

# Monthly Economic Brief

## January 2018



### Highlights

**Zimbabwe aggressively seeks international re-engagement.**

**The IMF warned that addressing the fiscal deficit is critical for restoring Zimbabwe's economic growth.**

**Government sets rebuilding public and investor confidence as short term priority target.**

**Inflation surged from -0.93% to 3.46% in 2017, spurred by monetary uncertainties.**

**ZSE market capitalization retreated 9.55% to close January 2018 at \$9.154 billion.**

#### Zimbabwe on re-engagement path

Zimbabwe's new administration notably intensified efforts to re-engage the mainstream international community. Speaking at the World Economic Forum, an annual gathering of global business and political leaders, President Mnangagwa pledged to hold credible elections before July 2018. He also indicated that the ruling ZANU-PF would accept any election outcome and international observers are welcome – particularly from the European Union. President Mnangagwa also engaged IMF Managing Director Christine Lagarde and visited most African heads of State, appraising them on the administration's plans.

Zimbabwe's Ambassador to the United States, Ammon Mutembwa was invited to attend U.S President Trump's State of the Union Address – a gesture ostensibly signalling improving relations. British Minister of State for Africa, Harriet Baldwin, pledged closer cooperation with Zimbabwe's new administration ahead of her trip to Zimbabwe to meet President Mnangagwa. International Monetary Fund (IMF) spokesperson Gerry Rice noted that the Fund's relationship with Zimbabwe 'has been evolving in a very positive way for some months now'.

#### No easy road to revival and reintegration

The IMF noted that restoring Zimbabwe's economic growth requires concerted efforts to tackle the fiscal deficit, including rationalising and better targeting expenses on agricultural support programs. In addition, fiscal consolidation must be accompanied by structural reforms to strengthen the role of the private sector, by reducing policy uncertainty and improving the business climate.

The Fund stressed that clearance of arrears with other creditors remains a key prerequisite for a new funding program for Zimbabwe. The Fund however acknowledged ongoing and important efforts by authorities to address inherent difficulties. In addition to strong reform, a concerted international effort will also be required to revive and reintegrate the Zimbabwean economy.

#### New government priorities...

Minister of Finance Hon. Patrick Chinamasa said the long term strategy of the new government is to ensure sustainable growth underpinned by political stability. Government targets average annual GDP growth of 8% over the next 10 to 15 years. Minister Chinamasa reiterated the need to rebuild public and investor confidence as a short term target.

#### Inflation closed 2017 at a 5 year peak

Annual broad money supply (M3) increased by 48% to \$8 bln in November 2017. Lending to government over the same period gained 85% to \$6.3 bln; with \$3.8 bln owed to the Central Bank. Central Bank liabilities to the banking sector closed November 2017 at \$2.3 bln, up 80% on a year on year basis.

Inflation closed 2017 at 3.46% (5 year peak), up from -0.93% in 2016. Monthly inflation for December 2017 was 0.53%, down from 0.74% in the preceding month. The jump in 2017 inflation was mostly expected, in light of monetary policy fragilities that worsened in 2017 and associated foreign currency premia loaded onto prices of imported goods.

## US\$ on the back foot

The United States Dollar (US\$) closed the month ended 31 January 2018 softer against most trading currencies. The dollar shed 3% against the South Africa Rand (ZAR) to close at ZAR11.96, from an opening position of ZAR12.33 per dollar. The dollar closed the month under review 3.6% weaker against the Euro at \$1.24, from \$1.2 per Euro at the beginning of the month.

A relatively bullish global growth outlook and the accompanying likelihood of Central Banks tightening monetary policy to spur higher yields outside the U.S weighed on the dollar.

## Weak dollar supported commodity demand

Commodity price movements, particularly for hard commodities closed the month ended 31 January 2017 firmer, as highlighted in the following table.

Commodity	Price	Jan'18	YTD
Nickel (usd/ton)	13,630.00	12.74%	12.74%
Crude Oil (usd/barrel)	68.55	3.11%	3.11%
Gold (usd/oz)	1,343.02	3.58%	3.58%
Platinum (usd/oz)	1,003.75	7.96%	7.96%
Coffee (usd/lb)	122.60	-1.76%	-1.76%
Maize (usd/ton)	141.63	2.64%	2.64%
Wheat	452.50	6.10%	6.10%
Sugar (usc/lb)	13.68	-8.56%	-8.56%
Cotton lint (usc/lb)	77.04	-1.97%	-1.97%

Nickel prices led the gainers, supported by a growing global supply shortfall and strong demand for stainless steel (nickel product) from China - the world's largest base metal consumer. Gold prices firmed in response to a weaker dollar - supporting the demand for gold as an alternative store of value.

Cereal prices were buoyed by a weak dollar, despite large global stocks. Adverse weather also propped speculative demand on anticipation of increased future demand. Sugar registered a noteworthy price decline, weighed down by ample global supplies in major producing regions.

## First mobile bond 73% oversubscribed

Zimbabwe's first ever mobile based retail note, U-Gain bond; a \$1 million debt instrument issued on 4 December 2017 was 73% oversubscribed. Issuance closed on 26 January 2018 and it debuted on the alternative trading platform FINSEC Fixed Income Board. The paper has a 12 months tenure attracting interest of 9% paid semi-annually.

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## Local portfolio shifts weigh on ZSE

Bears dominated the local bourse, with the ZSE all share index retreating 8.68% during the month ended 31 December 2018 as highlighted in the following table.

Sector/Index	Value	Jan'18	YTD
Commodities	977.21	-1.29%	-1.29%
Consumer	446.25	-9.96%	-9.96%
Financial	170.05	-9.22%	-9.22%
Listed Property	166.16	-16.99%	-16.99%
Manufacturing	189.89	-2.85%	-2.85%
Industrial	305.35	-8.31%	-8.31%
Mining	130.42	-8.41%	-8.41%
<b>Top Ten</b>	<b>90.26</b>	<b>-9.57%</b>	<b>-9.57%</b>
<b>All Share</b>	<b>90.97</b>	<b>-8.68%</b>	<b>-8.68%</b>
<b>Market Cap (\$ bln)</b>	<b>9.154</b>	<b>-9.55%</b>	<b>-9.55%</b>

The following tables highlight the ZSE top and bottom three performing stocks for January 2018.

Top 3 Performers	Price USc	Jan'18	YTD
TSL	45.00	22.1%	22.1%
MEIKLES	35.00	19.9%	19.9%
CAFCA	35.00	16.7%	16.7%

Bottom Performers	Price USc	Jan'18	YTD
CBZ	10.00	-33.3%	-33.3%
BINDURA	4.00	-27.5%	-27.5%
FIDELITY	8.00	-27.3%	-27.3%

ZSE total value of trades eased 54% to \$34.7 million in January 2018. The average daily value of trades declined by 62.3% to \$1.577 million over the same period. For the 2<sup>nd</sup> consecutive month; foreign investors were net buyers, adding \$9 million to the \$5 million net inflows registered in December 2017.

Inversely; local investors were net sellers, accounting for 70.7% of total trades during the month under review. Profit taking, a relatively stable monetary policy framework and renewed investor risk appetite could partly explain the portfolio shift by local investors.

## Economic Outlook

Adverse market expectations have notably ebbed under the new dispensation, diluting speculative asset and consumer demand as well as adverse pricing tendencies. The inherent policy imbalances however underscore structural fragilities. We maintain a cautiously optimistic view into the near term outlook.