MONTHLY ECONOMIC BRIEF

June 2019

Highlights

- Government announced the immediate end of the multi-currency regime on 24 June 2019.
- Maize deficit estimated at 0.8 million tons, as yield per hectare declined by 51.5%.
- Foreign direct investments increased by 134% to US$745 million in 2018.
- Consumer inflation reached 97.9% in May 2019, as inflation dominates macro themes.
- ZSE total market capitalization advanced 8.5% to ZWL 27.254 billion in June 2019.

End of the multi-currency regime…

Despite earlier warnings of planned currency reforms; the market was stunned by Statutory Instrument (SI) 142 of 2019 - instructing the immediate end of the multi-currency regime. Local bank balances, bond notes and bond coins are effectively being converted to ZWL at parity while the operation of foreign currency accounts will continue as usual. Muted panic buying ensued, ostensibly contained by limited balances while several shops increased ZWL prices or pulled products off the shelves.

Resultantly, the Central Bank issued measures to strengthen the ZWL. Tighter monetary measures include raising the overnight lending rate from 15% to 50% and mopping up about ZWL$ 1.2 billion from banks for settlement of unsettled foreign obligations (at par). To mitigate speculative activity, a 90 day vesting period was placed on locally bought fungible stocks. To facilitate efficient ZWL price discovery, authorities lifted administrative caps on bureaux de change and the 2.5% margin on interbank foreign currency trades.

Government expects the introduction of a single currency regime to end incomes and pricing distortions, enhance monetary policy efficacy, provide seigniorage revenue, enhance export competitiveness and end cash shortages. The flip-side centers on the inherent risk of rapid ZWL depreciation – and the associated impact on pricing of critical imports such as fuel and electricity. Downside risks are also amplified by limited foreign currency supply-side measures and arguably compromised market confidence.

Net foreign currency inflows at risk…

The effects of February 2019's cyclone Idai on the agricultural outturn are become clearer. Despite causing serious damage to crops in Manicaland and Masvingo provinces, it provided critical rain relief in provinces further up North. Overall, national maize yield per ha for the 2018/19 season is around 0.48t/ha, down from 0.99t/ha last season. On the flipside, tobacco responded positively to late rains and seems to have escaped the worst of Idai. Deliveries to 28 June 2019 reached 205 million kgs, exceeding a seasonal target of 186 million kgs.

Compared to the same time last year, seasonal tobacco volumes and values were down 7% and 39%, respectively as at 28 June 2019 . Volumes have notably recovered from a slow start, though prices remain depressed - down 34% from last season at US$1.92 per kg. Depressed tobacco values and associated foreign currency earnings threaten aggregate inflows. Further stress on foreign currency is likely to be premised on an estimated 0.8 million tons maize import requirement. Diaspora remittances and capital account inflows will be critical to gross foreign currency inflows.

FDI closed 2018 strong - highest on record

According to the United Nations; Zimbabwe registered US$745 million in Foreign Direct Investment (FDI) inflows (highest on record). The previous peak was US$545 million in 2014. Net inflows closed at US$718 million, up 134% from 2017. During the same period, FDI inflows to Zambia, Mozambique and South Africa closed at US$769 million, US$2.7 billion and US$5.3 billion, respectively. Zimbabwe's 2018 FDI inflows translate to 1.6% of total inflows to Africa - up from 0.8% in the previous year.

The United Nations also noted that Zimbabwe's Greenfield investment project announcements surged 1,329% from US$420 million to US$6 billion in 2018. Foreign investment inflows are regarded as a proxy of an economy's investment attractiveness. The notable growth in FDI inflows to Zimbabwe in 2018 underscores the positive sentiment among investors in 2018. Going forward, sustained investor optimism will be critical in closing the gap between FDI announcements and inflows.

Inflation at 97.9%; further pressure expected

Year on year inflation reached 97.85% in May 2019. Monthly inflation was 12.5% in May 2019; such that the cumulative average consumer price increase from the beginning of the year to May 2019 reached 39.6%, compared to 0.96% in the corresponding period last year. On-going currency market liberalization anchors inflation expectations. This is on the likelihood of critical imports such as food, fuel and electricity progressively pricing-in exchange rate dynamics.

US$ on the back foot

The United States Dollar (US$) closed the month to 30 June 2019 softer against most trading currencies. The US$ retreated 2% against the Euro to close at US$1.14 per Euro. Against the South African Rand (ZAR), the US$, eased 3.4% to end the month under review at ZAR14.2 per US$. US$ depreciation was premised on U.S policy makers ostensibly warning up to the idea of a weaker currency as an export enabler.

The ZWL retreated 20.5% against the US$ in June 2019, as it continues to seek its true value - post prescribed parity. The ZWL closed the month under review at ZWL 6.62 per US$.

Commodities spurred by weaker dollar

International commodity prices closed the month to 30 June 2019 mostly positive as shown below.

Commodity	Price	Jun'19	YTD'19
Nickel (usd/ton)	12 660.00	5.72%	9.71%
Crude Oil (usd/bbl)	66.53	2.28%	23.71%
Gold (usd/oz)	1 412.85	8.85%	10.08%
Platinum (usd/oz)	816.81	3.22%	2.55%
Coffee (usc/lb)	108.85	8.90%	8.42%
Maize (usd/ton)	177.55	5.31%	20.03%
Wheat (usd/ton)	543.00	7.90%	6.89%
Sugar (usc/lb)	12.79	9.88%	4.41%
Cotton lint (usc/lb)	66.20	-3.55%	-8.82%

US$ weakness makes international commodities less costly in alternative currency terms. Cotton bucked the trend as the global use of cheaper synthetic products increased.

Equities closed June 2019 firmer

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

Sector/Index	Value	Jun'19	YTD'19
Commodities	2410.18	21.46%	41.73%
Consumer	1176.39	4.23%	35.09%
Financial	1381.00	11.18%	49.32%
Listed Property	304.44	34.84%	42.81%
Manufacturing	459.51	17.61%	44.91%
Industrial	**683.51**	**8.77%**	**40.31%**
Mining	**271.97**	**20.44%**	**19.44%**
Top 10	**204.61**	**11.81%**	**41.09%**
All Share	**211.68**	**12.56%**	**44.75%**
Market Cap (ZWL bn)	**27.254**	**8.47%**	**39.53%**

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

Top 3	Price ZWLc	Jun'19	YTD'19
DAIRIBORD	29.00	80.69%	76.29%
DAWN	4.84	72.86%	93.60%
EDGARS	24.00	60.00%	135.29%

Bottom 3	Price ZWLc	Jun'19	YTD'19
FCB	6,40	-22.89%	8.47%
PPC	160,00	-15.74%	-15.79%
BINDURA	8,41	-12.40%	-11.01%

Total ZSE trades firmed 21.7% in June 2019 to ZWL236 million. Foreign investors were net sellers on the local bourse, closing on a net portfolio outflow position of ZWL 6.5 million.

Economic Outlook

Currency reforms could be well meaning in the context of the advantages normally associated with a fully-fledged local currency. Strict monetary discipline will be critical in sustaining the local currency. A confluence of adverse factors threaten full policy efficacy - for instance; monetary tightening proposals to strengthen the ZWL are countered by the inherent threat of recession which ordinarily prescribes policy loosening. Ultimately, policies are judged by impact, not intuition. Time will tell.