

Monthly Economic Brief

February 2018



Highlights

The United States extended targeted sanctions on Zimbabwe.

January 2018 tax revenue collections increased by 29% compared to same period last year.

Net credit to government closed 2017 at \$6.3 billion, 75% up in twelve months.

Year on year inflation increased from 3.46% to 3.52% in January 2018.

ZSE market capitalization retreated 4.4% to close February 2018 at \$8.755 billion.

Not yet uhuru...

The United States extended targeted sanctions on Zimbabwe's administration. The sanctions list was also lengthened to include government officials that benefitted from the November 2017 military assisted political transition. According to media reports, the sanctions extension carries the possibility of a review after the impending 2018 general elections.

The extension of sanctions (in the post political transition era) underlines the fact that full re-engagement is an onerous process and that impending elections could be a key milestone in the outlook.

Making progress

African Union (AU) Commissioner in charge of political affairs, Minata Samate Cessouna, met Zimbabwe Electoral Commission (ZEC) officials. The AU Commissioner reportedly expressed satisfaction with the Biometric Voter Registration (BVR) process being used for the forthcoming polls. As of mid-February 2018 ZEC estimated the number of registered people at 5.3 million, against an estimated eligible voting population of 7.2 million people.

Enhanced tax collection measures bearing fruit

National net tax revenue collections for January 2018 closed at \$336.99 million, 4% above target. January 2018 tax revenue collections also exceeded collections in January 2017 by a noteworthy 29%. The Zimbabwe Revenue Authority (ZIMRA) partly attributed the strong performance to enhanced collection measures by the authority.

Fiscal policy efficacy requires an accompanying enhancement of national expenditure. In the absence of sustainable external support and inescapable spending such as impending elections, the commendable revenues may be meaningless due to persistent budget overruns.

Potential game changers...

President Mnangagwa commissioned the first batch of rail equipment from South Africa under a reported \$400 million National Railways of Zimbabwe recapitalization program. President Mnangagwa also said negotiations are at an advanced stage for Zimbabwe to partner a Botswana-based diamond processing entity to enhance the earning potential of local diamonds on the international market.

Continental energy player, General Electric Africa reportedly approached Parliament, stating its interest in investing in the 2,400MW Batoka Hydro power project. Zimbabwe's national electricity demand is currently estimated around 2,200MW.

Inherent monetary vulnerability clouds progress

Money supply closed 2017 at \$8.106 bln, 44% up from December 2016. Over the same period, Bond notes and coin in circulation increased from \$70 mln to \$332 mln. Credit to government firmed 75% from \$3.6 bln to \$6.3 bln over the 12 month period to December 2017. Monetary policy expansion partly sustained inflation pressures. Inflation for January 2018 was 3.52%, up from 3.46% in December 2017. Monthly inflation was softer at 0.30%, compared to 0.53% in the previous month.

Dollar mixed against major currencies

The South Africa Rand (ZAR) firmed 3.6% against the United States Dollar, closing the month ended 28 February 2018 at ZAR11.53 per dollar, from an opening of ZAR11.96. Against the Euro, the dollar gained 0.8%, from an opening position of US\$1.24, to US\$1.23 per Euro. Dollar appreciation against the Euro was propped by the United States Fed loosening monetary policy slower than earlier anticipated.

ZAR strength was partly driven by positive net portfolio inflows and an arguably more business-accommodative political framework following the resignation of former President Jacob Zuma. Going forward, ZAR direction is likely to respond to country risk factors such as inflation expectations and a contentious land reform proposition.

Commodities predominantly negative

Commodity price movements, particularly for hard commodities closed the month ended 28 February 2018 softer, as highlighted in the following table.

Commodity	Price	Feb'18	YTD
Nickel (usd/ton)	13,678.00	0.35%	13.13%
Crude Oil (usd/barrel)	67.10	-2.12%	0.93%
Gold (usd/oz)	1,337.70	-0.40%	3.17%
Platinum (usd/oz)	1,000.63	-0.31%	7.63%
Coffee (usd/lb)	121.95	-0.53%	-2.28%
Maize (usd/ton)	148.32	4.73%	7.49%
Wheat	470.25	3.92%	10.26%
Sugar (usc/lb)	13.47	-1.54%	-9.96%
Cotton lint (usc/lb)	81.93	6.35%	4.25%

International trade is primarily denominated in dollars. Resultantly, a strong dollar makes commodities pricier in alternative currency terms. The above table shows that hard commodities reacted negatively to the firm dollar as consumers (mostly already sitting on some stockpiles) slowed demand.

Soft commodities such as grains and cotton went against the general trend, registering gains during the month under review. The gains were in part attributable to relatively weak production forecasts, due to adverse weather in major producers' countries such as the United States - supporting speculative demand.

Money market interest rates were flat; but positive

Money market trades remained depressed in light of weak demand for deposits and associated limited on-lending activity. The average 90 days interest rate quote was unchanged at 2.03%.

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Downward 'correction' on local bourse sustained

Bears continued to dominate the local bourse, with the ZSE all share index retreating 3.6% during the month ended 28 February 2018 as highlighted in the following table.

Sector/Index	Value	Feb'18	YTD
Commodities	928.20	-5.02%	-6.24%
Consumer	429.30	-3.80%	-13.39%
Financial	168.78	-0.74%	-9.89%
Listed Property	164.50	-1.00%	-17.82%
Manufacturing	182.26	-4.02%	-6.75%
Industrial	294.55	-3.54%	-11.55%
Mining	124.91	-4.22%	-12.28%
Top Ten	87.07	-3.72%	-12.93%
All Share	88.03	-3.60%	-11.97%
Market Cap (\$ bln)	8.755	-4.36%	-13.49%

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

Top 3 Performers	Price USc	Feb'18	YTD
ZIMPLOW	10.00	25.00%	27.88%
ZIMRE	2.99	15.00%	15.44%
INNSCOR	92.00	14.64%	-8.00%

Bottom Performers	Price USc	Feb'18	YTD
ARISTON	1.14	-21.38%	-32.94%
AFSUN	3.61	-19.78%	-24.79%
ART	4.50	-19.64%	-35.53%

ZSE total value of trades firmed 90.7% to \$66.2 mln in February 2018. The average daily value of trades gained a significant 110.8% to \$3.3 mln over the same period. For the 3rd consecutive month; foreign investors were net buyers, adding \$2.1 mln to the \$9 mln net inflows registered in January 2018. Foreign investors accounted for 33.8% of total ZSE trades in February 2018, picking up shares from local investors.

Economic Outlook

International re-engagement has been slightly slower than projected under the 'new dispensation' mantra. This notwithstanding, internal efforts seem to be yielding positive results (outside monetary policy - which seemingly requires external cooperation).

Structural reforms remain necessary to address the budget and trade deficits and thus put the country on a recovery path. Domestic policy efforts have been positive, though arguably slow, validating our cautiously optimistic view. The upcoming elections pose the key milestone towards sustainable economic recovery.