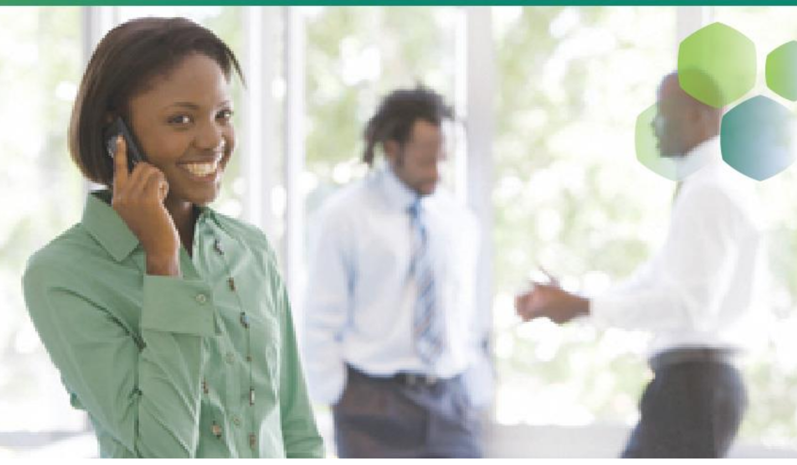
Monthly Economic Brief

February 2019



Highlights

- **The RBZ redenominated bank balances and Bond notes into 'RTGS Dollars'.**
- **The United States and European Union extended sanctions on Zimbabwe.**
- **The United Nations launched an international flash appeal to avert a food crisis in Zimbabwe.**
- **Average consumer prices increased by 56.9% between January 2018 and January 2019.**
- **ZSE total market capitalization retreated 5.7% to $19.894 bn in February 2019.**

Softer quasi local currency…

The Reserve Bank of Zimbabwe released the eagerly anticipated 2019 monetary policy statement in which it (re)denominated (non-Nostro) bank balances and Bond notes into a quasi-currency known as 'RTGS Dollars'. The RTGS$ will be tradable for alternative currencies on an interbank foreign currency auction system to facilitate access and pricing of foreign currency on a market determined basis. Some critical sectors such as electricity and cooking will continue to receive foreign currency through the allocation system. Current receipts will be required in order to access foreign currency on the auction system.

The pre-policy announcement period was characterized by wide-spread currency uncertainty and associated pricing distortions. The post-policy environment remains cagey. Redenomination of bank balances and the accompanying introduction of an auction-based currency pricing platform is envisioned to make the valuation of local assets more objective, yet softer in hard currency terms. A softer local currency (moving from US$ parity) is likely to make imports more expensive in local currency terms - fuelling inflation pressures on imported goods.

Sanctions extended…

Citing alleged human rights abuses, the EU parliament urged Zimbabwe to urgently withdraw all military personnel and called on all political actors to exercise responsibility and restraint. The EU parliament went on to remind Zimbabwe that EU members' support is conditional on its respect for rule of law and international treaties/conventions. It further encouraged the European Council to tighten sanctions on Zimbabwe.

On 18 February 2019, the European Union Council 'slightly lightened' sanctions on Zimbabwe - by lifting (suspended) sanctions on two individuals while maintaining the broader restrictions such as an arms embargo. The United States also extended sanctions against Zimbabwe by one year - citing policies that continue to pose an usual an extraordinary threat to the American foreign policy.

Mixed agriculture outlook

The Tobacco Industry and Marketing Board estimates that tobacco grower registrations for the 2019 marketing season reached 170,842 at the end of February 2019, up 44% from the same period last year. Of the registered growers, 41,021 (24%) are new. Consequently, national tobacco output is broadly expected to be high (last year's outturn was a record 252 mn kgs), despite drought conditions. The marketing season is expected to open around the 21st of March 2019. Tobacco is the country's second largest foreign currency earner, after gold.

Prevailing adverse weather conditions have been less favourable for other crops, particularly cereals. The United Nations' (UNs') Food and Agriculture Organization projects a diminished 2019 cereal production outlook on account of unfavourable weather conditions at the beginning of the cropping season. Resultantly, the UN estimates that 5.3 million people will require food aid in Zimbabwe. The UN has since launched an international 'flash appeal' for assistance (US$234 mn) to cover the food deficit and avoid a humanitarian crisis.

Consumer purchasing power further eroded…

Consumer inflation reached a new post-hyperinflation peak of 56.9% in January 2019, up from 42.1% in the prior month. Meanwhile, the total poverty datum line (PDL) for a household of five closed December 2018 at $755.22, up 36%, from the December 2017 PDL of $555.31. The food PDL for five people closed 2018 at $266.35, up 46.2% on a year on year basis.

January 2019 inflation pressures would be mostly attributed to a 150% fuel price increase. Second round implications on other sectors, particularly the retail and distribution sectors are likely to sustain fuel related inflation pressures. Recent exchange rate adjustments also pose noteworthy pass-through inflation implications going forward.

Dollar on the front foot…

Concerns of a weak global economic outturn were amplified by the European Central Bank hinting at a weak regional growth outlook and accompanying sustained accommodative monetary policy. Generalized global growth concerns supported the United States Dollar's safe haven attractiveness.

The United States Dollar advanced 2.5% against the South African Rand (ZAR), to close the month ended 28 February 2019 at ZAR13.88 per US$. Against the Euro, the US$ gained 0.5% to US$1.14 per Euro, during the month under review. Impending elections in South Africa and associated policy fragility weigh down the ZAR's outlook.

Commodities traded mixed

Commodity prices closed the month under review mixed as highlighted in the following table.

Commodity	Price	Feb'19	12 Months
Nickel (usd/ton)	12 875,00	5,19%	11,57%
Crude Oil (usd/barrel)	65,85	6,07%	22,44%
Gold (usd/oz)	1 325,79	0,17%	3,30%
Platinum (usd/oz)	875,10	6,23%	9,86%
Coffee (usc/lb)	99,45	-4,01%	-0,95%
Maize (usd/ton)	147,33	-1,64%	-0,40%
Wheat	467,75	-9,39%	-7,92%
Sugar (usc/lb)	12,86	1,98%	4,98%
Cotton lint (usc/lb)	72,17	-2,71%	-0,59%

Soft commodity prices were largely softer due to a bullish harvest outlook across most crops. Sugar bucked the general trend, in part due to increased ethanol production in South Africa and partly due to sugar-tax-induced supply disruptions in South Africa.

Equities re-rating post Monetary Policy

The ZSE industrial index retreated 6% during the month ended 28 February 2019, with most indices closing negative as highlighted in the table below.

Sector/Index	Value	Feb'19	YTD'2019
Commodities	1793,30	0,39%	5,45%
Consumer	878,17	-7,59%	0,84%
Financial	943,92	-5,63%	2,06%
Listed Property	234,15	-4,40%	9,84%
Manufacturing	340,83	4,38%	7,48%
Industrial	**494,11**	**-6,04%**	**1,43%**
Mining	**207,03**	**-2,86%**	**-9,08%**
Top Ten	**145,40**	**-8,14%**	**0,26%**
All Share	**148,11**	**-5,99%**	**1,28%**
Market Cap ($ mln)	**19 894,11**	**-5,68%**	**1,85%**

ZSE total market capitalization shed 5.9% to $19.9 billion as the market reacted to monetary policy reforms. Most indices maintained positive year to date returns as at 28 February 2019.

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

Top 3 Performers	Price USc	Feb'19	YTD'19
MEDTECH	0,06	200,00%	200,00%
UNIFREIGHT	8,28	72,50%	73,22%
ZIMPAPERS	8,60	43,33%	198,61%

Bottom Performers	Price USc	Feb'19	YTD'19
EDGARS	10,15	-35,76%	-0,49%
OLD MUTUAL	729,58	-26,64%	-8,01%
MEIKLES	52,00	-20,00%	1,96%

Total trades on the local bourse surged a noteworthy 140.9% to $296.7 million during the month ended 28 February 2019. The average daily value of trades also advanced 140.9% to $15.6 million during the same period. Foreign investors bought stocks worth $250.2 million, with foreign trades accounting for 82.4% of total ZSE trades.

Economic Outlook

Monetary policy pronouncements are in the preferred direction, yet broadly inadequate. Foreign currency shortages are likely to persist in the absence of sustainable foreign currency inflows. Consequently, our baseline view is that monetary policy reform is 'work in progress', requiring supplementary measures. The outlook is broadly inflationary, depressing the aggregate earnings outlook from likely household spending cuts.