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THE CHAMBER OF MINES OF ZIMBABWE

Quarterly Review

Q1 2023

Mineral output down

Power supply depressed

Maize output up 2.3 million tons

Exchange rate depreciates

Economic Growth-	
Proj: 2023 (%)	3.8%
Inflation (%)	
M-o-m: March	0.1%
Y-o-y: March	87.6%
Exchange rate (ZWL/USD)	
Official: March	929.86
Parallel market: March	1450

Power outages cripple economic activities.

The power supply situation during the first quarter of 2023 was depressed with widespread power outages across all sectors of the economy. Domestic generation averaged around 700 MW against peak demand exceeding 1500 MW. Frequent breakdowns at Hwange Power Station and low water levels at Kariba Hydro Power Station resulted in low domestic power generation. Key sectors such as mining were the most affected with reports of outages exceeding 12 hours a day. In the outlook, while power supply is set to improve (on the back of the synchronization of Hwange unit 7 and 8 as well improved water allocation at Kariba hydro power station), power supply remains fragile on the break drop of frequent breakdowns at Hwange unit 1 to 6.

The above power supply situation coupled with worsening domestic structural bottlenecks are expected to negatively impact on domestic economic growth. Government is projecting economic growth to slow down to 3.8% in 2023. Meanwhile the situation is expected to be worsened by the combined effect of high inflation and exchange rate volatility which has resulted in macroeconomic instability during the period under review.

Commodity prices soften amid global uncertainties.

IMF, in its 2023 publications, revised downwards global economic growth projection for 2023 to 2.5% from the original forecast of 2.9%. The revised forecasts are on the back of emerging risks including tight global financial conditions, worsening trade and diplomatic relations between China and US as well as ongoing conversations around currency options to replace the US dollar in global trade.

Reflecting the above, most mineral prices softened during the first quarter compared to the same period last year. However gold prices increased on safe haven demand. The first quarter mineral prices were however generally higher than those recorded for the 4th quarter of 2022. Compared to Q4 2022, most commodity prices except for precious metals remained depressed.

Commodities	Q1 2022	Q4 2022	Q1 2023
Nickel($/mt)	26,765	25,514.1	26,070.4
Gold ($/troy oz)	1,873	1,729	1,888.3
Platinum ($/troy oz)	1,029	971.6	994.2
Palladium	2,321.2	1,940	1,567.3
Rhodium	16,873.3	12,086	9,668
Crude oil($/bbl)	96.6	85.3	79
Coal($/mt)	243.6	370.4	237.6

Source: World Bank, Kitco

Depressed mining outlook as gold deliveries decline.

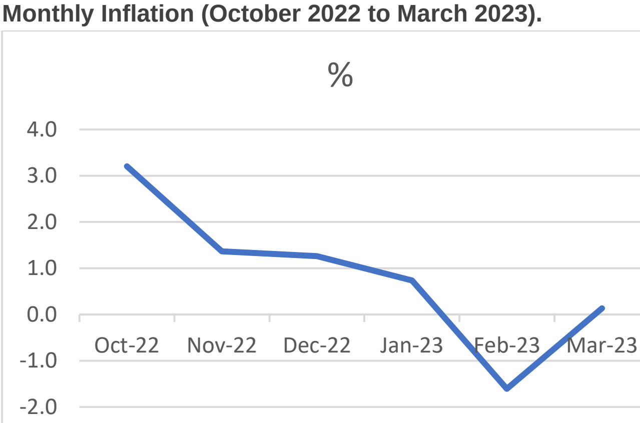
Gold deliveries for the first quarter of 2023 were subdued at 6.2 tons compared to 7.7 tons in the first quarter of last year. Meanwhile, Blanket Mine, one of the major gold producers in the country reported a slump in gold production during the first quarter on the back of rainfall, mechanical breakdowns, and inconsistent grades. Small scale gold deliveries were weighed down by heavy rains experienced during the first quarter of 2023.

With regards platinum group metals, Zimplats recorded output declines for all its metals in the first quarter of 2023 and lower grades compared to the same quarter last year. Unki mine PGMs output also declined by 12% in the quarter under review due to unplanned plant maintenance and mining in a lower grade area.

Agriculture output recovery on improved harvests.
Government second crop assessment report for 2023 show that maize output increased to 2.3 million tons (up 58% from the previous season) and traditional grains output up 45% to 280,966 tons compared to the previous season. Meanwhile the current tobacco marketing season has seen firm tobacco prices averaging US$5.59per kg as of end of March 2023 compared to US$5.13 per kg for the same period last year. Government is targeting an 8.5% increase in tobacco output in 2023 from 188 million kgs to 230 million kgs. Crop output for 2023 largely benefited from a favourable rainfall season. Preparations for the 2023 winter wheat season is underway with Government targeting 408 thousand tons compared to 375 thousand tons last season.

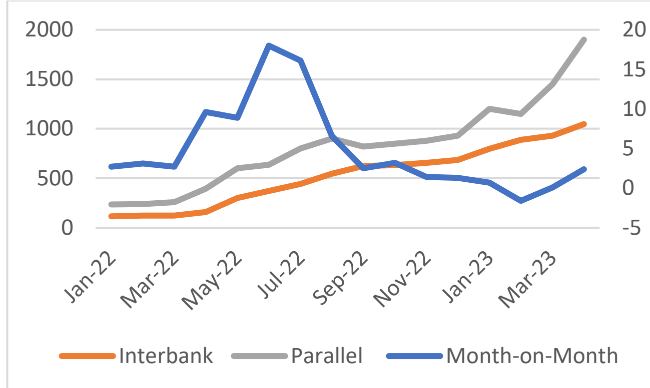
ZIMSTAT adopt blended CPI as inflation pressures persist.
ZIMSTAT adopted blended CPI (weighted average of USD and ZWL prices) which has seen inflation trending downwards during the period under review. Government estimates that approximately 76% of local transactions are now executed in US dollars.

Monthly Inflation (October 2022 to March 2023).



Source: ZimStats

Notwithstanding the downward trend on reported inflation, the economy continued to experience inflation pressures in the first quarter of 2023 largely driven by widening parallel market exchange rate premiums.

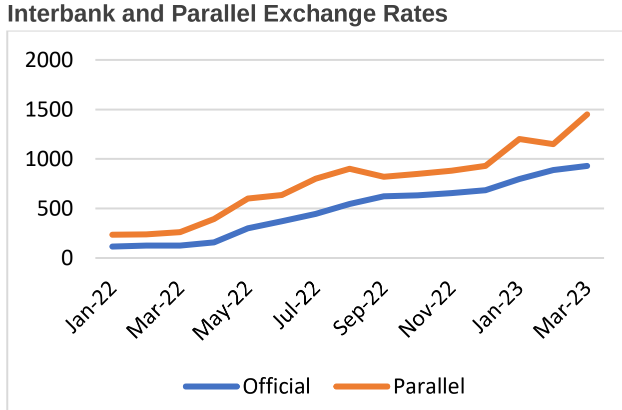


Source: Ministry of Finance and Economic Development

Key risks to the inflation outlook include widening parallel market premiums (on the back of anticipated high money supply growth), high energy and food prices and other exogenous geopolitical developments. food and energy prices, supply chain disruptions and volatile parallel exchange market.

RBZ introduces new premium as parallel market premiums widen.
Parallel market exchange rate premiums widened in the first quarter of 2023 due to rapid depreciation of the parallel market rate while the official exchange rate crawled upwards during the period under review. The Official market rate was at 796.52 against US$1 in January 2023 (compared to parallel market rate of 1200) and closed the month of March 2023 at 929.86 (against parallel market rate of 1450)

Interbank and Parallel Exchange Rates



Source: RBZ and Chamber of Mines

Meanwhile, the Reserve Bank announced in March 2023 that they are set to introduce a gold backed digital currency (digital gold tokens) which seeks to provide an alternative instrument for value preservation, divisibility, and wider reach (to address some weaknesses inherent in the current gold coin). If effectively implemented, the gold tokens are expected to compliment the gold coins. Key concerns around issuance of the virtual gold backed tokens relates to the following:

- possibility of inadequate gold reserves to back the tokens.
- Arbitrage and rent seeking opportunities arising from exchange rate disparities.
- The new gold tokens will effectively liquidate gold coins and become fiat money (part of money supply)
- Continued printing of the tokens will result in high money supply growth and inflation.

The success of the virtual gold coins can be guaranteed if adequate gold is reserved to back the digital gold tokens while mechanisms to independently monitor the country's gold reserves is a key requirement.

Interest rates reduced as foreign exchange retentions are increased to 75%

In the 2023 monetary policy statement, RBZ reduced key interest rates (Bank policy rate from 200% to 150% and lending rate from100% to 75%). Meanwhile foreign exchange retentions were increased to 75% to align with macroeconomic developments including the increasing level of usage of US dollar transactions in the economy (also reflected in the structure of bank deposits and loans that are now skewed towards US dollars).

Notwithstanding the upward review in retentions, emerging demands for payment in foreign currency for goods and services including payment of electricity bills wholly in foreign currency have squeezed foreign exchange retentions to between 60% and 65%. Given ongoing expansion projects which require additional foreign currency over and above current retentions, most mining companies will face forex shortfalls resulting in slowdown in project implementation.

Uncertain fiscal outlook as Government delay on payment.

There are increasing reports of Government delaying on payments to their service providers thus accumulating arrears. If the situation persists, most providers of goods and services will be crippled and may not be able to supply to Government in the future. The accumulation of arrears reflects a depressed fiscal situation where current revenues are inadequate to meet current expenditure.

Summing Up

The economy remains fragile on the back of inflation pressures, exchange rate volatility, capital constrains and infrastructure deficits. Macroeconomic instability may persist, given that traditionally election years are accompanied by populist interventions that typically result in monetary growth, exchange rate volatility and high inflation.