25% to ZWL\$23.49/US\$ on the first day of trading, the 18<sup>th</sup> of March.

Despite the move being a bold step towards market-determined exchange rate that could have improved allocation of foreign currency, RBZ 'dumped' the system a week later and has since fixed the exchange rate at ZWL\$25/US\$. The reversal in policy was necessitated by the need 'to stabilize prices in the wake of COVID-19'.

Central Bank also temporarily allowed the use of free funds to settle domestic transactions. Free funds 'include funds lawfully held and earned in foreign currency by any person'. Before this policy, except for a few exemptions, local transactions could only be settled in Zimbabweans dollars. This however does not mean full dollarization yet, as the ZWL remains the functional currency and businesses cannot therefore charge for services in foreign currency.

Other COVID-19 response measures include a reduction in lending rate from 35% to 25%, increase in the productive sector facility by ZWL\$1 bln to ZWL\$2.5 bln and reduction in statutory reserve ratio by 0.5% to 4.5%.

### Forex earnings in 'global pandemic'

Opening of the tobacco marketing season, which normal starts in March and is an important foreign currency-earning period, has been postponed. When open, farmers will receive 50% of their proceeds in forex.

According to the Mineral Marketing Corporation of Zimbabwe, the country could suffer a 60% decline in mineral output in the second quarter and lose over US\$400 mln in revenue. At 1.4tons, February gold output was the lowest in six months and 44% down from the 2.5 tons delivered in January.



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### Sanctions derail reengagement efforts

The US has extended the sanctions list to include the former commander of Zimbabwe's presidential guard, Anselem Sanyatwe and State Security minister Owen Ncube. The two were targeted for 'their involvement in human rights abuses in the aftermath of the July 2018 elections'. Meanwhile, UN Secretary General Antonio Guterres called for the lifting of sanctions on all countries to allow them access to resources to fight COVID-19.

Government will compensate displaced farmers for developments they made on the farms. The land reform and compensation to farmers remain delicate issues, the resolution of which is important for international reintegration.

### Highest inflation since dollarisation

Average consumer prices increased by 13.5% in February 2020, driving y-o-y inflation to its 11-year highest of 540.2%. Notable increases were in communication (220%) and education (95%) subsectors. Currency-pass through costs are likely to drive inflation further.

### Junk status harm the South African Rand

The US\$ maintained its strength during the month despite 245,000 COVID-19 cases (March) reported in that country. With COVID-19 1,462 cases, the Rand fell due to South Africa's lock down and the Moody's downgrade to junk status. The US\$ firmed 16.54% against the ZAR closing the month at ZAR17.91 per US\$.

### Weak demand weighed down commodities

Depressed global activity weighed on international commodity prices. Crude oil suffered due to decline in demand, leading to its lowest prices in 18 years. Major oil suppliers have intimated supply cut 'soon'.

Commodity	Price	Mar'20	YTD'20
Oil (usd/bbl)	23.37	-54.28%	-64.99%
Gold (usd/oz)	1,606.39	-0.99%	5.49%
Platinum (usd/oz)	721.24	-17.49%	-25.60%
Nickel (usd/ton)	11,280.00	-8.11%	-20.68%
Coffee (usc/lb)	118.45	6.33%	-10.23%
Maize (usd/ton)	134.05	-7.35%	-11.96%
Wheat (usd/ton)	566.25	8.32%	1.66%
Sugar (usc/lb)	10.67	-23.89%	-21.08%

### Local equities under the weather

Equities lost ZWL\$2.38 billion during the month due to global-19 uncertainties.

Sector/Index	Value	Mar'20	YTD'20
ZSE All Share	456.21	-3.6%	98.3%
ZSE Top 10	370.74	-7.2%	82.9%
ZSE Industrial	1512.46	-3.4%	97.4%
Mkt Cap (ZWL'b)	58.6	-3.9%	96.8%

Top 3	Price ZWLc	Feb'20	YTD'20
FMP	104.42	256.75%	514.24%
Cafca	1,900.00	91.34%	967.30%
CBZ	154.00	44.94%	120.92%

Bottom 3	Price ZWLc	Feb'20	YTD'20
Powerspeed	17.60	-71.27%	-12.00%
Dawn	5.50	-63.33%	-24.66%
Edgars	20.00	-58.34%	-4.76%

Monthly trades gained 18.08% to a peak of ZWL\$425 mln. Daily trades were 7.35% up to ZWL\$19m, with a notable decline towards month-end. Foreigners were in net selling position of ZWL\$38.5m, 12.5% of total trades, down from 21.4% in the prior month.

### Economic Outlook

The outlook is heavily inflicted by COVID-19. The economy is likely to take a significant knock as economic activity slows down. We therefore expect a further depreciation of the ZWL\$ and negative growth in 2020.

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