

MONTHLY ECONOMIC BRIEF

June 2020



Highlights

- Normalization of relations with international community is subject to further reforms.
- Monthly national revenues declined 38% to ZWL\$3.8 bln in April 2020.
- Year on year inflation for May 2020 was 785.55%.
- ZWL\$ depreciated 56.4% at inaugural weekly foreign currency auction.
- Government suspended all ZSE trades over alleged financial malpractice.

COVID-19 lockdown extended past 92 days

The economy has been under various forms of lockdown since 30 March 2020 (92 days as of 30 June 2020). Easing of lockdown conditions has been deliberately cautious. This notwithstanding, the impact of the lockdown is unambiguously dire.

The Paris Club of lenders acknowledged a letter from Zimbabwean authorities dated 2 April 2020. In the letter authorities estimated economic contraction of 15% to 20%, mostly attributed to COVID-19 effects. Further authorities estimated a funding gap of US\$2.5 bln. The Paris Club acknowledged 'partial progress' on economic reforms and insisted, however that normal relations would only follow 'substantive and sustainable political and economic reforms.

National revenues hard-hit by lockdown

Treasury published consolidated national accounts for the four months to 30 April 2020. The monthly budget balance moved from a surplus position in January 2020 to successive deficits from February through to April 2020. Extrapolating the trend and factoring COVID-19 lockdown induced disruptions, the threat of chronic deficits should be concerning.

Monthly revenue declined 38% from ZWL\$6.1 bln in March 2020 to ZWL\$3.8 bln in April 2020. Of noteworthy concern is that as of April 2020; the intermediate money transfer tax (IMTT) line was the biggest revenue head by contribution, accounting for 21% of total revenue. IMTT as the biggest tax contributor captures depressed economic output and

associated direct (production based) tax collections. Going forward, recent measures tightening mobile money and interbank transfers pose a real risk to overall tax collections.

(Still) chopping and changing...

Outside inherent political economy fragility and extended lockdown disruptions; monetary policy dominated environment themes during the month under review. In the period, the monetary policy moved a step further from the mono-currency regime by prescribing a dual pricing system. The progression was augmented by Treasury's announcement of a monthly allowances of US\$75 per employee (US\$35 for pensioners) on top of a 50% salary increment.

The Reserve Bank of Zimbabwe (RBZ) issued a statement reminding the market that 'Bond Notes' are still legal tender. The statement followed reports of various market players rejecting Bond Notes and other small denomination local notes.

The RBZ introduced a weekly Reuters based foreign exchange auction. The auction is restricted to bids between US\$50,000 and US\$500,000 per week, through banks. Allotment is based on the import priority list. At the first auction on 23 June 2020, the ZWL\$ retreated 56.4% to ZWL\$57.4 per US\$. Meanwhile, a crawling exchange rate 'to be adjusted in line with economic fundamentals' will be applied for debt servicing and government needs.

Consumer inflation reached a new high

Immediately following the sharp ZWL\$ depreciation at the first foreign currency auction, ZWL\$ fuel prices increased by 150%. Overall, consumer prices are re-rating on a weekly basis - in line with the auction determined exchange rate - depending on the product or service's foreign currency requirements.

The Zimbabwe Statistical Agency reported that consumer inflation for May 2020 was 15.13%, down from 17.64% in the prior month. Resultantly, year to date inflation reached 98.99%, compared to 72.83% in the corresponding period last year. On a year on year basis, inflation closed May 2020 at 785.55%. The ZIMSTAT also reported that the total poverty datum line for a household of five people closed May 2020 at ZWL\$8,484, up 14.2% from the prior month. Food constitutes 40% of the total weights.



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US\$ mixed against other currencies

Global macro-economic themes were mixed as economies across the world responded differently to the COVID-19 pandemic. The United States Dollar (US\$) struggled for direction, not least because it also struggled to rebound from the COVID-19 lockdown.

The US\$ firmed 0.75% against the South African Rand (ZAR), closing at ZAR17.27 per US\$, from an opening position of ZAR17.4. Against the Euro, the US\$ retreated 1.79% to close the month ended 30 June 2020 at US\$1.12 per Euro.

International commodities on the rebound

Commodity prices were mostly bullish in line with reopening global economic activity. The following table summarizes commodity prices in June 2020.

Commodity	Price	Jun'20	YTD'20
Nickel (usd/ton)	12,684.00	4.54%	-10.80%
Crude Oil (usd/bbl)	40.98	18.37%	-38.62%
Gold (usd/oz)	1,769.16	2.27%	16.18%
Platinum (usd/oz)	815.46	-2.79%	-15.88%
Coffee (usc/lb)	101.90	4.89%	-22.77%
Maize (usd/ton)	130.90	2.39%	-14.03%
Wheat (usd/ton)	490.00	-5.31%	-12.03%
Sugar (usc/lb)	11.94	11.38%	-11.69%
Cotton lint (usc/lb)	59.85	5.20%	-14.07%

Predominantly negative year to date movements capture the depth of the earlier decline. Oil prices led the gainers, posing a concomitant risk to global inflation trends. Wheat went against trend, in part driven by global glut expectations.

Latest TBs undersubscribed

Government returned to the TB market with 270 and 364-day TBs worth ZWL\$500 mln. The money is for meeting COVID-19 expenditures. The instrument is ascribed liquid and prescribed asset status. From total bids of ZWL\$120 mln, ZWL\$70 mln was allotted at an average interest rate of 19.14% over the 270-day horizon. All bids in the 364-day horizon were rejected. The RBZ also plans to introduce an exchange rate indexed fixed income instrument.

ZSE trades suspended...

On 26 June 2020, government announced the immediate suspension of trades on the Zimbabwe Stock Exchange (ZSE). Financial malpractice, cascading to exchange rate instability was cited. At the time of suspension, ZSE indexes had rallied significantly as summarized below.

Sector/Index	Value	Jun'20	YTD'20
Old Industrial	5870.36	49.8%	666.0%
Top 10	1232.79	27.9%	508.2%
All Share	1788.75	51.6%	677.4%
Market Cap (ZWL bn)	228.45	49.7%	666.8%

Minister of Finance Mthuli Ncube reportedly said investors' funds are safe and the ZSE will be reopening upon closure of ongoing investigations. The following tables highlight the ZSE top and bottom performing stocks for June 2020.

Top 3	Price ZWLc	Jun'20	YTD'20
FBC	1,475.00	719.44%	2,160.54%
DAWN	114.00	280.00%	1,461.64%
RTG	260.25	261.46%	1,694.83%

Bottom 3	Price ZWLc	Jun'20	YTD'20
MEDTECH	11.77	-30.76%	674.34%
TSL	410.00	-13.68%	441.25%
EDGARS	100.01	-9.91%	376.24%

Suspension of ZSE trades threatens financial sector confidence, adding on inherent legacy concerns. The concomitant risk is a sell off once trades re-open, with accompanying destabilizing effects on foreign currency markets.

Economic Outlook

The environment prescribes caution. Policy measures are increasingly drastic as deteriorating baseline conditions suggest a collapsed bottom. Downside risks are further amplified by sustained strategic isolation from mainstream international capital markets. The economy's upside primarily hinges on medium to long term recovery prospects, albeit from a very low base. Overall, survival is of immediate concern.

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