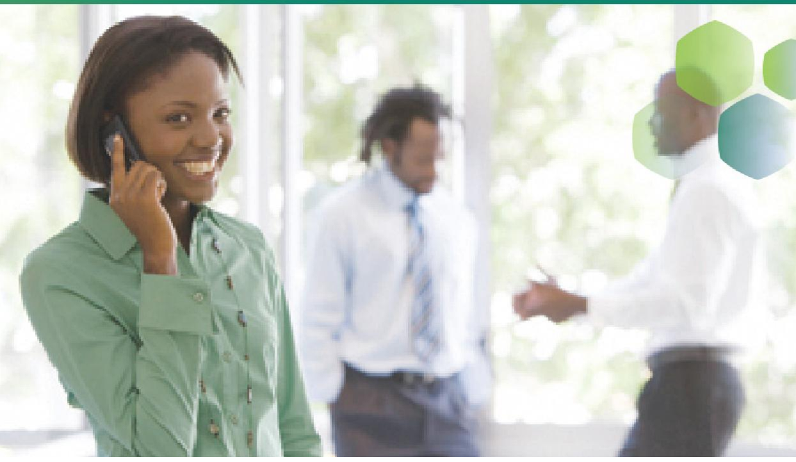
Monthly Economic Brief

June 2016



Highlights

Threat of civil disorder inflated by deteriorating macro-economic variables and restrictive policy.

Government exploring all avenues towards international re-engagement.

June 2016 public pay dates postponed on the back of tight central government funding conditions.

Year on year inflation closed May 2016 at -1.69%, down from -1.64% in the previous month.

Total ZSE market capitalization retreated by 2.45% to close the month under review at US$2.919 billion.

Generalised market uncertainty

Over the past few weeks, the need for structural policy reforms has seemed urgent. Whilst the market had seemingly adopted strategies to 'muddle through' macro-economic difficulties, concerns are that economic fragilities might be escalating towards socio-political unease amid pockets of civil disorder. The soft landing traits that had characterised the market have suddenly accelerated to a frantic panic mood, characterised by a generalised sense of uncertainty.

Government postponed the introduction of 'Bond notes' from July to around October 2016. The move, though welcomed by proponents of the status quo, sustains monetary policy uncertainty. Meanwhile, measures to restrict imports of locally available goods were met by stiff resistance, leading to violent clashes between traders and security forces. Economic policies that defy market forces, especially those lacking public buy-in are unlikely to yield desired results.

Work in progress…

Chinese President Xi Jinping reportedly deployed a special envoy to Zimbabwe to update President Mugabe on progress regarding 'mega-deals' signed between 2014 and 2015. Under the deals, China pledged to bankroll infrastructure projects worth billions of dollars in line with Zimbabwe's economic blueprint 'ZIMASSET. Given limited foreign funding sources and drying domestic sources, implementation of the mega-deals as an economic stimulus becomes a matter of urgency.

Government has reportedly embarked on an accelerated valuation exercise of agricultural land as it moves towards compensating displaced farmers. Minister of Finance Hon. Patrick Chinamasa said displaced farmers will be compensated for seized land, developments and equipment. Minister of Lands Hon. Douglas Mombeshora said the process will also involve identification of idle land for redistribution. Conclusion of the land issue is necessary for full international re-engagement.

Central government funding under pressure

Treasury announced the postponement of settlement dates for June 2016 public service salaries. Payments that were meant to start around the 13th of June would be staggered from the end of June to mid-July 2016. Resultantly, public sector employees, mostly in the education and health sectors are engaged in a stay-away. Delayed public salaries are likely to have a significant bearing on aggregate demand, investment, spending and consumption decisions.

In January 2013, then Minister of Finance Tendai Biti reportedly disclosed that government had US$217 as its bank balance. Between then and now, government funding sources do not seem to have materially improved, suggesting not much change from the 2013 position. A shrinking revenue base and accompanying underperforming tax revenue collections against targets suggests a high likelihood of government turning to the private sector for funding, ostensibly through debt instruments.

Matter of differing opinions…

Minister of Finance Hon. Patrick Chinamasa reportedly said the announcement of plans to introduce 'Bond notes' by the Reserve Bank of Zimbabwe was premature. He however believes that contrary to market fears, bond notes will maintain their value. Meanwhile, Speaker of the House of Assembly, Hon. Jacob Mudenda said given the choice, he would buy gold with the US$200 million AFREXIMBANK facility backing bond notes. Contradicting assertions on fundamental policy matters suggests widening political and policy polarization.

Deflation becoming entrenched

Year on year headline inflation declined from -1.64% to -1.69% in May 2016. On a month on month basis, inflation for May 2016 closed at -0.24%, down from -0.21% in the previous month. Year to date inflation reached -0.72% in May 2016, compared to -1.51% in the same period last year. Depressed aggregate demand and sustained US$ strength against trading partners are key factors driving the persistent deflation.

Brexit support for the dollar

On 23 June 2016, Britain voted 52% to 48% in favour of the country leaving the European Union (Brexit). Resulting uncertainty over the accompanying implications of the 'Brexit' fuelled market risk aversion, partly because the likely global implications on international trade and investment are exceptionally difficult to quantify. As investors sought to hedge against possible losses; defensive assets such as the dollar and gold registered significant gains from safe-haven demand.

By the end of June 2016, the US$ had registered gains of 8.4% and 2.0% against the British Pound and Euro, closing at US$1.34 and US$1.11, respectively. The shock Brexit vote did not fully reverse earlier gains as the South African Rand sustained gains of 4.8% against the dollar from its opening position, to close the month under review at ZAR15.01.

Commodities also felt Brexit effects

Commodity prices were predominantly bullish during the month ended 30 June 2016, as highlighted in the table below.

Commodity	Price	Jun'16	YTD
Nickel (usd/ton)	9,280.00	10.81%	7.78%
Crude Oil (usd/barrel)	50.01	1.05%	36.27%
Gold (usd/oz)	1,317.24	8.74%	23.97%
Platinum (usd/oz)	1,003.72	2.81%	15.08%
Coffee (usd/lb)	146.40	19.27%	18.21%
Maize (usd/ton)	149.30	-7.78%	5.57%
Sugar (usc/lb)	21.10	20.02%	38.72%
Cotton lint (usc/lb)	66.32	3.85%	4.08%

As expected under global markets uncertainty, gold registered a noteworthy gain of 8.74% as risk-averse investors sought to hedge against possible losses emanating from the Brexit vote among other themes shaking global market confidence. A strong dollar also worked in favour of commodity prices as output from emerging markets become less pricey in dollar terms, on the back of a strengthening dollar.

Maize prices bucked the general trend, retreating 7.78% during the month under review. Higher than earlier anticipated maize output in the United States (world's largest maize producer) weighed on global prices. A strengthening dollar also made maize exports from the United States more costly as importers had to fork out more in terms of local currencies, adding downward pressure to the dollar denominated prices.

Investment rate depressed by limited deposit demand

Money market interest rates maintained a downward trend, depressed by limited lending activity and associated weak deposit demand. Lending was curtailed by compromised borrower ability to repay in light of a weak earnings outlook, exacerbated by inherent monetary policy uncertainties. The average 90 days interest rate quote eased from 3.07% to 2.93% during the month under review.

Equities weighed down by foreign investor sell-off

The ZSE industrial index retreated 3.50% during the month ended 30 June 2016, weighed down by shaky investor sentiment and weak fundamentals. Total market capitalization shed 2.45% to close at US$2.919 billion. The following table highlights ZSE sector returns for the month under review.

Sector	Value	Jun'16	YTD
Commodities	216.89	2.66%	-25.47%
Consumer	146.16	-2.62%	-8.25%
Financial	72.65	-3.91%	0.72%
Listed Property	93.14	-2.35%	-20.56%
Manufacturing	44.53	8.01%	-3.49%
Industrial	**101.04**	**-3.50%**	**-12.02%**
Mining	**24.70**	**-3.29%**	**4.13%**
Market Cap (usd bln)	**2.919**	**-2.45%**	**-9.13%**

Total turnover on the local bourse firmed 30% in June 2016, to close at US$18.065 million. The average daily value of trades also gained 18% over the same period, closing the month at US$0.821 million. The following tables highlight ZSE top and bottom 3 performing stocks for June 2016.

Top 3 Performers	Price USc	Jun'16	YTD
ART	2.88	105.71%	188.00%
CFI	7.34	21.12%	46.80%
COLCOM	18.25	17.74%	7.35%

Bottom 3 Performers	Price USc	Jun'16	YTD
BARCLAYS	1.50	-37.50%	-64.71%
OK	3.00	-30.23%	-40.00%
ZIMRE	0.72	-17.24%	-24.21%

Trades by foreign investors constituted 74% of the total market, up from 52% in the previous month. Foreign investors were net sellers for an eighth consecutive month, registering a net sale position of US$4.5 million in June 2016, up from US$1.1 million in the previous month. Cumulative year to date net portfolio outflows reached US$21.3 million, compared to inflows of US$4.2 million in the same period last year.

Economic Outlook

An escalation of the present state would be ruinous. The immediate outlook sustains an unhealthy tension under a thick cloud of political and policy ambiguity. The resulting market uncertainty is likely to weigh on gross investment growth, spending and consumption decisions, threatening the national earnings outlook.

Cascading effects from macro weakness depress expected investment returns, despite anticipated safe-haven support for equities and properties. Prevailing market vulnerabilities prescribe a long term investment view, while safety over return considerations seem most prudent for near-term responses.

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