Monthly Economic Brief

August 2023

HIGHLIGHTS

Policy review
Commitment to stay on tight fiscal and monetary path.

Zimbabwe Gold
Likely to be gradually eased in as new gold backed local e-currency.

Blended Prices
Average consumer prices declined by 6.2% in August 2023.

Local Equities
ZSE listed stocks recovered 6% to ZWL$9.7 trillion in August 2023.

Status Quo holds...

President Mnangagwa was sworn in for a second term of office. There was no judicial contestation of the election outcome, despite muted discontent by the main opposition party. The opposition cites a captured judiciary and could target a diplomatic offensive instead. Some preliminary observer reports acknowledged general peace, while noting irregularities. This notwithstanding, the status quo seems increasingly entrenched by the day.

Staying the course...

The 2023 mid-year fiscal and monetary policy reviews were presented during the month under review. Economic growth as measured by Gross Domestic Product (GDP) is projected to close the year at 5.3%, up from an earlier forecast of 3.8%. The upward revision is supported by a better than earlier anticipated outturn for agriculture and mining, as well as improved electricity supply prospects to year-end. Overall, both policy statements expressed satisfaction with the current macro-economic trajectory.

Both policy statements committed to maintain a contractionary stance, attributing recent inflation and exchange rate stability to tight liquidity management. Resultantly, authorities are targeting inflation of 60% to 70% for 2023. Without qualification, official inflation usually refers to blended (currency weighted) inflation.

Gold-backed e-currency?

The Reserve Bank of Zimbabwe (RBZ) published operational modalities for the transactional form of gold-backed digital tokens. The tokens are known as Zimbabwe Gold (ZiG). They are envisioned to expand the pool of value-preserving instruments, enhance divisibility (denominated in milligrams of gold) and enhance accessibility/transferability (settled via the RTGS platform). ZiG will be issued by the RBZ and will not earn interest. Monthly transaction limits range from US$2,000 equivalence to US$6,000 and its value will track international gold prices.

ZiG presents itself as a typical gold-backed local e-currency. The extent to which it could supplant the ZWL$ remains indeterminate. As with most other currencies, the endurance of ZiG will hinge on the level of reserves and market confidence. Confidence (re)building is an inherently sticky proposition and is likely to take time. Building of reserves seems to be shaping up; with the RBZ reporting an estimated 350 kilograms of gold having been collected from October 2022 (roughly 32 kgs per month) as part-payment for mineral royalties under a new mining tax framework.

Consumer prices on the decline...

According to the Zimbabwe Statistical Agency (ZIMSTAT), average consumer prices based on a weighted/blended basket of ZWL$ and US$ prices decreased for a second consecutive month in August 2023. The ZIMSTAT estimates that average consumer prices declined by 6.2% in August 2023, extending on a 15.3% decline in the prior month. This notwithstanding, average blended consumer prices were up 77.2% between August 2022 and August 2023.

The Poverty Datum Line (PDL) decreased by 8.5% in August 2023 to ZWL$91,063.30 per person. On a year-on-year basis, the PDL increased by 242% from ZWL$26,622.83 in August 2022. The PDL has a very strong correlation with ZWL$ consumer inflation, thus providing a general feel of pure ZWL$ price movements.

ZWL$ shed 1.9% against strong US$

The ZWL$ slipped into familiar territory, shedding 1.9% against the US$ in August 2023. In the prior month, the ZWL$ appreciated by a noteworthy 27%; its first appreciation since December 2020. The latest depreciation still signifies relative stability considering average monthly depreciation of 26% in the first six months of 2023. By close of August 2023, the ZWL$ was at ZWL$4,604.62 per US$, from an opening position of ZWL$4,517.14. In August last year, the ZWL$ was trading at ZWL$546.83 per US$.

The US$ was not only firmer against the ZWL$, as the US$ index DXY registered gains against most trading currencies. US$ support was in part driven by market positioning in anticipation of a United States Federal Reserve Bank interest rate hike in September 2023. Higher interest rates would make the US$ dearer and prop up exchange rates. Further support for the US$ was premised on increased safe-haven appeal as recessionary fears in other economies mount.

Commodity prices closed mixed…

International commodity prices closed the month to 31 August 2023 mixed as captured in the table below.

Commodity	Aug'23	M-o-M	YTD
Crude Oil (USD/bbl)	86.74	1.37%	4.38%
Gold (USD/oz)	1,943.44	-1.38%	6.87%
Platinum (USD/oz)	979.45	2.31%	-7.77%
Nickel (USD/ton)	20,230.00	-6.45%	-32.45%
Palladium (USD/oz)	1,229.33	-3.82%	-30.94%
Maize (USD/ton)	189.75	-6.00%	-19.01%
Wheat (USD/ton)	594.25	-4.71%	-13.07%
Sugar (USc/lb)	88.08	3.91%	39.44%
Cotton (USc/lb)	25.35	-7.04%	19.68%

A firm US$ made US$-denominated international commodity prices steeper in alternative currency terms – weighing on effective demand. Gold prices maintained their inverse relationship with the US$, while tight production and supply controls supported crude oil prices.

Soft commodity price movements were predominantly softer on the back of ample global supplies. Grains led the decline, as Brazil registered a record harvests. Going forward, the general sentiment points to inflated food prices as speculators take positions against increasingly apparent El Nino effects.

Market Performance

Domestic equities on the ZWL$-denominated ZSE closed firmer as the ZSE All-Share index advanced 9% during the month under review, extending year to date gains to 542% as shown below.

Sector	Aug'23	M-o-M	YTD
ZSE All Share	125,134	9%	542%
ZSE Top 10	58,625	13%	376%
ZSE Medium Cap	449,717	2%	1127%
ZSE Market Cap (ZWL$ trn)	**9.7**	**6%**	**376%**

The tables below highlight the ZSE top and bottom three performing stocks in the month of August 2023.

Top 3	Aug'23	M-o-M	YTD
Dairibord Holdings Ltd	67,500	101%	1829%
Delta Corporation Ltd	288,139	45%	534%
Rainbow Tourism Group	16,000	29%	1704%

Bottom 3	Aug'23	M-o-M	YTD
Willdale Limited	335	-82%	86%
Masimba Holdings Limited	45,035	-52%	463%
Seedco Limited	113,325	-26%	1421%

The ZSE's total market capitalisation closed the month at ZWL$9.7 trillion, up 6% from the prior month. Total ZSE turnover shed 3.9% to ZWL$39.3 billion, from a peak of ZWL$84.2 billion in June 2023.

The US$-denominated Victoria Falls Stock exchange (VFEX) All Share Index advanced 3.7%, reducing its year-to-date decline to 28.5%. Performance of the VFEX is summarised below;

VFEX	Aug'23	M-o-M	YTD
All Share Index	70.841	3.71%	-28.49%
Market Cap (US$ bln)	**1.23**	**5.18%**	**117.01%**

Foreign investors remained net sellers on the ZSE, despite a notable decline in the value of net sales from ZWL$19.4 billion in July 2023 to ZWL$3.5 billion in August 2023. Overall, foreign investor participation declined from 26.1% to 14.4% in August 2023.

Economic Outlook

A generalized uncertainty clouds the outlook, with political economy undertones still dominating market themes. Resultantly the market still presents a 'wait-and-see' atmosphere. Macro-economic risks remain anchored around monetary policy. Prevailing conditions present limited policy manoeuvrability beyond the multi-currency framework, thereby sustaining the status quo. From a low base, the medium to long term outlook still presents considerable upside.