



# MONTHLY ECONOMIC BRIEF 2021



## HIGHLIGHTS



**SI 127**

SI 127 of 2021 sends shock waves



**80%**

Export retention ratios increased to 80%



**0.26%**

Zimbabwe dollar depreciated by 0.26% during the month



**161.90%**

Consumer inflation closed the month at 161.90%



**16.19%**

ZSE market capitalization advanced by 16.19%

### Exchange control regulations amended.....

The Government gazetted Statutory Instrument (SI) 127 of 2021 under the Presidential Powers (Temporary Measures) amending some clauses in the Foreign Exchange Act and the Banking Use and Promotion Act. The SI empowers the Reserve Bank of Zimbabwe (RBZ) to enforce and penalise offenders of exchange control regulations mainly relating to trading on the foreign currency auction, exchange rates and acceptance of the local currency as legal tender under the multi-currency regime. Economic agents that misuse foreign currency obtained from the currency auction system, trade at an exchange rate other than the official exchange rate and refusing to accept payment in Zimbabwe Dollars without prior approval from the RBZ shall be guilty of an offence and liable to a fine. The fines range between ZWL\$50,000 and ZWL\$1 mln.

Market reactions to the regulations have generally been adverse with possible negative effects on business confidence in the near term. Notwithstanding that the SI was re-enforcing existing regulations. Key industry membership bodies such as the Confederations of Zimbabwe Industries (CZI), the Zimbabwe National Chamber of Commerce and the Confederation of Zimbabwe Retailers have raised concern over the new laws. The CZI called for the suspension of the SI to preserve the current stable macro-economic environment and avert shortages. Monetary authorities need to continue enhancing the auction system from a foreign currency supply and pricing perspective.

### New export incentives to boost foreign inflows...

During the month under review, the RBZ introduced new export incentives where an exporter shall be allowed to retain at least 80% of foreign currency earnings on condition that they increase exports, otherwise the standard foreign currency retention ratio of 60% will apply. Exporters licensed under Special Economic Zones and those listed on the Victoria Falls Stock Exchange will be able to retain 100% of the incremental portion of exports.

The new measures are aimed at enhancing the country's export earnings and foreign currency inflows given the persistent trade deficits. Treasury's 2021 first quarter bulletin showed that the country's trade deficit for the first three months worsened by 40% to US\$354 mln compared to US\$254 mln in the fourth quarter of 2020. The wider deficit position partly explains the worsening parallel market rate premium estimated to be above 50% and the foreign currency settlement backlog on the currency auction reportedly above 6 weeks. However, the good agricultural season and the projected increase in mining output and firm commodity prices are expected to ameliorate the foreign currency supply situation in the country. The tobacco marketing season is already showing strong growth prospects with year to date sales to 1 June 2021 up by 34.35% to US\$351m compared to the same period last year.

### COVID-19 remains a risk to the outlook....

As of the 1<sup>st</sup> of June 2021, the country had a cumulative total of 38,988 COVID-19 cases, up from 38,260 as at 30 April 2021. The 7-day rolling average number of cases rose to 41 compared to 28 at the end of April 2021. The vaccination program continued during the month with a total of 678,003 people having received the 1st dose of the

vaccine while 353,278 people got the 2nd vaccine as of 1 June 2021. The global supply challenges of vaccines, the presence of the Indian variant in the country and reports of a 3<sup>rd</sup> wave spreading in South Africa sustain risks of the pandemic in the outlook.

### Consumer prices up by 2.54% in May 2021

Average consumer prices increased by 2.54% in May 2021, compared to 1.58% in the prior month. On a year to date and year on year basis to May 2021 prices have increased by 16.18% and 161.90% respectively. The blended inflation rate, which accounts for both US\$ and ZWL\$ consumer price movements expanded by 1.80% and 74.57% in the month under review and on a year-on-year basis respectively. Monthly inflation has remained below 5% since the beginning of 2021. However, inflationary pressures in the near term remain high on the back of the recent 30% hike in electricity tariffs and SI 127 of 2021 concerns.

### The US\$ weakened against major currencies.

The United States Dollar (US\$) weakened against major currencies during the month under review, amidst inflation concerns in the outlook. The US\$ lost 0.97% against the Euro to close at US\$1.22 per Euro during the month.

The South African Rand (ZAR) strengthened against the US\$ due to improved business confidence. The ZAR appreciated by 4.46% against the US\$ to close the month at ZAR13.75 per US\$. The Zimbabwean Dollar (ZWL\$) depreciated by 0.26% against the US\$ in the month of May 2021 to close at ZWL\$84.73 per US\$.

### Commodities mixed during the month...

Commodity prices were mixed during the month as shown in the table below:

Commodity	Price	May'21	YTD'21
Crude Oil (usd/bbl)	69.70	3.58%	36.00%
Gold (usd/oz)	1,906.31	7.65%	0.44%
Platinum (usd/oz)	1,191.41	-2.40%	10.72%
Nickel (usd/ton)	17,811.00	2.17%	6.18%
Coffee (usc/lb)	162.35	12.16%	28.44%
Maize (usd/ton)	258.55	1.47%	36.75%
Wheat (usd/ton)	663.50	-7.56%	3.92%
Sugar (usc/lb)	17.36	3.27%	13.99%
Cotton (usc/lb)	83.32	-4.64%	7.18%

Crude Oil prices continued to rally as oil producers agreed to slow down supply increases amidst rising demand. The gold price was up by a hefty 7.46% in the month. However, the rise in US treasury

yields may negatively impact on demand and prices for the yellow metal in the short term.

### Local equities remained bullish ...

Local equities maintained strong growth in the month, adding ZWL\$89.653 bn in value. Equities continue to benefit from inflation hedge attractiveness and the relatively good financial performance of underlying companies.

Sector/Index	Value	May'21	YTD'21
ZSE All Share	5,428.28	16.96%	105.90%
ZSE Top 10	3,005.08	12.96%	79.79%
ZSE Medium Cap	13,868.88	22.40%	152.57%
ZSE Market Cap (ZWL\$ billions)	643.269	16.19%	103.21%

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

Top 3	Price ZWLc	May'21	YTD'21
GETBUCKS	329.54	516.88%	2268.80%
FMP	1,493.27	145.66%	396.30%
ARISTON	300.40	65.49%	131.31%

Bottom 3	Price ZWLc	May'21	YTD'21
NAMPAK	1,500.00	-16.51%	566.81%
CBZ	8,200.00	-10.21%	-4.93%
LAFARGE	5,500.00	-8.33%	587.50%

Value of trades increased by 27.37% to ZWL\$3.918 bn in May 2021, while daily trade values averaged ZWL\$195.897 mln, up by 21% from the prior month. Foreign investors registered a net monthly sell-off of ZWL\$483.8 mln, with foreign trades accounting for 14.7% of total trades during the month, down from 27.7% in April 2021.

There were US\$463.32 worth of trades in Seedco International on the Victoria Falls Stock Exchange (VFEX) during the month. CBZ Holdings expressed interest in listing on the VFEX, and more listings are expected with the introduction of investment incentives for companies that list on the VFEX.

### ECONOMIC OUTLOOK

SI 127 of 2021 has ostensibly caught the market off guard. Reactions by key industry players point to low business and market confidence in the outlook. The law has seemingly increased market uncertainty, heightened value loss concerns and stirred high inflation expectations.

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