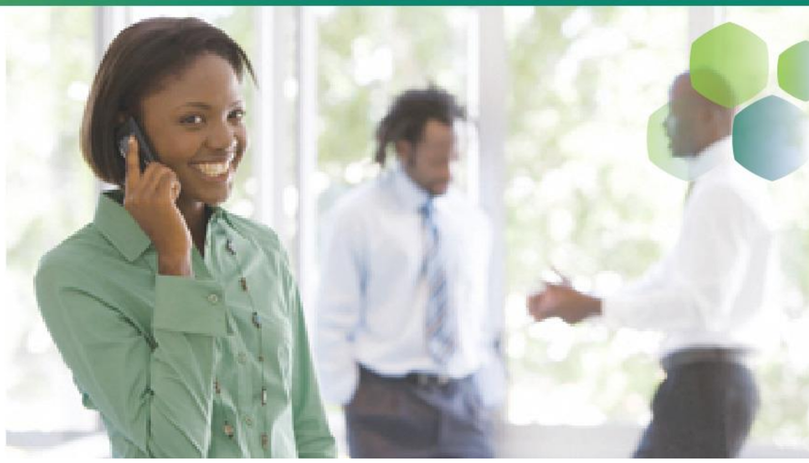
Monthly Economic Brief

January 2019



Highlights

Generalised tension as mass public protests reached new heights

Risk of further international isolation inflated by post-election socio-political vulnerabilities

Industry average capacity utilization remained below 50% - with risks of further contraction

Consumer inflation closed 2018 at 42.1%, up from 3.5% in the prior year

ZSE market capitalization advanced 7.98% to close January 2019 at $21.094 billion

World Bank projects 3.7% GDP growth in 2019

The World Bank estimates that Zimbabwe's economy expanded by 3% in 2018; exceeding the Bank's earlier (June 2018) forecast of 2.7%. It also projects growth of 3.7% in 2019, while noting the country is in debt distress. The Bank's 2019 growth forecast for Zimbabwe is the highest since 2015. Meanwhile, government projects GDP growth of 3.1% in 2019. We are of the view that risks to economic growth are skewed to the downside. This is premised on adverse weather forecasts, on-going fiscal consolidation and generalized monetary policy vulnerability.

International reengagement at risk

President Mnangagwa announced a 150% fuel price increase on 13 January 2019. He cited widespread market distortions and associated rent-seeking behaviours. Resultantly, trade and civil activist groups called for a three day mass stay-away in protest over rising consumer prices and generalized economic hardships. The ensuing protests led to widespread looting and damage to property degenerating into several injuries and deaths. In scenes reminiscent of the 1 August 2018 post-election violence - the army intervened, reportedly with live ammunition.

President Mnangagwa condemned the violence, called for calm and reiterated that macro-economic reform is a big task and the country is moving in the right direction. This notwithstanding; South Africa's opposition DA party engaged the International Criminal Court and United Nations Human Rights Council, citing alleged human rights abuses in Zimbabwe. Britain's Commonwealth Minister warned that reports of military brutality are jeopardizing Zimbabwe's chances of being re-admitted into the Commonwealth.

Depressed manufacturing widening trade deficit

Manufacturing sector average capacity utilization increased from 45.1% to 48.2% between August 2017 and August 2018. The Confederation of Zimbabwe Industries (CZI) however noted that by November 2018, capacity utilization had declined to 42%. It also projects a further decline to 34% in 2019 'if prevailing conditions persist'. Manufacturing entities are importing about 52% of their raw material requirements, underlining the importance of foreign currency availability to local manufacturing.

Constrained manufacturing conditions incentivise imports as access supplants production. In 2018, imports increased by 28% to $6.9 billion, resulting in a trade deficit of approximately $2.5 billion. Compared to the prior year, Zimbabwe's trade deficit widened by 47%; despite exports growing by 19%. Top exports in 2018 were tobacco and minerals while fuel, grain and fertilizer dominated imports.

Monetary policy uncertainty clouding the outlook

Monetary policy uncertainty intensified during the month under review, more so as the market awaited the 2019 monetary policy statement. Monetary policy expectations are dominated by prospects of a currency regime reform - in light of widening incomes and pricing distortions under the current framework. Minister of Finance Hon. Mthuli Ncube reiterated that the adoption of a foreign currency would not solve the economy's inherent macro-economic imbalances and that Zimbabwe will have its own currency before end of the year (2019).

Consumer purchasing power eroded…

Average consumer prices increased by 9.1% in December 2018, a slight deceleration from the 9.2% monthly inflation registered in November 2018. Consumer inflation for the full year 2018 closed at a post-hyperinflation peak of 42.1%. The food subsector (32% contribution to overall inflation) registered inflation of 54% in 2018, with average meat and bread prices increasing by 68% and 46%, respectively in 2018. Going forward; inflation pressures hinge on adverse weather expectations, foreign currency constraints and the risk of a currency recalibration.

Dollar on the back foot…

Persistent trade tensions with China, exacerbated by the longest partial shut-down in United States history weighed heavily on the United States' economic outlook. This was confirmed by the Federal Reserve's cautious outlook on the economy, hinting at a necessary slowdown in its monetary tightening program - or even interest rate cuts if necessary.

Prospects of relative monetary easing to prop up the United States economy depressed US$ speculative demand against alternative currencies. The US$ retreated 6.03% and 0.03%, against the South African Rand (ZAR) and the Euro, respectively, to close the month ended 31 January 2019 at ZAR13.54 per dollar and US$1.14 per Euro.

Weak dollar supported commodities

A soft dollar makes US$ denominated commodity prices less pricy in alternative currency terms - supporting demand (and prices) in January 2019 as summarised in the table below.

Commodity	Price	Jan'19	12 Months
Nickel (usd/ton)	12 240,00	6,07%	-10,20%
Crude Oil (usd/barrel)	62,08	15,43%	-9,44%
Gold (usd/oz)	1 323,54	3,12%	-1,45%
Platinum (usd/oz)	823,75	3,42%	-17,93%
Coffee (usc/lb)	103,60	3,19%	-15,50%
Maize (usd/ton)	149,79	1,26%	5,77%
Wheat	516,25	1,62%	14,09%
Sugar (usc/lb)	12,61	2,94%	-7,82%
Cotton lint (usc/lb)	74,18	2,18%	-3,71%

Oil prices surged in light of global supply constraints. Iran oil is still under a United States embargo, curtailing global supply, while a political crisis in Venezuela also disrupted global supplies. If sustained; rising oil prices could fuel global inflation pressures.

Galloping inflation threatens equities merriment

Monetary policy hedge attractiveness outweighed weak fundamentals to provide support for listed equities. The industrial index advanced 8% during the month under review as highlighted below.

Sector/Index	Value	Jan'19	12 Months
Commodities	1 786,39	5,05%	82,80%
Consumer	950,26	9,12%	112,94%
Financial	1 000,23	8,15%	488,21%
Listed Property	244,92	14,89%	47,40%
Manufacturing	326,54	2,98%	71,96%
Industrial	**525,90**	**7,96%**	**72,23%**
Mining	**213,13**	**-6,40%**	**63,42%**
Top Ten	**158,28**	**9,14%**	**n/a**
All Share	**157,54**	**7,73%**	**n/a**
Market Cap ($ mln)	**21 093,78**	**7,98%**	**130,43%**

The mining index bucked the general bullish trend, retreating 6.4% during the month ended 31 January 2019. This notwithstanding; the index maintained positive returns on a 12 months basis.

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

Top 3 Performers	Price USc	Jan'19	Mkt Cap $mln
ZIMPAPERS	6,00	108,33%	34,560
EDGARS	15,80	54,90%	46,536
AFSUN	14,00	40,00%	120,648

Bottom Performers	Price USc	Jan'19	Mkt Cap $mln
ZIMRE	2,11	-17,58%	32,353
BINDURA	7,99	-15,45%	99,049
DAIRIBORD	14,00	-14,89%	50,120

Total trades on the local bourse increased by 32.1% to $122.8 million during the month ended 31 January 2019. The average daily value of trades also advanced 32.7%, from $4.9 million to $6.5 million during the same period.

Economic Outlook

Authorities' ability to stay on course regarding painful policy rebalancing measures is at risk. Policy implementation risk is inflated by adverse market reactions to policy measures, exacerbated by negative externalities such as adverse weather and an increasingly less accommodative international community. The threat of knee-jerk reactionary policy measures is inflated. Overall, downside risks have become more tangible.