



# MONTHLY ECONOMIC BRIEF 2021



## HIGHLIGHTS



**7.8%**

2021 growth forecast upgraded to 7.8%



**100t**

Annual gold production to increase to 100 tonnes from 2023



**0.25%**

Zimbabwe dollar depreciated by 0.25% to Z\$85.64 per US\$



**56.37%**

Year-on-year inflation closed the month at 56.37%



**9.35%**

ZSE market capitalization advanced by 9.35% to ZWL\$806.514bn

### Agriculture growth spur optimism .....

At the end of July, the Minister of Finance Professor Mthuli Ncube presented the 2021 Mid-Term Budget review to parliament. The Government signalled a stronger than initially projected economic growth in 2021 leading to the growth forecast for the year being upgraded from 7.4% to 7.8%. The growth rate is higher than the IMF's and the World Bank's projections of 6% and 3.9% respectively. An estimated Z\$198.2 billion in revenue was raised between January and June 2021 while Z\$197.6 billion was spent, resulting in a budget surplus of ZWL\$570 million. Due to this good performance and the relative macroeconomic stability, no supplementary budget was tabled. The 2021 growth of the agriculture sector was revised upwards to 34% from 11% on account of higher-than-expected performances of key crops. However, the mining sector growth rate was cut to 2% from an initial projection of 11% due to below plan output for key minerals.

Meanwhile, in the latest Mid-term Monetary Policy Statement review released on 5 August 2021, monetary authorities largely maintained the status quo in view of the stable macro-economic environment. The Central Bank will continue to pursue a tight monetary policy through high policy rates and limited money supply growth. Resultantly, the overnight and medium-term lending rates were maintained at 40% and 30% respectively, while the quarterly reserve money supply growth target was kept at 20%. The authorities noted some potential risks in the outlook emanating from the foreign currency auction allotment backlog and potential depreciation of the unofficial exchange rate. Overall, the authorities need to continue addressing the foreign currency supply challenges in the economy to ensure monetary policy efficacy and tame parallel market exchange rate pass-through effects to inflation.

### Reforms necessary for gold output growth...

The Mines and Mining Development Minister Winston Chitando is targeting annual gold production of 100 tonnes by 2023. Improved access to funding from both the private and public sectors is anticipated to drive this growth. On a year-to-date basis to June 2021, gold deliveries to Fidelity Printers and Refinery (FPR) rose to 12.78 tonnes from 12.017 tonnes for the same period in 2020. The highest gold output was recorded in 2018 when 32 tonnes were produced, while 25 and 19 tonnes were produced in 2019 and 2020, respectively, making the 100 tonnes target seemingly ambitious. However, actual annual production is likely to be more than 40 tonnes after accounting for smuggled gold reportedly worth about US\$1.5 bn annually (circa 24 tonnes at current prices). In view of this base and the expected new investments, growing to 100 tonnes is unlikely to be demanding all things being equal.

There is a need to address the root causes of gold smuggling and challenges that are disincentivising production. Key hurdles include the market and pricing structure of the gold subsector and inefficiencies by FPR. The introduction of the incremental export scheme is commendable. However, foreign currency retention ratios need to remain sensitive to market developments as the widening parallel market rate premium is likely to negate the envisaged benefits of the scheme. The move by the Central Bank to partially privatise FPR and parcel out majority shareholding of its refinery arm to the private sector is commendable and is expected to address some of the entity's shortcomings.

### COVID-19 3<sup>rd</sup>-wave cases slowing down....

As of the 2<sup>nd</sup> of August 2021, the country had a cumulative total of 110,855 COVID-19 cases, up from 52,263 as of the 2<sup>nd</sup> of July 2021. The 7-day rolling average number of cases which opened the month of July at 1,063, peaked at 2,355 around mid-July 2021 before declining to 1,558

by the 2<sup>nd</sup> of August. As a result of the high daily cases, the level 4 lockdown was extended indefinitely. There was a notable increase in 1<sup>st</sup> dose vaccinations in July with 846,713 people receiving the dose compared to 99,158 in the prior month taking the cumulative total 1<sup>st</sup> jab vaccinations to 1.674 mn. About 7.98% of the targeted population of 10 mn people was fully vaccinated as of 2 August 2021.

### Consumer prices up by 2.56% in July 2021

Average consumer prices increased by 2.56% in July 2021, compared to 3.88% in the prior month. On a year to date and year-on-year basis to July 2021 prices have increased by 23.78% and 56.37% respectively. The blended inflation rate, expanded by 0.67% and 21.61% in the month under review and on a year-on-year basis respectively. Annual ZWL\$ inflation fell into double-digit territory for the first time in 2 years due to higher base effects and the slowdown in monthly inflation. The IMF SDRs allocation equivalent to US\$1 bn which are expected towards the end of August 2021, if properly utilised are likely to reduce local currency valuation pressures in the short term.

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

The United States Dollar (US\$) strengthened against major currencies during the month under review, due to a more bullish economic outlook. The US\$ gained 0.69% against the Pound to close at US\$1.39 per Pound during the month.

The South African Rand (ZAR) weakened against the US\$ due to the recent social unrests and rising COVID cases. The ZAR depreciated by 2.47% against the US\$ to close the month at ZAR14.59 per US\$. The Zimbabwean Dollar (ZWL\$) depreciated by a marginal 0.25% against the US\$ in July 2021 to close at ZWL\$85.64 per US\$.

### Commodities prices bullish during the month...

Commodity prices were largely bullish during the month except for platinum which gave up 1.67% as shown in the table below:

Commodity	Price	July'21	YTD'21
Crude Oil (usd/bbl)	76.32	1.45%	48.92%
Gold (usd/oz)	1,823.69	3.53%	-3.92%
Platinum (usd/oz)	1,043.65	-1.67%	-3.02%
Nickel (usd/ton)	19,769.00	8.54%	17.85%
Palladium (usd/oz)	2634.9	-3.46%	9.31%
Maize (usd/ton)	214.65	2.44%	13.53%
Wheat (usd/ton)	698.00	9.36%	9.32%
Sugar (usc/lb)	18.20	3.35%	19.50%
Cotton (usc/lb)	89.45	4.12%	15.06%

Crude Oil prices continued to rise on the back of rising global demand and marginal increases in supply. The gold price was up by 3.53% in the month supported by relatively higher inflation expectations in the US leading to increased hedging behaviour.

### Local equities remained buoyant ...

Local equities continued trending upwards, adding ZWL\$89.653 bn in value during the month. Share prices were bolstered by inflation hedging and relatively good corporate financial performances.

Sector/Index	Value	July'21	YTD'21
ZSE All Share	6,818.29	10.06%	158.63%
ZSE Top 10	3,639.99	15.39%	117.77%
ZSE Medium Cap	17,739.47	2.71%	223.06%
ZSE Market Cap (ZWL\$ bn)	806.514	9.35%	154.78%

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

Top 3	Price ZWLc	July'21	YTD'21
LAFARGE	9,500.00	58.33%	1087.50%
ZIMPLOW	1,454.42	50.84%	190.88%
CAFCA	17,500.00	40.00%	94.66%

Bottom 3	Price ZWLc	July'21	YTD'21
GETBUCKS	577.48	-63.26%	4519.84%
FBC	301.53	-21.02%	207.40%
WILLDALE	334.54	-20.40%	1139.04%

Value of trades decreased by 34.49% to ZWL\$2.921 bn in July 2021 from June 2021, while daily trade values averaged ZWL\$132.787 mn, down by 34% from the prior month. Foreign investors registered a net monthly sell-off of ZWL\$232.8 mn, with foreign trades accounting for 11.7% of total trades during the month, down from 23.6% in June 2021.

There were US\$5,365.30 worth of trades in Seedco International and newly listed Padenga Holdings on the Victoria Falls Stock Exchange (VFEX) during the month. Caledonia Mining is reportedly interested in listing on the VFEX.

### ECONOMIC OUTLOOK

The slowdown in new COVID-19 cases shows that the 3<sup>rd</sup> wave is ebbing while vaccinations have been ramped up. This notwithstanding, the pandemic is expected to continue weighing on the economy until herd immunity is achieved. Despite the Covid-19 threats, the positive half-year fiscal performance has set a good platform for economic growth in 2021.

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