

# TECHFIN RESEARCH (PRIVATE) LIMITED

## WEEKLY MARKET REPORT

WEEK ENDING

03 November 2006

*Private: Information for our clients only*

### **1. Maize Producer Price Reviewed Upwards to Z\$52 450.39 per tonne.**

The Ministry of Agriculture on Tuesday announced the new producer price for maize. This was a review from Z\$31 350.39 to Z\$52 450.39 per metric tonne, effective retroactively from April 2006, after taking into consideration the increased production costs which include labour, tillage and transport among others. This move comes at a time when most farmers were contemplating on diverting to other crops such as sugar beans and tobacco that were fetching high bonuses, an action that would have resulted in the country facing much more critical maize shortages in the coming year. The increase in the maize producer price is also aimed at inhibiting those farmers who had held back their produce to deliver their grain to their respective Grain Marketing depots, after having considered the prior producer price to be well below requirements and is also aimed at motivating farmers to increase maize production in the 2006/7 which officially starts this month. The government further instructed the Grain Marketing Board (GMB) to pay an additional Z\$21 000 per metric tonne to farmers who had marketed their sorghum and millet beginning April 2006 and further stated a floor price of Z\$52 450.39 per metric tonne, since the commodities were not controlled crops. In response to the latest development, most farmers appreciate the back pay but however express the poor timing by the Government in light of the hyper inflationary environment that is dominant in the economy.

Meanwhile, according to a recent report from FEWS NET, a USAID funded activity, there are serious concerns over the country's prospects of agricultural production in the coming season. This view is derived on expectations of a mixed climatic outlook after the Southern Africa Regional Climate Outlook Forum (held in September) forecasted an enhanced probability that rainfall will be below average in the first half of the season. The organisation also expects the high cost and low availability of inputs to negatively influence the area planted and yields for maize in the coming season, in turn supporting the conclusions of the Parliamentary Portfolio on Lands, Land Reform, Resettlement and Agriculture's view that the country might be headed for a poor harvest unless the government upgrades its effort of addressing the shortage of strategic inputs like fertiliser, pesticides and spare parts.

## 2. Inflation, interest rates and exchange rate forecasts

The year on year inflation figures for the month of September 2006, are expected to be released this week and it is our view that the rate will remain above the 1 000% mark at levels around 1 084%, as a result of persistent inflationary pressures in the economy. We also expect interest rates to gradually firm against the background tight liquidity conditions that are being induced by the compulsory acquisition of both the Financial Sector Stabilisation Bonds and the Economic Sector Bonds. The tables below show our inflation, interest rate and exchange rate forecasts.

### INFLATION & INTEREST RATES FORECASTS (%)

Month	2006			2007		
	Year on Year Inflation	Compounded Quarterly Inflation	90-day NCD rate	Year on Year Inflation	Compounded Quarterly Inflation	90-day NCD rate
January	613.2*	1387	120*	1540.3	3360	198
February	781.5*	1331	380*	1559.1	3398	200
March	913.6*	884	498*	1700.8	2141	205
April	1042.9*	701	483*	1833.2	1314	210
May	1193.5*	700	363*	1878.5	1358	210
June	1184.6*	1042	438*	2060.2	2204	220
July	993.6*	1075	157*	2127.6	2163	220
August	1204.6*	1119	73*	2106.5	2021	225
September	1023.3*	1135	35*	2025.7	1895	230
October	1084.2	1178	188	1954.8	1708	225
November	1093.4	1181	195	1906.6	1539	220
December	1211.7	1498	198	1937.5	1554	220

\*Actual

## EXCHANGE RATE FORECASTS 2006/2007(ZS/US\$)

MONTH	2006		2007	
	Interbank Rate	Fair Value Rate	Interbank Rate	Fair Value Rate
January	99.20*	65.43	1 000.00	1 058.39
February	99.20*	93.84	1 100.00	1 365.32
March	99.20*	112.44	1 300.00	1 774.92
April	100.19*	136.06	1 550.00	2 307.40
May	101.19*	174.30	1 900.00	3 022.69
June	101.19*	204.33	2 100.00	3 869.04
July	101.19*	255.00	2 100.00	4 991.07
August	250.00*	330.00	3 500.00	6 388.57
September	250.00*	379.28	3 900.00	8 062.37
October	250.00	489.27	4 300.00	10 053.78
November	250.00	626.27	4 700.00	12 567.22
December	250.00	814.15	5 200.00	16 588.73

\*=*Actual*

### 3.0 Financial Markets - Week Ending October 27

During the week under review, the central bank further increased the holding threshold for the Financial Sector Stabilisation Bonds by 10 percentage points for the respective financial institutions, using the balance sheet date as at 30 September 2006, with the compliance date being Friday the 3<sup>rd</sup> of November 2006. This move resulted in a total of Z\$44.77 billion being swept out of the money market through the prior subscription, in turn precipitating the market to close in the negative region on all trading days.

Meanwhile, on Tuesday, the Central Bank conducted two 181-day Treasury bill tenders, and the first tender received total subscriptions amounting to Z\$250 million, but all bids were rejected due to the high interest rates that were indicated at around 300%, while no bids were received on the final tender. On Thursday, the central bank was also on the money market with a 90-day ZTB OMO Bills tender, and Z\$50 billion was on offer. The tender only managed to receive total subscriptions amounting to Z\$384 million but all bids were however rejected due to the high interest rates that were indicated between 80% and 400%. Looking ahead, we expect the money market to experience tight liquidity conditions ahead of the November 17 deadline for the compulsory acquisition of the Economic Stabilization Bonds.

**MARKET LIQUIDITY (ZS)**

Date	Treasury Bill Maturities	Treasury Bills Offer	Treasury Bills Issue (91 days)	Market Position
Oct-23	4.5 bill	Open* / Open*	250 mill* / 42 mill*	-5.8 bill
Oct-24	3.7 bill	Open* / Open*	125 mill* / 540 mill*	-1.7 bill
Oct-25	5.3 bill	Open* / Open*	520 mill* / 5.3 bill*	-0.7 bill
Oct-26	-	Open* / Open*	200 mill* / 3.3 bill*	-0.3 bill
Oct-27	2.3 bill	Open* / Open*	665 mill* / 6.5 bill*	-2.6 bill
Oct-30	1.35 bill	Open* / Open*	7.4 bill* / 1.6 bill	-8.4 bill
Oct-31	9.09 bill	Open*	1.8 bill*	-12.5 bill
Nov-01	4.87 bill	Open* / 50 bill#	4.1 bill* / Abr#	-12.4 bill
Nov-02	3.81 bill	Open*	6.2 bill*	-11.0 bill
Nov-03	7.57 bill	Open*	23.67 bill*	-23.6 bill

*Open*= Open Tender for any amount #=ZTB OMO Bills Nbr=No bids Received Abr= All bids rejected \*=FSS bond

As a result of the tight liquidity conditions compounded by the compulsory acquisitions of the Financial Sector Stabilisation Bonds, short term interest rates closed the week firmer, with 90-day Negotiable Certificates of Deposits and Bankers' Acceptances of the same tenor indicated at levels around 150%, after opening the week between 100% and 150%, while the interbank overnight rate was in the 490% to 500% range from being indicated at levels around 405% on Monday. Call rates were however indicated between 3% and 5%.

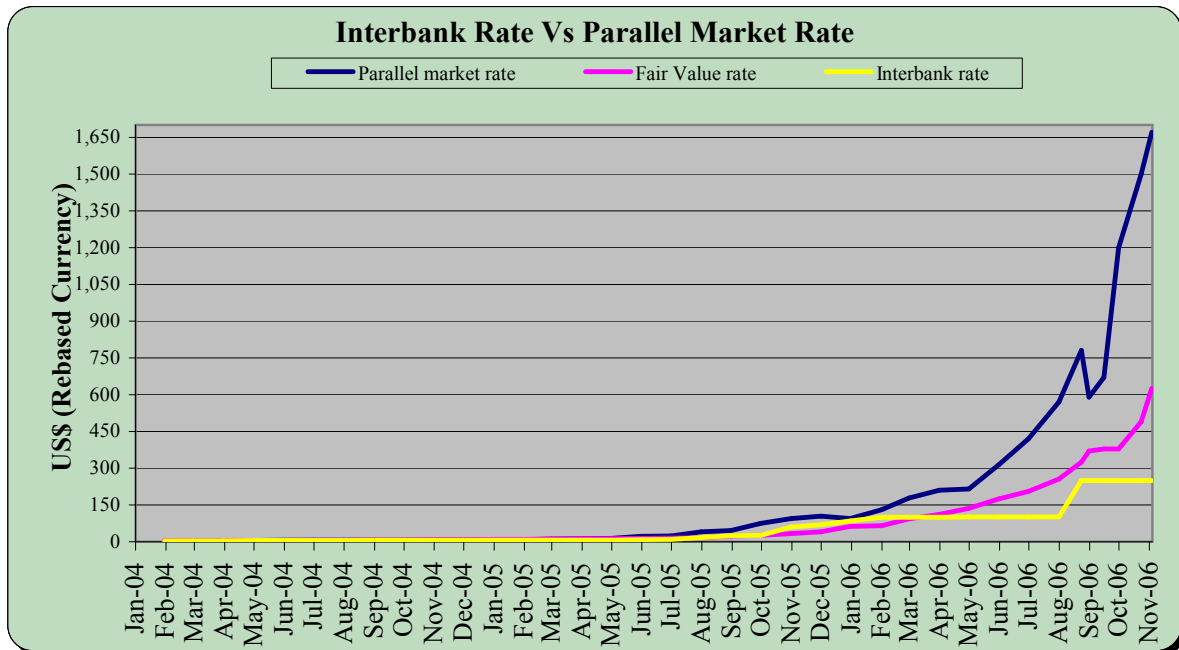
**Short-Term Interest Rates:**

Date	Average TB Yield	90-day NCD	90-day BA (yield)	Call Rate
Oct-23	-	85.00	85.00	4.00
Oct-24	-	74.00	74.00	4.00
Oct-25	-	45.00	45.00	4.00
Oct-26	-	120.00	120.00	4.00
Oct-27	-	133.00	133.00	4.00
Oct-30	-	125.00	125.00	4.00
Oct-31	-	140.00	140.00	4.00
Nov-01	-	140.00	140.00	4.00
Nov-02	-	120.00	120.00	4.00
Nov-03	-	150.00	150.00	4.00

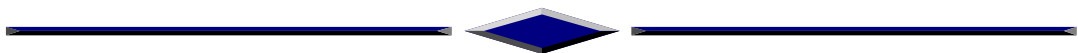
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### 3.1 Foreign Exchange Market

During the week under review, the Zimbabwe dollar remained rooted at Z\$250.00 against the US Dollar on the interbank market, still with no news of any review or the meeting of the Exchange Rate Impact Assessment Board, which was given the mandate of managing the exchange rate movements by the Reserve Bank in the Mid-Term Monetary Policy Review. Given this scenario, the disparity between the interbank rate and the parallel market rate continues to widen, hence making it more unattractive for funds to flow through the formal market. The graph below illustrates the movements of the Zimbabwe dollar on the parallel market and the formal market, clearly showing the widening gap between the “fair value rate” and the interbank rate.



Meanwhile, reflecting the US dollar cross currency movements during the week, the Zimbabwe dollar closed the week mixed against most major currencies as shown in the table below.



## FOREIGN EXCHANGE RATES AGAINST THE ZIMBABWE DOLLAR

DATE	ZS/US\$	ZS/GBP	ZS/ZAR	ZS/EURO	ZS/JPY	ZS/BWP
Oct-23	250.00	468.28	32.73	313.93	2.10	38.37
Oct-24	250.00	467.10	32.27	313.60	2.09	38.30
Oct-25	250.00	469.18	32.32	314.35	2.10	39.53
Oct-26	250.00	471.15	33.20	316.45	2.10	39.10
Oct-27	250.00	471.95	33.22	316.95	2.11	39.30
Oct-30	250.00	474.90	33.64	318.05	2.13	40.25
Oct-31	250.00	474.35	32.99	317.20	2.12	39.50
Nov-01	250.00	477.03	34.06	318.90	2.14	40.00
Nov-02	250.00	476.50	33.76	318.75	2.13	40.35
Nov-03	250.00	477.15	33.62	319.33	2.14	39.82

### 3.2 Equity Market Movements

The equities market maintained a bearish trend during the week under review, following the central bank's move of increasing the holding threshold for the Financial Sector Stabilization Bonds, which precipitated short-term interest rates to firm on the money market. This resulted in the benchmark Industrial index shedding 11.70% to 319 720.22 points, while the Mining index eased 11.29% to 130 220.55 points. Looking ahead, we expect the equity market to continue on a downward trend in anticipation of relatively firmer short-term interest rates on the money market and as most traders are taking a cautious stance in a market that is characterized by uncertainty.

#### ZSE Indices

Index	03 Nov 06	27 Oct 06	Change (%)
INDUSTRIALS↓	319 720.22	362 097.33	-11.70
MININGS↓	130 220.55	146 787.06	-11.29

In Industrials losses were recorded in among other counters, Cairns, Gulliver and Tractive down 40% each to close the week at \$30.00 apiece and \$18.00 respectively, Natfoods shed 33.33% to \$400.00, TA Holdings eased 28.57% to close at \$200.00, while DZL lost 27.78% to end the week at \$130.00. Other losses were recorded in NMB, Starafrika and CBZH, which eased 26.32%, 26.09% and 25.45% to close the week at \$7.00, \$85.00 and \$82.00 in that order. CFI and Zimpapers closed the week 25% softer at \$60.00 and \$6.00 respectively. Gains

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were recorded in only nine counters namely, Nicoz up 26.67% to \$3.80, Phoenix gained 25% to \$50.00, and Willdale put on 20% to close the week at \$1.20, while Powerspeed advanced by 12.5% to end the week at \$18.00. Celsys and Medtech added 11.11% each to \$10.00 and \$1.50, while Dawn Properties, RTG and Chemco closed the week 6.36%, 5.26% and 1.54% respectively. The tables below show the major movers during the week.

#### Major Market Movers for the Week Ending October 27 (Industrials)

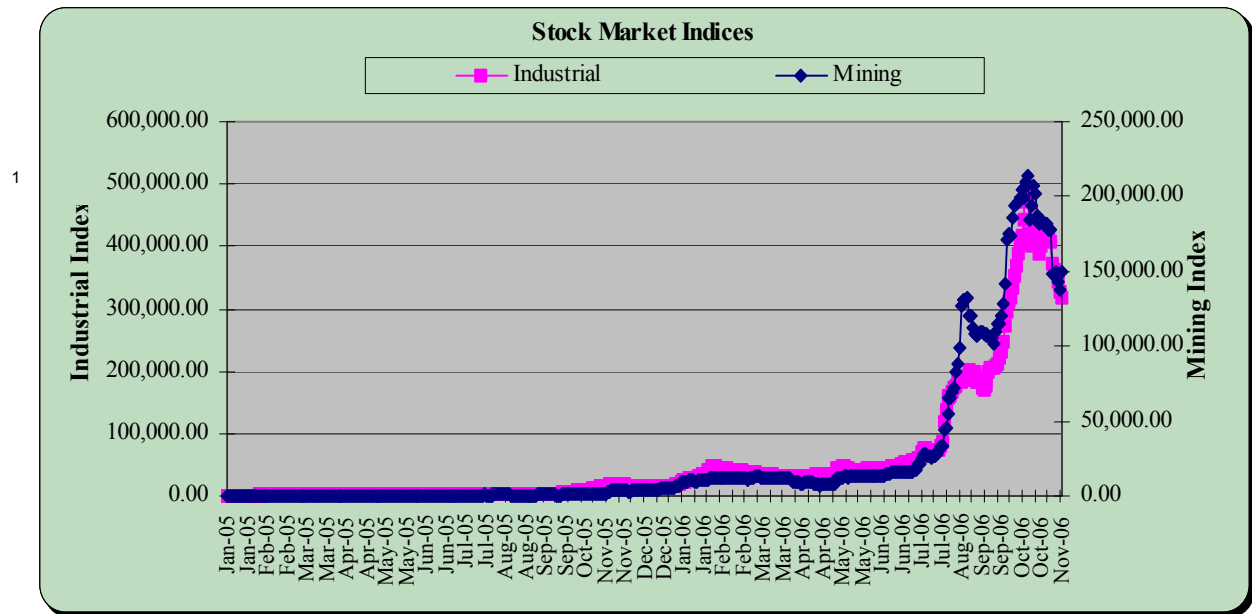
Industrial Counters	03 Nov 06	27 Oct 06	(%) Change
CAIRNS↓	30.00	50.00	-40.00
GULLIVER↓	30.00	50.00	-40.00
TRACTIVE↓	18.00	30.00	-40.00
NATFOODS↓	400.00	600.00	-33.33
TA HOLDINGS↓	200.00	280.00	-28.57
DZL↓	130.00	180.00	-27.78
NMB↓	7.00	9.50	-26.32
STARAFRICA↓	85.00	115.00	-26.09
CBZH↓	82.00	110.00	-25.45
CFI↓	60.00	80.00	-25.00
ZIMPAPERS↓	6.00	8.00	-25.00
NICOZ↑	3.80	3.00	+26.67
PHOENIX↑	50.00	40.00	+25.00
WILLDALE↑	1.20	1.00	+20.00
POWERSPEED↑	18.00	16.00	+12.50
CELSYS↑	10.00	9.00	+11.11
MEDTECH↑	1.50	1.35	+11.11
DAWN↑	35.10	33.00	+6.36
RTG↑	20.00	19.00	+5.26
CHEMCO↑	6 600.00	6 500.00	+1.54

In Mining's Hwange recorded the only gain, up 8.7% to close the week at \$125.00, while Rio Tinto, Falgold and Bindura all recorded losses as shown in the table below.

### Major Market Movers for the Week Ending October 27 (Minings)

Mining Counters	03 Nov 06	27 Oct 06	Change (%)
RIO TINTO↓	3 000.00	3 500.00	-500.00
FALGOLD↓	45.00	60.00	-25.00
BINDURA↓	350.00	400.00	-12.50
HWANGE↑	125.00	115.00	+8.70

The graph below shows the weakening of the stock market during the week under review.



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