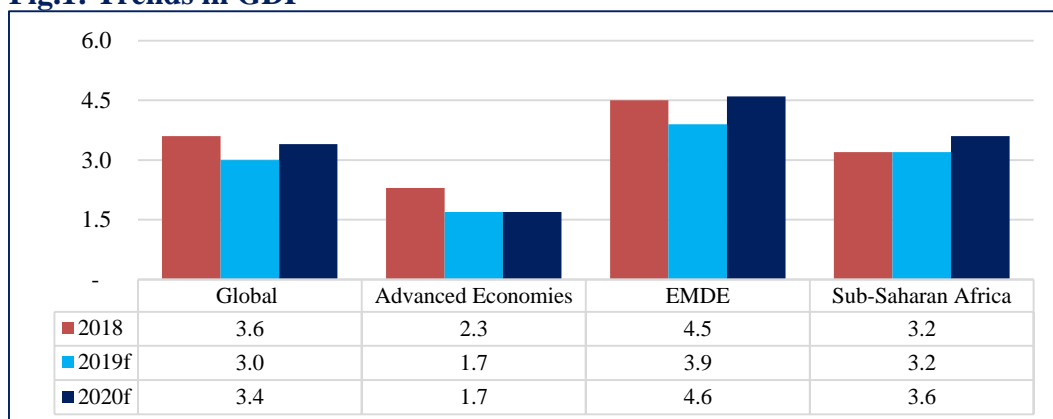


### GLOBAL AND REGIONAL ECONOMY

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

The International Monetary Fund “IMF”, in its September 2019 World Economic Outlook, further lowered the global growth forecasts to 3.0% and 3.4% for 2019 and 2020, respectively, from the initial forecasts of 3.3% and 3.6%. According to the IMF, the downgrades were necessitated by the rising trade barriers and increasing geopolitical tensions. In fact, the US-China trade tension is estimated to cumulatively reduce the level of global GDP by 0.8% by 2020. Both Advanced Economies and Emerging Market and Developing Economies “EMDEs” were downgraded by 0.1 percentage points “pp” and 0.5 pp to 1.7% and 4.6%, respectively for 2019 – **Fig 1** below. The anticipated slow growth in Nigeria and South Africa subsequently led to the downgrade of Sub Saharan Africa’s “SSA” growth for both 2019 and 2020. However, the region is still expected to register buoyant activity in 2020.

**Fig.1: Trends in GDP**



Source: IMF

Going forward, the IMF urged policymakers to undo the trade barriers, rein in geopolitical tensions and reduce domestic policy uncertainty. In addition, it also highlighted the increasing need for countries to uphold multilateralism as “it remains the only solution to tackling major issues such as risks from climate change, cybersecurity risks, tax avoidance and tax evasion, and the opportunities and challenges of emerging financial technologies.”

#### Africa –South Africa in biggest ever Eurobond Sale...

South Africa “SA” raised US\$5b from a Eurobond sale to fund its 2019/20 foreign currency commitments. According to the SA National Treasury, US\$2b was raised from 10-year notes with a 4.85% yield and US\$3b from 30-year notes at 5.75%. Citi, Deutsche Bank/Nedbank consortium, Rand Merchant Bank and Standard Bank were joint book runners on the deal. The transaction was 2.71x oversubscribed with investor demand across Europe, North America, Asia, South America, Middle East and Africa. Meanwhile, according to Capital Markets Authority “CMA”, Kenya approved issuance of its first-ever green bond to raise c.US\$48.5 million for “climate-resilient” student accommodation. The initiative by CMA is expected to go a long way in enhancing green capital markets in Africa, thus, supporting issuances done by other nations i.e. South Africa, Morocco, Nigeria and Namibia. Overall, pockets of value still exists for global investors within SSA given the relatively higher yields against those prevailing in advanced economies.

*... IMF envisages 2019 growth of 3%, the slowest pace since the global financial crisis...*

*... policymakers urged to undo trade barriers and promote multilateralism...*

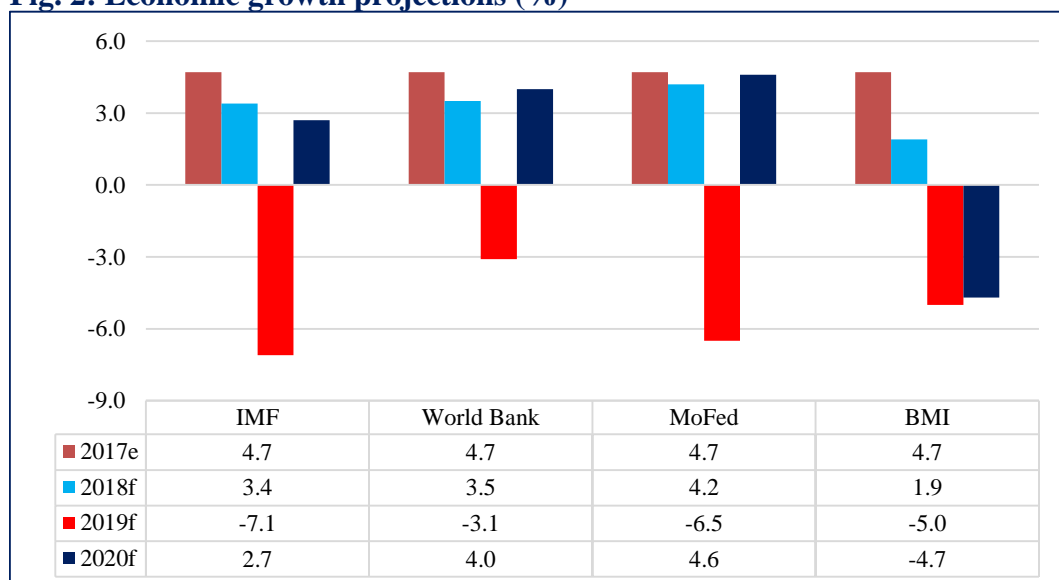
*South Africa raised US\$5b in Eurobonds as Kenya issues first-ever green bond...*

### DOMESTIC ECONOMY

#### IMF & BMI downgrade 2019 projections...

The Ministry of Finance, in its 2020 Pre-Budget Strategy Paper, further lowered the 2019 growth forecast from -2.1% to a range of -3% to -6.5% citing the adverse impact of climate change through drought, cyclone idai and pass-through effects on most sectors due to low electricity generation. Likewise, the IMF and BMI also lowered their 2019 projections as outlined in **Fig 2** below.

**Fig. 2: Economic growth projections (%)**



Source: World Bank, IMF & MoFED

Going forward, reform efforts are expected to continue to be constrained by the absence of balance of payments and budgetary support which are necessary for stabilisation of the exchange rate and prices, and ultimately the macro-economic environment. As such, it remains imperative for the authorities to speed up the reforms that will unlock broad-based growth.

### Real Sector Developments

#### Agriculture - Govt lifts grain import ban...

The Government lifted the ban on private grain sales, and granted the nod for individuals and corporates with free funds to import quantities of their choice. Accordingly, individuals and corporates only needed to approach the Agricultural Marketing Authority “AMA” for the necessary licences before importing. Prior to the removal of the ban, Government through Statutory Instrument 145 of 2019 had barred private importation of maize. Meanwhile, the producer prices for maize and small grains were increased to \$1,400/ tonne “t” in Oct 2019 from \$726/t in Apr 2019 in line with the US\$242/t import parity price. Wheat prices also increased to \$8,612/t from \$1,090/t, over the same period. The government’s decision to allow private players remains commendable as a short-term relief measure in light of the anticipated maize deficit of c.800,000t.

... IMF and BMI forecast 2019 recession of 7.1% and 5.0%, respectively...

... Authorities urged to speed up the reforms that will unlock broad-based growth...

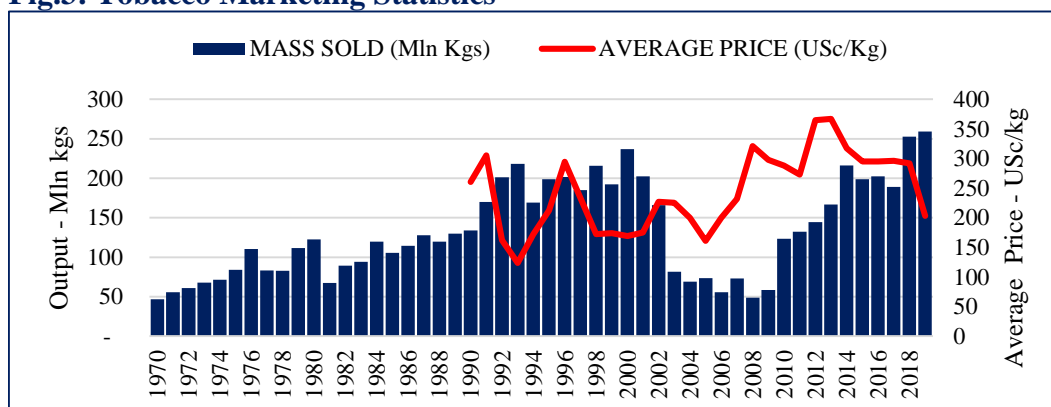
... Gvt lifts grain import ban to boost national grain reserves...

### Another record output in tobacco...

According to the Tobacco Industry and Marketing Board "TIMB", cumulative tobacco sales for the 2019 marketing season show that total volume increased by 2.7% to 259.4 million kg compared to the 2018 levels. However, value traded fell by 28.6% to US\$526.7m due to subdued average prices. In fact, the average price fell by 30.5% to US\$2.03/kg compared to US\$2.92/kg recorded in the prior season.

**Fig.3** below outlines the annual trends in output and average prices since 1970.

**Fig.3: Tobacco Marketing Statistics**



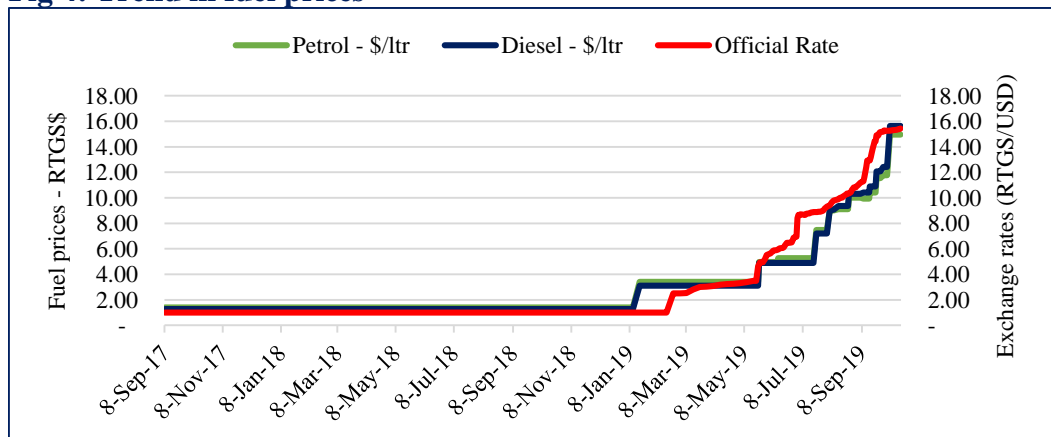
Source: TIMB

Despite the poor rainfall, low prices and rising cost of inputs, the sub-sector reached another record output for the second consecutive year. Productivity can be enhanced through increasing investment in irrigation facilities and ensuring proper farming methods by the various small-scale farmers.

### Energy sector - Gvt adopts cost-reflective pricing model...

During the period under review, Government adopted a cost-reflective pricing model for fuel and electricity. This measure was meant to provide short-term relief to the relevant players in line with upward inflationary pressures. Tariff increases were registered in Aug 2019 and Oct 2019 to an average of 162.16c per kilowatt hour "kwh" from a 9.86c/kwh on electricity. However, whilst these measures are meant to eliminate uneconomic subsidies, they are expected to result in short term inflationary pressures. **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

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

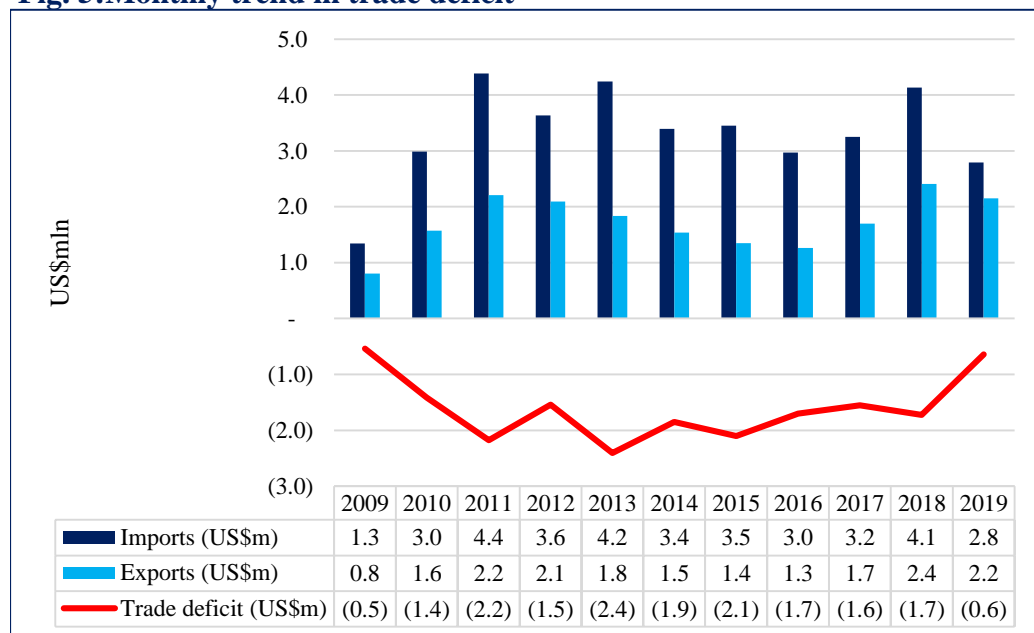
...Gvt adopted a cost-reflective pricing model for fuel and electricity...

Going forward, measures aimed at stabilising the exchange rate remain essential as part of efforts to stabilise prices given the widespread indexation of goods and services' prices.

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

The cumulative trade deficit for the period Feb to Aug 2019 fell by 62.7% to US\$644 million compared to US\$1,726 million in 2018. A relatively larger reduction in imports (-32%) against that on exports (-11%), led to the contraction in the trade deficit. In fact, with the exception of other medicaments, road tractors, photosensitive semi-conductor devices and crushing/grinding machines, all the other top-20 imports recorded declines on a cumulative basis between Feb 2019 and Aug 2019 compared to the comparative period of 2018. The decline was due to a combination of the ongoing import management policy by the authorities as well as the prevailing foreign currency shortages. On the other hand, lower proceeds in gold, tobacco, ferro-chromium and chromium ores and concentrates dragged export earnings. **Fig.5** below outlines the cumulative Feb-Aug trend in trade balance since 2009.

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



Source: ZimStat

Whilst the reduction in the trade deficit is commendable from a foreign currency management perspective, it remains imperative for the authorities to implement measures that enhance the country's export production capacity.

*...cumulative trade deficit fell by 63% to \$644m between Feb and Aug 2019...*

**Table 1: TB Auction results - cumulative**

No. of Issues to date	5
Amount on offer -cumulative (\$m)	640.0
Tenor - days	91-365
Highest rate (%)	50%
Lowest Rate (%)	12%
Average Rate	15%
Amount allotted - cumulative (\$m)	324.0
Total Bids - cumulative (\$m)	825.8
Subscription rate (x)	1.29

Source:RBZ

....monthly inflation fell to 18.9% in Q3 2019...

### Fiscal Sector Developments – Surge in Q3 revenue collections...

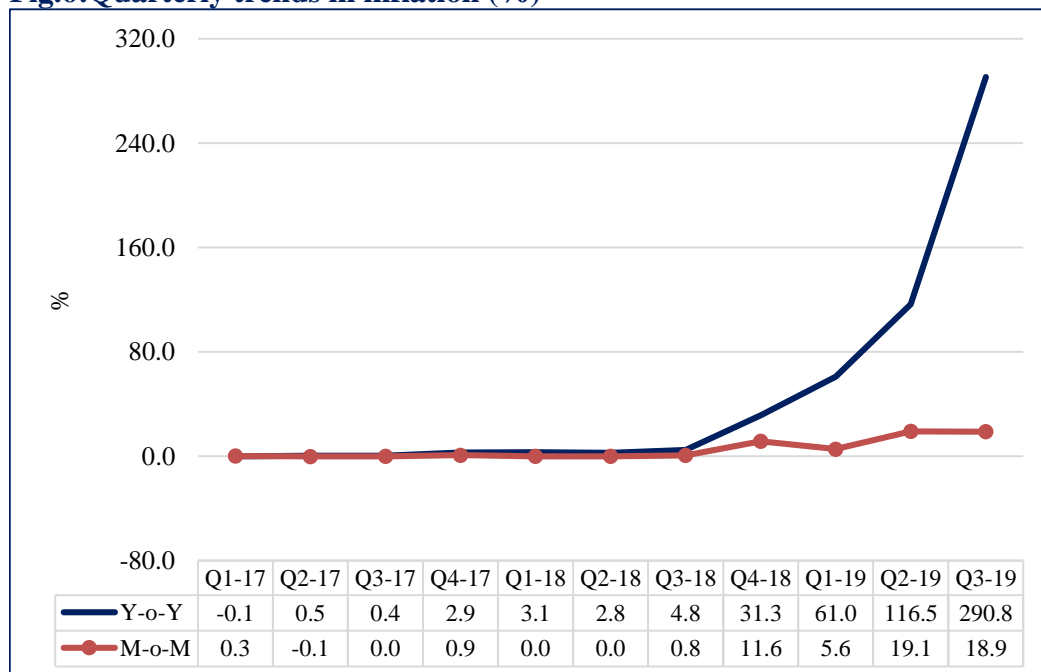
According to the Zimbabwe Revenue Authority “ZIMRA”, net revenue collections grew by 439% from \$1.19 billion in Q3 2018 to \$6.42 billion in Q3 2019. Zimra attributed the performance to both inflation and voluntary compliance and enforcement strategies. With the exception of carbon tax and withholding tax on contracts, all other revenue heads recorded increases ranging from 318% to 513%. Meanwhile, a cumulative \$325 million - **Table 1** across - was raised through five Treasury Bills “TB” auctions meant to fund government programmes and restraining money supply growth.

### Monetary Sector Developments

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

The month-on-month rate of inflation, as measured by changes in the all items consumer price index, fell from 21.0% in July 2019 to 17.7% in Sept 2019. Likewise, the quarterly average inflation rate slightly fell from 19.1% in Q2 2019 to 18.9% in Q3 2019. The major inflation driver was the continued depreciation of the Zimbabwe dollar on the foreign currency markets, increases in fuel prices and upward review in utilities charges. **Fig.6** below illustrates the quarterly inflation trends since 2017.

**Fig.6:Quarterly trends in inflation (%)**



Source: ZimStat

Inflationary pressures are expected to remain elevated going into the last quarter of the year. The outturn for 2020 will depend on the authorities ability to control money supply growth and stabilize the exchange rate.

### Transition to normalcy...

The Reserve Bank of Zimbabwe “RBZ” presented the 2019 mid-term Monetary Policy Statement under the theme “Transition to Normalcy”. **Table 2** below highlights the key measures that were introduced by the authorities.

**Table 2 : 2019 Mid-term Monetary Policy highlights**

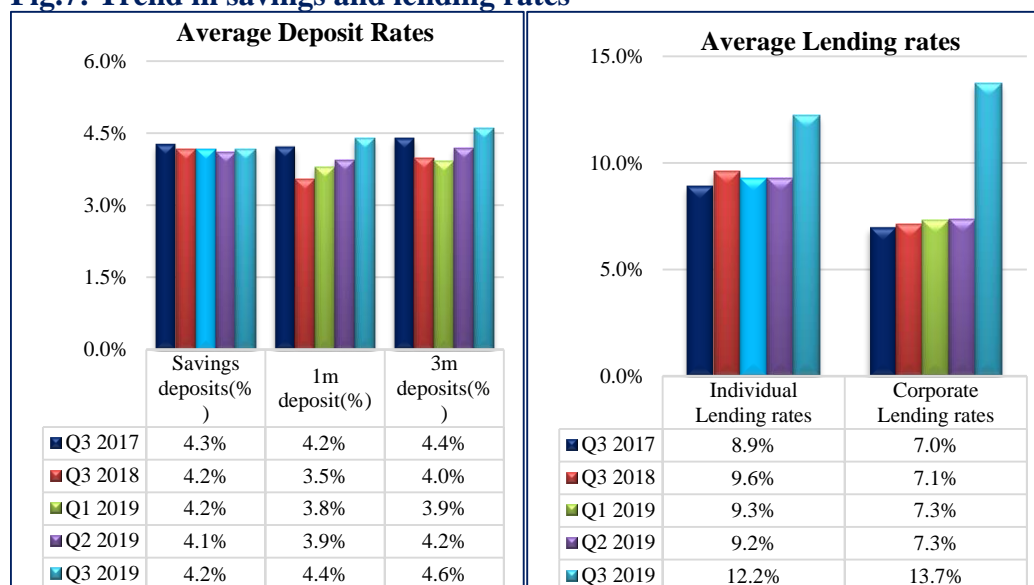
Policy Measure	Highlights
USD Savings Bond	The RBZ introduced a USD-denominated Savings Bond at an interest rate of 7.5% p.a, minimum tenure of 1 year, tax exemption and liquid asset status.
Liquidity Management	RBZ to use Open Market Operations to manage excess liquidity from the market
Cash injection	Injection of bond notes on a gradual basis and against bank’s RTGS balances. This translates to an estimate of \$1.3b to \$1.9b in order to raise cash in circulation from 4% to historical and regional ratios of 10-15%.
Credit Enhancing Policies	Banks with loan maturities of at least 3-5yrs of at least 25% of total loans will use them as collateral for borrowing from RBZ.
Capitalisation of Banks	All Tier 1 banks expected to hold core capital of at least \$200m by 2020.
Interest Rates	Interest rate on ZWL Savings Bond to be reviewed to consider developments on the domestic Treasury Bills market. The bank rate was also increased from 50% to 70%

...RBZ introduces USD Savings Bond...

### Average lending rates rise in Q3...

Average deposit rates slightly increased, whilst a notable increase on average lending rates was recorded, in Q3 2019, in line with the surge in the RBZ overnight borrowing rates from 50 % to 70% - **Fig 7** below.

**Fig.7: Trend in savings and lending rates**



Source: RBZ

...average lending rates rose in line with the surge in the RBZ overnight accommodation rate...



**Table 3: ZSE Performance**

Domestic	30-Jun-19	30-Sep-19	Q3 Change(%)
All Share Index	204.8	232.5	13.6%
Top-Ten Index	197.2	218.1	10.6%
Market Cap (US\$bn)	27.02	30.53	13.0%
Turnover (US\$m)	546.50	466.67	-14.6%

Source: ZSE

...the All-Share Index advanced by 13.6% in Q3 2019...

## FINANCIAL MARKETS REVIEW

### 1. Upward trend in equities...

On the Zimbabwe Stock Exchange “ZSE”, the All Share Index advanced by 13.6% to end the third quarter at 232.5 (+68.3% - Q2 2019) - **Table 3** across. This was driven by continued portfolio management with investors preferring equities ahead of fixed income assets, for hedging purposes. **Table 4** below illustrates the Top 5 movers and shakers between Q2 2019 and Q3 2019.

**Table 4: ZSE Movers and Shakers**

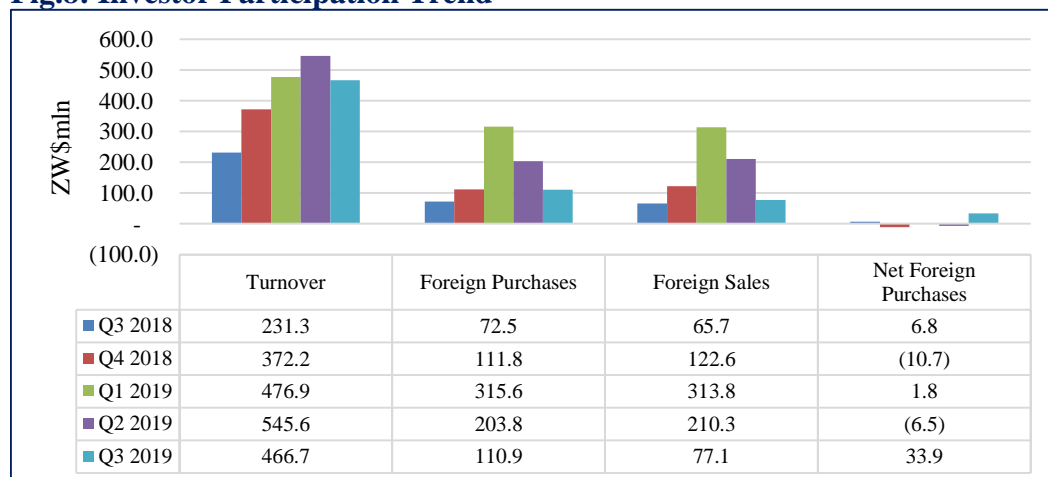
Movers				Shakers			
Counter	30-Jun-19	30-Sep-19	Q3 Change	Counter	30-Jun-19	30-Sep-19	Q3 Change
PPC	160.00	424.75	165.5%	Edgars	24.00	18.25	-24.0%
DZLH	16.00	37.25	132.8%	Truworths	2.41	2.02	-16.2%
Barc	6.40	11.95	86.7%	Cassava	197.64	170.94	-13.5%
Proplastics	38.00	70.00	84.2%	Afdis	180.00	165.00	-8.3%
Old Mut	1375.00	2501.43	81.9%	RioZim	235.00	218.00	-7.2%

Source: ZSE

Meanwhile, the ZSE market capitalisation increased by 13% to RTGS\$30.5 billion as at the end of Q3 2019. In fact, with the exception of Cassava, all the Top-Ten counters recorded gains in market capitalisation ranging from 1.4% to 81.9%, whilst market breadth comprised of 46 movers, 7 losers and 8 stocks that traded unchanged.

The market turnover declined by 14.6% from \$546.5 million in Q2 2019 to \$466.7 million in Q3 2019 due to reduced participation by local investors. Offshore investors were net buyers at \$33.9m in Q3 2019 against a net selling position of \$6.5m in Q2 2019 - **Fig.8** below.

**Fig.8: Investor Participation Trend**

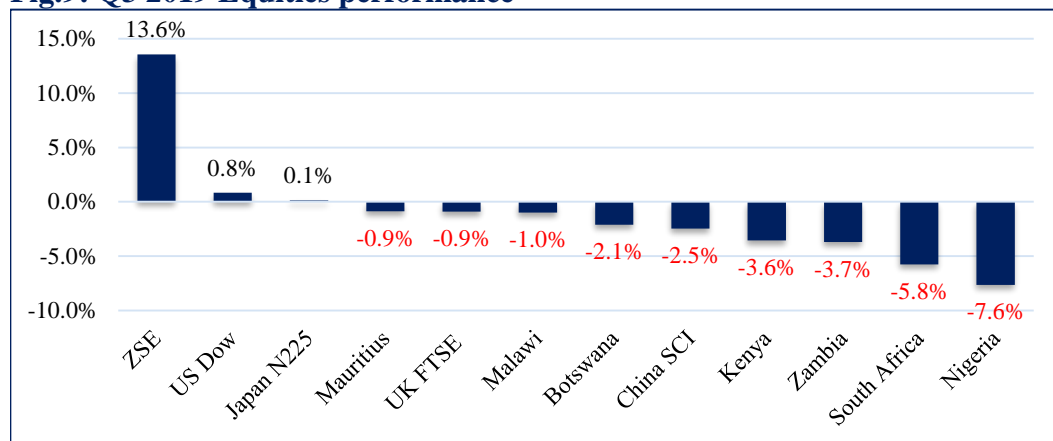


Source: ZSE

Meanwhile, most regional and global markets struggled in Q3 2019 due to rising global growth concerns and the ongoing US-China trade dispute – **Fig 9**. Only 3 markets under our radar recorded gains, led by the domestic market (ZSE) then distantly followed by the US (+0.8%) and Japan (+0.1%). The US market was sustained by the accommodative monetary policy stance by the Federal Reserve that saw the benchmark policy rate lowered twice in July 2019 and Sept 2019.

.... turnover declined by 14.6% to \$466.7 mln in Q3 2019...

**Fig.9: Q3 2019 Equities performance**



Source: Various

**Table 5: Quarterly commodities performance**

Commodities	30-Jun-19	30-Sep-19	Q3 Change(%)
<b>Metals</b>			
Gold - US\$/oz	1,409.00	1,495.90	6.2%
Platinum - US\$/oz	820.00	934.00	13.9%
Copper - US\$/t	5,993.00	5,767.00	-3.8%
Nickel - US\$/t	12,660.00	17,405.00	37.5%
Oil - US\$/b	66.55	61.91	-7.0%
<b>Agricultural</b>			
Wheat - US\$/t	193.64	178.94	-7.6%
Soybeans - US\$/t	330.60	329.95	-0.2%
Sugar - US\$/pound	12.32	11.53	-6.4%
Cotton - US\$/pound	63.15	59.82	-5.3%

Source: Various

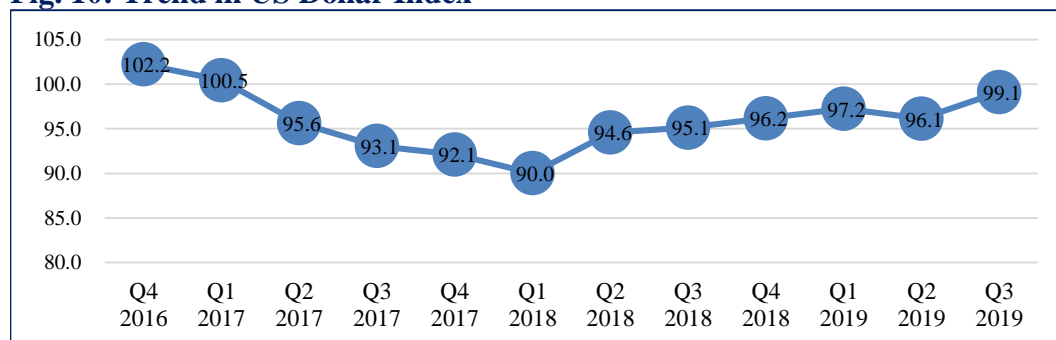
## 2. Commodities Markets: Nickel was the star performer...

With the exception of gold, platinum and nickel, most major commodities recorded losses in Q3 2019. A relatively strong US dollar and global demand concerns due to rising protectionist policies adversely impacted on commodities. Oil prices fell by 7.0% to US\$61.9/b as demand concerns outweighed supply risks including the attack on oil infrastructure in Saudi Arabia. On the other hand, platinum and gold advanced by 13.9% and 6.2% to US\$934/oz and US\$1496/oz, respectively, due to renewed safe-haven demand. Nickel prices soared by 37.5% to US\$17,405/oz driven by the anticipated global deficit for the commodity – **Table 5** across. In the short term, the escalating US-China trade dispute will most likely result in a bearish outlook for base metals and agricultural commodities, whilst geopolitical tensions and Brexit uncertainties are projected to support gold bulls.

## 3. Currencies Markets: Resilient US dollar...

On the local FX market, the official rate weakened by 54.7% to RTGS\$15.2/US due to continued low market confidence and restrained foreign currency inflows – **Table 6** across. In spite of the introduction of administrative measures and controls on bureau de change operations, short-term exchange rate stability will most likely be undermined by limited FX reserves and the confidence deficit. On the international FX front, the US dollar strengthened riding on its safe-haven status thus offsetting the anticipated impact of the two policy rate cuts implemented in July 2019 and Sept 2019. As a result, the dollar index fell increased by 3.1% to 99.11 in Q3 2019 – **Fig 10** below.

**Fig. 10: Trend in US Dollar Index**



Source: Various

**Table 6: Quarterly' currencies performance**

Currencies	30-Jun-19	30-Sep-19	Q3 Change (%)
USD/RTGS	6.88	15.20	121.0%
USD/ZAR	14.13	15.08	6.8%
USD/BWP	10.49	10.90	3.9%
USD/ZMK	12.85	13.18	2.6%
USD/NGN	358.09	360.34	0.6%
USD/GBP	0.79	0.81	3.1%
USD/EUR	0.88	0.91	4.0%
USD/JPY	107.74	108.89	1.1%
USD/CNY	6.87	7.13	3.7%
Dollar Index - DXY	96.13	99.11	3.1%

Source: Oanda

Elsewhere, risk-off sentiment on most emerging market currencies led to weakness for all the 4 markets under our watch led by the South Africa rand (-6.8%) and Botswana Pula (-3.9%). In the short term, the anticipated Fed dovish stance will most likely culminate to a softer US dollar.



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