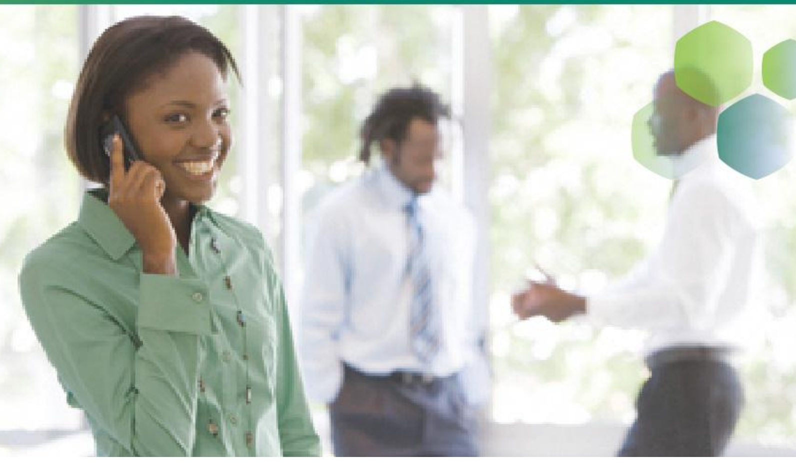
Monthly Economic Brief

November 2016



Highlights

Bond notes were introduced on 28 November 2016 - under a 'managed release' strategy.

The IMF lifted sanctions against Zimbabwe, but warned that new lending requires strong reforms.

Inflationary pressures creeping in, as October 2016 inflation reached -0.95%, up from -1.3% in prior month.

Hedging strategies propel ZSE market capitalisation by 13.8% to US$4.024 billion in November 2016.

Forex shortages threaten macro stability

The Zimbabwe Electricity Supply Authority (ZESA) warned of looming load-shedding citing forex shortages. ZESA is reportedly struggling to pay for imported energy resulting in 'serious arrears on all accounts with regional power utilities.' ZESA is reportedly being allocated US$500,000 by the RBZ, against a weekly forex requirement of US$5 million.

The Reserve Bank of Zimbabwe (RBZ) said fuel retailers are being allocated forex weekly to enable imports. The RBZ allayed fears of fuel shortages, amid reports of hording and winding queues. Fuel importers have a weekly forex requirement of about US$12 million. Compromised fuel and electricity supplies are worrying given that such payments are top of the RBZ forex priority list. Ability to service these sectors will present a major forex supply gauge going forward.

Bond Notes (and coin)…

Bond notes and coin hit the market on 28 November 2016. An initial tranche of only $12 million made up of $10 million in $2 notes and $2 million in $1 coin was issued. Withdrawal limits for bond notes were set at $50 per day and $150 per week, 'under a managed issuance basis.' On 26 November 2016 the RBZ had announced the imminent issuance of the notes, saying features of the notes would be released simultaneously with the notes.

A generalised excitement bordering on nervousness filled the market upon the release of bond notes. Some retailers rejected bond notes, citing lack of knowledge of security features. Banks have reported long queues as depositors seek to withdraw bond notes in light of cash shortages. Uptake (and acceptability) of bond notes has steadily increased, ostensibly in light of their scarcity. Scarcity will be imperative in managing market confidence.

The impact of bond notes so far has been mild and predominantly restricted to speculative bases, while the material impact might still be too early to tell. This notwithstanding; fears of imminent shortages, informalisation and inflation are growing, more so given reports of increasingly scarce US dollars on the formal market. Increasingly scarce US dollars might compel accelerated issuance of bond notes and coin - compromising the managed release strategy.

An immovable object against an unstoppable force

Treasury revised downwards its cumulative revenue projections for November and December 2016 by 14% from $773.1 million to $663.8 million. Meanwhile, President Mugabe reportedly summoned Minister of Finance Hon. Chinamasa and Minister of Public Service Hon. Mupfumira for a meeting to finalise a plan to honour public service bonuses. The impending meeting follows Cabinet's order reversing Hon. Chinamasa's mid-year fiscal policy proposal to suspend public sector bonuses for 2 years.

Muted celebrations… despite IMF sanctions removal

The IMF lifted sanctions on Zimbabwe (effective 14 November 2016) following Zimbabwe's settlement of outstanding arrears in October 2016. The IMF however warned that consideration of future requests for funding would depend on Zimbabwe's compliance with 'other applicable policies,' such as resolving arrears with other lenders and implementing strong fiscal and structural reforms. The prevailing political-economy framework suggests a continued 'managed isolation.'

Speculative pricing and seasonal trends spur inflation

Year on year inflation closed October 2016 at -0.95%, up from -1.33% in the previous month. Year on year food inflation closed at 2.03% against non-food inflation of -0.45%. Monthly inflation was 0.09%, compared to -0.26% in the previous month, extending year to date inflation to -1.0%. Seasonal consumption trends have been generally cited for the inflationary pressures. Speculative pricing tendencies could also be cited given reports of parallel market exchange rates implied on bond notes against the US$.

Trump victory supports the dollar

The US Dollar closed the month ended 30 November 2016 firmer against most trading currencies, registering gains of 0.4% and 3.4% against the South African Rand (ZAR) and Euro, respectively. The US dollar closed at ZAR13.85 per dollar and US$1.06 per Euro during the month under review. US dollar appreciation was seemingly supported by a Donald Trump U.S Presidential election victory. President elect Trump is known for his 'America first' mantra, providing some speculative support for U.S assets.

Firm dollar weighed on commodity prices

A firm US dollar makes commodity prices on the international market (dollar denominated) relatively pricier - thereby capping effective demand and prices. The following table highlight commodity price movements in November 2016.

Commodity	Price	Nov'16	YTD
Nickel (usd/ton)	11,295.00	9.29%	31.18%
Crude Oil (usd/barrel)	48.86	-1.35%	33.13%
Gold (usd/oz)	1,188.94	-6.60%	11.89%
Platinum (usd/oz)	923.25	-5.70%	5.85%
Coffee (usd/lb)	153.00	-6.54%	23.54%
Maize (usd/ton)	138.58	-0.56%	-2.01%
Sugar (usc/lb)	19.60	-10.95%	28.86%
Cotton lint (usc/lb)	71.15	0.72%	11.66%

Nickel prices conspicuously went against the general soft trend, gaining a noteworthy 9.29% during the month. Nickel price support has been primarily attributed to the world's largest consumer, China, restocking its base metal reserves. China consumes more than 50% of global nickel output.

In the trend persists, weak commodity prices threaten Balance of Payment positions for net importers, particularly developing and emerging countries that heavily rely on raw commodity exports. Global inflation could ebb in light of weaker oil prices.

Locals driving equities rally…

The ZSE industrial index firmed a significant 13.46% during the month under review, extending year to date gains to 19.36% as of 30 November 2016. The following table summarises ZSE returns for the month ended 30 November 2016.

Sector	Value	Nov'16	YTD
Commodities	327.10	11.64%	12.39%
Consumer	201.57	14.66%	26.54%
Financial	90.55	7.12%	25.54%
Listed Property	110.96	22.27%	-5.36%
Manufacturing	49.08	14.32%	6.36%
Industrial	**137.08**	**13.46%**	**19.36%**
Mining	**57.38**	**69.96%**	**141.91%**
Market Cap (usd bln)	**4,024**	**13.84%**	**25.28%**

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

Top 3 Performers	Price USc	Nov'16	YTD
BINDURA	4.54	127.00%	196.73%
MASIMBA	1.50	87.50%	50.00%
NICOZ	2.75	83.33%	82.12%

Bottom 3 Performers	Price USc	Nov'16	YTD
POWERSPEED	2.00	-8.68%	-9.09%
NTS	1.10	-4.35%	-35.29%
AXIA	5.99	-0.17%	-20.13%

For the twelfth consecutive month, foreign investors were net sellers on the local bourse. Foreign investors had net sales of $12.9 million, moving the cumulative year to date net sales by foreign investors to $65.9 million, compared to inflows of $3.7 million last year. Continued net foreign investor sales and weak fundamentals suggest the ZSE rally is being driven by local investor portfolio shifts towards 'real' assets as a hedge against exposure to monetary assets.

Economic Outlook

Central government funding constraints pose a risk to sustainable macro-economic recovery. Such funding pressures against inescapable obligations raise the risk of unorthodox funding measures. Consequently, monetary policy is 'at risk,' more so given its arguably compromised autonomy.

A generalised fear of bond notes could drain already scarce foreign currency from the formal market, fuelling parallel markets and triggering speculation of 'more bond notes' to cover the cash deficit. The macro outlook dictates caution.