

MONTHLY ECONOMIC BRIEF

December 2020



Highlights

- **African Continental Free Trade Agreement estimated to increase Zimbabwe's income by 14%**
- **Zimbabwe's external debt rises by US\$106mn due to arrears and penalties**
- **A 30-day lockdown introduced as COVID-19 cases spike**
- **Consumer inflation closed November 2020 at 401.65%.**
- **ZSE market capitalization advanced 57.07% to ZWL\$316.554 bn in December 2020.**

African Continental Free Trade Agreement comes into force.

African countries have begun trading under the African Continental Free Trade Agreement (AfCFTA) as of the 1st of January 2021. A total of 54 countries have so far signed the agreement while 34 countries have deposited their instruments of ratification. The broad objective of the AfCFTA is to create a single continental tariff free market for goods and services across member states. The trade pact is expected to increase income by 7% or US\$450bn across the continent by 2035 and ultimately lift an estimated 30m people out of extreme poverty across the continent.

The World Bank estimates that Zimbabwe and Côte d'Ivoire are likely to be the major beneficiaries from AfCFTA, with incomes for the two countries estimated to increase by 14%. However, to fully capture the benefits of the trade pack, there is need for Zimbabwe to investment in value addition and enhance value chains for key sectors such as the manufacturing and agricultural sectors.

Zimbabwe's external debt soars...

According to the Ministry of Finance, the country's public external debt increased by US\$106mn to US\$8.2bn in September 2020 from US\$8.09bn at the end of 2019. The increase is mainly due to penalties and arrears on existing loans. The country owes the Paris Club US\$3.6bn World Bank US\$1.5bn and the African Development Bank US\$0.7bn.

The country has not been servicing its external debt despite drawing up with debt repayment plans and is now classified as "in debt distress" by the IMF. External debt overhang and non-payment has affected the country's credit ratings, with concomitant increases in the cost of funding for local companies that borrow offshore.

A 30-Day hard lockdown implemented as Covid-19 cases escalate...

As of the 10th of January 2021, Zimbabwe recorded 21,477 cases of Covid-19, up from 10,129 at the start of December 2020 as the second wave of the pandemic sets in. The number of active cases rose to 8,388 from 1,268 over the same period, while total number of deaths rose to 508, up from 207 in the previous month.

A tough lockdown that will sustain for 30 days from 3 January 2021 has been instituted to curtail the surge in cases. The lockdown which is at level 4 restricts operations of all non-essential businesses in addition to introducing a 12-hour curfew which will start from 6 pm until 6 am. Zimbabwe's health sector is seemingly overwhelmed, with reports of shortages of hospital beds and equipment to cater for critical covid-19 cases. While restrictive measures are paramount, there is need to capacitate health institutions, increase testing and expedite vaccination for the effective control of the virus post the lockdown. The country is expected to start receiving Covid-19 vaccines in Q1-2021 with about 10% of the population likely to be vaccinated.

Cyclone Chalane inflicts minor damages....

Tropical cyclone Chalane which hit Zimbabwe on the 30th of December 2020 was subsequently downgraded to a depression causing minor damages in parts of Manicaland and Masvingo provinces. The swiftly evacuated about 600 people in potential hotspots to avert the disaster and loss of lives experienced under cyclone Idai. Despite the mild impact of recent cyclone, the country remains susceptible to extreme weather conditions with reports of flooding in some parts of the country, likely to mute agriculture production.

Consumer prices up by 3.15% in November 2020

Average consumer prices increased by 3.15% in November 2020, compared to 4.37% in the prior month. On a year on year basis, consumer prices



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increased by 401.65% in November 2020, down from 471.25% in October 2020. The blended inflation rate, which looks at both US\$ and ZWL\$ consumer price movements was at 2.25% for the month-on-month numbers in November 2020, up from 1.4% in October 2020. The year on year blended inflation rate closed November 2020 at 214.99%, from 249.63% in the prior month. The downward trend in ZWL\$ Inflation continued mainly on the back of a stable exchange rate and general level of prices in the economy.

The US\$ falls against major currencies

The United States Dollar (US\$) traded weaker against major currencies in December 2020, due to the contested US presidential election and increased economic uncertainty with the surge in Covid-19 cases. The South African Rand (ZAR) continued to strengthen supported by improved economic activity, however uncertainty in the outlook remains high due to the pandemic.

The US\$ lost 2.68% against the Euro and 3.87% against the ZAR. The USD/ZAR exchange rate closed the month at ZAR14.63 per US\$. The ZWL appreciated marginally by 0.04% to close at ZWL\$81.79 per US\$.

Commodities continue to advance

Commodity prices all ended the month bullish as shown in the table below.

| Commodity | Price | Nov'20 | YTD'20 |
|---------------------|-----------|--------|---------|
| Crude Oil (usd/bbl) | 51.25 | 7.49% | -23.23% |
| Gold (usd/oz) | 1,898.02 | 7.13% | 24.64% |
| Platinum (usd/oz) | 1,076.10 | 10.33% | 11.01% |
| Nickel (usd/ton) | 16,775.00 | 2.46% | 17.97% |
| Coffee (usc/lb) | 126.40 | 2.81% | -4.21% |
| Maize (usd/ton) | 189.06 | 11.82% | 24.18% |
| Wheat (usd/ton) | 638.50 | 7.54% | 14.63% |
| Sugar (usc/lb) | 15.23 | 4.10% | 12.65% |
| Cotton (usc/lb) | 77.74 | 6.58% | 11.62% |

Crude oil prices continued to gain during the month as a result of improved global demand and reduced supply. Gold prices were up during the month due to increased uncertainty on the US presidential election and COVID-19 concerns.

Local equities bullish...

The ZSE gained ZWL\$115bn in value in the month as appetite for stocks improved on account of inspiring corporate earnings reports and trading updates. All major indices were in the positive.

| Sector/Index | Value | Dec'20 | YTD'20 |
|-------------------------------|----------|--------|----------|
| ZSE All Share | 2,636.34 | 65.23% | 1045.84% |
| ZSE Top 10 | 1,671.47 | 66.94% | 724.68% |
| ZSE Industrial | 8,782.18 | 66.38% | 1045.99% |
| ZSE Market Cap (ZWL billions) | 316.554 | 57.07% | 962.58% |

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

| Top 3 | Price ZWLc | Nov'20 | YTD'20 |
|-------|------------|----------|---------|
| Hippo | 309.57% | 4524.16% | 309.57% |
| TSL | 140.00% | 1800.99% | 140.00% |
| BAT | 133.55% | 1051.83% | 133.55% |

| Bottom 3 | Price ZWLc | Nov'20 | YTD'20 |
|------------|------------|---------|--------|
| StarAfrica | -7.47% | 660.56% | -7.47% |
| Willdale | -0.92% | 762.62% | -0.92% |
| Ariston | -0.74% | 607.12% | -0.74% |

Monthly value of trades declined by 33.35% to ZWL\$2.735bn in December 2020. Daily trade values averaged ZWL\$130.268mn, down 33.35%. Foreign investors registered a net monthly sell-off of ZWL\$356.1mn, while foreign trades made up 12.4% of total trades during the month, down from 13% in November 2020.

There were no trades on Victoria Falls Stock Exchange (VFEX) during the month, while Seedco International remains the only listed counter on the foreign currency-denominated bourse.

Economic Outlook

The year 2021 started on a gloomy note, with the second wave and suspected new variant of COVID-19 wreaking havoc both locally and globally. The Covid-19 induced policy measures and exogenous factors (above normal rainfall) are likely to cloud the country's growth prospects in the outlook

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