

# MONTHLY ECONOMIC BRIEF

July 2020



## Highlights

- Serious escalation in diplomatic tensions between Zimbabwe and the US.
- Government committed to compensate displaced farmers US\$3.5 billion.
- US\$250 million required to avoid food crisis.
- Consumer inflation for June 2020 was 737.26%.
- Monthly COVID-19 deaths up 857% in July 2020.
- ZSE trading to resume on 3 August 2020, without dual listed stocks.

## Re-engagement at risk...

Foreign policy drifted far from optimal as several countries raised concern at reports of human rights abuses in Zimbabwe. The ruling ZANU-PF also accused the US ambassador of interference. By the end of the month under review, the US had summoned Zimbabwe's ambassador in Washington as the language from both sides become tougher. Some sections of the international community went as far as calling for tighter sanctions on Zimbabwe.

Treasury reported external debt at US\$8.1 bln (74% being arrears) as of 31 December 2019. A flat mid-year 2020 budget review points to continued fiscal pressures, economic contraction and excess inflation; raising the stakes for international support.

## US\$3.5 billion external liability confirmed

Government signed a US\$3.5 billion (ZWL\$269 billion) agreement to compensate displaced farmers for improvements made on compulsorily acquired land. Under the agreement, government must pay half the sum over the next 12 months, with the balance expected in four annual instalments. To fund the obligation, government plans to issue a 30-year debt instrument on international capital markets.

Compensation of displaced farmers is envisioned to present closure to the contentious issue - a key hindrance to international re-engagement. On the flipside, raising funds is likely to be costly, at best,

under the prevailing framework. Defaulting on the obligation could prove calamitous on the economy's future ability to access international capital - albeit from a near zero base.

## Potential humanitarian catastrophe...

On behalf of Zimbabwe, the United Nations World Food Program (WFP), launched an urgent appeal for food aid. The WFP estimates that food insecure Zimbabweans could reach 8.6 million (about one in two) by year end; citing climate change, hyperinflation and COVID-19. 'To avert a potential humanitarian catastrophe', the WFP is appealing for US\$250 million from the international community.

At the beginning of the year, food insecure people were estimated around 7.7 million. The projected growth presents a harsh, yet sobering, perspective of the economy's inherent vulnerability.

## Relative exchange rate stability

The weekly Reuters-based foreign currency auction system entered its second month. At the end of the month under review, local currency had depreciated 17% to ZWL\$76.76 per US\$. Since the auction started on 23 June 2020, the ZWL\$ retreated 67.4%, from a fixed rate of ZWL\$25 per US\$ - capturing relative stability during the month under review.

To date, the auction has successfully allotted US\$85.5 mln, from total bids of US\$104.6 mln, giving a supply rate of 82%. The allotment to bids ratio has deteriorated from 86% at the beginning of the month to close at 74% due to rising bids

## June 2020 inflation closed at 737.26%

According to ZIMSTAT, average consumer prices increased by 31.66% in June 2020, up from 15.13% in the prior month. Since the beginning of the year, the movement is 161.99%; while June 2020 prices are up 737.26% compared to June 2019.

Across all sub-sectors, June 2020 monthly inflation was aggressive, with the exception of the education and utilities sectors. The trend gives credence to the notion of recent exchange rate depreciation being passed onto retail prices for imported goods.



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In June 2020 ZIMSTAT started tracking US\$ prices alongside ZWL\$ prices, yielding a blended consumer price index. The blended index is principally symbolic of the prevailing multi-currency regime. The 185<sup>th</sup> Statutory Instrument of 2020 mandates dual pricing - at the official auction exchange rates.

### Monthly COVID-19 deaths up 857% in July 2020

Positive COVID-19 cases increased by 436% to 3169 in July 2020. Recoveries were up 520% to 162 while fatalities increased by 857%, from 7 to 67 people. Minister of Agriculture, Air Chief Marshall Perrance Shiri succumbed to COVID-19.

Business practically ground to a halt as lockdown conditions were tightened to include a curfew towards containment of the pandemic. Meanwhile, public nurses are still striking over working conditions - since June 2020.

### US\$ closed weaker on uncertain US outlook

The US economy contracted 33% (annualized) in Q2'2020. Further pressure on the US political economy followed President Trump's suggestion to delay elections scheduled for November 2020, citing possible irregularities.

By the end of the month under review, the US\$ had registered its worst monthly performance in a decade; closing at US\$1.2 per Euro and ZAR16.7 per US\$, down 3.2% and 4.6%, respectively.

### Soft US\$ propped commodity demand/prices

International commodity price movements were mostly bullish in July 2020 as shown below.

Commodity	Price	Jul'20	YTD'20
Nickel (usd/ton)	13,716.00	8.14%	-3.54%
Crude Oil (usd/bbl)	43.32	5.71%	-35.11%
Gold (usd/oz)	1,968.16	11.25%	29.24%
Platinum (usd/oz)	906.11	11.12%	-6.53%
Coffee (usc/lb)	117.10	14.92%	-11.25%
Maize (usd/ton)	128.24	-2.03%	-15.77%
Wheat (usd/ton)	532.25	8.62%	-4.44%
Sugar (usc/lb)	12.42	4.02%	-8.14%
Cotton lint (usc/lb)	62.61	4.61%	-10.11%

Maize prices went against the general uptrend, weighed down by a weaker than earlier anticipated recovery in global demand. Gold extended on earlier gains, supported by safe haven demand from sustained weakness in global macro-economic themes.

### ZSE to reopen - without dual listed stocks

Following the suspension of ZSE trades on 28 June 2020, government announced that trading will resume on 3 August 2020. The ruling ZANU-PF had alleged malpractice on the ZSE feeding into parallel market exchange rate volatility.

Subsequent investigations by authorities suggest that implied exchange rates, independently derived from stock prices of dual listed stocks, were being used to benchmark forward pricing and parallel exchange rate. The investigations however exonerated the dual listed companies from directly influencing such practice.

At the time of suspension, the ZSE was trading at a PE of 76 times, a dividend yield of 0.9% and indexes had rallied significantly as shown below.

Sector/Index	Value	Jun'20 YTD	Jun'20 YOY
Old Industrial	5870.36	666.0%	758.9%
Top 10	1232.79	508.2%	505.5%
All Share	1788.75	677.4%	749.0%
Market Cap (ZWL bn)	228.45	666.8%	738.2%

Following the investigations, the ZSE announced that trading would resume without three dual listed counters (Old Mutual Limited, PPC Limited and SeedCo International Limited).

### Economic Outlook

COVID-19 is the type of generational occurrence that remodels entire economies. It's impact on a small, politically fragile, isolated and highly indebted economy could be catastrophic. That the aggregate earnings outlook is weak is beyond contestation, yet the magnitude remains indeterminant. Near term environment green shots are likely to hinge on agility and digital capabilities, with survival of the essence.

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