NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY

FACULTY OF COMMERCE (FINANCE DEPARTMENT)

RESEARCH TOPIC

ASSESSING THE CORE-MOVEMENT BETWEEN THE INFLATION RATE AND THE PERFORMANCE OF THE ZIMBABWE STOCK EXCHANGE INDUSTRIAL INDEX.

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Abstract

The performance of the Zimbabwe Stock Exchange indices since the year 2000 can be described as phenomenal in Zimbabwe dollar terms. As at 30 September 2000 the Industrial Index stood at **19 196.83** points and as at 30 September 2003 it was pegged at **648 932.85** points implying a growth of **3280.42%** over a period of two years. Year on year growth was an average 1640.21%.

Over the same period, year on year inflation was at **62%** and **455.6%** respectively. The growth in the rate of inflation was **634.84%** over the same period. There is clearly a positive relationship between the movement in the rate of inflation and the industrial index. The relationship can be described in terms of mathematical correlation between the two variables. Whilst there might be a "causative" relationship (i.e. the rise in inflation causing a rise in the industrial index), such a relationship is transmittal. The transmission link can be long and it warrants a separate and detailed study which we shall not delve into.

It suffices for this study to establish the relationship, quantify it mathematically, discuss the possible causes, and then suggest the implications for the investor, in terms of asset allocation, market timing, investment strategies and market forecasting given the forecast of one of the variables (inflation in our case).

The core information is the data from the Zimbabwe Stock Exchange. The industrial indices for the chosen period and the consumer price indices produced by the Zimbabwe Central Statistical Office.

The data from the Central Statistical Office is not overtly reliable. There has been a concern by economists that the information is being manipulated for political purposes. In most of the cases it is crystal clear that the information on inflation understates the real picture on the ground. However, the general direction of inflation cannot be hidden, it is skyrocketing every month and that is the most important trend to this study. The study of the accuracy of the of the CSO information can be subject for another detailed study which we do not need to delve into.

Some theoretical models for the investment analysis are defied. The results of this research could herald the advent of "new theories" in explaining market movements. We will examine how the "Efficient Market Hypothesis" , "Fair Game Theory" and theories of Technical analysis explain market movements. Ultimately the study will come up with guidelines in Stock Market investment and analysis during a hyperinflationary period.

While the observations and conclusions will be based on Zimbabwean information, the results of the study could be applicable in any environment (country or economy) which happens to face the same type of skewed macro economic fundamentals that the Zimbabwean economy is currently facing, that is, hyperinflation (year on year at 455.5% in September 2003), a fast depreciating currency, excessive money supply growth,