



QUARTERLY ECONOMIC BRIEF 2021



HIGHLIGHTS



US\$1.9tn

The US signed into law a US\$1.9tn coronavirus relief package



8%

Global trade projected to rebound by 8%



200,000t

Zimbabwe's tobacco output for 2021 forecasts at between 180,000 – 200,000 tons



240.55%

Consumer inflation closed March 2021 at 240.55%



71.1%

ZSE market capitalization advanced by 57.11% to ZWL\$541.653 bn in March 2021

US\$1.9tn package to stimulate the US economy ...

The United States President Joe Biden signed into law a US\$1.9 trillion coronavirus relief package dubbed The American Rescue Plan. The plan provides for US\$400bn for US\$1,400 direct payments to Americans earning a maximum of US\$75,000 a year. The package is aimed at enthusing consumer spending and driving the economy out of the pandemic induced recession. Global markets were upbeat in February 2021 on news of the package, with expectations of the funding positively impacting global trade.

The package comes hot on the heels of a US\$900 billion stimulus bill signed into law on 27 December 2020. It accounts for close to 10% of the United States GDP and has largely been welcomed by US citizens. Analysts estimate that this additional spending could add two percentage points to US GDP growth over the next two years. Theoretically, the stimulus package should result in a weaker dollar. However, the US dollar has already sustained some depreciation from other Covid-19 stimulus packages and is unlikely to experience further losses. Experts believe that any change in the dollar is likely to be negligible due to the accommodative stance of the Federal Reserve. Inflation is expected to rise closer to the Federal Reserve's inflation target of 2%, however, it is not expected to rise drastically in the short term. The long-term impact of the package remains unclear, with some experts suggesting that this will eventually lead to higher-than-expected inflation.

Global Trade to rebound in 2021...

The World Trade Organization (WTO) revised upwards its initial growth projections for the 2021 global trade. Merchandise trade is now expected to rise by 8% in 2021, from an initial forecast of 7.2% announced in October 2020. In 2022 growth is anticipated to slow down to 4%. Underpinning the 2021 anticipated rebound from a 5.3% decline in 2020, are the strong monetary and fiscal policies implemented by several governments from the second half of 2020. Notwithstanding the projected recovery in 2021 and 2022, overall trade levels are expected to still fall short of pre-pandemic trade levels.

North America is expected to be the major driver of the rebound, thanks to the large fiscal relief packages and stimulus spending. In the outlook, the Covid-19 pandemic still poses the greatest threat to recovery in global trade, due to lagging vaccinations and weaknesses in service industries. New waves of infection could easily undermine any hopes of recovery.

South African GDP falls by 7% in 2020.

South Africa's economy contracted for the first time in 11 years as Covid-19 induced lockdowns disrupted trade and production. In a report by Statistics South Africa, GDP shrank by 7% in 2020 compared to a 0.2% expansion in 2019. This is the biggest annual decline in output since 1946.

The economy last recorded negative annual growth in 2009 when GDP fell by 1.5%. The 2020 downturn was mainly due to declines in trade, manufacturing, mining and finance in the first 3 quarters of the year. In the fourth quarter, GDP recovered strongly to a positive 1.5% bolstered by notable growth in the trade and manufacturing sectors. Predictions for the 2021 GDP are pointing to a possible recovery of up to 3%, with overall total output levels projected to remain below pre-pandemic levels. Downside risks to the 2021 output are inflated by a 3rd wave of Covid-19 and the slow rollout of vaccines. South Africa tops the list of countries in the continent that were severely affected by the pandemic with over 1.5mn infections and 50,000 deaths.

Zimbabwe | Continued international isolation...

The US Government and the EU extended targeted sanctions on Zimbabwe by another year. The UK introduced its first targeted sanctions on the country since Brexit. Zimbabwe's relations with the international community, especially with Western countries have remained sour, notwithstanding the Second Republic's aggressive international re-engagement efforts in the past 2 years.

The new US administration has ostensibly adopted a tougher stance on Zimbabwean authorities. In March 2021, the US State Department voiced its concern over political events taking place in Zimbabwe. The remarks came on the back of the recall from parliament of several members of the main opposition party, the MDC Alliance. The US Government hinted that it is closely monitoring the ruling ZANU-PF party's attempts to create a weakened and pliant opposition party ahead of the 2023 general elections. ZANU-PF denied these allegations stating that the recalls were due to issues within the opposition parties. A total of 39 elected MDC-Alliance MPs have so far been ousted from parliament.

Tobacco farmers demand more US dollars

The 2021 tobacco marketing season started on the 7th of April 2021 for auction sales and on the 8th of April for contract sales. Output projections for this season range from 184 million kilograms to 210 million kilograms with the bulk of the produce expected to come from contract farmers. Tobacco merchants are expected to inject a total of US\$500 million throughout the year's marketing season.

In order to enhance their US dollar earnings from the anticipated US\$500 million inflow, tobacco farmers engaged the Reserve Bank of Zimbabwe (RBZ) for an upward review of foreign currency retention ratios. Farmers wanted to retain between 70% to 80% of forex earnings from 50% for the prior season. Earlier in the year, the RBZ had set foreign currency retention ratios for all exporters at 60% in sync with the policy thrust to standardize retention ratios. However, tobacco farmers argue that

retaining only 60% of foreign currency earnings is unviable as most of their costs are US dollar denominated. In addition, parallel market rates are being applied for local currency denominated expenditures. Several farmers are saddled with US\$ loans which they are struggling to repay. There is a need to address these structural issues to incentivize the growing of tobacco in the future.

Vaccination commences as Covid-19 cases decline....

As of the 31st of March 2021, the country had 36,882 cases of COVID-19, up from 36,089 at the end of February 2021. The average number of daily cases slowed down significantly from 614 cases in January 2021 to 26 cases by end of March 2021. A level 4 lockdown which started from 3 January 2021 to 15 March 2021 assisted in reducing the rate of new infections. Restrictions have since been eased to level 1. Reliance on lockdowns to slowdown infections is not sustainable in the medium to long term.

Against this background, the country started rolling out vaccines towards the end of February 2021. A little over 1.5 million doses of the Chinese Sinovac and Siphopharm vaccines and the Indian Covaxin vaccines were received during the quarter. As of 31 March 2021, a total of 76,995 people had received their first dose up from 18,843 vaccinations at the start of March 2021. A total of 14,885 people also received a second jab by end of March 2021. The country is targeting to inoculate a total of 10 million people or 60% of the population to achieve herd immunity. The vaccines roll out program has been slow mainly due to resistance by some members of society and the global supply constraints for the jabs. It is likely to take longer to reach the targeted vaccinations.

Consumer prices up 11.53% in Q1-2021

Average consumer prices increased by 2.26% in March 2021, resulting in Q1-2021 inflation of 11.53%. Inflation for Q4-2020 and Q3-2020 was 12.21% and 52.59% respectively. Year-on-year inflation ended March 2021 at 240.55% relative to 348.58% in December 2020. The blended inflation rate, which looks at both US\$ and ZWL\$ consumer price movements was up by 1.09% in March 2021 taking Q1-2021 blended inflation to 4.62%. The year-on-year blended inflation rate closed March 2021 at 122.33%, from 188.91% in December 2020. RBZ's single-digit inflation rate for 2021 is seemingly under threat.

The US\$ Weakened against major currencies.

The United States Dollar (US\$) strengthened against major currencies in March 2021, as a result of improved economic activity and vaccination optimism. The South African Rand (ZAR) weakened slightly due to the slow vaccine rollout and the threat of a 3rd wave of Covid-19.

The US\$ gained 3.86% against the Euro and 0.32% against the ZAR

The US\$ closed the quarter against the Euro at 1.17 per Euro. The USD/ZAR exchange rate closed the quarter at ZAR14.77 per US\$. The Zimbabwean Dollar (ZWL) depreciated by 0.6% and 3.10% in March and Q1'2021 respectively to close at ZWL\$84.40 per US\$.

Mixed first-quarter trading for commodities...

Commodity prices were mixed in the first quarter of 2021 with across the board losses in the month of March 2021 as shown in the table below:

Commodity	Price	Mar'21	Q1'21
Crude Oil (usd/bbl)	63.77	-3.50%	24.43%
Gold (usd/oz)	1,688.16	-4.19%	-11.06%
Platinum (usd/oz)	1,182.04	-1.72%	9.84%
Nickel (usd/ton)	16,327.00	-16.56%	-2.67%
Coffee (usc/lb)	121.60	-12.14%	-3.80%
Maize (usd/ton)	212.09	-0.65%	12.18%
Wheat (usd/ton)	601.75	-9.44%	-5.76%
Sugar (usc/lb)	14.89	-10.46%	-2.23%
Cotton (usc/lb)	79.93	-10.34%	2.82%

Crude Oil prices were firm during the quarter due to increased optimism on global economic recovery before the resurgence in Covid-19 cases in some countries. Gold prices continued to decline with the biggest quarterly loss since 2016 as investors reduced their exposures in gold with increased hopes of recovery in the global economy.

Global equities bullish...

Global equities closed the quarter to 31 March 2021 bullish. The table below summarises global equities performances during the period under review.

Sector/Index	Q1'21	YTD'21
MSCI Global	5.24%	5.24%
MSCI Advanced Mkts	3.48%	3.48%
MSCI Emerging Mkts	2.29%	2.29%

The positive performances were driven by improved optimism on the recovery of global economic output due to an increase in global vaccinations. Advanced Markets outperformed Emerging Markets due to stronger signs of recovery and a shift in investor sentiment.

Local equities remain bullish ...

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The ZSE gained ZWL\$225.1 bn in value during the quarter as investors continue with hedging activities. All major indices were positive.

Sector/Index	Value	Mar'21	Q1'21
ZSE All Share	4,488.78	8.05%	70.27%
ZSE Top 10	2,610.46	5.71%	56.18%
ZSE Medium Cap	10,640.47	9.73%	93.78%
ZSE Market Cap (ZWL billions)	541.653	8.82%	71.11%

The tables below highlight the ZSE top and bottom performing stocks in Q1 2021.

Top 3	Price ZWLc	Mar'21	Q1'21
NTS	1,000.00	752.88%	3542.99%
TURNALL	330.00	120.00%	254.84%
GBH	67.00	107.69%	235.00%

Bottom 3	Price ZWLc	Mar'21	Q1'21
BNC	438.24	-31.45%	16.57%
DAIRYBOARD	1,550.00	-20.10%	41.29%
MASIMBA	1,600.00	-15.79%	33.64%

Value of trades increased by 22.16% to ZWL\$9.561 bn in Q1 2021. Daily trade values averaged ZWL\$154.211 mn, up by 26.1% from the prior quarter. Foreign investors registered a net quarterly sell-off of ZWL\$1.443 bn, while foreign trades accounted for 10.5% of total trades during the quarter, down from 13.9% in Q4 2020.

There were US\$2,686 worth of trades in Seedco International on the Victoria Falls Stock Exchange (VFEX) during the quarter, resulting in Seedco International's share price going up by 11.1% to US\$0.2.

ECONOMIC OUTLOOK

Roll out of vaccines globally has improved world economic recovery prospects. Downside risks to recovery include delays in procurement and rollout of vaccines and 3rd waves of Covid-19. Locally, vaccination has been ramped although it is likely to take longer to achieve herd immunity. Output in Zimbabwe is expected to expand in 2021 on the back of a good agricultural season. However, the pandemic is likely to cloud the pace of the recovery.