

MONTHLY ECONOMIC BRIEF

February 2021



Highlights

- **The Central Bank maintains a tight monetary policy amidst inflation concerns.**
- **Above normal rainfall to drive agriculture sector growth**
- **Economy opened as COVID-19 cases recede and vaccination begins.**
- **Consumer inflation rises to 321.59% in February 2021.**
- **ZSE market capitalization advanced 15.19% to ZWL\$497.758 bn in February 2021.**

Single digit inflation by end of 2021...

On 18 February, the Reserve Bank of Zimbabwe (RBZ) released the 2021 Monetary Policy Statement, under the theme "staying on course in fostering price and financial sector stability". The policy statement was mainly focused on reducing annual inflation to a single digit figure and stabilizing the exchange rate. RBZ is targeting to reduce inflation from 348.59% recorded in 2020 to less than 10% by end of 2021. To achieve this seemingly ambitious target, the bank policy rate was raised from 30% p.a. to 40% p.a. with the expectation that bank lending rates will also go up to curtail demand for loans. In addition, RBZ reduced the reserve money growth target from 25% to 22.5% per quarter to control the quantity of money in the economy.

Inflation has over the last two years remained a significant hurdle for the authorities, having peaked at 835% in July 2020 and is currently still in three-digit territory. Historically, exchange rate pass through effects have been the major driver of inflation, with RBZ confirming the very strong correlation between exchange rate movements and inflation. The RBZ is targeting to control inflation by stabilising the exchange through ensuring adequate supply of foreign currency on the forex auction market. The forex auction has mainly been funded through export surrender requirements (40%), mandatory domestic foreign exchange sales proceeds (20%) and foreign exchange contribution from the fiscus (15%). However, there are seemingly supply challenges given the widening gap between the official exchange rate and parallel market rate and reports of allocation backlogs. The premium between the official and parallel rates was reported to be above 36% by end of February

2021 compared to the RBZ target premium less than 20%.

Bumper cereal harvest to drive agrig growth.....

The normal to above normal rainfalls are expected to see record harvest mainly for cereals in the country. Government is projecting maize harvest of up to 2.8 mn tonnes this year, three times the 900,000 tonnes produced in 2020. Traditional grains output including sorghum and pearl millet are expected to be 360,000 tonnes. Droughts experienced in the last two years have seen maize outturn significantly falling short of national required production of 1.9 tonnes. The country imported maize worth US\$13mn per month in 2020 to supplement local production. The Government has already set the producer price for white maize of ZWL\$32,000 (US\$381) per tonne for the forth coming harvest. The price compares favourably with the South African May white maize futures contract, which closed at ZAR3,151 (US\$212) as at 4 March 2021.

COVID-19 easing of lockdown restrictions....

As of the 06th of March 2021, the country had a cumulative 36,260 cases of COVID-19, up from 33,548 at the start of February 2021. There has been a slowdown in the number of cases with the average daily cases coming down to 90 from 641 in January 2021. The country is in the first phase of administering COVID-19 vaccines to frontline health workers and individuals considered to be at high-risk of infection. A total of 200 000 doses of the Chinese Sinopharm vaccines have been deliver to date with an additional 800 000 expected soon. An additional 985,000 Astra Zeneca vaccines are expected from the World Health Organization brokered Covax facility. The country is targeting to vaccinate 10 million people to achieve herd immunity. It is likely to take longer to vaccinate the targeted population given the ostensibly challenging and lengthy vaccines procurement processes and resistance by some members of society.

The slowdown in infections has seen Government easing of lockdown restrictions from Level 4 to level 1. Under the new conditions, domestic travel restrictions were lifted, informal businesses have re-opened, while business hours have been extended. The curfew has been relaxed and is now starting from 10 p.m. to 5:30 a.m. Some restrictions remain on select sectors and economic activities for example no sit-ins in restaurants while bars, gyms and nightclubs will remain closed.



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Consumer prices up by 3.45% in February 2021

Average consumer prices increased by 3.45% in February 2021, compared to 5.43% in the prior month. On a year-on-year basis, consumer prices increased by 321.59% in February 2021, down from 362.63% in January 2021. The blended inflation rate, which looks at both US\$ and ZWL\$ consumer price movements was up by 0.71% in February 2021 compared to 2.76% in January 2021. The year-on-year blended inflation rate closed February 2021 at 162.95%, from 191.52% in the prior month. Month-on-month inflation so far remains above the Central bank's target of under 3%, while year to date inflation is already at 9.07%.

The US\$ Weakened against major currencies.

The United States Dollar (US\$) weakened against major currencies in February 2021, due to the proposed COVID-19 fiscal stimulus package. The South African Rand (ZAR) strengthened on the back of a slowdown in COVID-19 cases and easing of lockdown measures to level 1.

The US\$ lost 1.05% against the Euro and 3.16% against the ZAR. The USD/ZAR exchange rate closed the month at ZAR14.73 per US\$. The Zimbabwean Dollar (ZWL) depreciated by 1.47% to close at ZWL\$83.89 per US\$.

Commodity prices largely positive...

Commodity prices ended the month largely positive as shown in the table below:

Commodity	Price	Feb'21	YTD'21
Crude Oil (USD/bbl)	66.08	17.60%	28.94%
Gold (USD/oz)	1,761.93	-5.89%	-7.17%
Platinum (USD/oz)	1,202.74	8.22%	11.77%
Nickel (USD/ton)	19,568.00	10.79%	16.65%
Coffee (USc/lb)	138.40	12.84%	9.49%
Maize (USD/ton)	213.47	-0.09%	12.91%
Wheat (USD/ton)	664.50	1.61%	4.07%
Sugar (USc/lb)	16.63	6.60%	9.19%
Cotton (USc/lb)	89.15	10.80%	14.68%

Crude oil prices gained during the month due to rising international demand against relatively constant supply. Gold prices continued to decline due weak physical demand as well as declining investor interest with improving global economic performance.

Local equities maintain bullish trend...

The ZSE gained ZWL\$65.628 bn in value during the month as a result of continued liquidity flow into the market and investor hedging strategies. All major indices were positive.

Sector/Index	Value	Feb'21	YTD'21
ZSE All Share	4,154.37	15.37%	57.58%
ZSE Top 10	2,469.42	10.33%	47.74%
ZSE Medium Cap	9,697.12	23.47%	76.60%
ZSE Market Cap (ZWL billions)	497.758	15.19%	57.24%

The tables below highlight the ZSE top and bottom performing stocks in February 2021.

Top 3	Price ZWLc	Feb'21	YTD'21
UNIFREIGHT	794.00	1,333.2%	4,168.8%
NTS	117.25	327.14%	327.14%
NATFOODS	26,610.00	269.07%	342.76%

Bottom 3	Price ZWLc	Feb'21	YTD'21
CBZ	7,500.00	-29.85%	-11.76%
ZIMRE	205.90	-28.69%	-34.32%
DAWN	40.00	-18.37%	-44.44%

Monthly value of trades decreased by 56.46% to ZWL\$1.530 bn in February 2021. Daily trade values averaged ZWL\$76.503 mln, down by 54.16% from prior month. Foreign investors registered a net monthly sell-off of ZWL\$492.8 mln, while foreign trades accounted for 21.2% of total trades during the month, up from 9.2% in January 2020.

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

Economic Outlook

Although vaccines and the roll out program has raised hopes of a quicker turnaround in the domestic economy, renewed waves and new variants of the virus continue to pose concerns in the outlook. Achieving the required herd immunity looks likely to take some time. Caution and some degree of COVID-19 lockdown restrictions are likely to remain in place to prevent a resurgence in cases, sustaining our cautiously optimistic view on the outlook.

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