



MONTHLY ECONOMIC BRIEF



JANUARY 2022

HIGHLIGHTS



Food Security

Adverse weather conditions a threat to food security



15.39%

Record month-on-month spike in crude oil price



60.61%

Annual inflation down to 60.61%



11.62%

ZSE All-Share Index up by 11.62%



Covid-19

Fourth wave waning with daily average cases below 160

The Zimbabwean Dollar Gets a Boost

The Central Bank has expressed commitment to maintain the local currency amidst calls for dollarisation from industry players, civil servants, and workers unions such as the Zimbabwe Banks and Allied Workers Union. During the month under review, monetary authorities met captains of industry to discuss ways to stabilise prices and protect the value of the local currency. The consultative approach was welcomed ahead of the Bank's Monetary Policy Statement on the 7th of February 2022.

In the first week of February 2022, the Minister of Finance and Economic Development, Professor Mthuli Ncube announced measures to promote the use of the local currency. Import duties and taxes for motor vehicles and royalties for mining companies formerly exclusively payable in foreign currency will now be partially settled in Zimbabwe dollars up to a limit of 50%. For exporters, all domestic payments will be paid in direct proportion to the approved export retention levels.

Monetary authorities also weighed in with additional measures to support the local currency in the 2022 Monetary Policy Statement (MPS). Key policy measures from the MPS include further tightening of the Bank's monetary policy stance through maintaining the policy rate at 60%, lowering the quarterly reserve money supply target to 7.5% from 10% and increasing mobile money transactions and cash withdrawal limits. The Bank is also committing to refine the foreign currency auction market through timeously allotting bids and addressing the settlement backlog.

The measures buttress the government's de-dollarisation agenda

and dispels speculation on formal dollarisation of the economy. However, there is need for authorities to fully embrace the use of the local currency in government and associated entities as a show of confidence in the local unit. Furthermore, authorities need to continue implementing policies that enhance net exports, contain money supply growth, and build confidence for the full restoration of all the fundamental functions of money to the local currency.

Tropical Storms a Threat to Economic Growth

The 2021/22 rainfall season has had undesirable weather patterns. From the dry spells in the first half of the season to the incessant rains and hailstorms in the new year. Tropical storm Ana hit the Eastern parts of the country during the month under review resulting in the destruction of infrastructure and crops. The incessant rains have resulted in widespread water logging and leaching. Cyclone Batsirai expected in early February 2022, is likely to further worsen the conditions. The heavy rains are expected to affect yields for maize and tobacco as well as mining output in Q12022. This raises the threat of food insecurity, subdued revenues for Government and increased pressure on the fiscus to provide social support. The silver lining is in the abundance of water that can be utilised in subsequent seasons as well as in power generation.

Covid-19's Endemicity and Omicron Sub Variants

The Omicron variant (BA.1) has been heralded as less severe, yet highly transmissible. At the end of January 2022, there were over 370 million cumulative confirmed cases and over 5.6 million deaths reported worldwide. Locally, the fourth wave has waned given the slump in the 7-day rolling average number of cases to 158 as of the

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3rd of February 2022, from over 4,500 around mid-December 2021. The declining vaccinations rates remain a concern with the daily average rate declining to about 7,670 as of the 3rd of February 2022 compared to about 21,000 by end of December 2021. A total of 3.3 million people (33%) of the targeted 10 million people had been vaccinated by the 3rd of February 2022.

The World Health Organisation (WHO) has warned against complacency given the rise in death rates in many regions of the world and the presence of a highly transmittable variant of Omicron (BA.2) which reportedly accounted for a fifth of all infections in South Africa, 8% in the USA and 82% of all cases in Denmark at the end of January 2022. Preliminary reports suggest that BA.2 is more transmissible than the BA.1. This increases the risk of virus mutation and the need for new vaccines. The WHO calls come at a time when most parts of the world are seemingly relaxing restrictions and envisioning endemicity of the virus.

Momentum Picks in Elections' Race

Election campaigning picked up momentum in January 2022 with a "new" political party called the Citizens Coalition for Change joining the race. The by-elections to be held on the 26th of March 2022 are targeting to fill up a total of 122 vacancies for councillors and parliamentarians. The elections are expected to inform the readiness and the nature of topical issues around the voting landscape leading to the harmonised elections in 2023. Political temperatures are expected to rise in the run up to the elections.

Inflation Pressures Concerning

Consumer prices were up by 5.34% in January 2022, compared to 5.76% in December 2021. Although this is a marginal improvement from the prior months rate, if this level of monthly inflation persists for the remaining months of the year, the country is likely to experience higher inflation in 2022 compared to 2021. Annual inflation for January 2022 was 60.61%, down from 60.74% in December 2021. Currency depreciation remains the major driver of the general level of prices in the economy. Monetary authorities have vowed to maintain a tight lid on money supply to tame inflation. However, the efficacy of monetary policy tools to rein in inflation is seemingly compromised given the inadequate foreign currency reserves to support the local currency, highly informalized economy and the ostensibly low market confidence in the local unit.

Federal Reserve Attitude Weighs in on the US Dollar

The US dollar weakened in January 2022 against the British pound (-1.4%), the Euro (-0.14%) and the Japanese Yen (-1.43%). Although there had been initial demand earlier in the month with expectations of interest rate hikes, investors crystallised their returns amid reports of a postponement of rate hikes to mid-March 2022. Demand seems to be flocking towards interest rate raising countries such as the UK. The Bank of England raised interest rates by 0.25% in January 2022, bringing the bank rate to 0.5% from its

historic low of 0.1% in 2021.

Commodities Reflecting High Global Inflationary Pressures

Crude oil had the highest month-on-month price increase since October 2014 when it rose by 15.39% from US\$78.81 to US\$90.94 per barrel. Palladium also had its best month in 14 years. This comes amid increased demand and growing tensions between Russia and Ukraine that are threatening supply. Gold declined by 1.49% on growth prospects, reducing the attractiveness of the yellow metal.

Commodity prices are given in the table below:

Commodity	Dec'21	Jan'22	Jan'22
Crude Oil (USD/bbl)	78.81	90.94	15.39%
Gold (USD/oz)	1,822.16	1,795.06	-1.49%
Platinum (USD/oz)	955.48	1,021.68	6.93%
Nickel (USD/ton)	20,690.00	22,725.00	9.84%
Palladium (USD/oz)	1,877.13	2,413.01	28.55%
Maize (USD/ton)	235.22	247.6241	5.27%
Wheat (USD/ton)	773.50	772.25	-0.16%
Sugar (USc/lb)	18.83	18.02	-4.30%
Cotton (USc/lb)	113.14	125.71	11.11%

Equities Positive on Thin Volumes

The ZSE's All-Share index grew by 11.62% in the month under review, supported by the largest companies by market capitalisation.

Sector/Index	Dec'21	Jan'22	Jan'22
ZSE All Share	10,822.36	12,079.74	11.62%
ZSE Top 10	6,811.43	7,817.52	14.77%
ZSE Medium Cap	20,407.26	21,233.64	14.24%
ZSE Market Cap (Z\$ bn)	1,317.21	1,475.22	12.00%

The tables below highlight the ZSE top performing stocks in the month of January.

Top 3	Dec'21 ZWLc	Jan'22	Jan'22
ZECO	0.48	2.00	316.67%
NMB	1,001.25	1,300	61.45%
Simbisa	8,989.27	13,172	46.35%

The bottom performing stocks were:

Bottom 3	Dec'21 ZWLc	Jan'22	Jan'22
Medtech	2,500.00	2,310.00	-34.00%
Fidelity Life	1,483.28	1,200.00	-23.98%
Masimba	5,500.00	4,507.35	-18.05%

Total value of trades declined by 77% from ZWL\$17.57 bn in December 2021 to ZWL\$4.02 bn in January 2022 as the market showed signs of constrained liquidity post the festive season. Foreign investors registered a net monthly sell-off of ZWL\$201.35 mn compared to a net-buying position of ZWL\$323 mn in December 2021. Foreign trades accounted for 7.62% of total trades in January 2022 compared to 45.12% in December 2021.

A new Exchange Traded Fund (ETF) was introduced by Morgan & Co. on the 3rd of January 2022. This is an actively managed, multi-sector ETF. Its return for the month was 39.48% compared to the Old Mutual Top 10 ETF that returned 72.17% over the same period.

The Victoria Falls Stock Exchange (VFEX) ended the month with total

trades amounting to US\$192,806, compared to US\$25,726 in December 2021. Trades in Padenga were the main driver of trade values during the month.

Economic Outlook

The decline in Covid-19 cases is positive for the economy and is likely to boost the tourism industry and economy at large. However, growth in the near term is threatened by the challenges in the agriculture sector and potential production constrains for the mining sector given the excessive rains. The local currency is likely to remain under pressure on the back of high inflation expectations, pressure on government expenditure (civil service wage bill) and currency depreciation.

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