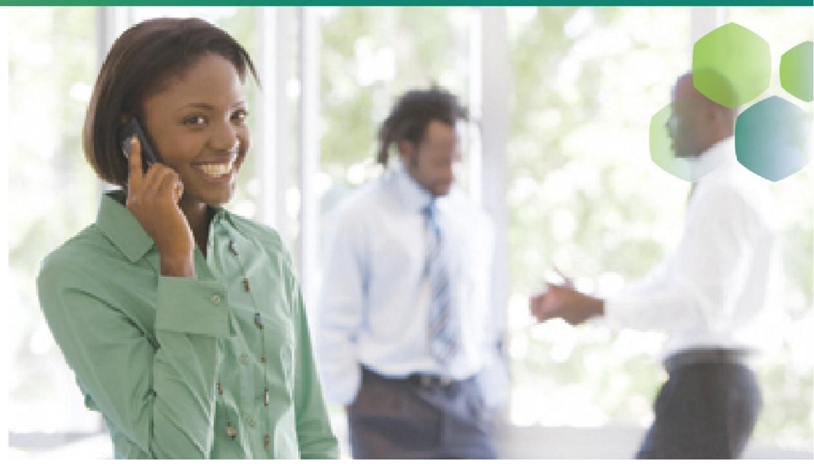
Monthly Economic Brief

February 2016



Highlights

Net revenue collection for 2015 fell by 3% to US$3.5 billion and was below target of US$3.76 billion.

Mining revenue for 2015 fell 7.1% in 2015 to US$1.8 billion.

Commerzbank closed Zimbabwe's nostro accounts, as cash crisis hits the banking sector.

Inflation gained 0.29 percentage points in January to -2.19%

The Pound hit 7 year lows against the USD as the Rand strengthened on benchmark interest rate hike.

Total ZSE market capitalization closed the month under review 3.36% weaker at US$2.844 billion.

Net revenue continues to decline

Net revenue for 2015 fell by 3% to US$3.50 billion as most revenue heads performed below target, save for excise duty, VAT on imports, carbon tax and withholding tax on dividends, fees, interest and remittances. Excise duty was spurred by the increase in rates for petrol and diesel and imposition of duty on airtime. Revenue was largely realised from direct taxation, which contributed 34.35% to total revenue. There was however a decline in PAYE relative to previous year due to massive retrenchments that took place during the year. Corporate tax grew 7.25% on 2014 levels driven by exceptional collection. The continued company closures and lower corporate profits is however likely to have a negative impact on corporate tax collections going forward.

Collections for 2015 largely reflect a subdued economy where formal employment is shrinking. Significant contribution by direct taxes shows the regression in consumer spending which has resulted in falling contribution from indirect tax. We anticipate the state of affairs in the economy to worsen in 2016, pointing to high possibility of lower collections for the year.

Mining revenue unimpressive in 2015

The State of Mining Industry Report, as presented by the Chamber of Mines, revealed that mineral revenue declined by 13.1% to US$1.8 billion in 2015. This was following a 2.5% fall in output as well as subdued international prices. Output declined generally across mineral classes with the exception of gold and platinum which rose by 30% and 1%, respectively. Average capacity utilisation in the mining sector declined to 60% in 2015 from 71% in 2014 as the sector continue to be hounded by capital challenges, power outages and high cost of production. Significant price declines were registered across all key minerals with nickel recording the biggest slump of 49% following a decline in demand from China.

The Chamber of Mines is anticipating the mineral output to grow by 1.6% in 2016. Gold production volumes have been improving and this trend is expected to continue in 2016. Global mineral prices are however likely to remain depressed due to the economic slowdown in China. Mineral revenue is therefore likely to close the year in the negative.

Commerzbank closes Zimbabwe's nostro accounts

Commerzbank requested all Zimbabwean banks to close the nostro accounts that they held with the bank. Nostro accounts are foreign bank accounts that belong to local banks. The request was made a few weeks after Barclays Plc was fined US$2.5 million by the US Treasury for processing transactions from three Barclays Zimbabwe corporate customers whose beneficial owner is on the US sanctions list. It is speculated that the move by Commerzbank was a proactive move on their part to avoid a similar circumstance which attracts penalties. Most banks have however managed to secure new correspondent banks for their nostro accounts.

Meanwhile a notable cash crisis has hit the banking sector across the country. The situation could worsen if the challenges on the nostro funding are not addressed.

Inflation register gains but deflationary pressures persist

Year on year inflation gained a marginal 0.29 percentage points, in the month of January to -2.79%. The Rand marginally strengthened during the month, although it remains fundamentally weak. This helped to somewhat offset deflationary pressures. Aggregate spending was also boosted by the payment of civil service salaries for December in January as evidenced by the increase in food and non-alcoholic beverages inflation which went up by 0.34 percentage points to 0.13%. We however expect deflationary pressures to persist, albeit at a slower pace due to the drought.

GBP tumbles on Brexit risk

Continued risk of the so called 'Brexit' has been the major factor weighing down on the pound. During the month of February, the pound hit a 7 year low after the mayor of London supported the campaign for Britain to leave the European Union. By close of the month, the pound was trading 2.99% weaker against the USD at 1.3866.

The South African Rand (ZAR) closed the month stronger against the dollar after gaining 1% to 16.1414. This was after the South African Reserve Bank increased its benchmark interest rate by 50 basis points to 6.25%. Such a measure is seen as containing the ZAR depreciation in the short term but the deteriorating economy and undesirable political impact are likely to continue fuelling ZAR depreciation in the long term.

Gold got diehard fans excited

Gold lodged an exciting rally for the month after it gained 10.82% to US$1,233.57/oz. The mineral got a boost from the wobbling China, plummeting of crude oil since beginning of the year and the noisier campaigning for Britain to exit the EU. Likewise, platinum traded stronger by 6.38% for the month.

Commodity	Price	Feb'16	YTD
Nickel (usd/ton)	8 405.00	-1.81%	-2.38%
Crude Oil (usd/barrel)	35.00	1.48%	-4.63%
Gold (usd/oz)	1 233.57	10.82%	16.09%
Platinum (usd/oz)	919.75	6.38%	5.45%
Coffee (usd/lb)	115.2	-3.32%	-6.98%
Maize (usd/ton)	1 42.02	-1.50%	0.42%
Sugar (usc/lb)	14.14	6.08%	-7.03%
Cotton lint (usc/lb)	57.10	-7.37%	-10.39%

Other commodities were generally weak as the slowing growth in China continued to impact their performance. Nickel traded weaker with losses of 1.81% for the month and 2.38% year to date. Cotton failed to recover due to the slowdown in China resulting in 7.37% losses for the month.

Downward pressure on interest rates sustained

Money market rates remained subdued averaging 3.29% in February from 3.77% in the previous month for a 90 day quote. Banks remain wary of increased credit risk resulting in reduced effective lending.

We expect interest rates to continue on a downward trend because of the deflationary pressures and cautious lending.

ZSE hits 7 year lows

The industrial index breached the 100 point mark during the month and recorded losses of 3.44% for the month to end at 99.50 points. Such levels were last recorded in April 2009. Most of the blue chip counters continued to underperform, weighing on market capitalisation which closed the month at US$2.8 billion after losing 3.36%.

Sector	Value	Feb'16	YTD
Commodities	271.31	-2.36%	-6.78%
Consumer	133.68	-3.74%	-16.08%
Financial	72.49	-0.57%	0.50%
Listed Property	107.76	-4.58%	-8.09%
Manufacturing	40.07	-12.70%	-13.17%
Industrial	99.50	-3.44%	-13.37%
Mining	19.14	-2.00%	-19.31%
Market Cap (usd bln)	2.844	-3.36%	-11.46%

The following tables highlight the ZSE top and bottom 4 performing stocks for the month under review.

Top 4 Performers	Price USc	Feb'16	YTD
GENERAL BELTINGS	0.03	100.00%	100.00%
GETBUCKS	3.7	8.00%	8.19%
OLD MUTUAL	180	6.00%	-11.51%
NMBZ	3.8	6.00%	8.57%

Bottom 4 Performers	Price USc	Feb'16	YTD
CAFCA	22.45	44.00%	-43.88%
LAFARGE	27.00	23.00%	-22.86%
MASIMBA	0.70	22.00%	-30.00%
PROPLASTICS	1.80	22.00%	-14.29%

Total value of trades for the month totalled US$15.6 million, which is a gain of 37.1% from the previous month. Average daily values of trades for the month were US$0.7429 million, up 30.6% from the previous month.

Economic Outlook

The drought could see Treasury under pressure to fund food imports and worsens the already unstable government funding position. The strong dollar and weak commodity prices could continue to affect export revenue. The economy therefore faces headwinds which are likely to compromise economic growth in the current period. Weak economic performance has a negative bearing on the investment markets which therefore prescribes a cautious approach.