QUARTERLY ECONOMIC BRIEF Q1'2022

HIGHLIGHTS

8.00%
Annual inflation in the US rose to 8% in Q12022

23.70%
Zimbabwe dollar depreciated by 23.70% in Q1'2022.

46.54%
All-Share Index performance in Q120221

72.70%
Year-on-year inflation closed the quarter at 72.70%.

Main Themes

Covid-19

The first quarter was characterised by a significant reduction in Covid-19 fatalities across the world and the relaxing of pandemic related restrictions. The Omicron variant, although aggressive, it allowed for higher natural immunity with low fatalities compared to Delta. However, China's zero-tolerance has resulted in stricter lockdowns and less natural immunity threatening global supply.

Locally, Covid-19 fatalities declined from 334 in February to 49 in March because outbreaks in schools were contained. At the end of March, a total of 3.53 mn people had received double dose vaccinations. This was an increase of 4% from the prior month. The impact of the virus has waned, and new variants are seemingly not threatening.

Russia – Ukraine Conflict

As the world was beginning to cope with Covid-19, attention was turned to Russia's invasion of Ukraine on the 24th of February. According to the United Nations High Commissioner for Refugees (UNHCR), by the end of March, there were over 900 civilian deaths, over 2,600 civilian casualties and over 4 million refugees had fled Ukraine. This conflict has destabilised the region and raised tensions with Russia's neighbours especially the North Atlantic Treaty Organisation (NATO) members namely Latvia, Estonia, Lithuania, and Poland. This conflict will likely have broader ramifications for energy security, cybersecurity, cooperation, political solutions and where to invest.

In most parts of the world especially grain and fuel importers, the impact of the Ukraine war has been felt through the increases in prices. In March, Brent Crude Oil peaked at US$139, but most of the gains were lost and it settled above US$100, higher than the pre-war price which hovered in the US$90s.

Inflation

The increase in oil prices came at a time when the world was experiencing higher inflation. This inflation was driven by over US$9 trillion dollars of quantitative easing in 2020 and 2021 to artificially create demand and curb a recession during the pandemic. Consequently, money supply increased, and inflation reared its head in the second half of 2021. In the USA, annual inflation reached 8% in February 2022, an all-time high in forty years. Other countries including the UK, Canada and European countries witnessed similar trends.

Interest Rate Hikes

To deal with inflationary pressures, the US Federal Reserve raised its benchmark rates by 0.25 percentage points. Other countries including South Korea, New Zealand, Brazil and the United Kingdom have also raised interest rates. Russia was forced to raise interest rates from 9.5% to 20% in response to the pressure on the country's financial system due to the Russia-Ukraine conflict. Interest rate hikes are meant to slow down spending and hopefully curb inflation. A major concern on these interest rate hikes is the possibility of a recession that will have a negative impact on employment, incomes, and growth.

Our local inflation was 6.31% in March, bringing annual inflation to 72.70% from 60.74% in December 2021. Year-to-date inflation was 19.82%, close to annual estimations by government of up to 35%.

As a response to these inflationary pressures, the Central Bank increased the bank policy rate from 60% to 80% per annum at the beginning of April. The Medium-Term Bank Accommodation facility interest rate was reviewed from 40% to 50% per annum. Quarterly reserve money growth target was reduced from 7.5% to 5% for the quarter ending June 2022.

These measures are unlikely to result in satisfactory and sustained stabilisation of prices given foreign currency shortages.

By Election Results

The by-elections saw CCC solidifying its position as the major opposition party in the country. Out of the 28 contested seats, CCC won 19, while ZANU PF won 9. The relatively calm post-election environment suggested electoral operations and equipment were fully functional. Political instability remains a key risk to year end, as preparations for 2023 elections heighten.

Commodities React to Quantitative Easing and War

Commodity	Price	Mar'22	Q1'22
Crude Oil (USD/bbl)	108.31	7.13%	37.43%
Gold (USD/oz)	1,944.51	2.08%	6.71%
Platinum (USD/oz)	991.22	-5.11%	3.74%
Nickel (USD/ton)	32,700.00	32.44%	58.05%
Palladium (USD/oz)	2,290.81	-8.11%	22.04%
Maize (USD/ton)	290.14	6.70%	23.35%
Wheat (USD/ton)	1,033.25	10.54%	33.58%
Sugar (USc/lb)	19.50	10.17%	3.56%
Cotton (USc/lb)	137.57	15.49%	21.59%

Commodities experienced a rally in Q1 following the conflict in Ukraine. Wheat rose by 33.58%, factoring supply shortages from Russia and Ukraine that provide c.30% of the world's wheat. Nickel was largely affected by bets placed against the metal before the war began, causing panic which resulted in the price reaching a peak of USD$100,000.

Local Equities Ended the Year Strong

The quarter saw the All-Share Index firming by 46.54% driven by the Top 10 Index that grew by 53.81%. Inflation fears and an increase in liquidity were largely behind this positive performance. The small cap index pulled down overall performance with just 3% growth in the quarter. The detail indices performances are as follows:

Sector/Index	Value	Mar'22	Q1'22
ZSE All Share	15,858.92	5.79%	46.54%
ZSE Top 10	10,476.38	5.26%	53.81%
ZSE Medium Cap	26,183.01	6.58%	28.30%
ZSE Market Cap (Z$ bn)	1,964.74	5.46%	49.16%

The tables below highlight the ZSE's top and bottom performing stocks in Q1'2022.

Top 3	Price ZWLc	March'22	Q1'22
Zeco	2.00	0.00%	316.7%
Simbisa	22,154.75	25.71%	146.2%
Axia	72,000.21	11.36%	139.6%

Bottom 3	Price ZWLc	Mar'22	Q4'21
GB Holdings	131.93	-21.54%	-42.5%
MedTech	2,100.00	-6.33%	-29.9%
ZBFH	6,000.00	-7.69%	-22.1%

The value of trades declined by 39.05% in Q1 to ZWL20.20 bn, compared to the previous quarter. Daily trade values averaged ZWL127.95 mn in Q1, down from an average of ZWL517.79 mn in Q42021. Foreign investors registered a net quarterly sell-off of ZWL$322 mn in Q1, while foreign trades accounted for 16.38%, down from 20.62% of total trades in Q42021. The Victoria Falls Stock Exchange (VFEX) registered growth in trades of 4,496.72% in Q12022 compared to Q42021. Trades in Q1 amounted to US5.27 mn compared to US114,544.74. However, market capitalisation declined in the quarter by 2.35% to US$253.65 mn suggesting revaluation following listing. Overall, increased trades suggest increased dollarisation in the economy.

Currency Movements

The South African Rand, Euro and GBP strengthened against the USD in Q1 by 8.50%, 2.22% and 2.65% respectively. For South Africa, this was due to perceived stability compared to other emerging markets. For the Euro and GBP, there was widespread currency volatility, and we expect the USD to firm in the months ahead. The Japanese Yen weakened against the USD by 5.49% in Q1 due to geopolitical stress.

Our local currency depreciated by 23.70% from 108.67 to 142.42 largely due to foreign currency shortages. On the informal market, parallel market rates have depreciated by c.20% but the premium on parallel rates was more than 80%. There is a strong correlation between currency depreciation and inflation which ended the quarter with year-to-date value of 19.82%.

Economic Outlook

The economy is on an upward trajectory as witnessed by increasing volumes by manufacturers, due to growth in demand. Growth is being driven by strong performance in 2021 of major sectors including agriculture and mining and election spending. Going forward, monetary policy will continue to reflect macroeconomic vulnerability as evidenced by the recently increased interest rates. Foreign currency shortages will persist amid increased dollarisation.

The interbank rate is increasingly being alienated in the market given the growing and unsustainable divergence with parallel rates. This points to inevitable dollarisation to stabilise prices. Our strategy to year-end will zero in on green shoots from selected companies, while overarching positions remain defensive and long term in nature.