

# MONTHLY ECONOMIC BRIEF

## May 2020



### Highlights

- International relations complicated by human rights and slow-reform concerns.
- Accelerated interventionist measures to halt illicit financial transactions.
- Year on year inflation for April 2020 was 765.6%.
- Customs duty on imported flour and maize meal suspended for six months.
- ZSE market capitalization gained ZWL\$89 bln (140.7%) to ZWL\$152.59 bln in May 2020.

### Re-engagement preconditions 'at risk'

Several Heads of Mission, including those of the United States (US) and European Union (EU) called for a 'swift, thorough and credible enquiry;' into recent allegations of rights abuses against opposition members in Zimbabwe. The US's tonality towards Zimbabwe has become noticeably less accommodative. Consequently, and intuitively; the baseline outlook threatens continued isolation under the current framework.

### Sanctions... still a major environment theme

Having lifted sanctions on the State-owned Infrastructure Development Bank of Zimbabwe (IDBZ) and AGRIBANK in 2016; the US, in May 2020, lifted the requirement for US entities to seek authorization before any transactions with the two. Overall, sanctions may change colour and texture; but probably not their substance in the near future. The grim assertion is supported by US National Security Advisor Robert O'Brien labelling Zimbabwe a 'foreign adversary' - in the same bracket as China, Russia and Iran.

### Monetary Policy... (still) work in progress

Citing the need to clamp down on illegal foreign currency trades; the RBZ reduced limits on instant bank transfers (ZIPIT) by 80%. Internal bank transfers were also limited to two per day. Mobile money operator (ECOCASH) also lost its High Court appeal against an RBZ directive to suspend some suspicious mobile money agent accounts. The High Court ruled as invalid, the RBZ directive

(R120/2018) that led to US\$ denominated bank balances being converted to 'RTGS' in February 2018. Finance Minister, Hon. Mthuli Ncube said government does not agree with the ruling and will appeal. Consequently, 'the monetary arrangements due to R120/2018 will remain in place pending the outcome of the appeal.'

Parallel exchange rates reportedly closed the month to 31 May 2020 around ZWL\$70 per US\$ (and rising) - almost 200% premium on the official (fixed) ZWL\$25. The RBZ introduced new bank notes - whose effect is yet to be objectively established.

### Earnings considerations clouding COVID fears

The 2020 tobacco marketing season opened on 29 April 2020 under strict social distancing rules to mitigate the spread of COVID19. Seasonal tobacco volume and value closed May 2020 at 57 million kgs worth US\$131 million, up 73% and 122%, respectively, from last year.

Compromised household earnings, compounded by a generalized lockdown fatigue, threaten the efficacy of statutory lockdown rules. This is despite a spike in positive cases. As of day-69 of the indefinite lockdown (6 Jun'20), active cases were 242, with 33 recoveries and four deaths.

### Consumer prices up 765.6% from last year

Widening margins between parallel and official exchange rates bred price and income disparities. Resultantly, wage increase pressures resurfaced, with public teachers reportedly demanding US\$ salaries - citing the 'US\$520 monthly salaries they used to get in 2018'. Wage erosion poses a real risk going forward, more so as retailers seem to have disregarded an April 2020 directive setting food prices back to their 25 March 2020 levels.

The Zimbabwe Statistical Agency (ZIMSTAT) reported that average consumer prices increased by 17.6% in April 2020. Since the beginning of the year, prices increased by 72.8%, compared to 24% in the same period last year. Between April 2019 and April 2020, year on year inflation was estimated at 765.6%. Inflation pressures in April 2020 can be attributed to tradable/imported goods sectors, such as food; giving credence to the notion of (unofficial) ZWL\$ depreciation being priced into local prices.



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According to the 219<sup>th</sup> Statutory Instrument of 2020; customs duty on imported wheat flour and maize meal was suspended for six months from 22 May 2020 to 21 November 2020. This is envisioned to ease pressure on (already strained) household incomes and rein in inflation.

### Currencies struggled for direction

The world's largest economy by GDP, the US; was not spared from COVID-19 disruptions. Regarding currency - US\$ safe haven attractiveness provided support amid depressed global economic output. On the flip side, downside pressure on the US\$ hinged on the US authorities' willingness and ability to extend quantitative easing to fund bailouts for COVID-19 effects.

The US\$ firmed 0.9% against the Euro, closing the month to 31 May 2020 at US\$1.1 per Euro. Against the South African Rand (ZAR), the US\$ retreated 5.7% to ZAR17.4, reducing earlier gains amid signs of ZAR overselling in the prior month.

### International commodities on the rebound

Commodity prices were bullish during the month under review. Coffee bucked the trend amid expected global glut conditions.

Commodity	Price	May'20	YTD'20
Nickel (usd/ton)	12,133.00	2.95%	-14.68%
Crude Oil (usd/bbl)	34.62	13.88%	-48.14%
Gold (usd/oz)	1,729.95	1.66%	13.60%
Platinum (usd/oz)	838.85	8.70%	-13.47%
Coffee (usc/lb)	97.15	-11.28%	-26.37%
Maize (usd/ton)	127.85	2.69%	-16.03%
Wheat (usd/ton)	517.50	0.78%	-7.09%
Sugar (usc/lb)	10.72	1.13%	-20.71%
Cotton lint (usc/lb)	56.89	3.36%	-18.32%

Year to date positions for commodity prices in May 2020 aptly capture the trough created prior the month under review. The latest monthly gains suggest an inflexion as global economic activity slowly rebounds. Positive year to date returns for gold prove testament to its safe haven reputation.

### Bulls dominated the local bourse

Domestic equities were nominally out of step with the grim realities facing the economy.

Sector/Index	Value	May'20	YTD'20
Old Industrial	3,919.50	142.4%	411.5%
Top 10	964.07	142.7%	375.7%
All Share	1,180.14	141.5%	412.9%
Market Cap (ZWL bn)	152.59	140.7%	412.2%

Aggressive ZSE gains were attributable to a flight to safety, as traditionally safe monetary assets struggled to preserve real value against galloping inflation. The following tables highlight the ZSE top and bottom performing stocks for May 2020.

Top 3	Price ZWLc	May'20	YTD'20
CBZ	1,106.06	439.54%	1,486.66%
TURNALL	80.00	376.19%	627.27%
DAIRIBORD	356.50	345.63%	733.92%

Bottom 3	Price ZWLc	May'20	YTD'20
FIDELITY	19.45	19.91%	112.80%
RIOZIM	804.68	32.79%	243.00%
NATFOODS	3,630.00	35.96%	302.89%

The Zimbabwe Stock Exchange (ZSE) urged listed companies to embrace online meetings, as the country has been under lockdown since 30 March 2020. Meanwhile, several companies have delayed publishing results due to lockdown effects, exacerbated by inflation adjustments.

### Economic Outlook

The full economic cost of COVID19 is still arguably indeterminate; yet the likely economic trajectory is unmistakably dire - more so in the absence of tangible foreign support. The pandemic and its side-shows pose an existential threat to some (already strained) micro and macro entities. An increasingly explosive data trend for monetary variables captures the heightened vulnerability of series such as (unofficial) exchange rates and inflation. Survival is of the essence.

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