

MONTHLY ECONOMIC BRIEF

September 2020



Highlights

- **ZWL\$ registered some relative stability against the US\$**
- **Increasing fiscal wage pressures as teachers strike**
- **Seasonal tobacco earnings reached US\$458.1 mn**
- **7837 confirmed COVID-19 cases and 228 deaths recorded locally**
- **Market capitalization advanced 17.51% to ZWL\$206.327 bn**

COVID-19 Update

As of the 30th of September 2020, Zimbabwe had 7837 confirmed COVID-19 cases and 228 deaths. The number of daily cases slowed during September to an average of 42 cases per day from 85 per day in August. Lockdown restrictions have been easing with international airports opening for passenger traffic, however land borders are still closed to individuals.

Tobacco auctions to bring in foreign currency

Zimbabwe has so far earned US\$458.1 million from 183.3 million kilograms of tobacco sold since the selling season opened on April 29th this year. Volumes and values sold are down 27.7% and 10.62% respectively compared to 2019. The 2020 marketing season, which usually starts in March, was delayed due to the Covid-19 pandemic and has been conducted under strict conditions.

The average price at auction and contract floors was US\$2.50 per kg, higher than US\$2.03 in the same period last year. Rejected bales declined by 60.30% suggesting that quality has improved. Volumes and value are down this is significant to the economy given that tobacco is the second highest foreign currency earner for Zimbabwe after gold.

Growing FCA deposits

According to the latest Reserve Bank of Zimbabwe (RBZ) report; money supply gained 32.5% to ZWL\$132.259bn as of July 2020. What's interesting to note is composition of narrow money (M1) which was made up of 59.79% of

foreign currency denominated accounts. The significance is in part due to the movement of the exchange rate (particularly since the beginning of the year).

Although most of the movement in the FCA component is due to exchange rate dynamics; this still shows the noteworthy level of dollarization that has taken place in the economy. In addition, the growth in FCA deposits also reflected inflows from the tobacco-selling season, as well as the policy change that allowed usage of free funds for domestic transactions.

High civil servant Wage pressures

Schools were reopened in September 2020 to cater for 2020 exam classes. However, there are reports that many teachers did not report for duty citing incapacitation due to runaway inflation. Teachers are demanding a minimum of US\$520 or ZWL\$ equivalent as they argue that the current salary is not enough to cover their expenses.

A teacher's representative union claimed that around 98% of their members have heeded the call. Meanwhile, the United States ambassador to Zimbabwe called on government to respect labour rights amid threats to replace striking teachers. Civil service employees have also threatened to strike for similar reasons increasing the risks of worsening fiscal pressures.

ZWL Appreciates during the month

Throughout September, the local currency (ZWL\$) registered gains against the United States Dollar (US\$) on the weekly foreign exchange auction platform. Cumulatively, the ZWL\$ appreciated by 2.34% to close the month of September at ZWL\$81.43 per US\$.

For the first time since the lifting of parity to the US\$, the ZWL\$ registered its first monthly gain against the US\$. Exchange rate depreciation is one of the main factors that has resulted in excessive inflation experienced in the economy and exchange rate stability would go a long way to reducing inflation. Although the appreciation is positive, there however concerns its sustainability going forward.

Consumer prices increased by 3.83% in Sept'20

Average consumer prices increased by 3.83% in September down from 8.44% and 35.53% in August 2020 and July 2020 respectively.



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Compared to September 2019, consumer prices increased by 659.40% coming down from 761.02% in August. The blended inflation rate, which looks at both US\$ and ZWL\$ consumer price movements was negative 0.47% down from 1.14% in August 2020. On a year on year basis, the blended inflation rate closed September 2020 at 376.29%, from 420.9% in the prior month.

The US\$ firmed against most currencies

The United States Dollar (US\$) strengthened against most major currencies during the month, due to escalating global financial market risks as a result of COVID-19 induced uncertainty. The South African Rand (ZAR) weakened during the month, partly because of the negative impact of the pandemic on the country's economy. The British Pound also weakened amidst high uncertainty and risk of stricter lockdown measures as COVID-19 cases escalated in a 2nd wave.

The US\$ firmed 1.67% against the Euro while the ZAR weakened 2.47% against the US\$ compared to the prior month. The USD/ZAR exchange rate closed the month at R16.99 per US\$ and the Euro/USD exchange rate closed the same period at US\$1.16 per Euro.

Improving demand supports commodity prices

During the month under review there was a decrease in most commodity prices on the back of depressed demand amid increased COVID-19 cases in Europe and the US.

Commodity	Price	Sep'20	YTD'20
Crude Oil (usd/bbl)	40.47	-11.91%	-39.38%
Gold (usd/oz)	1,884.32	-4.24%	23.74%
Platinum (usd/oz)	876.11	-6.42%	-9.62%
Nickel (usd/ton)	14,470.00	-6.12%	1.76%
Coffee (usc/lb)	110.15	-13.20%	-16.52%
Maize (usd/ton)	143.00	1.54%	-6.08%
Wheat (usd/ton)	557.50	0.59%	0.09%
Sugar (usc/lb)	13.30	4.48%	-1.63%
Cotton lint (usc/lb)	65.62	0.29%	-5.79%

Crude oil prices took a significant knock due to weak global demand as well as a stronger US dollar. Gold prices fell sharply from the record highs achieved in the prior month. Gold prices movements have an inversely relationship with the US dollar.

Local equities firm...

Local equities gained ZWL\$30.743 billion in value during September after the market fell sharply in August. Although the market retreated few days before month end mainly due to liquidity challenges, all the indices on the local bourse however closed in positive territory during the month.

Sector/Index	Value	Sep'20	YTD'20
ZSE All Share	1,638.17	17.92%	612.0%
ZSE Top 10	1,093.10	19.63%	439.3%
ZSE Industrial	5,385.73	18.79%	602.7%
ZSE Market Cap (ZWL billions)	206,327.86	17.51%	592.6%

The following tables highlight the ZSE top and bottom performing stocks in September 2020.

Top 3	Price ZWLc	Sep'20	YTD'20
Fidelity Life	96.00	104.26%	950.33%
Edgars	100.00	100.00%	376.19%
Dairiboard	949.00	93.67%	2,119.9%

Bottom 3	Price ZWLc	Sep'20	YTD'20
Nampak	100.05	-33.30%	38.96%
Mash	41.75	-30.47%	435.26%
Turnall	52.00	-22.68%	372.73%

Monthly value of trades gained 351.7% to ZWL\$4.640bn during September 2020. Daily trade values averaged ZWL\$211mn, up 290.14%. Foreign investors registered a net monthly sell-off of ZWL\$3,753.3 mn. Foreign trades made up 41.1% of trades during the month, up from 28.2% in August. The higher foreign trades were largely due to disinvestments as foreign investors took advantage of the auction system to repatriate their funds.

Economic Outlook

Fiscal policy remains threatened by growing wage pressures due to the erosion of incomes as a result of Inflation. Wage pressures could lead to fiscal deficit monetization, increasing money supply and worsening inflation. The RBZ and monetary policy committee will have difficult decisions on whether to maintain tight monetary policy stance or to loosen given tight funding. Risks remain skewed to the downwards.

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