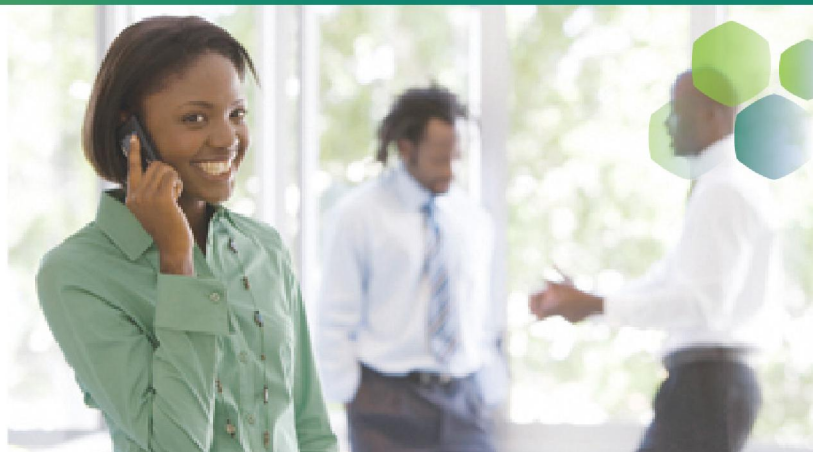


Monthly Economic Brief

March 2017



Highlights

Increasingly edgy political-economic environment ahead of 2018 elections.

RBZ Act amendments regularising issuance of bond notes were signed.

2016 national budget deficit closed at \$1.4 billion, with employment consuming 92% of total revenue.

ZSE market capitalization recovered 3.0% in March 2017, closing the month at US\$3.959 billion.

Thickening election theme...

Political undercurrents intensified ahead of the impending 2018 general elections. Opposition parties under the National Electoral Reform Agenda (NERA) maintained pressure for electoral reforms ahead of elections, threatening street protests if their demands are not met. NERA is calling for government to allow the Southern African Development Community (SADC) and the United Nations (UN) to monitor elections in 2018, among other reforms.

Some urban councils raised concern at residents accruing large debts on utility bills. Councils fear that residents might be deliberately defaulting on bill payments, ostensibly in anticipation of a '2013-style' debt write-off ahead of the impending 2018 elections. In the run-up to 2013 elections, government wrote-off utility bill debts dating back to 2009. Overall, the risk of business-inhibiting populist policies is inflated as elections draw near.

Landmark ruling to cap abuse of public office

In a landmark ruling, the High Court ruled that former State Security Minister Didymus Mutasa can be sued for the abduction of a human rights activist in 2008. By implying public officials can be sued in their personal capacities, the ruling might mitigate abuse of public office, corrupt and irregular tendencies.

Nothing temporary about bond notes

President Mugabe signed the Reserve Bank of Zimbabwe Amendment Act into law, regularising the issuance of 'Bond notes,' which have been circulating on a temporary legislation since November 2016. The new law ostensibly makes the issuance of bond notes un-contestable on the basis on their legality. About \$117 million in bond notes had been issued by mid-March 2017, against an AFREXIMBANK backed ceiling of \$200 million.

The ability to maintain bond notes issuance within the prescribed ceiling will be a key litmus test of authorities' commitment to monetary policy discipline, more so in light of pressing government funding needs against limited funding options.

Limited room to manoeuvre...

Zimbabwe's 2016 budget deficit closed at \$1.4 billion. Expenditure closed at \$4.92 billion of which recurrent spending accounted for 80% of total spending. Employment costs accounted for 66% of total government spend, translating to 92% of total revenue. The budget deficit was partly financed via government debt, raising the need for new revenue sources and/or cost containment.

New tax measures were implemented during the month under review, with transport operators, informal cross borders traders and hairdressers facing new taxes. Traffic offence fines were also increased by 50% to 100% with government presumably seeking to expand its revenue base.

Tobacco marketing season in strong start...

Tobacco deliveries in the 2017 marketing season to 31 March 2017 reached 15.5 million kgs, representing growth of 38% from the corresponding period last year. Farmers have earned \$40.2 million from the deliveries, a 47% increase from last year. Though it is still early into the selling season, seasonal outturn is expected to outperform last year's 205 million kgs. Tobacco remains a key forex earner for the country.

Uncomfortably familiar territory...

Year on year inflation entered positive territory for the first time in more than 3 years, closing February 2017 at 0.06%, up from -0.65% in the previous month. Month on month inflation surged from 0.23% to 0.61%, driving year to date inflation to 0.84%. Inflation pressures have been sustained by supply side constraints in light of import restrictions, exacerbated by reports of speculative multi-pricing tendencies.

Dollar on the front foot...

The United States Dollar closed the month ended 31 March 2017 0.2% firmer against the South African Rand (ZAR). The ZAR faced significant downward pressure from an increasingly fragile political environment in South Africa, translating to depressed foreign portfolio inflows (weaker ZAR demand). ZAR weakness was also exacerbated by monetary policy tightening in the United States.

Commodity prices under pressure

Dollar appreciation weighed on international commodity prices as dollar denominated prices became relatively pricey in relative currency terms. The following table highlights commodity price movements in March 2017.

| Commodity | Price | Mar'17 | YTD |
|------------------------|----------|---------|---------|
| Nickel (usd/ton) | 9,930.00 | -8.82% | -1.05% |
| Crude Oil (usd/barrel) | 52.61 | -5.68% | -7.98% |
| Gold (usd/oz) | 1,242.09 | -0.81% | 7.10% |
| Platinum (usd/oz) | 945.45 | -8.12% | 4.28% |
| Coffee (usd/lb) | 138.90 | -2.08% | 2.55% |
| Maize (usd/ton) | 141.13 | -2.98% | 2.72% |
| Wheat | 422.25 | -3.98% | 4.19% |
| Sugar (usc/lb) | 16.74 | -12.95% | -14.11% |
| Cotton lint (usc/lb) | 76.35 | -0.38% | 7.50% |

Commodity prices registered negative movements across the board. Nickel and sugar price declines were particularly noteworthy at 8.82% and 12.95%, respectively, in the month ended 31 March 2017. Year to date movements were mixed on earlier gains.

Money market rates remained sticky downwards

Money market investment rates remained sticky downwards under weak demand conditions. The average 360 days interest quote was unchanged at 3.25%. Trades remained confined to the short end of the market in light of generalised monetary policy uncertainties. The average 90 days interest quote declined from 3.23% to 3.11% in March 2017.

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Foreigners still selling out...

The ZSE industrial index recovered 2.7% during the month ended 31 March 2017 to reduce its year to date decline to 3.85%. The following table summarises ZSE returns in the month under review.

| Sector | Value | Mar'17 | YTD |
|-----------------------------|---------------|--------------|---------------|
| Commodities | 371.81 | 3.90% | 4.56% |
| Consumer | 194.69 | 2.45% | -7.28% |
| Financial | 97.67 | 5.65% | 2.48% |
| Listed Property | 109.50 | -7.37% | -7.96% |
| Manufacturing | 67.77 | 1.96% | 13.59% |
| Industrial | 138.96 | 2.70% | -3.85% |
| Mining | 58.56 | 3.70% | 0.09% |
| Market Cap (usd bln) | 3.959 | 3.04% | -6.06% |

The following tables highlight ZSE top and bottom 3 performing stocks for March 2017.

| Top 3 Performers | Price USc | Mar'17 | YTD |
|------------------|-----------|--------|---------|
| ZB | 11.00 | 71.88% | 143.36% |
| FML | 6.86 | 52.44% | 63.33% |
| ARISTON | 0.50 | 42.86% | 42.86% |

| Bottom 3 Performers | Price USc | Mar'17 | YTD |
|---------------------|-----------|---------|---------|
| DAWN | 1.25 | -21.88% | -21.88% |
| OK | 6.10 | -12.86% | -14.08% |
| BINDURA | 3.00 | -12.79% | -25.00% |

Foreign investor participation on the local bourse increased from 32.8% to 58.1% in March 2017, albeit as net sellers. Net foreign portfolio outflows on the ZSE closed March 2017 at \$6.7 million, extending cumulative year to date outflows to \$17.5 million. Total and average daily value of trades firmed 123% and 94% to \$24.5 million and \$1.1 million, respectively during the month ended 31 March 2017.

Economic Outlook

Impending elections threaten policy reforms towards sustainable economic recovery. Generalised policy uncertainty is likely to delay investment and consumption decisions, threatening the overall earnings outlook. Inflation poses a considerable risk to economic stability into the foreseeable outlook under the prevailing monetary policy framework.

Public and investor sentiment towards monetary policy will be a key driver of investment returns. The baseline view points to an inflationary outlook, raising the threat of speculative tendencies. The outlook presents support for inflation-hedging real assets, despite weak fundamentals.