**Positive sentiment as a soft landing is expected for the US**

A positive sentiment prevailed on the global markets as investors focused on a soft landing for the US economy. The Federal Reserve in September, lowered its key overnight lending rate by 50bp to a range between 4.75% to 5%. Focus of the Fed has shifted to its full employment target as it has become confident that it will achieve its inflation target. Central banks have continued to cut rates as the economies continue to recover from the impact of Covid. Since June, the European central bank has eased its policy rate twice, with another rate cut being expected before the end of the year.

The Bank of Japan raised its policy rate in July, a move that wasn’t anticipated by markets which led to the dissolution of Yen carry trades. This adversely affected the performance of the Nikkei. Going into the last quarter of the year, focus will be on the US election.

On the currency front, major currencies appreciated against the US$. The Yen appreciated 12.90% following the hike of the policy rate by the Bank of Japan. Notably, this was the best quarter for the Yen since the financial crash in 2008. The Rand appreciated 7.24% as the country has resolved its political issues following the 2024 election which resulted in the formation of a unity government. The appreciation has also been bolstered by improving GDP, transport infrastructure and stable electricity supply. The Pound rose 5.80% on the back of rate cuts by the Bank of England and inflation continuing to fall.

Gold continued to rally, registering a gain of 17.89% in the three months under review. Demand for gold has continued to rise as central banks are diversifying from the US$. Recent data from the IMF highlights an ongoing gradual decline in the dollar’s share of allocated foreign reserves of central banks and governments.

Oil prices declined 13.52% due to weak demand from major markets like China were credit growth has slowed down and consumer confidence is at low levels. Ongoing wars in Europe and the Middle East may result in a surge in energy prices. However, weak demand is likely to keep them below any level that would cause challenges for the global economy. Nickel prices were 14.80% as demand continued to outstrip supply.

**Global markets performance**

|  |  |  |  |
| --- | --- | --- | --- |
| **Index** | **June** | **September** | **Quarterly change** |
| DJIA |  39,118.86  |  42,313.00  | 8.17% |
| S&P 500 |  5,640.48  |  5,738.17  | 1.73% |
| Nasdaq |  17,732.60  |  18,189.17  | 2.57% |
| Nikkei  |  39,583.08  |  37,980.34  | -4.05% |
| FTSE 100 |  8,164.12  |  8,236.95  | 0.89% |

**Source: Online Sources**

**Currency Performance**

|  |  |  |  |
| --- | --- | --- | --- |
| **Currency**  | **June** | **September** | **Quarterly change** |
| USD/EUR | 0.93455 | 0.89559 | 4.35% |
| USD/GBP | 0.79102 | 0.74769 | 5.80% |
| USD/JPY | 160.564 | 142.216 | 12.90% |
| USD/ZAR | 18.3421 | 17.1039 | 7.24% |

**Source: Oanda**

Yen Quarterly Performance



**Source: Reuters, LSEG**

**Commodities**

|  |  |  |  |
| --- | --- | --- | --- |
| **Commodity** | **June** | **September** | **Quarterly change** |
| Gold |  2,235.41  |  2,635.23  | 17.89% |
| Oil |  83.00  |  71.78  | -13.52% |
| Nickel |  19,960.00  |  17,005.00  | -14.80% |
| Silver |  29.14  |  31.22  | 7.14% |
| Platinum |  1,001.90  |  992.00  | -0.99% |

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**Exchange Rate Trajectory**



**Source: RBZ and Smartvest**

**Inflation Trend**



**Source: RBZ**

**MPC refines again framework**

Recently, the Monetary Policy Committee made the following resolutions;

* To increase the Bank Policy rate from 20% to 35% with immediate effect. *The increase in the policy increase the cost of borrowing to business, a measure which may limit access to capital for businesses. This also poses increased risk of non-performing loans to the banking sector.*
* To increase and standardize the statutory reserves for demand and call deposits for both local and foreign currency deposits from 15% and 20%, respectively to 30%. The statutory reserve requirements for savings and time deposits for both local and foreign currency have also been increased from 5% to 15%, with immediate effect. *This measure reduces the lending capacity for banks adversely affecting economic growth.*
* To allow greater exchange rate flexibility, in line with the increased demand for foreign currency in the economy. *Market forces will now determine the exchange rate a move which may allow price discovery. However, if the economic conditions are not favourable this may lead to huge disparities between the official exchange rate and the black-market rate.*
* To reduce the amount of foreign exchange an individual can take out of the country from US$10,000 to US$2,000. *The policy measure will try to increase use of formal banking facilities for external transaction limiting externalisation of cash.*

**General Comment**

The macroeconomic environment has remained uncertain as the ongoing volatility of the ZWG threatens the viability of business particularly retailers. The local currency continued to depreciate on the parallel market and this resulted in the Central bank devaluing the local currency by 42.61% to ZWG 24.3902 at the end of the quarter as the gap between the official and parallel rates had widened significantly. ZWG was devalued despite the rally in gold prices. The depreciation has been mainly driven by increased money supply as well as lack of confidence in the currency. On the parallel market, the local unit is currently trading at a rate between ZWG 30 and 32. Going forward, the RBZ still needs to have solutions for increased liquidity that might come through payment to wheat farmers of funding of inputs for the 2024/25 cropping season. Government again needs to review upwards civil servant salaries to compensate devaluation of the ZIG. Finally, payment of annual bonuses is again another liquidity injection that RBZ will need to deal with

Meanwhile, tobacco exports totalled 144 million kgs according to post cabinet briefings. These were exported at an average price of $5.28/kg. In the 2024/25 summer cropping season the country is expected to receive normal to above normal rainfall.

**Source: ZSE**

The ZSE continued on a bullish trajectory as investors continued to exploit buying opportunities on the market. Demand on the ZSE was mainly driven by increased liquidity in the economy. The central bank in the quarter highlighted that Broad money (M3) stock stood at ZiG42,726.47 million as at the end of June 2024, compared to ZiG41,027.61 million recorded in May 2024. This reflects a monthly growth rate of 4.1% in June 2024, a reduction in growth from 5.9% in May 2024, largely owing to the current tight monetary policy stance. Demand was also driven by the need to hedge against value destruction as the local currency continued to depreciate on the parallel market. During the quarter under review market capitalisation peaked at US$5.44 billion before the local currency was officially devalued by the central bank.

Financial reports by listed companies during the period under review highlighted increased use of the ZWG as formal businesses used the official rate for trading purposes. Volumes reported by different companies were mixed as retailers reported increased volumes due to use of the ZWG whilst companies in the transport sector reported subdued demand on the back of the introduction of the local currency.

The All Share Index surged 89.22% whilst the Top 10 Index rose 91.25%. The Medium Cap Index added 66.31% and the Small Cap Index scratched a gain of 0.02%. A total of 513.32 million shares worth ZWG 736.07 million exchanged hands on the market in 8,727 trades. Offshore investors closed the quarter with a net seller’s position of ZWG 89.35 million. Foreign purchases amounted to ZWG 16.07 million whilst foreign sales totalled ZWG 105.42 million. Turnover for ETFs in the period under review amounted to ZWG 978,231. Meanwhile turnover for REITS in the third quarter amounted to ZWG 69.43 million.

**ZSE remains buoyant**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Indices** | **July**  | **August**  | **September** | **Q3** | **Q2** | **Q1** |
| ZSE All Share | 54.03% | 1.19% | 21.41% | 89.22% | 28.64% | 314.19% |
| ZSE Top 10 | 51.62% | 0.70% | 25.26% | 91.25% | 35.92% | 341.83% |
| ZSE Top 15 | 52.23% | 0.53% | 25.56% | 92.15% | 32.71% | 330.48% |
| Medium Cap | 49.30% | -0.74% | 12.23% | 66.31% | 15.80% | 245.09% |
| Small Cap | 0.75% | -0.72% | 0.00% | 0.02% | 0.09% | 132.24% |
| **Market Cap US$ Bln** | **4.393** | **4.435** | **2.993** | **2.993** | **2.824** | **3.203** |

Source: ZSE and RBZ

\*\*Official rates were used for the market capitalisation

Record production is expected for tobacco in the 2024/25 summer cropping season as tobacco seed sales increased by 45% to 1,252 kgs. As at 20 September 2024, a total of 164,465 mt of grains and oil seeds had been marketed compared to 289,090 mt in the previous. Grain imports are expected to continue until June 2025.

**Mixed Performance on the VFEX**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Counter | July | August | September | Q3 |
| African Sun | -6.86% | -7.89% | 22.29% | 4.90% |
| Axia | 11.80% | 0.00% | -3.78% | 7.58% |
| Bindura | 0.00% | 0.00% | 0.00% | 0.00% |
| Caledonia | -22.22% | 5.00% | 0.00% | -18.33% |
| Edgars | -5.50% | 5.82% | -36.00% | -36.00% |
| FCB | 4.71% | -8.75% | 37.53% | 31.41% |
| Innscor | 1.22% | 1.10% | -0.04% | 2.29% |
| Invictus |   |   | 14.29% | 14.29% |
| Natfoods | 16.67% | 11.43% | -2.56% | 26.67% |
| Nedbank | 0.00% | 0.00% | 9.09% | 9.09% |
| Padenga | -2.83% | 0.12% | 0.00% | -2.71% |
| SeedCo Intl | 8.48% | -25.57% | -3.67% | -22.22% |
| Simbisa | 1.26% | -1.19% | -2.74% | -2.69% |
| West prop | 0.00% | 0.05% | 0.00% | 0.05% |
| Zimplow | 4.74% | 0.50% | -25.50% | -21.58% |

Performance on the VFEX was mixed during the quarter under review. The All Share Index surged 3% to close at 105.63. Turnover on the bourse in the third quarter totalled US$7.79 million compared to US$10.07 million in the second quarter. Market Capitalisation on the bourse stood at US$1.3 billion compared to US$1.25 billion in the previous quarter.

VFEX listed companies also released positive. FCB surged 31.41% as the bank reported a profit US$11.5 million for the 6 months to 30 June 2024. Natfoods in its full year financial statements highlighted that total volumes stood at 585,000 tons, 6% above those recorded in the prior year, with the growth emanating largely from the Maize and Stockfeed divisions. Revenues for the business increased by 5% to US$359.36 million. Innscor reported revenue growth of 13.2% to US$910.065 million which was driven by volume growth across the entire portfolio.

**Outlook**

The macroeconomic environment remains uncertain characterised by a depreciating currency, foreign currency and a potential surge in inflation in real terms. Lately power challenge have also worsened, again, increasing the cost of doing business. The recent measures by the MPC which are designed to tighten liquidity on the market will result in increased cost of borrowing and limited lending capacity by the banking sector. Spending going forward will be limited thus adversely affecting economic performance.

In the current2024/25 summer cropping season, normal to above normal rainfall is anticipated. This implies that better harvests are expected in the coming year; however, grain imports will continue to be high until June 2025 implying pressure will remain on the exchange rate. However, for the agriculture sector to recover in 2025 there is need to ensure adequate preparations are done. Inputs such seed and fertiliser need to be distributed now

On the currency front, we anticipate that the local currency will continue to depreciate as the government expenditure is likely to grow. Salaries for civil servants are expected to increase in line with the devaluation. In addition, cash disbursements are expected to be made to the vulnerable in cities to alleviate food insecurity. Despite the recent devaluation of the local unit by the central bank, disparities between the official and parallel exchange rate continue to widen in the process fuelling inflation in real terms. Authorities insist pricing of goods and services to be done using the official rate, this has resulted in prices firming in USD terms. On going wars in the Middle East may increase the magnitude of economic turbulence should energy prices increase.

Market capitalisation on the ZSE has significantly come off due the devaluation of the local currency. Before the devaluation on the 27th, the stock market had become overbought. The market is currently trading below its fair valuation of US$3.5 billion. Performance going forward on the market will be dependent on the availability of liquidity in the economy. We anticipate that the supply of local currency will be limited as authorities try to curb the depreciation of the local currency.

Real estate remains an attractive option for portfolio diversification. We are likely to see more listings on the REITS and ETF space before the end of the year as players introduce innovative products as required by the obtaining economic environment.

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