

# MONTHLY ECONOMIC BRIEF

## April 2019



### Highlights

- **IMF funding for economic recovery dependent on reforms.**
- **Some improvement in tobacco auctions in April but still well below the 2018 levels.**
- **The United States Dollar registered gains against most major currencies.**
- **The ZWL closed April 2019 at ZWL3.26 against the US\$; about 7.67% weaker.**
- **Inflation reached 66.8% in March 2019, up from 59.4% in the prior month.**
- **ZSE total market capitalization gained 8.73% to ZWL17.652 billion in April 2019.**

### No funding until political reforms

American economist Berry Wood asserted that in order to secure funding from the International Monetary Fund (IMF), Zimbabwe first needs to implement structural reforms and ensure United States sanctions are lifted. Zimbabwe requires funding from the mainstream international community, including the IMF, the World Bank and their associates.

Wood noted that the United States has veto power on both the IMF and the World Bank and therefore would not support extending of funding to Zimbabwe by any of the institutions if reforms have not been implemented. Zimbabwe is however receiving technical advice under its Staff-Monitored Program with the IMF but no monetary support

### Consumer prices on the rise

Economic recovery in Zimbabwe continues to be hindered by high inflation. March 2019 year-on-year inflation reached a post-dollarization high of 66.8%. Government has sought to engage industry players in order to mitigate speculative price increases particularly with regards to necessity products such as bread. The Government has also tried to cushion consumers from price increases by subsidizing critical sectors such as utilities and transport; however this might not be a sustainable solution.

In April businesses were accused of profiteering and President Mnangagwa said 'Government did not want to be forced to implement price controls as a result'. However this shows that the Government is considering it if there continues to be price hikes. Businesses have come out against price controls and have said that price controls would likely lead to shortages and the creation of a black market which would lead to further price distortions.

### Lenders pushing for positive real returns

Zimbabwean lenders reportedly appealed to the Reserve Bank to raise interest rates and have the interest rate cap lifted. All things normal, low interest rates allow borrowing and foster gross investment growth. Currently, domestic interest rates are significantly low (against inflation) and therefore discouraging lending by yielding negative real returns for lenders.

### Tobacco auctions

Tobacco deliveries to the auction floors improved in April 2019 with average prices rising 6% to ZWL1.77. The slight improvement ostensibly led to tobacco volumes increasing. At the end of March 2019 volumes were down 92% compared to the same period in 2018. By the end of April, the gap had narrowed to 39%; compared to the end of April in 2018. Tobacco export receipts are a major contributor to national foreign currency earnings.

### ZWL weakness driving inflation

The ZWL closed April 2019 at ZWL3.26 against the US\$; about 7.67% weaker from the beginning of the month. The depreciation of the local currency (ZWL) has slowed compared to March 2019 and this is likely due to limited activity on the inter-bank market.

As a result of limited activity, businesses and individuals are increasingly accessing foreign currency on the parallel market thereby widening the gap between the official and unofficial exchange rates and increasing inflation pressures as retailers pass-on the additional cost of imports to final consumers. Continued devaluation sustains inflation expectations.



## 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 generally moderate economic expansion and the US Fed's decision to keep interest rates unchanged - against earlier market expectations of higher interest rates. The US\$ closed the month to 30 April 2019 at US\$1.12 per Euro, 0.66% firmer. It was 2.05% weaker against the ZAR at ZAR14.33 per US\$ over the same period.

Euro depreciation was partly exacerbated by persistent Brexit uncertainty and a depressed performance in the German manufacturing sector. South African Rand (ZAR) strength continued despite political and policy fragility ahead of elections. The ZAR appreciation is possibly due to the country avoiding (or delaying) a credit rating downgrade by Moody's as well as managing to maintain a trade surplus despite rising oil prices.

## Strong dollar weighed on commodity prices

International commodity prices closed predominantly softer during the month ended 30 April 2019, as highlighted in the table below.

Commodity	Price	Apr'19	YTD'19
Nickel (usd/ton)	12 330.00	-3.48%	6.85%
Crude Oil (usd/bbl)	73.07	7.24%	35.87%
Gold (usd/oz)	1 285.74	-0.46%	0.18%
Platinum (usd/oz)	899.34	5.99%	12.91%
Coffee (usc/lb)	94.30	-0.05%	-6.08%
Maize (usd/ton)	142.22	-3.22%	-3.86%
Wheat (usd/ton)	431.75	-6.50%	-15.01%
Sugar (usc/lb)	12.64	0.80%	3.18%
Cotton lint (usc/lb)	77.19	1.59%	6.32%

Oil went against the general trend; advancing a significant 7.24% during the month under review. Oil price support was in line with supply side constraints associated with production disruptions in Venezuela (world's largest oil reserves) and a United States embargo on Iranian oil. On a year to date basis, oil prices advanced a noteworthy 35.87%. Net oil importers continue to face inflationary pressures from the price increase.

## Equities on the rebound

The ZSE industrial index gained 10.1% during the month ended 30 April 2019, with most major ZSE indices closing the month stronger as highlighted in the following table.

Sector/Index	Value	Apr'19	YTD'19
Commodities	1604.64	8.76%	-5.64%
Consumer	790.68	10.33%	-9.20%
Financial	792.53	8.58%	-14.31%
Listed Property	194.12	-3.77%	-8.94%
Manufacturing	345.48	-0.74%	8.95%
Industrial	446.52	10.10%	-8.34%
Mining	186.47	-3.87%	-18.11%
Top 10	127.66	11.39%	-11.97%
All Share	133.69	9.89%	-8.58%
Market Cap (ZWL mn)	17 652.43	8.73%	-9.63%

ZSE gains were on the back of a rebound in buyer appetite driven by increased monetary policy fragility. This comes after the large selloff in February and March following the introduction of an interbank foreign exchange market. Further ZSE gains are attributable to positive earnings reported by listed companies despite a difficult operating environment at the end of 2018.

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

Top 3	Price ZWLc	Apr'19	YTD'19
Medtech	0.14	55.56%	600.00%
Afsun	23.05	53.67%	130.50%
Turnall	8.00	45.45%	59.36%

Bottom 3	Price ZWLc	Apr'19	YTD'19
Fidelity	7.04	-20.00%	-19.54%
NTS	1.74	-19.44%	-3.33%
Natfoods	571.00	-18.43%	-19.63%

Total ZSE trades on the local bourse increased by 64.24% to ZWL116 million during the month ended 30 April 2019. The average daily value of trades closed at ZWL6.1 million, up 81.53% over last month's average.

## Economic Outlook

Strategic international isolation threatens sustainable economic recovery over the near-term outlook. Domestic macro-economic policy rebalancing is notably compromised by adverse externalities such as commodity price and exchange rate fluctuations.

Inflationary pressures are likely to continue into the foreseeable outlook - threatening consumer purchasing power and real investment returns. The concomitant risk is over-regulation in consumer prices, compromising overall market efficiency. The risk of macro-economic policy relapse is noticeably inflated.

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