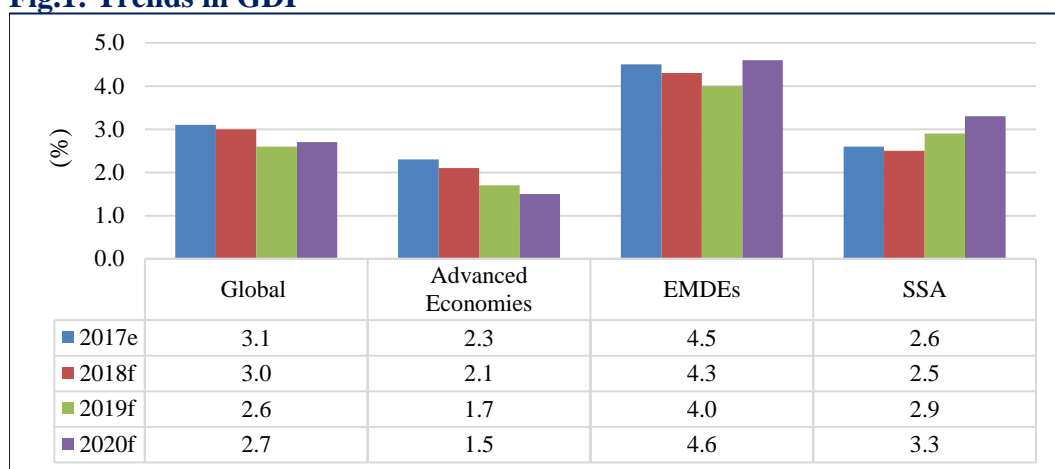


### GLOBAL AND REGIONAL ECONOMY

#### Global Economy – Another downgrade for 2019...

The World Bank, in its June 2019 Global Economic Prospects, further lowered the global growth forecasts to 2.6% and 2.7% for 2019 and 2020, respectively, from the initial forecasts of 2.9% and 2.8%, respectively. According to the World Bank, the downgrades reflect “weaker-than-expected international trade and investment in the first half of 2019.” Both advanced economies and emerging market and developing economies “EMDEs” were downgraded by 0.3 percentage points “pp” apiece to 1.7% and 4.0%, respectively for 2019 – **Fig 1** below. Although maintaining an upward trend compared to other regions, Sub Saharan Africa’s growth was also slashed by 0.5pp due to persistent headwinds in major economies including worsening external demand, supply disruptions and policy uncertainty.

**Fig.1: Trends in GDP**



Source: IMF

Going forward, the escalation of trade wars between the US and China as well as heightened political risk on Brexit, that subsequently saw Theresa May resigning as UK’s prime minister, reflects the global narrative and anticipated subdued global growth. The multilateral lender, thus, urged policymakers to implement significant structural reforms that improve the business climate and attract investment in order to promote economic growth.

#### Africa –Zambia’s sovereign rating downgraded to junk...

Global ratings agency, Fitch, downgraded Zambia’s long-term foreign currency issuer default rating to CCC from B-. According to Fitch, the downgrade “reflects the government’s high external financing requirements, combined with a continued fall in official foreign exchange reserves, constrained access to domestic and external financing, and a further rise in government debt in the context of an ambitious capital expenditure programme”. Meanwhile, the southern African nation was adversely affected by climate change and erratic rainfall as it introduced electricity rationing to non-mining customers in June 2019. Furthermore, the 2019 maize output declined to 2 million tonnes from 2.4 million tonnes in the prior year. In the short term, economic growth is expected to subside due to a number of constraints such as rising inflation, anticipated increase in borrowing costs for Zambia on the international capital markets and a depreciating currency.

... World Bank lowers 2019 growth forecast to 2.6%...

...worsening external demand, supply disruptions and policy uncertainty to drag Sub Saharan Africa growth forecast...

... policymakers urged to adopt structural reforms that boost business climate and attract investment...

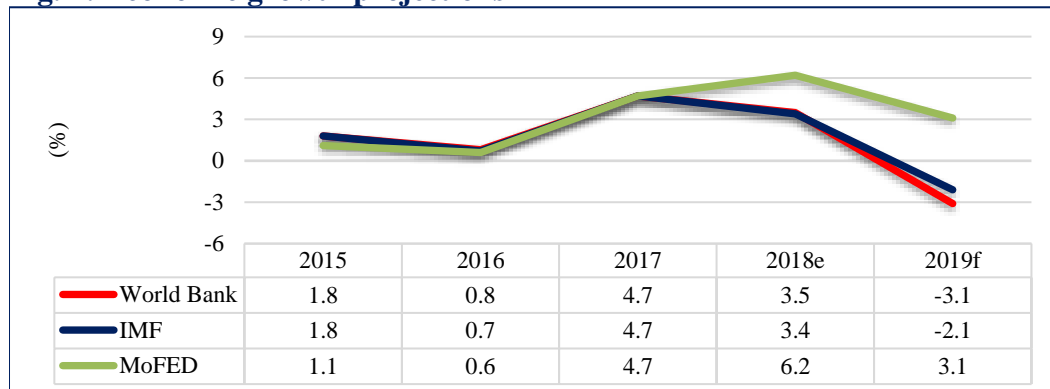
...Fitch downgrades Zambia to sub-investment grade...

### DOMESTIC ECONOMY

#### IFIs maintain recession forecast for 2019...

The World Bank anticipates the domestic economy to contract by 3.1% in 2019 compared to an initial forecast for a 3.7% growth rate. The effects of sharply higher inflation on real income and private consumption as well as the severe strains from adverse weather patterns, including Cyclone Idai, prompted the recession forecast by the World Bank. Likewise, the IMF in its Staff Monitored Program “SMP” published in May 2019 projects a decline of 2.1% for 2019 as outlined in **Fig 2** below.

**Fig. 2: Economic growth projections**



Source: World Bank, IMF & MoFED

Going forward, implementation of the IMF SMP program on public finances, promoting price stability, financial sector stability and structural reforms remains key. It will also be ideal for the authorities to, as part of the Mid-Term Fiscal Policy Review, revise upwards the minimum tax thresholds. Not only will this make the tax bands meaningful, but it will also be a less inflationary way of stimulating aggregate demand.

### Real Sector Developments

#### Agriculture - Maize now a controlled product...

The Government through Statutory Instrument “SI” 145 of 2019 announced new regulations for the maize market, whose key features are tabulated below;

Area	Specifics
Sale	<ul style="list-style-type: none"> <li>No person/statutory body/company shall sell or otherwise dispose of any maize except to a contractor or to the Grain Marketing Board “GMB”.</li> <li>No person who is not a producer of maize or who is not a contractor shall sell maize to the GMB.</li> </ul>
Acquisition or disposal of maize	<ul style="list-style-type: none"> <li>No person/statutory body/company shall buy or otherwise acquire any maize from any farmer or producer otherwise than through the GMB.</li> <li>A producer of maize or farmer is permitted to transport <b>not more than 5 bags</b> of maize of a capacity not exceeding 50kgs/bag from one area of the country to the other without any authorized person or police officer having to confiscate the maize.</li> <li>No person other than the GMB shall <b>export</b> from Zimbabwe maize of any quantity or any description until such a date that shall be specified by the Minister.</li> </ul>

The move was seemingly motivated by the need to beef up national strategic grain reserves, following a poor agricultural season. However, going forward, it is ideal for the Government to align the grains and cereals’ prices to import parity levels in order to attract investments and cushion farmers.

... World Bank anticipates negative growth of 3.1% in 2019...

...SI145 seemingly motivated by the need to beef up national strategic reserves...

...expectations of a lower national output in 2019 between 220-240mln kg...

### Tobacco sales subdued...

Cumulative sales for the period to 16 July 2019 show that total volume and value traded declined by 3% and 35% to 229.1 million kgs and US\$449.4 million, respectively, when compared to the 2018 marketing season. Likewise, the average price fell by 33% to US\$1.96/kg compared to US\$2.92/kg recorded in the prior season. **Table 2** below outlines the cumulative tobacco sales statistics as at 16 July 2019 (*latest available data*).

**Table 2: Tobacco Marketing Statistics (Day 81)**

Seasonal	Total Auction	Total Contract	Total 2019	Total 2018	Change (%)
Mass sold (mln kg)	30.25	198.87	229.12	236.24	-3.0%
Value (US\$m)	53.21	396.19	449.41	690.28	-34.9%
Average Price (US\$/kg)	1.76	1.99	1.96	2.92	-32.9%
Rejected %	14.63%	4.66%	6.20%	5.08%	(1.0)
Highest Price (US\$/kg)	4.99	5.75	5.75	6.25	-8.0%
Lowest Price (US\$/kg)	0.10	0.10	0.10	0.10	0.0%
Average bale weight (kg)	75.0	81.00	80.0	79.0	1.3%

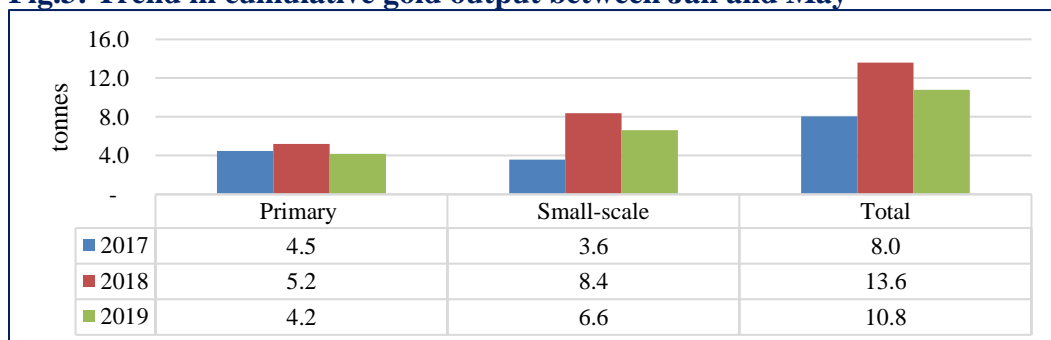
Source: TIMB

With output level within the 220-240 mln kg TIMB forecast range, the sector has shown significant resilience considering constraints faced prior to the 2019 marketing season including poor rainfall patterns, unsustainable pricing and rising cost of inputs. However, subdued prices negatively affected tobacco earnings thereby failing to improve domestic FX liquidity. Going forward, measures to enhance productivity remain critical, among them investment in irrigation facilities.

### Mining - Lower cumulative gold output in 2019...

According to Fidelity Printers and Refiners, cumulative gold output between Jan and May 2019 fell by 21% to 10.8 tonnes “t” compared to 13.6t recorded in 2018 – **Fig 3** below. The low output was due to declines of 20% and 21% to 4.2t and 6.6t, respectively, in deliveries from both primary and small-scale miners. In fact, currency-related challenges on retention ratios and payouts adversely affected gold output. Meanwhile, small-scale miners’ contribution to total output remained fairly flat at 61% between 2018 and 2019, whilst primary producers weighed in 39%.

**Fig.3: Trend in cumulative gold output between Jan and May**



Source:FPR

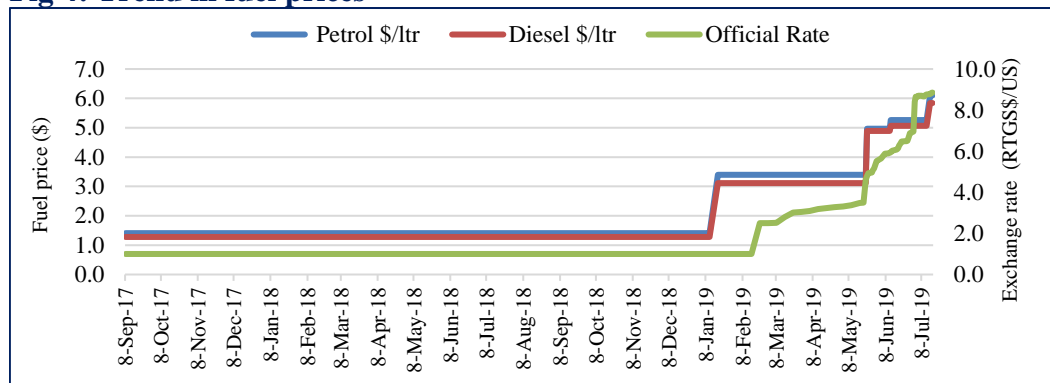
Going forward, it is hoped that policymakers will significantly improve the operating environment in an effort to lower the cost of doing business for gold producers. In fact, supply-related issues such as undisrupted availability and affordability of energy requirements and technology transfer, are key enablers in the gold subsector.

...artisanal miners contributed 61% of the total cumulative output in 2019...

### Energy sector - Removal of fuel subsidy...

The Reserve Bank of Zimbabwe “RBZ” announced the removal of fuel subsidy to oil marketing companies “OMCs”. In fact, the RBZ stated that “there shall be only one foreign exchange rate to be used in the importation of all goods and services thereby minimising arbitrage opportunities.” **Fig 4** below outlines the fuel price trend juxtaposed to the official interbank rate since Sept 2017.

**Fig 4: Trend in fuel prices**



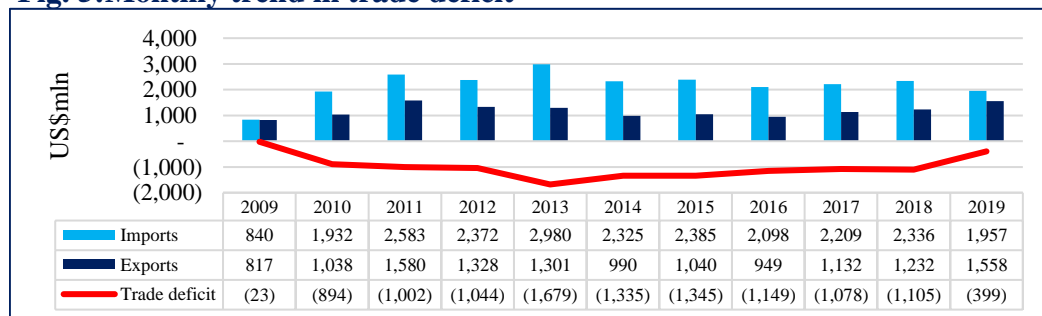
Source: Various

In the short term, measures aimed at stabilising the exchange rate remain essential as regular fuel price increases will significantly have a serious pass-through effect on inflation, production and aggregate demand.

### External sector – Contraction in trade deficit ...

The country’s cumulative trade deficit between Jan and May 2019 fell by 63.9% to US\$399 million compared to US\$1,105 million in 2018. A relatively higher growth in exports (+27%) against that on imports (-16%), led to the contraction in the trade deficit. On the export front, major increases emanated from nickel (+44%), tobacco (+59%), other articles of precious metals (+24,998%), diamonds (+88%) and cane sugar (+883%). Meanwhile, except for fuel, medicaments and automobiles, most key imports recorded declines led by electricity (-76%), rice (-78%) and fertilisers (-64%). **Fig.5** below outlines the cumulative Jan-May trend in trade balance since 2009.

**Fig. 5: Monthly trend in trade deficit**



Source: ZimStat

The improvement in trade deficit from a peak of US\$1.7b in 2013 is commendable largely sustained by a combination of export promotion and import management policies. In the short term, Government need to step up efforts towards growing export earnings by lowering cost of doing business for exporters through tax concessions, availability of foreign currency for critical raw materials, long term credit facilities as well as expediting value-addition initiatives.

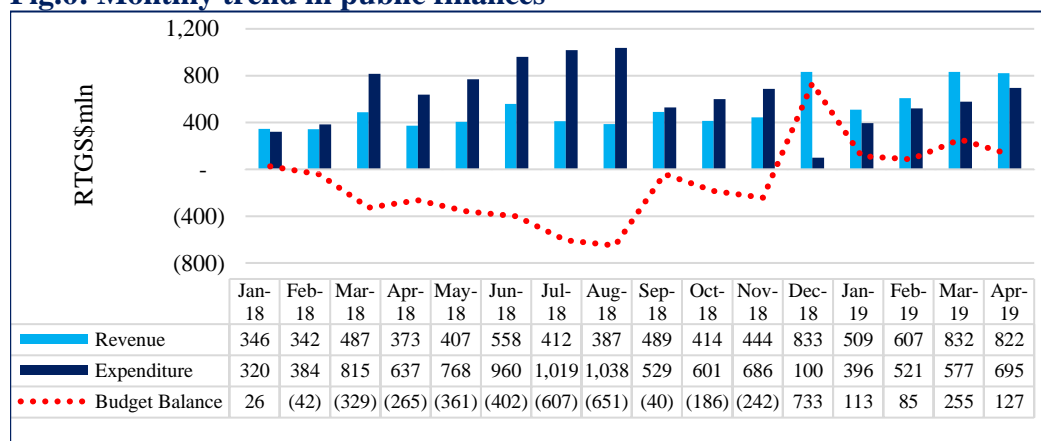
...Fuel subsidy removed to minimize arbitrage opportunities...

...cumulative trade deficit fell by 64% to \$399m between Jan and May 2019...

### Fiscal Sector Developments - Gvt remains cash positive...

According to the Ministry of Finance and Economic Development “MoFED”, Government registered a surplus of \$127m in Apr 2019, compared to \$255m in Mar 2019 (Apr 2018: -\$265m). The low government surplus was due to a faster growth in expenditure (+21%) against a relatively flat revenue base. On a cumulative basis (Jan to Apr), government finances improved from a \$610m deficit in 2018 to a \$580m surplus in 2019. **Fig 6** below outlines the monthly trends in public finances since Jan 2018.

**Fig.6: Monthly trend in public finances**



**MoFED**

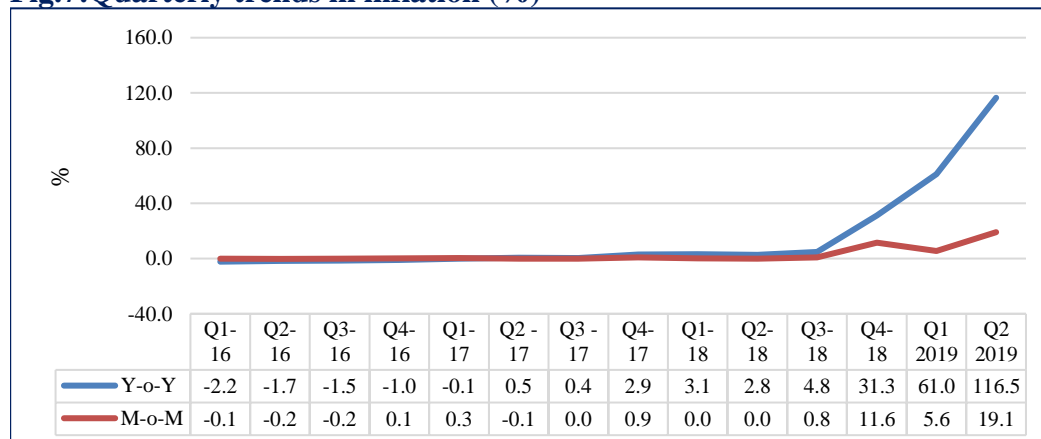
Going forward, it is imperative that the Government commits more funds towards developmental projects, as this will have a crowd-in effect on the private sector.

### Monetary Sector Developments

#### Inflation driven by rising FX premiums...

The year-on-year rate of inflation, as measured by changes in the all items consumer price index, maintained an upward trend rising from 75.9% in Apr 2019 to 175.7% in June 2019. Likewise, the quarterly average inflation rate rose from 61.0% in Q1 2019 to 116.5% in Q2 2019. On the other hand, the monthly inflation rate increased from 5.5% in Apr 2019 to 39.3% in June 2019, whilst the quarterly average m/m inflation rate rose from 5.6% in Q1 2019 to 19.1% in Q2 2019. The surge in the inflation rates reflected the rapid depreciation of the Zimbabwe dollar on the foreign currency markets, amid price indexation by most economic agents. **Fig.7** below illustrates the quarterly inflation trends since 2015.

**Fig.7: Quarterly trends in inflation (%)**



Source: ZimStat

...cumulative Gvt surplus of \$580m registered between Jan and Apr 2019...

....Annual inflation soared to 175.7% in June 2019...



In-spite of the recent stability in the official and parallel market exchange rates and some nascent stability in prices of goods and services – following promulgation of SI 142 of 2019, the recent 19% hike in fuel prices, upward adjustments in interest rates by banks, entrenched adverse expectations (reflected through rampant price indexation), and potential upward review of utilities' charges, largely point to sustained inflationary pressures going forward.

### Shift to a mono-currency regime...

Government through MoFED and RBZ introduced Statutory Instrument 142 of 2019, which promulgated Zimbabwe dollar as the sole legal tender. **Table 3** below highlights the key measures that were subsequently announced by both the fiscal and monetary authorities.

**Table 3 : Major currency reform highlights**

Policy Area	Highlights
Introduction of Zimbabwe dollar as sole legal tender	The Minister of Finance declared the Zimbabwe dollar - comprising of, and at par with, the RTGS\$, Bond Notes and Bond Coins - as the sole legal tender.
Transfer of legacy debts	The RBZ advised banks to transfer, to the central bank, counterparty funds for the foreign currency historical and legacy debts that Government is assuming, through the RBZ, at a rate of 1:1.
Removal of limits on FX market	The central bank removed the daily limit of USD10,000 for Bureau De Change. It also abolished the 5.0% spread (2.5% margin) on foreign currency trades.
Disposal of shares	Introduction of a 90-day vesting period on dual listed shares.
Interest rates	Upward review of overnight accommodation rate from 15% to 50%.
Letters of credit	The central bank put in place letters of credit amounting to US\$330 million for the purposes of importation of essential commodities

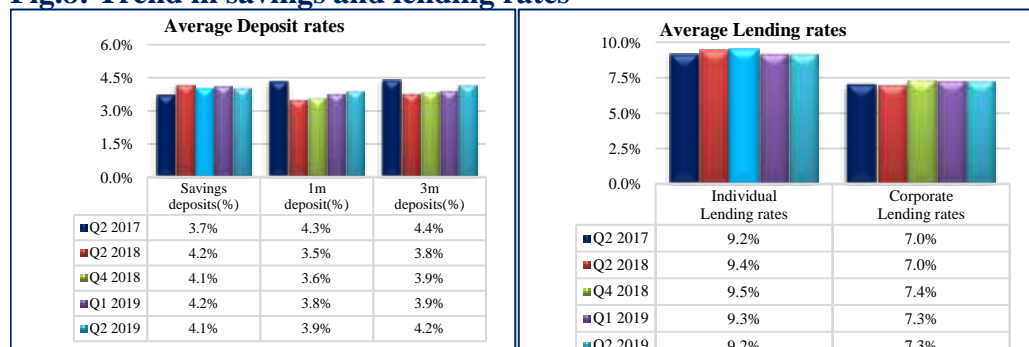
...Gvt introduces Zimbabwe dollar as the sole legal tender...

The medium to long term prospects of the Zimbabwe dollar largely depend on the authorities' ability to (re)build confidence through stabilising the exchange rate, fostering policy predictability and consistency, stabilising prices and reducing the inflation rate.

### Average lending rates unchanged in Q2...

Average deposit and lending rates remained largely unchanged between Q1 2019 and Q2 2019 - **Fig 8** below.

**Fig.8: Trend in savings and lending rates**



Source: RBZ

...average lending rates remained flat...

Going forward, the recent RBZ measures (transfer of legacy debt and overnight accommodation rate) are expected to culminate in a tightening of money market liquidity and thus an increase in interest rates. Nevertheless, it is imperative that the authorities, in the forthcoming Mid-Term Monetary Policy Review, avoid embarking on quantitative easing as the economy's productive base is clearly not yet ready for the surge in demand that will accompany growth in money supply.

**Table 4: ZSE Performance**

Domestic	31-Mar-19	30-Jun-19	Q2 Change(%)
All Share Index	121.7	204.8	68.3%
Top-Ten Index	114.6	197.2	72.1%
Market Cap (US\$bn)	16.08	27.02	68.0%
Turnover (US\$m)	476.93	546.50	14.6%

Source: ZSE

*...the All-Share Index advanced by 68.3% in Q1 2019...*

## FINANCIAL MARKETS REVIEW

### 1. Self-correction on equities...

On the Zimbabwe Stock Exchange “ZSE”, the All Share Index advanced by 68.3% to end the second quarter at 204.8 (-17% - Q1 2019) - **Table 4** across. The movement largely reflects repricing of stocks and hedging strategy by investors in response to the currency reform changes. **Table 5** below illustrates the Top 5 movers and shakers between Q1 2019 and Q2 2019.

**Table 5: ZSE Movers and Shakers**

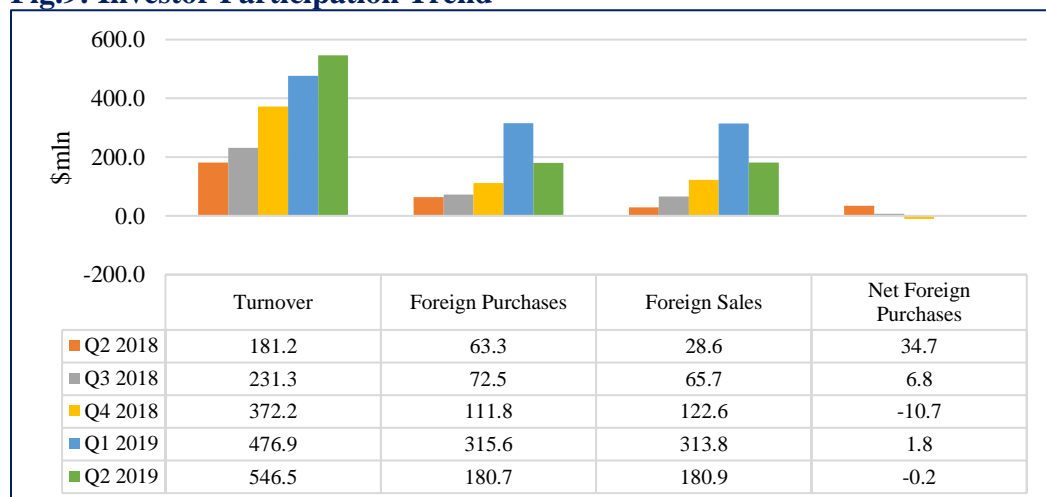
Movers				Shakers			
Counter	31-Mar-19	30-Jun-19	Q1 Change	Counter	31-Mar-19	30-Jun-19	Q1 Change
Medtech	0.09	0.40	344.4%	Fidelity	8.80	7.04	-20.0%
CBZH	16.50	55.00	233.3%	Zimpapers	8.70	8.00	-8.0%
RTG	2.42	7.50	209.9%	FML Prop	5.92	5.52	-6.8%
African Sun	15.00	46.00	206.7%	NTS	2.16	2.09	-3.2%
OK Zim	20.25	50.00	146.9%				

Source: ZSE

Meanwhile, the ZSE market capitalisation increased by 68% to RTGS\$27.0 billion as at the end of Q2 2019. In fact, all Top-Ten counters recorded gains in market capitalisation ranging from 25% to 150%, whilst market breadth comprised of 49 movers, 4 losers and 8 stocks that traded unchanged.

The market turnover improved by 14.6% from \$476.9 million in Q1 2019 to \$546.5 million in Q2 2019 driven by local investors. Offshore investors were net sellers at \$0.2m in Q2 2019 against a net buying position of \$1.8m in Q1 2019 - **Fig.9** below.

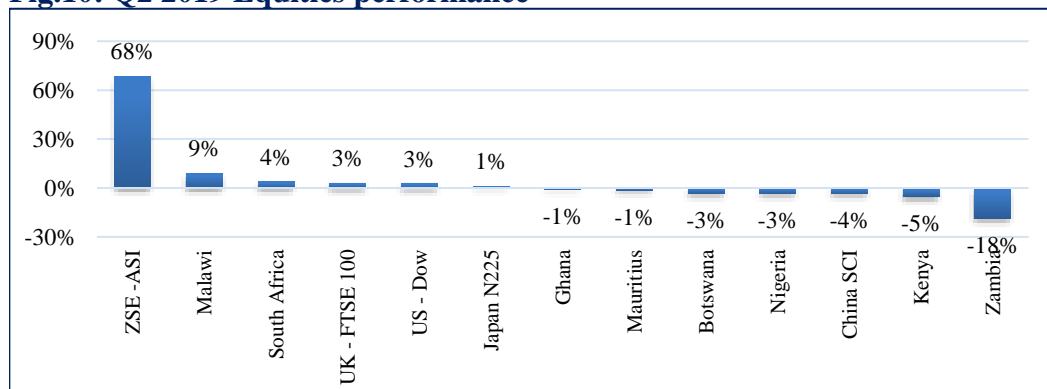
**Fig.9: Investor Participation Trend**



Source: ZSE

Meanwhile, mixed trading was registered across major regional and global markets characterised by high volatility due to slow progress on the US and China trade talks. The domestic market (ZSE) was the best performing market (+68.3%) followed by Malawi and South Africa. A shift towards accommodative monetary policy supported markets in the US, UK and Japan. On the other hand, the worst performing market was Zambia dragged by rising economic headwinds that saw its sovereign credit rating downgraded to junk status by the Fitch Ratings.

**Fig.10: Q2 2019 Equities performance**



Source: Various

**Table 6: Quarterly commodities performance**

Commodities	31-Mar-19	30-Jun-19	Q2 Change(%)
<b>Metals</b>			
Gold - US\$/oz	1,295.15	1,409.00	8.8%
Platinum - US\$/oz	850.00	820.00	-3.5%
Copper - US\$/t	6,482.50	5,993.00	-7.6%
Nickel - US\$/t	13,010.00	12,660.00	-2.7%
Oil - US\$/b	68.39	66.55	-2.7%
<b>Agricultural</b>			
Wheat - US\$/t	168.75	193.64	14.8%
Soybeans - US\$/t	336.02	330.60	-1.6%
Sugar - US\$/pound	12.53	12.32	-1.7%
Cotton - US\$/pound	77.61	63.15	-18.6%

Source: Various

**Table 7: Quarterly' currencies performance**

Currencies	31-Mar-19	30-Jun-19	Q2 Change (%)
USD/RTGS	3.04	6.88	125.8%
USD/ZAR	14.51	14.13	-2.6%
USD/BWP	10.58	10.49	-0.8%
USD/ZMK	12.13	12.85	5.9%
USD/NGN	359.01	358.09	-0.3%
USD/GBP	0.77	0.79	2.8%
USD/EUR	0.89	0.88	-1.3%
USD/JPY	110.77	107.74	-2.7%
USD/CNY	6.72	6.87	2.3%
Dollar Index - DXY	97.24	96.13	-1.1%

Source: Oanda

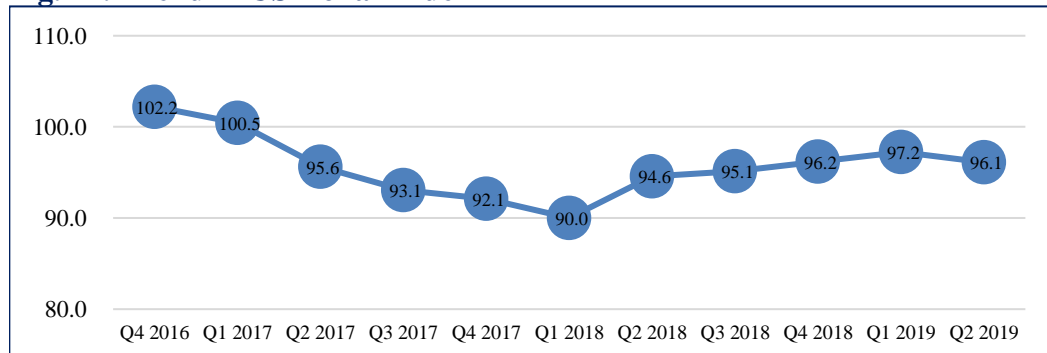
## 2. Commodities Markets: Restrained performance dragged by US/China trade war ...

With the exception of wheat and gold, most major commodities recorded losses in Q2 2019. In fact, the escalation of protectionist policies weighed in heavily on commodities with cotton prices declining by 18.6% to US\$63.2/pound. Oil prices fell by 2.7% to \$66.6/b on heightened concerns over the global economic growth. On the upside, gold advanced by 8.8% to \$1,409/oz lifted by renewed safe haven demand – **Table 6** across. Going forward, anticipated supply cuts by Opec members and heightened geopolitical risks are expected to lead a recovery in oil prices, whilst safe-haven demand emerging from global growth concerns and political uncertainty related to Brexit is projected to support gold bulls. On the other hand, high volatility is expected for base metals and soft commodities in line with ongoing trade talks between the US and China.

## 3. Currencies Markets: soft US dollar in Q2 2019...

On the local FX market, the official rate weakened by 125.8% to RTGS\$6.88/US as monetary authorities fine-tuned the interbank foreign exchange market – **Table 7** across. In the short term, gradual stability on the local currency market is expected sustained by improved trades and credit line support from the RBZ. On the international FX front, the US dollar traded weaker on expectations of an interest rate cut by the US Federal Reserve in response to sluggish growth and uninspiring jobs data in Q2 2019. As a result, the dollar index fell by 1.1% to 96.1 in Q2 2019 – **Fig 11** below.

**Fig. 11: Trend in US Dollar Index**



Source: Various

Elsewhere, most emerging market currencies benefitted from risk-on sentiment given the relatively higher yields. In fact, the South African rand and Botswana pula strengthened by 2.6% and 0.8% to ZAR14.1 and BWP10.5, respectively. In the short term, the anticipated Fed dovish stance will most likely culminate to a softer US dollar.



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