



MONTHLY ECONOMIC BRIEF



FEBRUARY 2022

HIGHLIGHTS



Ukraine War

The war in Ukraine a threat to Zim macro-economic targets



66.11%

Annual inflation rose to 66.11% from 60.74% in prior month



24.10%

ZSE All-Share Index up by 24.10%



12.38%

The ZWL has depreciated by 12.38% since the start of 2022

Commodities Soar on Ukraine-Russia Conflict

As the global economy was seemingly recovered from the effects of Covid-19, an outright war in Ukraine shocked the world. A humanitarian crisis has ensued with millions, fleeing Ukraine to Poland and other parts of Europe.

Both Ukraine and Russia are significant producers of key commodities which include grains, oil, natural gas, iron, and steel. Production and distribution in Ukraine have been disrupted, while sanctions imposed on Russia will likely exacerbate supply challenges. Consequently, crude oil prices were up 11.17% in February, while wheat, corn and gold were up by 21.04%, 9.87% and 6.12% respectively. Zimbabwe is expected to benefit from the firm mineral prices (nickel, gold, and platinum), and to be negatively affected by the rising fuel and grain prices. Capturing the impact of the war, at the beginning of March 2022, the Zimbabwe Energy Regulatory Authority (ZERA), announced maximum prices for petrol and diesel of US\$1.51 per litre up 9.42% and 7.09% respectively, compared to prices at the start of January 2022. The increase in the cost of fuel and grain is expected to trickle down to consumers, hence raising inflation.

Trade between Zimbabwe, Ukraine and Russia is minimal with total imports from Ukraine and Russia in 2021 amounting to c. US\$70 million, while exports were c.US\$21 million. Zimbabwe may have to source its imports from other countries, albeit at much higher prices.

Inflationary Pressures Fuel Dollarisation

Inflation has been on the rise since the last quarter of 2021.

Inflation for the first two months of the year was 12.71% compared to 9.07% over the same period last year. February inflation was 6.99%, up from 5.34% in prior month bringing year-to-date and annual inflation to 12.71% and 66.11% respectively. In view of the inflationary pressures in the economy, the Monetary Policy Committee resolved to maintain the tight monetary policy position prescribed in the 2022 Monetary Policy statement. Exogenous factors (global inflation and weather) are expected to flare up local inflationary pressures and weigh down on the value of the local unit. Monetary authorities' 2022 inflation target range of 25% - 35% is ostensibly under threat.

The move by government to partly remunerate civil servants in USD will likely neutralise the policy measures introduced by both monetary and fiscal authorities to promote the use of the local currency. It also signals re-dollarisation of the economy at a time policy makers are driving the de-dollarisation agenda. High inflation expectations are likely to further drive demand for the USD at the expense of the local currency, thereby increasing the level of dollarisation. This notwithstanding, official dollarisation is unlikely in the near term.

Covid-19 Complacency Gripping the Country

In the month of February 2022, the country recorded 6,714 new Covid-19 cases, compared to 16,400 new cases in prior month. Fifty-seven deaths were recorded in February 2022 compared to 334 in January 2022. The 7-day rolling average for new cases at the end of the month was 401, up from 160 in the prior month. This was largely due to outbreaks at schools, which are expected to be containment given immunity from vaccines and infections. Total double-dose vaccinations were 3.39 mn, 2.85% up from prior month. This slow

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increase in vaccinations is testament to vaccine hesitancy and the waning threat of the virus.

Political parties Gear Up for Elections

In February, campaigning for the upcoming by-elections gained momentum as political parties began holding rallies. There were incidences of violence, which reportedly resulted in two fatalities. The European Union and the USA maintained sanctions on the country citing human rights violations. This negative perception may work against the growth prospects of the country through subdued foreign direct investments and international tourist arrivals. On a positive note, Zimbabwe has been removed from the grey list of the Financial Action Task Force (FATF) and will no longer be subject to high scrutiny on anti-money laundering and terrorist financing.

Political temperatures are expected to continue rising ahead of the 26 March 2022 by-elections and 2023 harmonised elections. Campaign spending by all political parties is anticipated to fuel growth in the beverages, printing, clothing, entertainment, transport, and food sectors. However, increased spending will likely drive prices in the short run.

Commodity Prices Surge

Before the Ukraine-Russia conflict, commodity prices had been surging, fuelled by global inflation due to demand stimuli expansionary fiscal policies by advanced economies. The war in Ukraine and several restrictive measures imposed on Russia have added inflationary pressures to the mix and threaten to disrupt production and supply chains. Crude oil rose by 11.17% in February, with a year-to-date increase of 28.28% driven by increased demand and the threat of reduced output given the Ukraine-Russian conflict. Wheat rose by 21.04% due to fears of reduced output from Ukraine, the sixth largest global exporter of wheat. In the last few months, the price of gold has largely been subdued on the back of the global economic recovery prospects and hike in interest rates. However, in February, the gold price rose by 6.12% on fears of an escalation of the war in Ukraine.

Commodity prices are given in the table below:

Commodity	Price	Feb'22	YTD'22
Crude Oil (USD/bbl)	101.10	11.17%	28.28%
Gold (USD/oz)	1,904.86	6.12%	4.54%
Platinum (USD/oz)	1,004.60	2.24%	9.33%
Nickel (USD/ton)	24,690.00	8.65%	19.33%
Palladium (USD/oz)	2,493.00	3.31%	32.81%
Maize (USD/ton)	271.93	9.82%	15.61%
Wheat (USD/ton)	934.75	21.04%	20.85%
Sugar (USc/lb)	17.70	-1.78%	-6.00%
Cotton (Usc/lb)	119.12	-5.24%	5.29%

US Dollar in mixed trading Against Major Currencies

The Euro strengthened 0.24% against the dollar in February, while the GBP weakened by 0.22% in the month. The mixed trading is due to high inflation concerns in the US and the likely negative impact of the Ukraine-Russia conflict on Europe. The ZAR strengthened by 0.6% in the month with year-to-date appreciation of 3.63%, amid relative domestic stability compared to other emerging markets. The local currency depreciated by 6.93% in February, bringing total depreciation for the year to 12.38%. This trend is expected to continue in the near term mainly on the back of high inflation expectations.

Market Performances

The ZSE continued its upward trajectory, registering a 24.10% growth on the All-Share Index in the month. This was driven by appetite for equities considering rising inflation and increased liquidity.

Sector/Index	Value	Feb'22	YTD
ZSE All Share	14,990.42	24.10%	38.51%
ZSE Top 10	9,953.27	27.32%	46.13%
ZSE Medium Cap	24,567.08	15.70%	20.38%
ZSE Market Cap (Z\$ bn)	1,863.02	26.29%	41.44%

The tables below highlight the ZSE top performing stocks in the month of February 2022.

Top 3	Price - ZWLc	Feb'22	YTD
Afdis	20,465.00	62.42%	63.72%
SeedCo	20,500.00	59.22%	70.16%
NTS	840.00	45.39%	33.33%

The bottom performing stocks were:

Bottom 3	Price - ZWLc	Feb'22	YTD
Willdale	290.00	-21.60%	-17.89%
Medtech A	1900.00	-14.50%	-52.43%
ZBFH	6500.00	-8.33%	-26.03%

Total value of trades increased by 98.59% to ZWL7,987.29 bn due to increased liquidity on the ZSE. Foreign investors were net sellers on the bourse and accounted for 18.53% (ZWL1,479.67 bn) of trades compared to 7.62% in the prior month.

At the beginning of March 2022, Datvest launched a consumer staples Exchange Traded Fund (ETF), taking the number of ZSE listed ETFs to three. It is a passive ETF that tracks the ZSE modified consumer staples index.

The Victoria Falls Stock Exchange (VFEX) saw an increase in activity as evidenced by an 11.12% increase in turnover (US\$214,248.45). However, market capitalisation declined by 2.94% due to 18.18% and 0.18% declines in Bindura Nickel and SeedCo International's share prices, respectively.

Economic Outlook

Global inflation threatens to upsurge local currency and USD prices in the economy. This will ostensibly squeeze disposable incomes and likely depress aggregate demand in the near term. Agriculture output is now expected to be lower than prior year given the impact of adverse weather conditions. This notwithstanding, economic growth is expected in 2022 on account of growth in the mining, construction, and service sectors.