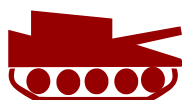




ECONOMIC REVIEW

February 2022

Global economic risks from Russia-Ukraine



Food insecurity threats



Bullish commodity markets



Relentless inflation soars



<i>Economic Growth Proj: 2021</i>	5.4%
<i>Inflation Feb</i>	
<i>M-o-m</i>	7%
<i>Y-o-y</i>	66.1%
<i>Exchange rate Feb 21 (ZWL/USD)</i>	
<i>Official</i>	127
<i>Parallel</i>	250

Ukraine crisis dampen global economic outlook

Russia's invasion of Ukraine has led to unprecedented sanctions on Russia. Some of the sanctions that have since been imposed on Russia by the US, British, and European Union include the removal of Russian banks from the Society for Worldwide Interbank Financial Telecommunication (Swift). Although it may be too early to gauge the precise impact of the conflict, disruptions on trade between Russia and the rest of Europe and America may trigger oil and gas shortages, particularly in Europe, while other metal markets including PGMs will also be affected. Russia is one of the world's largest oil and gas producers and a key supplier of PGMs and industrial metals such as nickel and aluminium. We anticipate the economic growth forecast for 2022 to be lowered by between 0.5-1% from the original 4.5% forecast.

Food insecurity threats as dry spells persist

The prolonged dry spell experienced in most parts of the country in February 2022 has resulted in severe crop moisture stress in most parts of the country, with reports of the total crop right off in some areas. Most parts of the southern areas of the country are expected to experience an earlier cessation of the rainfall season by mid-March. It appears the country has been hit by a massive drought, with the Government target growth for agriculture of 5.1% in 2022 will be most likely missed.

Gold Output surge as mineral price rally

Gold deliveries to Fidelity for the first two months of 2022 surged to 5130kgs- 137% higher than gold delivered in the comparable period in 2021. Gold output is set to reach 35,00kgs in 2022 with revenues expected to exceed US\$2 billion. Meanwhile, the unfolding conflict in Europe has propped up commodity prices specifically precious metals and energy commodities (oil and gas). The price of palladium soared almost instantly with the isolation of Russia, the world's largest exporter of the metal. Gold prices also surged surpassed the US\$1,800 mark on the back of safe heaven support. The price of Brent oil breached \$100 per barrel on February 24th and European gas prices rose by 30%.

Commodity Prices

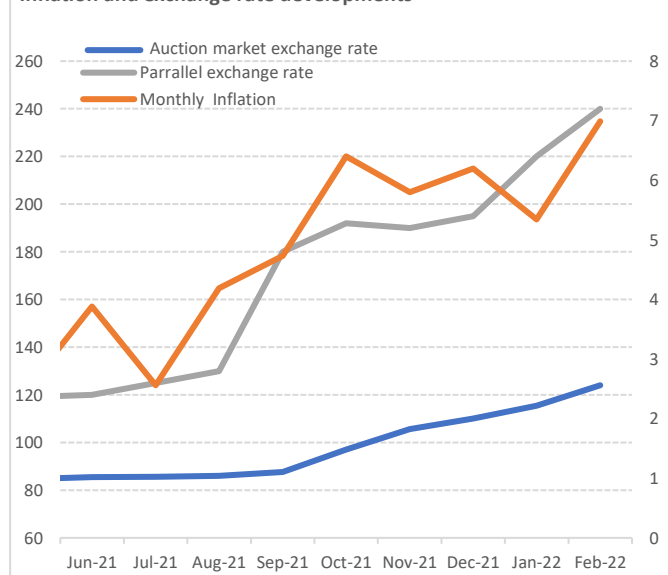
	Jan-22	Feb-22
Nickel(\$/mt)	22,355	▲ 24,016
Gold (\$/troy oz)	1,816	▲ 1,856
Platinum (\$/troy oz)	994	▲ 1,049
Palladium (\$/troy oz)	2,418	▲ 2539
Crude oil(\$/bbl)	83.9	▲ 93.5
Coal(\$/mt)	168.5	▲ 196.4
Soybeans(\$/mt)	606	▲ 662
Maize(\$/mt)	276.6	▲ 292.6
Sugar(\$/kg)	0.4	▲ 0.4
Cotton(\$/kg)	2.91	▲ 3.05

In the outlook, we expect the conflict to persist in the short run and ease off towards the end of the year. In the outlook for the full year 2022, we anticipate commodity prices to remain elevated at levels above last year's averages

Inflation pressures mount, exchange rate premium sustains

The country continued to experience a build-up in inflation pressures during February 2022. Month-on-month inflation for February 2022 increased to 7%, up from 5.3% in January, while annual inflation increased to 66.1%, from 60.6% for the comparable periods. The high inflation environment has propped up the cost of doing business and cost of living with increasing demands for wage reviews in both the private sector and Government. We expect inflation pressures to intensify in the outlook, driven by food shortages and attendant high domestic food prices (the food basket accounts for around 33% of CPI). We also expect domestic inflation to be influenced by the rising global oil and gas prices.

Inflation and exchange rate developments



Meanwhile, since the start of 2022, the local currency depreciated by 17% on the official foreign exchange market. By the end of February, the official exchange rate stood at ZW\$127:US\$1 while the black-market foreign exchange rate was approximately ZW\$250:US\$1. Since September 2021, the spread between the two markets has remained at around 100% as foreign currency allocations remained inadequate to meet demand on the auction market. Foreign exchange allocations from the official auction system were US\$148.71 million in February from US\$69.64 million in January 2022. We expect pressure

on the foreign exchange auction market to persist due to increased demand for foreign currency as businesses reopen in line with improved covid situation and lifting of lockdown restrictions. Unless drastic measures are enforced, we anticipate the local currency to continue losing value by over 10% every month.

Zimbabwe Stock Exchange trading eases, outlook bullish

The Zimbabwe stock exchange halted its bull-run trend by the end of February 2022 as profit-taking ensued on the market. The All-share Index ended the month at 14877.3 points with losses across all main indices, despite having reached an all-time high of 15228.2 earlier in the same month. Month-to-date (28 February) gains were trimmed to 23%. Notwithstanding the short-term profit-taking, the long-term outlook remains bullish on the back of high inflation, exchange rate volatility, suppressed money market activities and low-interest rates

that are resulting in negative returns. On the Global markets, stocks tumbled as Russia launched a military assault on Ukraine, with investors bracing for a prolonged period of uncertainty and disruptions that will arise from supply bottlenecks.

Summing up

Zimbabwe's economic prospects, though positive, are under serious threat from risks surrounding subdued agriculture output as well as the twin challenges of high inflation and exchange rate volatility which resulted in macroeconomic instability. Meanwhile, preparations for the March-26 by-elections have been intensifying with consequent high government spending. In the outlook, we anticipate increased expenditure pressures emanating from the funding of the 2023 general elections.

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