

# MONTHLY ECONOMIC BRIEF

## August 2020



### Highlights

- **Current administration marked its second-year anniversary.**
- **Reports of rights violations attracted strong international attention.**
- **Monetary policy aimed at exchange rate and price stability.**
- **Year on year consumer inflation reached 837.5% in July 2020.**
- **ZSE suspension lifted; market capitalization retreated 23.1% to ZWL\$175.6 billion in August 2020.**

### 2<sup>nd</sup> anniversary for Zimbabwe's administration

President Mnangagwa's administration marked its 2<sup>nd</sup> anniversary on 26 August 2020. Resultantly, government took the opportunity to highlight milestones over the period; citing developments such as turning chronic budget deficits to surpluses that have translated to subsidies. Meanwhile, British Ambassador Melanie Robinson noted a lag in promised reform implementation.

### US targeted sanctions list extended

Increased reports of rights violations, particularly following the arrest of several political and civil activists attracted international concern. The Heads of Missions of Canada, Germany, the Netherlands, Norway, the UK and the USA issued a statement in which they urged government to 'deliver on its initial vision and live up to the commitments it made'. Several delegations from South Africa also visited the country to assess the situation and engage authorities.

The United States (US) extended its sanctions list with the inclusion of businessman Mr. Kuda Tagwirei and Sakunda Holdings Limited. The US cited Mr. Tagwirei's support to the government of Zimbabwe for his inclusion on the targeted sanctions list.

### Monetary policy stabilization measures

The mid-term monetary policy delivered on August 21, 2020, focused on supporting the official foreign exchange trading platform and

price stabilization. To enhance foreign currency supply to the auction system; 20% of all foreign currency sales by domestic businesses will be liquidated at point of sale. Further, the export earnings retention threshold was standardized at 70% across all sectors.

A stable exchange rate is envisioned to stabilize consumer prices, particularly on imported goods. Authorities set a full year 'blended' inflation target of 249%. The blended inflation rate is a weighted average of ZWL\$ and US\$ inflation - in line with the prevailing multi-currency regime.

### Rising consumer prices

Official month on month inflation (ZWL\$) for July 2020 closed at 35.5%, driving year to date inflation to 255.1% (from 135.3% same time last year). Year on year inflation reached 837.5%. Blended (US\$ and ZWL\$) monthly and year on year inflation for July 2020 was 16.7% and 485.2%, respectively.

The poverty datum line (PDL) for a household of five increased by 37.4% in July 2020, to ZWL\$15,572.85. On a year to date basis, the PDL increased by 862.8%, while the year to date movement was 271.8%. The basic food basket (42.7% weight) increased by 39.9% in July 2020 and 938.6% year on year.

### COVID-19 Update

As of the 6<sup>th</sup> of September 2020, Zimbabwe had 7,116 confirmed COVID-19 cases and 208 deaths. The number of daily cases slowed between July and August 2020, coupled with a relatively stable fatality rate.

Economic activity is slowly picking up as government reviewed COVID-19 lockdown restrictions. Business operating hours were extended to 4.30pm, with the curfew pushed to 8pm; from earlier positions of businesses closing at 3pm and the curfew starting at 6pm. Further, public buses will be allowed a dedicated lane at checkpoints to expedite their passage. Domestic flights have also been resumed with international flights set to follow soon.

### The US Dollar traded mixed

The United States Dollar (US\$) firmed against most major trading currencies during the month, in-



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part due to a flare up of COVID-19 cases in Europe. The ZAR also strengthened during the month, despite indications of a sharp contraction in economic output in the first half of the year.

The US\$ firmed 0.97% against the Euro while the ZAR strengthened 0.88% against the US\$ compared to the prior month. The USD/ZAR exchange rate closed the month at ZAR16.58 per US\$ and the US\$ closed at US\$1.19 per Euro.

### Improving demand supports commodity prices

Recovery signs in global economic output supported demand for commodities, particularly hard commodities for industrial sectors. Resultantly, international commodity prices were mostly bullish as highlighted in the table below.

Commodity	Price	Aug'20	YTD'20
Crude Oil (usd/bbl)	45.94	6.05%	-31.19%
Gold (usd/oz)	1,967.74	-0.02%	29.22%
Platinum (usd/oz)	936.20	3.32%	-3.42%
Nickel (usd/ton)	15,414.00	12.38%	8.40%
Coffee (usc/lb)	126.90	8.37%	-3.83%
Maize (usd/ton)	140.84	9.82%	-7.50%
Wheat (usd/ton)	554.25	4.13%	-0.49%
Sugar (usc/lb)	12.73	2.50%	-5.84%
Cotton lint (usc/lb)	65.43	4.50%	-6.06%

Notable increases registered in the price of base metals, led by nickel. A noteworthy recovery in the price of maize was also registered. Crude oil prices have steadily been on the rise as demand for oil has picked up, with an associated risk of accompanying global inflation from rising global cost bases. A marginal decline in gold prices symbolizes a reversal in safe-haven demand in line with enhanced economic activity.

### Depressed activity on the money market

Money market interest rate quotes remained within the 8.5% to 12% range, with most trades in the very short end of the market. The average interest rate quote on the 90 days investment horizon was unchanged at 11%, amid depressed appetite for deposits from banks. Depressed appetite is partly attributed to weak lending activity in line with generally depressed economic activity.

### Local equities retreat...

Local equities lost ZWL\$52.867 billion in value the first month of trading after the ZSE was suspended on the 26<sup>th</sup> of June 2020. The market re-opened for trading on the 3<sup>rd</sup> of August 2020 with Old Mutual Limited, PPC and Seedco International remaining suspended. All the indices on the local bourse closed in negative territory as summarized below.

Sector/Index	Value	Aug'20	YTD'20
ZSE All Share	1389.23	-22.3%	503.8%
ZSE Top 10	913.71	-25.9%	350.8%
ZSE Industrial	4533.79	-22.8%	491.6%
ZSE Market Cap (ZWL billions)	175,584	-23.1%	489.4%

The following tables highlight the ZSE top and bottom performing stocks in August 2020.

Top 3	Price ZWLc	Aug'20	YTD'20
NTS	15.95	328.76%	641.86%
Fidelity Life	47.00	141.65%	414.22%
Zimplot	369.75	21.23%	511.16%

Bottom 3	Price ZWLc	Aug'20	YTD'20
Edgars	50.00	-50.00%	138.10%
Econet	480.38	-44.04%	226.39%
Dairibord	490.00	-41.88%	1,046%

Monthly value of trades were down 46.13% to ZWL\$1.027bn in August 2020. Daily trade values averaged ZWL\$54 million, down 37.63%. Foreign investors registered a net monthly sell-off of ZWL\$391.6 million. Foreign trades made up 28.2% of trades during the month, up from 19.3% before the ZSE was suspended. Equities inflation-hedge attractiveness and the limited investment options in the country could sustain support for the asset class in the foreseeable outlook.

### Economic Outlook

COVID19 effects are likely to continue weighing on economic output, with a 2<sup>nd</sup> straight recession seemingly inevitable. Widening polarization from mainstream international capital poses a noteworthy threat to sustainable macro-economic recovery over the near-term horizon. Monetary policy fragility remains a pain-point.

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