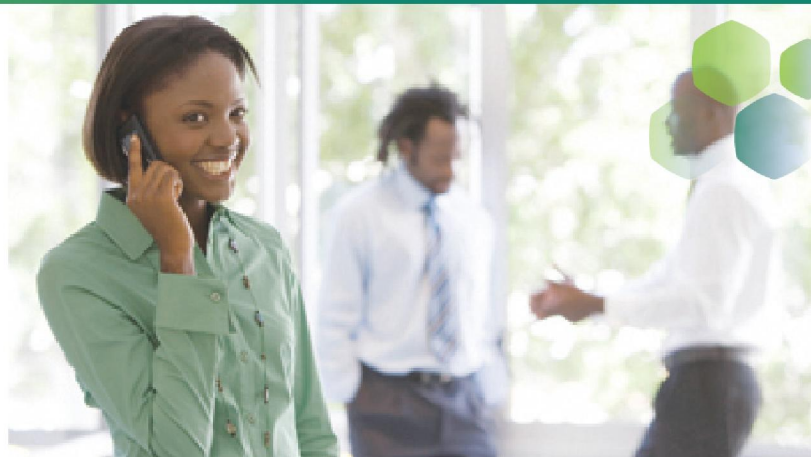


Monthly Economic Brief

September 2017



Highlights

Wave of panic buying, hoarding and generalised fear amid increasingly fragile monetary policy

2018 general election preparations gaining momentum

Zimbabwe's global competitiveness ranking improved two places to 124/137

August 2017 inflation was unchanged from the previous month at 0.14%

ZSE market capitalization firmed 78% to close September 2017 at a record \$12.475 billion.

Foreign currency crunch...

Panic reigned amid reports of shortages of imported products. Retailers resorted to rationing basics such as cooking oil, while fuel queues emerged. Panic buying intensified during the weekend of 23 September 2017, in part fuelled by adverse social media reports. On his return from New York, President Mugabe reportedly blamed economic saboteurs for the panic hoarding and associated price increases that occurred during his absence. In response, the Reserve Bank of Zimbabwe allocated US\$25 million (drawn down from the AFREXIMBANK \$600 million facility) to smoothen fuel and cooking oil imports.

Underscoring prevailing foreign currency shortages - South Africa's Eskom issued a 3rd warning in 3 months to the Zimbabwe Electricity Supply Authority - to pay up arrears or be cut off. Managing foreign currency receipts and spending will be critical in managing macro-economic stability. On 29 September 2017, government gazetted a law criminalising illegal cash trading. The law provides for jail terms of up to 10 years for anyone convicted. The measure is well meaning and should be punitive enough. This notwithstanding, the concomitant risk is that the

rising informal market 'shortages' could incentive additional risk and scarcity premia on the informal, and now illegal, foreign currency market.

Mining output at risk

Gold deliveries in the first eight months of the year reached 14.7 tons, up from 9.9 tons in the first half of the year. Of the deliveries to August 2017, small scale miners contributed 49%. Government set a target of 26 tons for the year, up from 23 tons last year. The full year target is now under threat after government reduced cash pay-outs to small-scale gold miners from 100% to 60%, ostensibly due to pressing cash shortages. According to media reports, government also turned down a proposal from platinum and chrome miners to have their currency retention threshold increased from the current 20%.

Elections as early as January 2018?

The Zimbabwe Electoral Commission (ZEC) said it plans to hold elections between June and August 2018, but warned that the ultimate decision lies with the President. The disclosure followed speculation that ZANU-PF was pushing to hold early elections. ZEC acknowledged that once the voter registration exercise is complete, they would be ready to hold elections. Consequently, President Mugabe proclaimed 14 September 2017 to 15 January 2018 as the voter registration period.

Improved competitiveness ranking for Zimbabwe

Zimbabwe ranked 124 out of 137 economies on the global competitiveness rankings by the World Economic Forum. The rank implies an improvement by two places from last year, though the ranking score (at 3.32 out of 7) declined to its lowest since 2010. The improved rankings despite a low score suggest some countries might have regressed significantly - more than Zimbabwe - rather than local competitiveness improving. Zimbabwe's worst sub-sector rankings were in rules regarding foreign investment and protecting property rights.

Official inflation unchanged at 0.14% in August 2017

Inflation for August 2017 was unchanged from the previous month, closing at 0.14%. Month on month inflation increased from -0.36% in July 2017 to -0.13% in August 2017. Year to date inflation eased from 0.36% to 0.23%. Near zero inflation seems out of sync with generalised reports of price increases, more so factoring reports of multi-pricing tendencies implying devaluation of non US\$ cash payment methods. Overall, the outlook seems inflationary.

US\$ on a strong rebound

The United States Dollar (usd) closed the month ended 30 September 2017 bullish. The usd firmed 3.7% against the South Africa Rand (ZAR) to close at ZAR13.49 per dollar. Against the Euro, the dollar firmed 0.9% to close the month under review at US\$1.18 per Euro.

Support for the dollar was primarily premised on the Federal Reserve Bank's Chairperson, Janet Yellen, signalling that an interest rate hike was still well on course and likely to be effected in December 2017. Political concerns in the Euro Area also weighed on the Euro, with Catalonia reportedly set to declare independence from Spain.

Commodities struggled for direction

Commodity prices were mixed during the month ended 30 September 2017. The following table summarizes commodity price movements during the month under review.

Commodity	Price	Sept'17	YTD
Nickel (usd/ton)	10,170.00	-11.95%	1.35%
Crude Oil (usd/barrel)	57.53	13.07%	0.63%
Gold (usd/oz)	1,284.88	-1.65%	10.79%
Platinum (usd/oz)	917.07	-7.28%	1.15%
Coffee (usd/lb)	131.80	2.81%	-2.69%
Maize (usd/ton)	137.98	1.52%	0.43%
Wheat	452.50	4.81%	11.66%
Sugar (usc/lb)	14.03	0.29%	-28.01%
Cotton lint (usc/lb)	68.76	-2.26%	-3.18%

Relatively stable macro-economic conditions in the United States, accompanied by dollar appreciation sapped the appeal of gold as a safe haven investment instrument - depressing prices.

Crude oil prices registered strong gains in response to supply side constraints from production cuts by the Organization of Petroleum Exporting Countries (OPEC) as well as geopolitical tensions in Iraq.

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Flight to quality sustained ZSE Bull Run

The ZSE industrial index reached a post dollarization peak of 418.39 points, translating to gains of 78.02% for the month ended 30 September 2017. On a year to date basis, the industrial index extended gains to a noteworthy 189.48% as highlighted below.

Sector	Value	Sept'17	YTD
Commodities	1,240.53	67.36%	248.87%
Consumer	656.50	84.05%	212.66%
Financial	221.47	83.09%	132.38%
Listed Property	196.96	32.05%	65.56%
Manufacturing	149.10	38.59%	149.91%
Industrial	418.39	78.02%	189.48%
Mining	122.57	66.83%	109.49%
Market Cap (\$ bln)	12.475	78.06%	196.02%

The following tables highlight the ZSE top and bottom three performing stocks for September 2017.

Top 3 Performers	Price USc	Sept'17	YTD
ARISTON	2.70	184.21%	671.43%
AFDIS	170.00	153.73%	183.33%
CBZ	24.90	149.00%	137.14%

Bottom Performers	Price USc	Sept'17	YTD
FML	9.50	-17.39%	126.19%
RTG	1.00	-9.09%	-16.67%
CFI	67.00	-2.55%	587.89%

ZSE monthly value of trades reached a record \$91.1 million, up 570% from the previous month. The daily average value of trades was also up 570% from the previous month at \$4.3 million.

Foreign investors intensified sales, closing the month under review with a record net sales position of \$24.6 million, up from net sales of \$1.7 million in the previous month. On a year to date basis, foreign investors have registered net outflows of \$55.5 million, up from \$36.1 million in the corresponding period last year.

Economic Outlook

In the absence of a significant foreign currency injection, and/or some reconsideration of the currency peg; monetary policy stability is likely to remain considerably compromised. Consequently, external payment constraints and domestic inflationary pressures are likely to intensify into the foreseeable outlook. Portfolio shifting from monetary assets is likely to sustain support for local equities. Overall, prudence is of the essence.