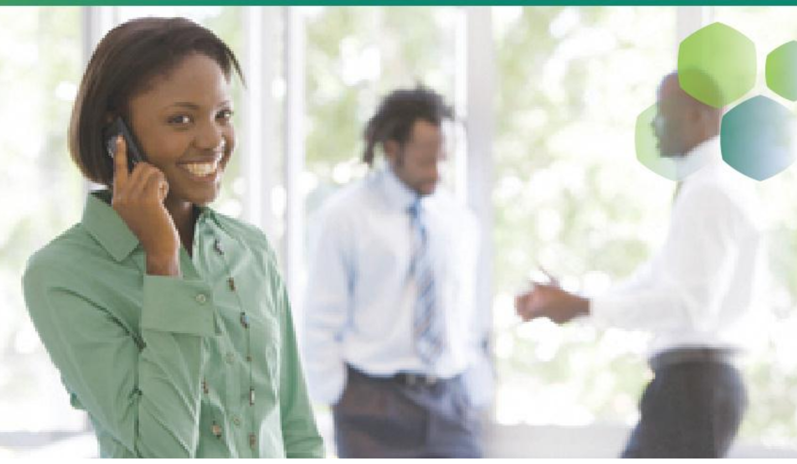
Monthly Economic Brief

February 2017



Highlights

2017 Monetary Policy caps lending interests at 12% and commits to maintaining bond note strength.

Public service employees threaten strike action over outstanding 2016 bonuses.

January 2017 inflation was -0.65%, up from -0.93% in December last year.

ZSE market capitalization retreated 3.89% in February 2017, closing the month at US$3.842 billion.

European Union sanctions extended by one year

First Lady Dr. Grace Mugabe commenced cross country rallies in preparation for 2018 general elections, in which President Mugabe is set to contest following his endorsement as the ZANU-PF candidate. President Mugabe reportedly said the majority of the populace feels there is no suitable candidate to succeed him, reiterating that he will not step down unless if 'the people' ask him to do so.

The European Union voted to continue economic and travel restrictions against President Mugabe, Dr. Mugabe and the Zimbabwe Defence Industry. The sanctions were extended for one year effective 21 February 2017. Continued strategic isolation poses a material risk to overall economic recovery prospects.

2017 Monetary Policy highlights…

Reserve Bank of Zimbabwe Governor Dr. John Mangudya presented the 2017 Monetary Policy Statement on 15 February 2017. All things normal, monetary policy should influence interest rates, exchange rates and inflation through the manipulation of money supply. Resultantly, the prevailing multi-currency regime presents a major restriction to monetary policy efficacy.

The 2017 monetary policy was expectedly focused on bank supervision. Policy measures include a 12% lending interest rate ceiling for banks and an upward review of deposit interest rates. The Central Bank is also committed to maintaining parity between local 'bond notes' and the United States Dollar. The export incentive paid out in bond notes could also be extended to the tourism sectors.

The ceiling on interest rates against pressure to increase deposit rates is likely to depress bank profitability. The interventionist approach to interest rates is also set to compromise local interest rates as a measure of key environment variables such as money supply and risk profile. The Bank's commitment to parity between bond notes and dollars could present a key macro-policy bellwether.

Government 'still' committed to paying 2016 bonus

Public service employee representatives called for workers to embark on industrial action on 6 March 2017, citing government's delays in settling 2016 bonuses. Doctors, nurses and rural teachers are already engaged in industrial action and the planned protest is likely to exacerbate the overall situation, possibly crippling public operations.

Government expressed its commitment to paying the bonuses, despite apparent central government constraints. Such pressure on the fiscus significantly inflates the risk of populist spending, more so ahead of the 2018 general elections.

Isolated threats of indigenisation

Minister of Industry and Commerce, Hon. Mike Bimha reportedly urged local authorities to stop granting operating licences to foreign businesses in sectors reserved for locals under Zimbabwe's empowerment laws. Sectors covered under the 'reserved pool' include advertising, agriculture, transport, retail and distribution. Foreign investors have often cited the contentious and often 'misunderstood' law as a major hindrance to foreign investment inflows.

Inflation pressures sustained

Year on year inflation for January 2017 was -0.65%, up from -0.93% in the previous month and -2.19% in the same month last year. Month on month inflation closed January 2017 at 0.23% as monthly inflation registered a fourth straight positive reading. Major inflation drivers were processed food items in the overall CPI basket. January 2017 food inflation pressure was partly attributed to restricted imports in light of foreign currency constraints.

Dollar closed the month mixed…

Hints of two or three impending interest rate increases in 2017 by United States monetary authorities supported the dollar on anticipation of higher yields on dollar denominated assets. Resultantly, the dollar firmed 1.1% against the Euro to close the month ended 28 February 2017 at US$1.06 per Euro.

The dollar shed 4.3% against the South African Rand (ZAR) to end the month under review at ZAR12.94 per dollar. ZAR support was attributed to possible re-rating following reports that about 17 banks faced possible prosecution over allegations of having previously manipulated exchange rates involving the ZAR.

Commodity prices responded positively to weak US$

Hard commodity prices were bullish while soft commodity prices closed the month under review weaker as highlighted in the table below.

Commodity	**Price**	**Feb'17**	**YTD**
Nickel (usd/ton)	10,890.00	14.75%	8.52%
Crude Oil (usd/barrel)	55.78	1.14%	-2.43%
Gold (usd/oz)	1,252.24	4.59%	7.97%
Platinum (usd/oz)	1,029.02	4.20%	13.49%
Coffee (usd/lb)	141.85	-5.59%	4.72%
Maize (usd/ton)	145.46	3.14%	5.87%
Sugar (usc/lb)	439.75	6.03%	8.51%
Cotton lint (usc/lb)	19.23	-5.27%	-1.33%

A major environmental crackdown on mining operations in the Philippines led to a directive for the permanent closure of nickel miners accounting for 8% of global supplies. Speculative buys supported nickel prices, closing the month 14.75% firmer.

Soft commodity prices were generally mixed. Coffee and cotton prices closed the month weaker while maize and sugar consolidated earlier gains to extend year to date gains. Cotton prices dipped to a 1.33% decline on a year to date basis in light of more competitively priced synthetic substitutes.

Bears return on weak foreign interest…

The ZSE Industrial index shed 3.5% during the month ended 28 February 2017, extending its year to date decline to 6.4% as highlighted in the following table.

Sector	**Value**	**Feb'17**	**YTD**
Commodities	357.86	-1.50%	0.64%
Consumer	190.03	-4.87%	-9.50%
Financial	92.45	-1.62%	-3.00%
Listed Property	118.21	-0.41%	-0.63%
Manufacturing	66.47	3.08%	11.40%
Industrial	**135.31**	**-3.52%**	**-6.38%**
Mining	**56.47**	**0.28%**	**-3.49%**
Market Cap ($ bln)	**3,842**	**-3.89%**	**-8.83%**

The following tables highlight ZSE top and bottom 3 performing stocks for February 2017.

Top 3 Performers	**Price USc**	**Feb'17**	**YTD**
FALGOLD	1.00	66.67%	66.67%
PROPLASTICS	5.00	19.05%	19.05%
ZB	6.40	15.11%	41.59%

Bottom 3 Performers	**Price USc**	**Feb'17**	**YTD**
ECONET	14.00	-17.01%	-53.33%
NTS	1.01	-12.17%	-8.18%
BARCLAYS	2.50	-10.71%	-21.88%

Participation of foreign investors on the local bourse declined from 57% to 33% during the month under review. Net foreign portfolio flows moved from a net outflow position of $7 million to net outflows of $3.8 million as foreign investors remained net sellers. The ZSE total monthly value of trades gained 28.3% to $11 million while the average daily value of trades firmed 34.7% in February 2017.

Economic Outlook

Environment stability is mildly threatened by an increasingly fragile political environment. Simmering political undertones threaten macro-economic policy stability ahead of the impending elections. The prospects for gross investment growth and overall economic performance are depressed by the resultant investor unease.

Monetary policy under the prevailing multi-currency framework is likely to remain hugely constrained in terms of the traditional monetary policy objectives. A generalised market uncertainty regarding 'bond notes' and the inherent fear of overprinting, sustain significant inflation expectations. Consequently, inflation poses considerable risk to the outlook.