



# MONTHLY ECONOMIC BRIEF 2021



## HIGHLIGHTS



### Sanctions

UN rapporteur calls for sanction's removal



60%

Bank policy rate increased from 40% to 60%



9.75%

Zimbabwe dollar depreciated by 9.75% to Z\$97.14 per US\$



54.49%

Year-on-year inflation closed the month at 54.49%



33.7%

ZSE market capitalization advanced by 33.7% to ZWL\$1,369.140bn

### UN Special rapporteur calls for removal of sanctions.....

The United Nations Special Rapporteur Professor Alena Douhan released her preliminary report on the impact of sanctions on Zimbabwe, after a 10-day visit to the country. The full report is expected to be presented at the UN Human Rights Council in September 2022.

Professor Douhan was appointed on 25 March 2020 by the UN Human Rights Council following the adoption of a resolution on human rights and unilateral coercive measures of 2014. During her visit to Zimbabwe, she met with several stakeholders that include Government officials, the UN Country team, members of various political parties among others. In her preliminary report, she called for the immediate removal of sanctions imposed by the US, UK and the European Union. Inferring from reactions and feedback to her prior reports for Iran, Syria, Venezuela and Cuba, it is highly unlikely that the restrictive measures on some Zimbabwean individuals and entities will be removed in the near term. The impending 2023 elections are likely to further complicate the situation as the sanctioning countries are likely to be on the side-lines until the conclusion of the plebiscite.

### Monetary Policy further tightened amidst inflation concerns

The Reserve Bank of Zimbabwe's (RBZ) Monetary Policy Committee (MPC) introduced measures to buttress the current tight monetary policy, to reign in on inflation. Part of the measures included increasing the Bank policy rate from 40% p.a. to 60% p.a. and the Medium-Term Bank Accommodation (MBA) Facility interest rate from 30% p.a. to 40% p.a. to increase the cost of money and discourage speculative borrowing. Statutory reserve requirements for demand and call deposits were increased from

5% to 10%, while deposit interest rates for Zimbabwe dollar denominated savings and time deposits were reviewed upwards from 5% and 10% p.a. to 7,5% and 20% p.a. respectively. Authorities also reduced the quarterly reserve money supply growth target from 20% to 10%. The policy prescriptions while necessary to curb money supply growth, are likely to increase the cost of funding and limit the amount of credit available for the productive sectors of the economy. The proposed deposit interest rates are seemingly misaligned with current inflation trends and confidence levels in the local currency.

The Central Bank committed to refine the weekly foreign-exchange auction and settle foreign currency allotments within two weeks from the date of the auction. The auction system has been battling a 10-week settlement backlog and generalised exchange rate overvaluation concerns. A marked depreciation of 9.75% was noted on the auction in October 2021 as monetary authorities work on addressing some of the concerns raised in their engagements with key industry players. There is need for authorities to review the mechanics of the auction market to allow market forces to play a major role in determining the exchange rate while containing money supply within optimum levels. Otherwise, pressure on the ZWL is expected to remain unabated.

### Herd immunity unlikely as vaccinations slump....

There were 2,157 new Covid-19 cases recorded in the month of October 2021 compared to 6,047 new cases in the prior month.. The 7-day rolling average number of cases declined to 45 in the month under review from 241 as at the end of September 2021. The average daily total vaccination rate declined sharply by 53% from 37,870 in September 2021 to 17,756 as vaccine hesitancy remains a major challenge. A total of 26.18% of the targeted 10 million people had

been fully vaccinated as at the end of October 2021, making it impossible to attain the target of 60% by 31 December 2021. In the absence of herd immunity, the country remains exposed to future waves of the pandemic and concomitant economic downtimes.

### Consumer prices up by 6.40% in October 2021

Average consumer prices increased by 6.40% in October 2021, compared to 4.73% in the prior month. On a year to date and year-on-year basis to October 2021 prices increased by 43.70% and 54.49% respectively. Annual inflation started creeping up in September 2021 mainly on account of parallel market exchange rate pass-through effects. During the month authorities introduced measures to contain parallel market rate depreciation. This notwithstanding, inflationary pressures are expected to remain high in the outlook driven by the auction market challenges and money supply growth.

### Inflation fears dampens the US\$...

The United States Dollar (US\$) weakened against major currencies during the month under review, due to increased volatility amidst rising inflation expectations in the US. The US\$ lost 2.03% against the Pound to close at US\$1.38 per Pound during the month.

The South African Rand (ZAR) weakened against the US\$ due to escalating economic challenges. The ZAR depreciated by 0.96% against the US\$ to close the month at ZAR15.20 per US\$. The Zimbabwean Dollar (ZWL\$) depreciated sharply by 9.75% against the US\$ in October 2021 to close at ZWL\$97.14 per US\$ as authorities moved in to address local currency valuation concerns and auction market limitations.

### Commodities prices maintained a bullish trend ...

Commodity prices maintained a positive trajectory during the month as shown in the table below:

Commodity	Price	Oct'21	YTD'21
Crude Oil (usd/bbl)	84.22	7.97%	64.33%
Gold (usd/oz)	1,776.37	1.38%	-6.41%
Platinum (usd/oz)	1,011.62	4.67%	-5.99%
Nickel (usd/ton)	19,820.00	6.47%	18.15%
Palladium (usd/oz)	1,993.80	4.22%	-18.58%
Maize (usd/ton)	221.84	3.30%	17.33%
Wheat (usd/ton)	767.75	7.00%	20.24%
Sugar (usc/lb)	19.34	-2.22%	26.99%
Cotton (usc/lb)	113.76	10.40%	46.33%

Crude Oil prices rose by 7.97% in the month, amidst rising demand and restricted supply. This is expected to push up the cost

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of fuel for net oil-importing countries. The gold price was up by 1.38% in October 2021 as investors liquidated US\$ dollar positions due to rising inflation concerns in the US.

### Local equities sustained an upward trend ...

The positive trend on the local equities market continued in October 2021, with the All-Share Index gaining ZWL\$344,820mn in value. Inflationary pressures and value loss concerns anchored demand for shares.

Sector/Index	Value	Oct'21	YTD'21
ZSE All Share	11,329.57	32.04%	329.75%
ZSE Top 10	7,085.20	45.87%	323.89%
ZSE Medium Cap	22,045.94	7.02%	301.49%
ZSE Market Cap (ZWL\$ bn)	1,369.140	33.66%	332.51%

The tables below highlight the ZSE top and bottom performing stocks in the month of October 2021.

Top 3	Price Zwick	Oct'21	YTD'21
CFI	5,915.00	8,260.42%	8,260.42%
NATIONAL FOODS	187,500.00	135.06%	2,562.23%
ZECO	0.24	100.00%	1100.00%

Bottom 3	Price ZWLc	Oct'21	YTD'21
MEDTECH	17.11	-42.74%	106.71%
FMH	2,600.00	-22.54%	141.91%
MASHONALAND	285.00	-22.19%	282.36%

The total value of trades increased by 19.67% to ZWL\$5.662bn in October 2021 up from ZWL\$4.791bn in September 2021. Daily trade values averaged ZWL\$269.615 mn, up by 25.37% from the prior month. Foreign investors registered a net monthly sell-off of ZWL\$1,013.7 mn, with foreign trades accounting for 10.8% of total trades during the month, up from 4.4% in September 2021.

There were US\$ 5,785.87 worth of trades in Seedco International and Padenga Holdings on the Victoria Falls Stock Exchange (VFEX) during the month.

### ECONOMIC OUTLOOK

A tight monetary policy stance is expected to withdraw additional liquidity from the market. However, the efficacy of monetary policy prescriptions in a dollarized and highly informalised economy is greatly compromised. The local currency is expected to remain under pressure on the parallel market on the back of the unresolved foreign currency backlog on the auction market and growth in money supply.