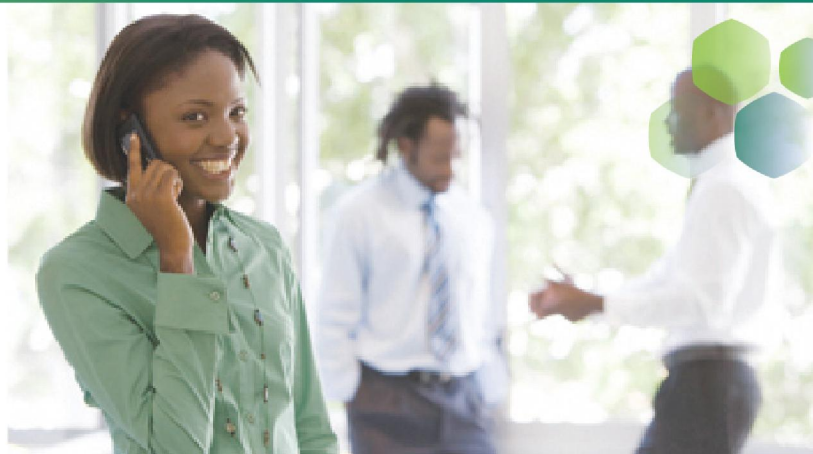


Monthly Economic Brief

December 2016



Highlights

Treasury predicts 2017 economic growth to rebound from 0.6% in 2016 to 1.7%.

IMF staff endorsed lifting Zimbabwe's sanctions, but reiterated other pre-conditions for new funding.

ZANU-PF endorsed President Mugabe as its 2018 candidate and youths called for life-Presidency.

ZSE market capitalization firmed 4.7% in December 2016, closing the month at US\$4.214 billion.

2016 State of the Nation...

President Mugabe fulfilled his constitutional mandate of presenting a state of the nation address at least once a year. In the conspicuously brief address; President Mugabe said government is importing grain to mitigate El Nino-induced shortages, government is committed to improving the ease of doing business to attract investment inflows and import restrictions are yielding positive results for local manufacturers.

President Mugabe also commended citizens for maintaining their peace – despite difficult conditions. The address was silent on prevailing cash shortages and possible remedies. It was also quite on the contentious issue of public sector bonuses, external arrears clearance as well as overall macro-economic prospects into the New Year 2017. Overall, the address suggested a 'more of the same' outlook.

Treasury predicting continued deficits

Treasury halved its 2016 GDP growth forecast to 0.6%, in line with adverse economic conditions. Treasury expects growth to rebound to 1.7% in 2017, backed by a post El-Nino agriculture recovery. A narrower budget deficit of \$400 is projected, from \$1.2 billion in 2016, ostensibly signalling austere measures. Zimbabwe's domestic debt was estimated at \$3.7 billion (of which 45% went towards budget financing.)

Treasury's positive 2016 growth forecast still sounds arguably optimistic. This notwithstanding, the 50% downward revision is symbolic of inherent macro-economic vulnerabilities. The trend generally points to a sub-par economic growth outlook, regardless of the actual estimated numbers. Chronic budget deficits raise the risk of a fiscal crisis (failure to pay critical obligations) in the absence of material fiscal consolidation. The prevailing policy framework presents limited upside potential.

Long road to full international re-engagement...

International Monetary Fund (IMF) staff released their recommendations on Zimbabwe to the IMF board. Staff acknowledged that Zimbabwe fully settled outstanding financial obligations to the Fund and proposed that the Board lift remaining sanctions. Staff also disclosed that Zimbabwe 'updated' its plan to clear arrears with other international financial institutions – moving from a simultaneous arrears clearance plan to a sequential approach.

IMF staff noted that outstanding fiscal and external imbalances have led to deteriorating financial conditions. In conclusion – IMF reiterated that settlement of arrears and subsequent lifting of sanctions does not automatically provide Zimbabwe with access to IMF funding. New funding will require compliance with IMF policies such as resolving outstanding arrears to other creditors and strong reforms to restore fiscal and debt sustainability.

President Mugabe to stand for another term

The ruling ZANU-PF party held its annual national conference, endorsing President Mugabe as the party's candidate in the 2018 elections. The youth league recommended that President Mugabe be appointed life-President and that government acquires all remaining white-owned farms. The women's league called for a women's quota in the party's 'three-man' Presidium. Overall, the conference recommendations suggest limited scope for sustainable macro-policy reform.

Seasonal demand fuels food inflation

Inflation for November 2016 closed at -1.09%, down from -0.95% in the previous month. Month on month inflation in November 2016 was 0.02%, down from 0.09% in October 2016. Year to date inflation reached -0.99% as of November 2016. Negative inflation in November 2016 was partly countered by the food sub-sector (34% weight), registering inflation of 0.54%. Food inflation pressures could be attributed to seasonal demand patterns and import restrictions.

Interest rate hike support for the dollar

United States monetary authorities hiked benchmark interest rates by 0.25% and signalled towards three more rate hikes in 2017. The significance of higher interest rates is that demand for dollars increases relative to alternative currencies. Resultantly the dollar gained 0.78% against the Euro, closing the month under review at US\$1.05 per Euro. The dollar extended year to date gains on the Euro to 3.66%.

Anticipated output cuts support crude oil prices

Continued dollar appreciation weighed on international commodity prices as dollar denominated prices became relatively pricey in relative currency terms. The following table highlight commodity price movements in December 2016.

Commodity	Price	Dec'16	YTD
Nickel (usd/ton)	10,035.00	-11.16%	16.55%
Crude Oil (usd/barrel)	57.17	17.01%	55.78%
Gold (usd/oz)	1,159.75	-2.46%	9.15%
Platinum (usd/oz)	906.67	-1.80%	3.95%
Coffee (usd/lb)	135.45	-11.47%	9.37%
Maize (usd/ton)	137.39	-0.85%	-2.85%
Sugar (usc/lb)	19.49	-0.56%	28.14%
Cotton lint (usc/lb)	71.02	-0.18%	11.46%

Crude oil prices gained a noteworthy 17% during the month under review, going against the general soft trend. Crude oil prices were buoyed by an Organisation for Petroleum Exporting Countries (OPEC) November 2016 resolution to cut output, thereby supporting speculative prices.

Alternative Trading Platform Launched

During the month under review, the Securities Exchange Commission of Zimbabwe licenced an Alternative Trading Platform (ATP). The ATP commenced trading on 1 December 2016 and is envisioned to enhance liquidity of unlisted instruments as well as improving trading efficiencies.

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Locals driving listed equities rally...

The ZSE industrial index extended its rally, gaining 5.43% during the month under review to extend year to date gains to 25.84%. Support is largely premised on inflated demand for tangible assets in light of escalating monetary policy vulnerability. The following table summarises ZSE returns for the month ended 31 December 2016.

Sector	Value	Dec'16	YTD
Commodities	355.59	8.71%	22.18%
Consumer	209.98	4.17%	31.81%
Financial	95.31	5.25%	32.13%
Listed Property	118.97	7.22%	1.47%
Manufacturing	59.66	21.57%	29.30%
Industrial	144.53	5.43%	25.84%
Mining	58.51	1.97%	146.67%
Market Cap (usd bln)	4.214	4.73%	31.20%

The following tables highlight ZSE top and bottom 3 performing stocks for December 2016.

Top 3 Performers	Price USc	Dec'16	YTD
GBH	0.08	300.00%	700.00%
TRUWORTHS	1.00	100.00%	0.00%
ART	6.10	60.53%	510.00%

Bottom 3 Performers	Price USc	Dec'16	YTD
ZIMPAPERS	0.50	-37.50%	-16.67%
BNC	4.00	-11.89%	161.44%
BAT	1,525.00	-10.29%	25.00%

Foreign investor participation on the local bourse declined from 43.7% to 26.5% in December 2016. Foreign investors registered net sales of \$10.9 million, extending full year net sales to \$76.7 million (the highest annual sell-off by foreign investors post dollarization), compared to \$0.8 million last year. The total and daily average value of ZSE trades gained 10.8% and 28.3% to \$25.997 million and \$1.368 million, respectively during the month under review.

Economic Outlook

A thin likelihood of material external support raises the importance of corrective fiscal policy measures, more so in light of adverse externalities such as commodity price fluctuations and erratic weather conditions. Compromised central government funding presents considerable risks to household and corporate disposable earnings, threatening aggregate demand and overall growth. Overall, we anticipate a low growth equilibrium with risks increasingly skewed to the downside.