OLDMUTUAL

MONTHLY ECONOMIC BRIEF

May 2019

Highlights

- The IMF Board approved an SMP for Zimbabwe covering May 2019 to March 2020.
- National budget revised from US$7.8 billion to ZWL 12.2 billion following RTGS$ introduction.
- Consumer inflation reached 75.9% in April 2019, as inflation dominates macro themes.
- ZSE total market capitalization advanced 42.34% to ZWL 25.125 billion in May 2019.

Operationalizing the Fx auction platform

The Central Bank announced a US$500 mln facility to oil the interbank foreign exchange market. The non-concessionary offshore credit line will be repaid over four years and is reportedly secured against future mineral exports. Further, as part of foreign exchange market liberalization measures; oil marketing companies were weaned from the concessionary allocation of foreign currency. Oil companies and other producers of basic commodities are now required to access foreign currency from the foreign currency interbank auction platform.

The offshore facility is expected to enhance official market foreign exchange supply; partly dis-incentivizing parallel market trades and containing associated exchange rate pass-through effects on inflation. The non-concessional nature of the facility threatens future fiscal stability. Progressive exchange rate liberalization enhances the foreign exchange market's allocation efficiency; while presenting exchange rate cost-push pressures as prices track foreign exchange auction rates.

IMF (staff) to hold our hand…

In response to a request by Zimbabwean authorities; the IMF approved a Staff Monitored Program (SMP) for Zimbabwe. The SMP is an 'informal agreement between a country and IMF staff' and does not entail endorsement by the IMF Board. Under the SMP, IMF staff will monitor implementation progress on Zimbabwean authorities' self-imposed targets. Targets (to Jun'19) include; ZWL1.2 bln budget deficit ceiling and no new non-concessional foreign debt. The latest SMP covers the period May 2019 to March 2020. It is envisaged to build a track record of reform performance. Broadly, the SMP targets implementation of fiscal consolidation, monetary tightening and improved governance. The IMF however noted that 'risks to the SMP are very high', citing high political and social costs of reform. The IMF also noted that Zimbabwe's recent track record on technical assistance implementation has been mixed.

The SMP presents an opportunity to garner confidence-by-association. Further, if sincerely and fully implemented; technical assistance could help bridge inherent capacity constraints. The concomitant risk hinges on authorities failing to meet the self-imposed reform targets.

Changing accounts… post de-dollarization

Following the introduction of the RTGS$ (ZWL) in February 2019, macro-economic variables and targets are being recalibrated accordingly. Further need for recalibration was driven by a spike in inflation and the inescapable expenditure arising from recent drought and cyclone effects. On 23 April 2019, Cabinet approved a revised ZWL budget of ZWL 12.2 bln, up from the initial US$7.8 bln. Consequently, Treasury projects a budget deficit of ZWL 2.8 bln, up from an earlier US$1.6 bln.

The transition to a local currency also carries noteworthy risks for overall financial stability. At macro-level, external debt obligations face significant upward review in local currency terms, significantly threatening sovereign debt sustainability. Debt sustainability is further strained by contingent liabilities associated with reports that the RBZ is planning to cover banks' net open foreign positions. In the absence of external debt rescheduling; foreign liabilities threaten sustainable economic recovery.

Inflation at 75.9%; no hard ceiling in sight

Inflation closed April 2019 at 75.9%, a new post hyperinflation peak. Monthly inflation was 5.5%, driving year to date inflation to 24%. In the corresponding period last year, year to date inflation was 0.2%. Year-end inflation is technically expected to be slightly toned down by (high) base effects starting from Oct'19. This notwithstanding, the period before then poses a real risk of hyperinflation (accounting terms).

Going forward, inflation expectations are mostly anchored on possible monetization of inescapable fiscal deficits in light of limited foreign budgetary support. Further inflation expectations arise from ongoing exchange rate liberalization and associated pass through effects - case in point being recent fuel price increases and associated second round effects.

US$ on the front foot

The United States Dollar registered gains against many trading currencies during the month under review. It advanced 0.27% against the Euro to close at US$1.11 per Euro. Against the South African Rand (ZAR), the greenback firmed 2.31% to ZAR14.66 per US$. US$ benefitted as a safe-haven asset in light of widespread trade war (US vs China) concerns.

Euro and ZAR weakness was in part attributable to political and policy uncertainty associated with European parliamentary elections as well as South Africa's general elections. Further pressure on the ZAR was centered on 2019 first quarter economic data showing that the South African economy contracted by 3.2%. Remedial expansionary policy in South Africa is broadly expected to weigh on the ZAR.

Commodities closed mixed

International commodity prices were mixed during the month ended 31 May 2019 as highlighted in the following table.

Commodity	Price	May'19	YTD'19
Nickel (usd/ton)	11 975,00	-2,88%	3,77%
Crude Oil (usd/bbl)	65,05	-10,98%	20,96%
Gold (usd/oz)	1 298,02	0,96%	1,13%
Platinum (usd/oz)	791,36	-12,01%	-0,65%
Coffee (usc/lb)	99,95	5,99%	-0,45%
Maize (usd/ton)	168,59	18,55%	13,97%
Wheat (usd/ton)	503,25	16,56%	-0,94%
Sugar (usc/lb)	11,64	-7,91%	-4,98%
Cotton lint (usc/lb)	68,64	-11,08%	-5,45%

Severe floods and tornadoes in the United States of America (world's largest maize producer) disrupted planting; threatening harvest estimates and the broader global supply outlook. Trade war concerns and associated expectations of depressed global manufacturing weighed down oil demand and prices.

Equities rallied on safe haven attraction

The ZSE industrial index advanced a noteworthy 40.7% during the month ended 31 May 2019, as persistent monetary policy concerns sustained a flight from monetary instruments.

Sector/Index	Value	May'19	YTD'19
Commodities	1984.37	23.66%	16.69%
Consumer	1128.68	42.75%	29.61%
Financial	1242.14	56.73%	34.30%
Listed Property	225.78	16.31%	5.92%
Manufacturing	390.70	13.09%	23.21%
Industrial	628.41	40.74%	29.00%
Mining	225.81	21.10%	-0.83%
Top 10	182.99	43.34%	26.18%
All Share	188.06	40.67%	28.60%
Market Cap (ZWL mln)	25.125	42.34%	28.63%

The ZSE registered significant gains across the board, turning prior losses on a year to date across all indices except for the mining index. The mining and property sector indices characteristically lag the benchmark. The following tables highlight the ZSE top and bottom three performing stocks for May 2019.

Top 3	Price ZWLc	May'19	YTD'19
RTG	8.50	264.81%	255.65%
CBZ	42.80	103.81%	176.13%
MEDTECH	0.28	100.00%	1 300.0%

Bottom 3	Price ZWLc	May'19	YTD'19
ZIMPAPERS	8.00	-11.11%	177.78%
TSL	57.00	-8.43%	-5.39%
POWERSPEED	17.00	-2.58%	21.43%

Total ZSE trades amounted to ZWL 193.5 million during the month under review, up 66.4% from prior month. Daily trades averaged ZWL 8.8 million, up 43.7% from the previous month. Foreign investor participation accounted for 47.6% of total trades, albeit as net sellers.

Foreign investors bought and sold stocks worth ZWL 85.2 million and ZWL 99 million, respectively, during the month ended 31 May 2019. Cumulative net foreign portfolio flows closed at ZWL 2.2 million, down from ZWL 43.3 million in the same period last year.

Economic Outlook

The near-term outlook is ominous, clouded by a confluence of catastrophes. Recession and excessive inflation dominate macro-economic themes over the foreseeable outlook. Recession concerns hinge on adverse (weather related) shocks and associated output disruptions. Excessive inflation expectations are anchored on ongoing exchange rate liberalization and associated pass-through effects. Nominal price recalibration of local assets supports equities valuations, despite a weak forward earnings outlook. Survival is of the essence.