Quarterly Report – 2019 Q2
Apr 2019

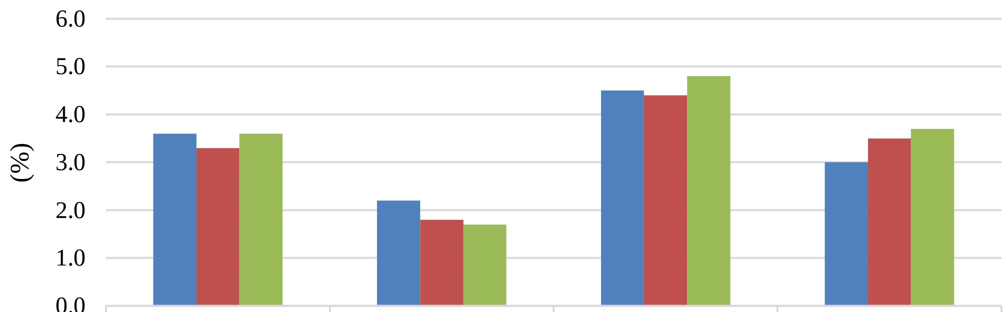
GLOBAL AND REGIONAL ECONOMY

Global Economy – Weakening expansion…

The International Monetary Fund "IMF", in its April 2019 Global Economic Prospects, lowered global growth to 3.3% and 3.6% for 2019 and 2020, respectively, from the initial forecasts of 3.7% apiece. According to the IMF, the downgrades reflect the slowdown in activity witnessed in the second half of 2018 and first half of 2019 underpinned by an increase in trade tensions and tariff hikes between US and China, a decline in business confidence, tightening of financial conditions, and higher policy uncertainty across many economies. **Fig.1** below outlines the projected growth trend across regional groupings.

… IMF lowers 2019 growth forecast to 3.3%…

Fig.1: Trends in GDP



	Global	Advanced Economies	EMDEs	SSA
2018e	3.6	2.2	4.5	3.0
2019f	3.3	1.8	4.4	3.5
2020f	3.6	1.7	4.8	3.7

Source: IMF

… policymakers urged to take actions that boost potential output growth, improve inclusiveness and strengthen resilience…

Going forward, the multilateral lender noted that the balance of risks were titled downside. Possible triggers being a further escalation of trade tensions, a no-deal Brexit withdrawal, prolonged fiscal uncertainty in Italy, climate change and political discord that could lower global potential output. As a result, it is hoped that policymakers will take actions that boost potential output growth, improve inclusiveness and strengthen resilience.

Africa- World Bank lowers SSA's 2019 growth forecasts…

…SSA to grow by 2.8% in 2019 against initial forecast of 3.3%…

The World Bank, in its Africa Pulse Report - April 2019, anticipates a 2.8% growth for Sub-Saharan Africa "SSA" in 2019, compared to the IMF's 3.0% and the 2.3% registered in 2018. This recovery will be driven "on the demand side by exports and private consumption and, on the supply side, by a rebound in agricultural production and an increase in mining production and services in some countries." However, the 2019 projection is slightly lower than the initial forecast of 3.3% due to a sharper-than-expected growth slowdown in major economies and domestic macroeconomic instability factors such as weaker fiscal consolidation, debt vulnerabilities, current account deficits and greater frequency of extreme weather events. Given the key risks, the World Bank urged policymakers to strengthen macro-economic policies including reforming tax systems to strengthen domestic revenue mobilisaiton, prioritizing spending on quality investments and poverty reduction, reinforcing fiscal frameworks to make them more conducive to effective countercyclical policies and improving management of public debt and contingent liabilities.

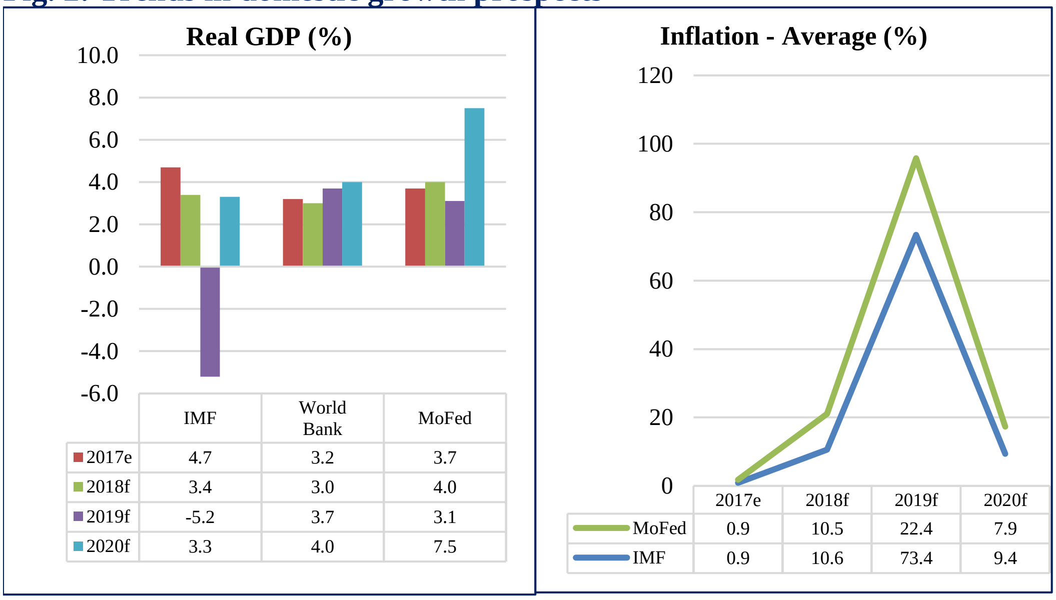
... unfavourable weather pattern and macro-fiscal vulnerabilities to slowdown domestic growth...

DOMESTIC ECONOMY

IMF downgrades growth forecasts albeit ongoing reforms…

In its re-engagement drive, the Government of Zimbabwe and the IMF reached an agreement on macroeconomic policies and structural reforms that can underpin a Staff Monitored Program "SMP". According to the IMF, the SMP, anchored on the Transitional Stabilisation Program "TSP", "aims to implement a coherent set of policies that can facilitate a return to macroeconomic stability". Albeit the SMP agreement, the multilateral lender downgraded the country's growth forecasts to a 5.2% contraction for 2019 against initial forecast of a 4.2% expansion. The IMF cited the country's deep macroeconomic imbalances characterised by large fiscal deficits and significant distortions in foreign exchange and other markets. In addition, the multilateral ledner noted the adverse effects of El-Nino related drought and Cyclone Idai on agriculture and food security. **Fig.2** below outlines the country's growth projections and inflation between 2017 and 2020.

Fig. 2: Trends in domestic growth prospects



Source:MoFED, IMF, World Bank

Going forward, implementation of the proposed reforms – fiscal consolidation, elimination of central bank financing and adoption of market-based reforms – remains key for economic prospects.

Real Sector Developments

Agriculture - New Producer Prices…

Meanwhile, Cabinet approved new producer prices for the 2019/2020 agriculture marketing season reflective of the operating environment and the need to eliminate arbitrage opportunities. **Table 1** across highlights the movements with major increases of 275% and 86% registered on cotton and maize to $1,950/t and $726/t, respectively. In addition, cotton and tobacco farmers will be paid 50% of their proceeds in foreign currency, whilst the balance will be paid into their RTGS accounts. In the short term, consistent price reviews are necessary to enhance viability for farmers. However, it will be imperative to ensure that pricing structures are market determined.

Table 1: Producer Prices (RTGS$)

Crop (Price/t)	2017/18	2018/19	Change(%)
Maize & Small grains	390	726	86%
Wheat	630	1,090	73%
Soyabean	780	918	18%
Cotton	520	1,950	275%

Tobacco sales subdued…

The 2018/19 marketing season began during the period under review. Cumulative sales for the period to 17 April 2019 show that total volume and value traded declined by 54.3% and 71.5% to 18.5 million kgs and US$32.0 million, respectively, when compared to the 2018 marketing season. Likewise, the average price fell by 38.1% to US$1.72/kg compared to US$2.78/kg recorded in the prior season. **Table 2** below outlines the cumulative tobacco sales statistics as at 17 April 2019 (*latest available data*).

…expectations of a lower national output in 2019 between 200-20mln kg…

Table 2: Tobacco Marketing Statistics (Day 21)

Seasonal	Total Auction	Total Contract	Total 2019	Total 2018	Change (%)
Mass sold (mln kg)	4.31	14.24	18.54	40.56	-54.3%
Value (US$mln)	7.09	24.89	31.98	112.11	-71.5%
Average Price (US$/kg)	1.65	1.75	1.72	2.78	-38.1%
Rejected %	12.74%	4.65	6.63%	6.58%	(0.5)
Highest Price (US$/kg)	4.50	5.25	5.25	6.22	-15.6%
Lowest Price (US$/kg)	0.20	0.10	0.20	0.10	100.0%
Average bale weight (kg)	70.0	69.00	69.0	77.0	-10.4%

Source: TIMB

The Government anticipates the 2018/19 national output to be lower than the record 253 million kg registered in the prior season due to the El-Nino drought risk. In fact, initial assessments indicate potential output of 200 - 230 million kgs.

Mining - Gold output increases in Q1…

According to Fidelity Printers and Refiners, gold output increased by 28% to 6.5 tonnes “t” in the first quarter of 2019 “Q1 2019” compared to 5.1t recorded in Q4 2018. (7.3t:Q1 2018) – **Table 3** across. The increase was driven by artisanal and small-scale miners whose output expanded by 73% to 4.2t in Q1 2019 from 2.4t in the preceding quarter. Meanwhile, output for primary producers fell from 2.6t to 2.3t, over the same period, with the Ministry of Mines stating that the output represented 35.5% of FPR’s returns in Q1 2019. As a result, the Ministry advised that it will undertake gold mobilisation workshops across the country and mine visits to ascertain mine output in comparison with FPR deliveries. In the short term, the fortunes of the sector will be driven by output as international prices are expected to be largely flat. Therefore, policies targeting improved output such as eliminating the revenue and expenses mismatch due to the disparity between the official rate and parallel market, continuous review of retention levels, availability of long term finance and technology, among other initiatives, will improve the sector’s performance.

Table 3: Trends in Production

Period	Primary (t)	Small-scale (t)	Total (t)
Q1 2017	2.6	2.1	4.6
Q2 2017	2.8	2.5	5.4
Q3 2017	3.1	4.0	7.2
Q4 2017	3.2	4.5	7.7
Q1 2018	3.0	4.3	7.3
Q2 2018	3.2	6.8	10.0
Q3 2018	2.7	8.2	10.9
Q4 2018	2.6	2.4	5.1
Q1 2019	2.3	4.2	6.5

Source:FPR

...ZERA to licence 12 additional players in 2019…

Energy sector - More players in fuel and solar energy …

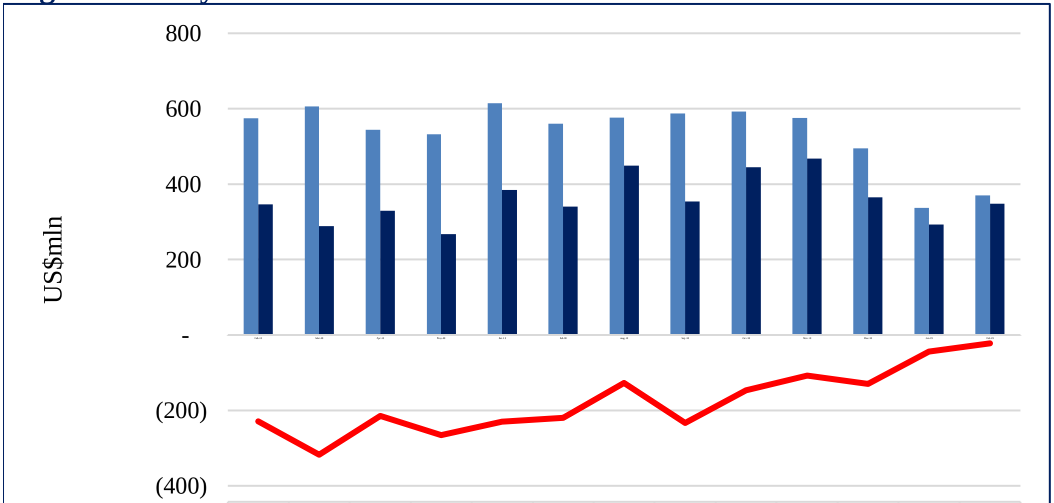
During the period under review, Government liberalised fuel importation for agricultural and mining companies with free funds "meant to close the fuel supply gaps." Meanwhile, Government intends to launch the renewable and biofuels energy policies in Q2 2019 aimed at increasing domestic power sources. In fact, the Zimbabwe Energy Regulatory Authority "ZERA" expects to licence c.12 more independent power producers in 2019 after licensing 11 players in 2018. Econet Wireless recently commissioned a 466Kw solar power plant, whilst 3 players i.e. Schweppes Zimbabwe, Lumigar Solar and Zhenje Solar Park applied to ZERA to establish solar power plants.

...Trade deficit halved to $22m in Feb 2019…

External sector – Contraction in trade deficit …

The country's trade deficit halved to $22.1 million in Feb 2019 compared to Jan 2019 (Feb 2018: $229 million). A relatively higher growth in exports (+19.1%) against that on imports (+10%), led to the contraction in the trade deficit. On the export front, major increases emanated from FCV tobacco (+33%), gold (+28%), diamonds (+214%) and cane sugar (+165%). Meanwhile, despite a decline in the fuel bill, total imports were lifted by the soyabeans, rice, medicaments and automobile (tractors and front-end loaders) categories. **Fig.3** below outlines the monthly trend in trade balance since Feb 2018.

Fig. 3:Monthly trend in trade deficit



	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19
Imports	575	606	545	532	615	560	576	587	592	575	495	337	371
Exports	346	289	330	267	385	340	449	354	445	468	365	293	348
Trade deficit	(229)	(317)	(215)	(265)	(230)	(220)	(127)	(233)	(147)	(108)	(130)	(44)	(22)

Source: ZimStat

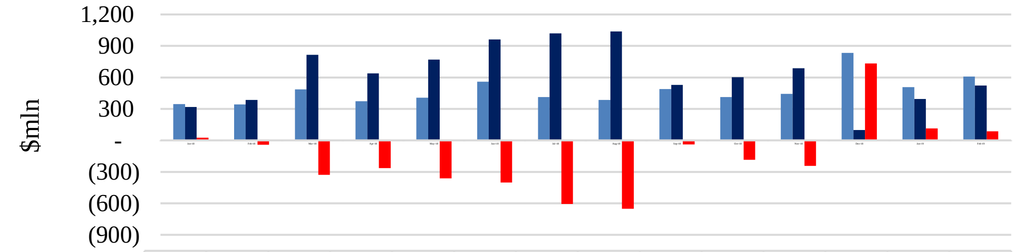
In the short term, policies targeting export promotion will significantly aid in improving the country's trade balance. Such initiatives include easing the cost of doing business, tax concessions, availability of foreign currency for critical raw materials and value-addition, among others.

Fiscal Sector Developments - Gvt registers surplus…

According to the Ministry of Finance and Economic Development "MoFED", Government's registered a surplus of $198.4m between Jan and Feb 2019, compared to a deficit of $16.3m in the comparative period of 2018. The improvement was underpinned by 62% jump in revenues to $1.12b (2018:$0.69b) driven by the intermediate money transfer tax and excise duty on fuel. On the expenditure side, a 30% increase was recorded to $0.92b in 2019 driven by recurrent expenditure. In fact, employment costs commanded 63% of the total, whilst capital expenditure remained under-prioritised at 1%. **Fig 4** below outlines the monthly trends in public finances since Jan 2018.

...cumulative Gvt surplus of $198m registered between Jan and Feb 2019…

Fig.4: Monthly trend in public finances



	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19
Revenue	346	342	487	373	407	558	412	387	489	414	444	833	509	607
Expenditure	320	384	815	637	768	960	1,019	1,038	529	601	686	100	396	521
Budget Balance	26	(42)	(329)	(265)	(361)	(402)	(607)	(651)	(40)	(186)	(242)	733	113	85

MoFED

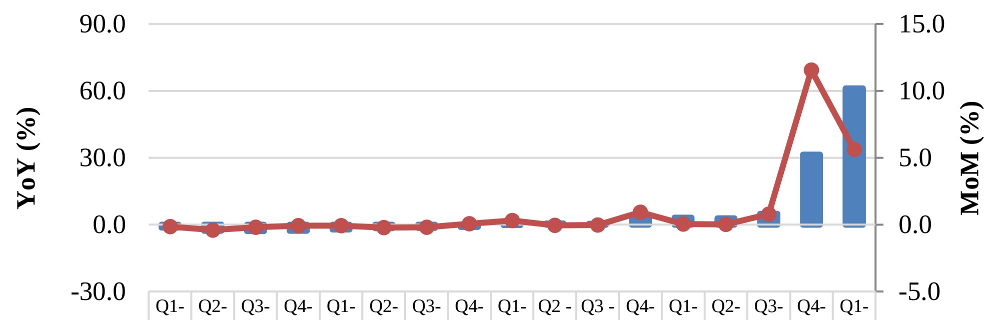
The government has commendably done well on revenue generation, whilst prioritisation of developmental projects remains critical in stimulating aggregate activity.

Monetary Sector Developments
Elevated inflationary pressures in Q1…

The year-on-year rate of inflation, as measured by changes in the all items consumer price index, maintained an upward trend rising from 56.9% in Jan 2019 to 66.8% in Mar 2019. Likewise, the quarterly average inflation rate almost doubled from 31.1% in Q4 2018 to 61.0% in Q1 2019. On the other hand, the monthly inflation rate slowed down from 10.8% in Jan 2019 to 4.4% in Mar 2019, whilst the quarterly average m/m inflation rate fell from 11.6% in Q4 2018 to 5.6% in Q1 2019. **Fig.5** below illustrates the quarterly inflation trends since 2015.

….Annual inflation soared to 66.8% in Mar 2019…

Fig.5:Quarterly trends in inflation (%)



	Q1-15	Q2-15	Q3-15	Q4-15	Q1-16	Q2-16	Q3-16	Q4-16	Q1-17	Q2 -17	Q3 -17	Q4-17	Q1-18	Q2-18	Q3-18	Q4-18	Q1-19
Y-o-Y	-1.3	-2.7	-2.9	-2.7	-2.2	-1.7	-1.5	-1.0	-0.1	0.5	0.4	2.9	3.1	2.8	4.8	31.3	61.
M-o-M	-0.1	-0.4	-0.2	-0.1	-0.1	-0.2	-0.2	0.1	0.3	-0.1	0.0	0.9	0.0	0.0	0.8	11.6	5.6

Source: ZimStat

In the short term period, adverse tailwinds are expected to push the inflation rate further up underpinned by the foreign exchange market imbalances, drought-related food imports, rising international oil prices and the general adverse inflation expectations.

...RBZ introduced an interbank forex market in Q1 2019...

Reintroduction of interbank FX market…

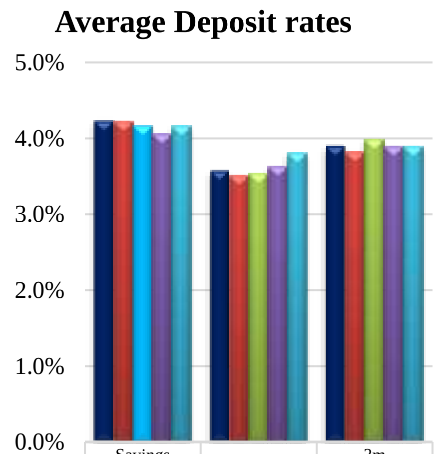
The Reserve Bank of Zimbabwe "RBZ" in its 2019 Monetary Policy Statement announced a raft of measures targeted at attaining macro-economic stability. Among the key measures were the establishment of interbank foreign exchange market, introduction of RTGS dollars a part of the multi-currency basket, review on retention thresholds (*including utilisation window*), revised priority list for authorized dealers and licensing of 26 bureau de change firms. For the interbank market to be sustainable, the authorities need to ensure adoption of policies and tactics that , among others, (1) stabilize the exchange rates, (2) converges exchange rates and pricing, (3) reduce adverse expectations and (4) enhance demand for the local currency.

...average lending rates remained flat...

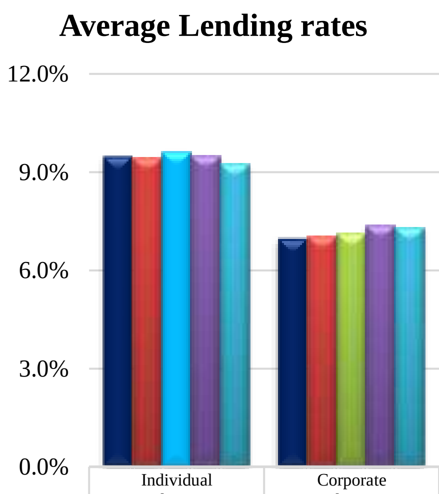
Average lending rates unchanged…

Average deposit and lending rates remained largely unchanged between Q4 2018 and Q1 2019 - **Fig 7** below - reflecting the relatively high levels of local liquidity on the money market.

Fig.7: Trend in savings and lending rates



	Savings deposits(%)	1m deposit(%)	3m deposits(%)
Q1 2018	4.2%	3.6%	3.9%
Q2 2018	4.2%	3.5%	3.8%
Q3 2018	4.2%	3.5%	4.0%
Q4 2018	4.1%	3.6%	3.9%
Q1 2019	4.2%	3.8%	3.9%



	Individual Lending rates	Corporate Lending rates
Q1 2018	9.5%	7.0%
Q2 2018	9.4%	7.0%
Q3 2018	9.6%	7.1%
Q4 2018	9.5%	7.4%
Q1 2019	9.2%	7.3%

Source: RBZ

Going forward, the authorities need to start working on a yield curve for the money market.

FINANCIAL MARKETS REVIEW

1. Self-correction on equities…

On the Zimbabwe Stock Exchange "ZSE", the All Share Index fell by 16.8% to end the first quarter at 121.7 (*+27% - Q4 2018*) - **Table 4** across. The movement largely reflect a market correction following the repricing of assets into RTGS dollars. **Table 5** below illustrates the Top 5 movers and shakers between Q4 2018 and Q1 of 2019.

Table 4: ZSE Performance

Domestic	31-Dec-18	31-Mar-19	Q1 Change(%)
All Share Index	146.2	121.7	-16.8%
Top-Ten Index	145.0	114.6	-21.0%
Market Cap (US$bln)	19.42	16.08	-17.2%
Turnover (US$m)	372.23	476.93	28.1%

Source: ZSE

...the All-Share Index fell by 17% in Q1 2019...

Table 5: ZSE Movers and Shakers

Movers				Shakers			
Counter	**31-Dec-18**	**31-Mar-19**	**Q1 Change**	**Counter**	**31-Dec-18**	**31-Mar-19**	**Q1 Change**
Medtech	0.02	0.09	350.0%	Bindura	9.66	6.34	-34.4%
Zimpapers	2.88	8.70	202.1%	PPC	190.00	132.00	-30.5%
Willdale	0.88	1.90	115.9%	Seed Co	205.00	143.00	-30.2%
Unifreight	4.76	10.10	112.2%	Cassava	142.00	100.00	-29.6%
African Sun	10.00	15.00	50.0%	Innscor	185.00	130.50	-29.5%

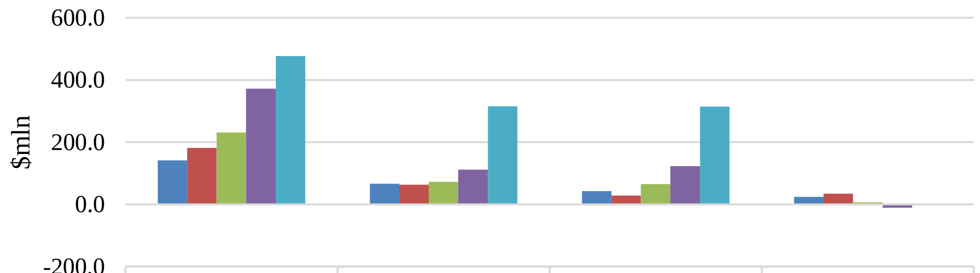
Source: ZSE

Meanwhile, the ZSE market capitalisation fell by 17.2% ($3.2 billion) to RTGS$16.1 billion as at the end of Q1 2019 in line with the market correction. With the exception of Old Mutual, all Top-Ten counters recorded losses in market capitalisation ranging from 1% to 42%.

The market turnover improved by 28.1% from $372.2 million in Q4 2018 to $476.9 million in Q1 2019 mainly lifted by Econet and Cassava shares. In terms of participation, offshore investors were net-buyers in most heavyweight counters, compared to a net-selling position in the prior quarter - **Fig.8** below.

.... turnover advanced by 28% to $476.9 mln in Q1 2019…

Fig.8: Investor Participation Trend

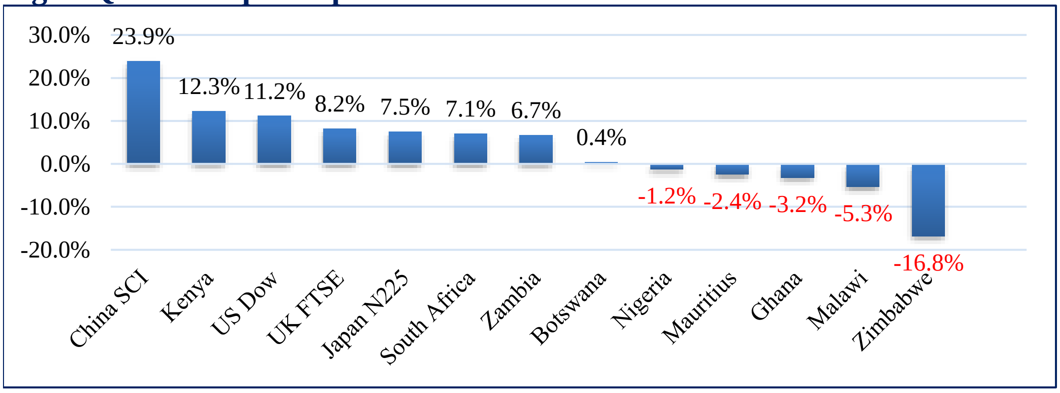


	Turnover	Foreign Buys	Foreign Sales	Net Foreign Buying
Q1 2018	141.6	66.1	42.2	24.0
Q2 2018	181.2	63.3	28.6	34.7
Q3 2018	231.3	72.5	65.7	6.8
Q4 2018	372.2	111.8	122.6	-10.7
Q1 2019	476.9	315.6	313.8	1.8

Source: ZSE

Meanwhile, mixed trading was registered across major regional and global markets largely mirroring the unstable sentiment over the US-China trade talks. The Chinese market was the best perfoming market (+24%) underpinned by increased monetary accommodation meant to stimulate economic activity. The US market benefitted from the Federal Reserve's "Fed" decision to pause interest rate increases in 2019. On the other hand, the ZSE was the worst performing market – see **Fig. 9** on the next page.

Fig.9: Q1 2019 Equities performance



Source: Various

Going forward, the absence of alternative markets, continued foreign exchange market imbalances and rising inflation is expected to provide upside potential for the ZSE.

2. Commodities Markets: Oil under pressure…

With the exception of wheat, most major commodities traded in the positive territory in Q1 2019. In fact, oil prices advanced by 27.1% to $68.4/b underpinned by continued production cuts from Opec-member countries, whilst nickel prices benefitted from increased optimism over the US-China trade deal. On the downside, wheat prices fell by 8.7% to $169/t due to expectations of a bumper harvest in 2019 – **Table 6** across. Going forward, production cuts and geopolitical risks to supply will most likely sustain firm oil prices, whilst safe-haven demand emerging from global growth concerns and political uncertainty related to Brexit is expected to support gold bulls. On the other hand, base metals are expected to trade side-ways in line with ongoing trade talks between the US and China.

Table 6: Quarterly commodities performance

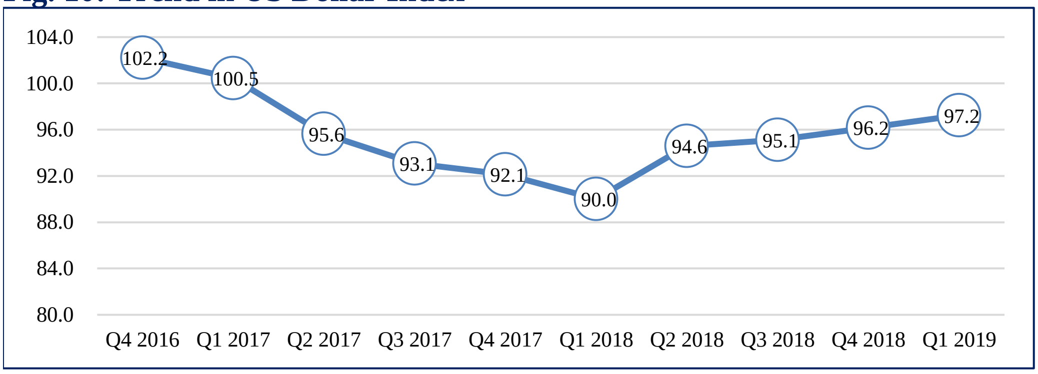
Commodities	31-Dec-18	31-Mar-19	Q1 Change(%)
Metals			
Gold - US$/oz	1,279.00	1,295.15	1.3%
Platinum - US$/oz	800.00	850.00	6.3%
Copper - US$/t	5,965.00	6,482.50	8.7%
Nickel - US$/t	10,590.00	13,010.00	22.9%
Oil - US$/b	53.80	68.39	27.1%
Agricultural			
Wheat - US$/t	184.82	168.75	-8.7%
Soybeans - US$/t	331.61	336.02	1.3%
Sugar - US$/pound	12.03	12.53	4.2%
Cotton - US$/pound	72.20	77.61	7.5%

Source: Various

3. Currencies Markets: US dollar strengthens…

The US dollar traded stronger due to negative movements in most of its trading partners. In fact, relatively loose accommodative monetary policy stance taken by the European Central Bank, Bank of England and People's Bank of China lifted the US dollar despite the decision by the Fed to pause interest rate increases in 2019. As a result, the dollar index advanced by 1.1% to 97.2 in Q1 2019 – **Fig 10** below.

Fig. 10: Trend in US Dollar Index



Source:Various

Table 7: Quarterly' currencies performance

Currencies	31-Dec-18	31-Mar-19	Q1 Change (%)
USD/RTGS	2.50	3.04	21.8%
USD/ZAR	14.38	14.51	0.9%
USD/BWP	10.52	10.58	0.6%
USD/ZMK	11.90	12.13	2.0%
USD/NGN	363.04	359.01	-1.1%
USD/GBP	0.79	0.77	-2.4%
USD/EUR	0.87	0.89	1.9%
USD/JPY	110.00	110.77	0.7%
USD/CNY	6.88	6.72	-2.3%
Dollar Index - DXY	96.17	97.24	1.1%

Source: Oanda

Elsewhere, most emerging market currencies weakened as global growth concerns supported safe haven-demand for the US dollar. For instance, the South African rand weakened by 0.9% to ZAR 14.5/US$1- **Table 7** across – due to risk-off sentiment and weak domestic economic prospects reflected by the re-emergence of electricity black-outs. In the short term, persistent US dollar strength is anticipated as most central banks loosen their monetary policy stance in response to global growth concerns.

Analysts:

Andrew Chirewo
achirewo@cbz.co.zw

Victor Makanda
vmakanda@cbz.co.zw

Contact Details
3rd Floor, Sapphire House,
Cnr Speke/ Angwa St,
P O Box 3313,
Harare, Zimbabwe,

Tel: +263 4 759101-16
Website: www.cbz.co.zw
Email: research@cbz.co.zw

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