MONTHLY ECONOMIC BRIEF

Q4 2019

Highlights

- The IMF estimates 2019 global economic growth at the lowest since 2008/9.
- Environmental concerns fill the top five key global risks over the coming decade.
- Global equities advanced 9.07% during the quarter ended 31 December 2019.
- The WFP warned that about half of Zimbabweans are food insecure.
- Inflation closed December 2019 at a new post-hyperinflation peak of 521.15%.
- ZSE market capitalization retreated 3.18% to ZWL$29.790 billion in Q4 2019.

Heavyweights weigh down global growth

The IMF's World Economic Outlook report of October 2019 estimated 2019 global GDP growth at 3% - the lowest post the 2008/9 global financial crisis and a 0.3% downward revision from an earlier (April 2019) forecast. The IMF predicted a rebound to 3.4% in 2020, mostly driven by emerging and developing countries.

The IMF also noted significant downward risks to the outlook, citing a likely slowdown in China and the United States as well as a broadly subdued global economy. To mitigate such downside risks; policy prescriptions include defusing geopolitical and trade tensions, reviving multilateral cooperation, providing buffers and making growth more inclusive.

Widening income inequality…

The richer they were at the beginning of the year, the richer they were at the end of the quarter under review. The world's richest 500 as tracked by the Bloomberg Billionaires Index earned an extra US$1.2 trillion in 2019 - advancing their collective wealth by about 25% to US$5.9 trillion. In context; sub-Saharan Africa's 1.2 billion population closed the year with estimated total GDP (as a wealth proxy) of about US$1.7 trillion.

The world's richest man (Jeff Bezos) closed at US$116 billion, even after shedding US$36 billion in a divorce settlement.

Wealth and income inequality as a political-economic theme is likely to become increasingly dominant as wealth and income gaps widen. In the United States (world's largest economy by GDP) for instance; the richest 0.1% are estimated to control the biggest share of national wealth than at any time since 1929. The concomitant risk of widening inequality centres on the likelihood of radical political proposals to 'rationalise' wealth and income distributions.

Tread cautiously with Mother Nature

Extreme weather events dominated the period under review, with noteworthy signs of global heating propelling climate issues among top global concerns. For the first time in the 15-year history of the World Economic Forum's annual risks report; environmental concerns filled the top five key risks likely to have a major global impact over the coming decade.

World Economic Forum president Børge Brende, warned that 'Sea levels are rising, and climate fires are burning. This is the year when world leaders must work with all sectors of society to repair and reinvigorate our systems of cooperation; not just for short-term benefits but for tackling deep-rooted risks.' Overall, the need for responsible and environmentally conscious business methods cannot be over-emphasized.

China-Africa relations under scrutiny

The merits and intentions of China's 'generosity' towards Africa remained a hot topic. Conspicuously, Africa has been the destination for all Chinese foreign ministers' first overseas visit each year, for the past 29 years. China's true intent has been questioned, particularly in the context of Africa's increasingly compromised debt sustainability. Interestingly though, most questions have not come from Africans.

Traditional cooperating partners, including the United States and the United Kingdom have notably recalibrated their engagement with Africa to further incorporate infrastructure development. This notion is supported by the United Kingdom declaring that post Brexit, it intends to overtake the United States as the G7's top investor in Africa by 2022. This could make

for an interesting outlook with Africa expected to receive significant foreign investment inflows. While the statement of intent was broadly viewed as challenging China's dominance as the biggest investor in Africa - there is enough space across Africa to accommodate all suiters. In the words of former Chinese Emperor Deng Xiaoping, 'It does not matter if a cat is black or white, so long as it catches mice.'

Ethiopia filtering foreign investors

In furtherance of an 'open for business' approach, Ethiopia announced measures to enhance the quality of foreign investment and mitigate speculative tendencies. Under the new laws; a minimum threshold of US$200,000 was set for foreign investors. According to a draft proposal, those seeking joint venture engagements with locals must inject at least US$150,000, while the threshold drops further for architectural and engineering projects.

Building on Deng Xiaoping's 'black cat - white cat' open for business policy; there is need for some form of early screening to mitigate the menace of cowboys and fly-by-night investors. This is captured in Ethiopia's policy reform tone as it shifts from a heavy state presence model to a more liberalised model encouraging competition and efficiency. Key assets that are set for privatisation under the program include, the national power utility, national telecoms firm and the national airline.

Global equities on the front foot...

Global equities closed the quarter to 31 December 2019 bullish. The table below summarises global equity performance in the period under review.

	Q4'2019	FY'2019
MSCI Global	9.07%	27.30%
MSCI Advanced Mkts	8.68%	28.40%
MSCI Emerging Mkts	11.93%	18.88%

Global equities added 9.07% during the quarter under review, extending full year gains to 27.3%. Emerging market equities outperformed advanced market equities during the quarter under review, with considerable risk aversion in advanced markets primarily centred around US-China trade tensions.

US$ closed weaker, against most currencies

Progressive thawing of US-China trade tensions during the quarter ended 31 December 2019 eroded safe-haven attractiveness of the United States Dollar (US$), particularly towards the close of the quarter. Resultantly, the US$ retreated against most major trading currencies.

The US$ shed 2.4% against the Euro, closing the quarter under review at US$1.12 per Euro. Against the South African Rand (ZAR), the US$ retreated 6.9% to ZAR14.05 per US$, during the period under review.

The ZWL$ bucked the trend; retreating 9.4% against the US$ to close the quarter at ZWL$16.77 per US$. Since the lifting of parity with the US$ in February 2019, the ZWL$ closed 94% weaker.

Commodities were mostly positive

International commodity price movements during the quarter were mostly positive, as highlighted in the table below.

Commodity	Price	Q4'19	FY'19
Nickel (usd/ton)	14 220.00	-18.30%	23.22%
Crude Oil (usd/bbl)	66.7600	9.53%	24.14%
Gold (usd/oz)	1 522.84	2.61%	18.65%
Platinum (usd/oz)	969.39	5.89%	21.70%
Coffee (usc/lb)	131.95	31.10%	31.42%
Maize (usd/ton)	152.26	3.90%	2.93%
Wheat (usd/ton)	557.00	13.96%	9.65%
Sugar (usc/lb)	13.52	6.71%	10.37%
Cotton lint (usc/lb)	69.65	14.76%	-4.06%

Nickel prices corrected from an earlier surge, registering their highest monthly decline since September 2011 in October 2019 - amid global glut concerns.

Economic Outlook

An unparalleled combination of geo-political and environmental (natural) risks dominates the global outlook. The margin for error, particularly from a geo-political risk perspective is so narrow that an escalation of the risk is unimaginable. The likelihood of adverse weather presents support for international soft commodity prices.

MONTHLY ECONOMIC BRIEF

Q4 2019

Zimbabwe| Political-economy hamster wheel

Government declared the 25th of October 2019 a public holiday to push for the lifting of sanctions. The Southern African Development Community (SADC) expressed support for the anti-sanctions agenda, citing compromised regional economic development. The US Ambassador to Zimbabwe however blamed corruption and mis-governance for Zimbabwe's economic ills.

South African International Relations Minister Naledi Pandor noted that political divisions in Zimbabwe make external assistance difficult. She reiterated that it is Zimbabweans that should lead their reform process. On sanctions, she noted that while South Africa is against sanctions on Zimbabwe - 'the political dynamics are inextricably linked to the economic solutions, and thus should be addressed simultaneously.'

One in two considered food insecure

The World Food Program (WFP) estimates that 7.7 mln Zimbabweans (about one in two) are food insecure, mostly due to drought conditions. The WFP warns that about US$300 million is required in aid, as the country faces its worst hunger crisis in a decade. The risk of famine has been amplified, amid concerns the WFP could run out of funding as early as February 2020.

The Famine Early Warning Systems Network classified Zimbabwe at Phase Three food crisis - signalling 'widespread acute malnutrition'.

Drought effects on households are exacerbated by challenging macro-economic conditions; characterized by a tight fiscal and monetary stance towards policy rebalancing. Resultantly, the combination of depleted savings, rising consumer prices and dry fields suggests a harsh near-term outlook for the average household.

Gearing for productivity, growth and jobs

Minister of Finance Mthuli Ncube presented the 2020 national budget themed 'Gearing for higher productivity, growth and job creation.' In line with the theme; tax reforms included protectionist duties, lower corporate tax, softer PAYE and credits for youth employment. From a ZWL$0.8 bn surplus in the 9 months to Sept'19; Treasury expects a ZWL$5.2 bn deficit (4% of GDP) from ZWL$26.2 bn spending by Dec'19; improving to ZWL$5 bn (1.5% of GDP) in 2020.

Treasury forecasts supported the notion of a 2019 economic recession being inevitable. This notwithstanding, Treasury projected a rebound from -6.5% in 2019 to 3% in 2020. The recovery is premised on the assumption of no (or less) adverse externalities – particularly extreme weather events such as the drought and cyclone that affected the 2019 outturn. Overall, the budget suggests that there is no silver-bullet approach to sustainable economic recovery.

New notes… same issues

The Reserve Bank of Zimbabwe introduced 'new' ZWL$2 and ZWL$5 notes, as well as ZWL$2 coin to run alongside existing Bond notes. The new notes carry uncomfortably familiar features - conspicuously similar to Bond notes. Issuance of the notes is notably cautioned; ostensibly managing base money growth and its effect on inflation. The full intuition behind the 'new notes' remains arguably hazy - because cash shortages have persisted, while inflation and exchange rates have to date also seemed insensitive.'

Twitching and twerking…

Government gave approximately 450 junior doctors (that it had earlier dismissed for engaging in illegal job action) 48 hours expiring on 30 November 2019 to unconditionally return to work. The junior government doctors started their strike action on 3 September 2019 citing incapacitation. By end of the quarter under review, they had been joined by senior doctors, despite reports of some having returned to work.

Government lifted import license requirements on the entire range of food products 'in order to ensure adequate food supply'. Consequently, anyone with free funds can now import food without the need for a permit. Further, contrary to earlier reports; there will be no questions asked on the source of funds. "The intention is to ensure that by all means possible, citizens' right to access food is protected".

Government retained subsidies on selected goods, including maize meal. Earlier, the 2020

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MONTHLY ECONOMIC BRIEF

Q4 2019

national budget had proposed the lifting of such subsidies, citing their draining effect on national accounts. The policy reversal threatens overall policy certainty, though seemingly necessary and rational in the context of prevailing drought and associated food shortages. The tough trade-off between fiscal consolidation and social protection requirements underlines the fragility of any near-term semblance of fiscal balance.

No ceiling to galloping consumer prices

The poverty datum line for five urban dwellers reached ZWL$3,656.48 (ZWL$731.30 per person) in November 2019; up 384% from the beginning of the year. The International Labour Organization recommends that the PDL must be used as a reference point for minimum wages.

Implied year on year inflation (using the pre-ZWL$ base) closed 2019 at 521.15%, up from 42.09% in 2018. Food inflation (31% to overall basket) was 719.3%. Monthly inflation averaged 17% in 2019, up from 3.1% in 2018. Exchange rate pass-through effects on imported goods/services (such as food and fuel) were notable drivers in 2019. Going forward (2020), we anticipate sustained inflation pressures from likely wage increases, inescapable money supply growth and high cost base effects.

Zimbabwe's listed companies will start presenting their financial statements using IAS 29 - 'Reporting in hyperinflationary economies,' following a decision by the Public Accountants and Auditors Board (PAAB).

Constitutional amendment...

The ruling ZANU-PF's annual conference endorsed President Mnangagwa as the party's sole 2023 Presidential election candidate. Meanwhile, government gazetted a Bill repealing sections of the new (2013) constitution on Presidential running mates. Resultantly, the Bill empowers the president to hire and fire his deputies on various grounds, such as and not limited to physical incapacitation. The Bill is envisioned to go through public consultation, followed by Parliamentary debate in April 2020.

Equities closed softer as locals sold out

ZSE total market capitalization closed the quarter to 31 December 2019 at ZWL$29.790 bn, down 3.18% from the quarter's opening position as highlighted below.

Sector/Index	Value	Q4'19	FY'19
Commodities	2679.49	-5.64%	57.6%
Consumer	1237.46	-7.75%	42.1%
Financial	1467.99	2.03%	58.7%
Listed Property	550.19	59.32%	158.1%
Manufacturing	716.86	10.59%	126.1%
Industrial	**766.34**	**-1.06%**	**57.3%**
Mining	**316.66**	**-0.34%**	**39.1%**
Top Ten	**202.68**	**-7.07%**	**39.8%**
All Share	**230.08**	**-1.05%**	**57.3%**
Market Cap (ZWL bn)	**29.790**	**-3.18%**	**52.5%**

Total trades on the local bourse gained 15.6% to ZWL$539.3 million during the quarter ended 31 December 2019. The average daily value of trades also firmed 23.6% to ZWL$8.9 million during the same period.

ZSE foreign investor participation during the quarter under review closed at 14.7%, down from 20.1%. Net foreign portfolio inflows for the quarter were ZWL$1.1 million, compared to net inflows of ZWL$33.9 million in the prior quarter.

Economic Outlook

Political-economy policy relapse threatens full international reintegration and associated support. The absence of foreign budgetary support fuels an inherent risk of unconventional, yet familiar, survivalist tendencies.

Domestic policy reforms seem inadequate to deliver sustainable recovery, more so given adverse externalities such as extreme weather events and international commodity vulnerabilities. We maintain a flat to negative outlook over the foreseeable outlook as risks remain tilted to the downside.