



MONTHLY ECONOMIC BRIEF 2021



HIGHLIGHTS



Can US\$961mn in SDR's revive the local currency?

Zimbabwe received US\$961mn worth of Special Drawing Rights (SDRs) from the International Monetary Fund (IMF). SDRs are a monetary reserve asset that is issued by the IMF, to provide additional liquidity to the global economy and supplement foreign reserves of member countries.

The Minister of Finance, Professor Mthuli Ncube is targeting to set aside close to fifty percent of the SDRs as reserves to support the local currency. The remaining balance is expected to be deployed towards the purchase of vaccines, equipping of hospitals, construction of schools, road rehabilitation and other infrastructure projects. There are also plans to set up a revolving Fund to avail funding to the productive sectors of the economy such as the manufacturing, agriculture, and mining sectors.

Overall, the SDRs allocation is a positive development for the economy which has been isolated from international capital markets. This notwithstanding, the allocation is seemingly insufficient to cover the funding gap in the economy and sustain support for the local currency. The authorities need to continue implementing measures to build foreign reserves, improve confidence and exports, and reduce external debt levels for sustained stability and growth.

Auction settlement backlog continues unabated ...

The foreign currency settlement backlog on the auction system is reportedly US\$175mn or about two months based on average weekly allocations. The auction system is designed to operate on a T+3 settlement cycle, where winning bids are settled from the third day after allotment, while local currency funding is availed

within a fortnight from the date of allotment.

The settlement delays have ostensibly increased demand for foreign currency on the parallel market where the exchange rate premium is reportedly above 40%. Consequently, pressure on the local currency and inflation have remained high. There is scope for the authorities to utilise a portion of the SDRs to clear the backlog. However, the use of SDRs to fund the backlog is unlikely to be a sustained solution to the funding constraints on the auction and economy at large.

Normal to above rainfall to prop up agricultural output...

The Southern African Regional Climate Outlook Forum held towards end of August 2021, is forecasting normal to above normal rainfall for the 2021/22 cropping season over most parts of the SADC region. This positive climate outlook is attributed to an expected La Nina episode during the coming rain season. La Nina conditions are triggered by the cooling of temperatures in the Pacific Ocean and are usually associated with heavy rains and flooding in southern Africa. In the 2020/21 season, the country received normal to above normal rainfall which resulted in a record output for most crops. Agriculture production for the 2021/22 season is expected to at least mimic last year's output all things being equal.

Third wave of COVID-19 subsides....

As of the 3rd of September 2021, the country had a cumulative total of 125,331 COVID-19 cases, up from 110,855 as of the 3rd of August 2021. The 7-day rolling average number of cases that opened the month of August at 1,558 declined to 156 as of the 3rd of September 2021, signifying a slowdown of the 3rd wave of the pandemic. A total

of 1.689mn people or 16.89% of the targeted population was fully vaccinated as of the 3rd of September 2021. Achieving herd immunity remains key for the economy to be fully reopened. At the current average daily vaccination rate of 32,000, herd immunity is likely to be attained by mid-2022. The progression of the pandemic remains uncertain with high risks of new waves and variants in the outlook.

Consumer prices up by 4.18% in August 2021

Average consumer prices increased by 4.18% in August 2021, compared to 2.56% in the prior month. On a year to date and year-on-year basis to August 2021 prices have increased by 28.96% and 50.24% respectively. Annual inflation has steadily declined over the last 9 months due to lower monthly inflation and higher base effects. However, monthly inflation is still too high, and the trend is likely to continue in the near term driven by the depreciation of the local currency on the parallel market.

The US\$ strengthened against major currencies.

The United States Dollar (US\$) strengthened marginally against major currencies during the month under review, due to some improvement in US economic data. The US\$ gained 1.21% against the Pound to close at US\$1.37 per Pound during the month.

The South African Rand (ZAR) strengthened against the US\$ due to an increase in economic activity compared to the prior month. The ZAR appreciated by 0.04% against the US\$ to close the month at ZAR14.58 per US\$. The Zimbabwean Dollar (ZWL\$) depreciated by a marginal 0.31% against the US\$ in August 2021 to close at ZWL\$85.91 per US\$.

Commodities prices mixed during the month...

Commodity prices were largely bearish during the month except for wheat, sugar and cotton as shown in the table below:

| Commodity | Price | Aug'21 | YTD'21 |
|---------------------|--------|--------|--------|
| Crude Oil (usd/bbl) | 72.86 | -4.53% | 42.17% |
| Gold (usd/oz) | 1,804 | -1.06% | -4.93% |
| Platinum (usd/oz) | 1,002 | -3.95% | -6.85% |
| Nickel (usd/ton) | 18,914 | -4.32% | 12.75% |
| Palladium (usd/oz) | 2,495 | -5.31% | 3.50% |
| Maize (usd/ton) | 211.70 | -1.38% | 11.97% |
| Wheat (usd/ton) | 720.75 | 3.26% | 12.88% |
| Sugar (usc/lb) | 20.05 | 10.16% | 31.65% |
| Cotton (usc/lb) | 93.71 | 4.76% | 20.54% |

Crude Oil prices fell during the month due to an increase in supply. The gold price was down by 1.06% in August due to a mildly stronger United States (US) dollar amidst stronger US economic data and more bullish global investor sentiment.

Local equities turned bearish ...

Local equities turned downward, losing ZWL\$16,799 in value during the month.

| Sector/Index | Value | Aug'21 | YTD'21 |
|---------------------------|-----------|--------|---------|
| ZSE All Share | 6,652.31 | -2.43% | 152.33% |
| ZSE Top 10 | 3,595.05 | -1.23% | 115.08% |
| ZSE Medium Cap | 17,031.57 | -3.99% | 210.17% |
| ZSE Market Cap (ZWL\$ bn) | 798.715 | -2.08% | 149.47% |

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

| Top 3 | Price ZWLc | Aug'21 | YTD'21 |
|----------|------------|--------|----------|
| GETBUCKS | 830.00 | 43.73% | 6540.00% |
| ECONET | 3,771.83 | 25.14% | 297.24% |
| CASSAVA | 1,940.21 | 21.00% | 198.07% |

| Bottom 3 | Price ZWLc | Aug'21 | YTD'21 |
|---------------|------------|---------|---------|
| STARAFRICA | 184.31 | -29.90% | 582.63% |
| GBH | 189.34 | -20.42% | 846.70% |
| ZIMNEWSPAPERS | 280.00 | -20.00% | 185.71% |

The total value of trades increased by 18.48% to ZWL\$3.461bn in August 2021 up from ZWL\$2.921bn in July 2021, while daily trade values averaged ZWL\$173.061 mn, up by 30.33% from the prior month. Foreign investors registered a net monthly sell-off of ZWL\$69.2 mn, with foreign trades accounting for 6.1% of total trades during the month, down from 11.7% in July 2021.

There were US\$5,672.03 worth of trades in Seedco International and Padenga Holdings on the Victoria Falls Stock Exchange (VFEX) during the month.

ECONOMIC OUTLOOK

The SDRs allocation and the positive rainfall forecast are anticipated to have a positive impact on the economy. However, Covid-19 remains a big risk to the economy considering possibilities of new waves and new variants. We maintain a cautiously optimistic view on the outlook.

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