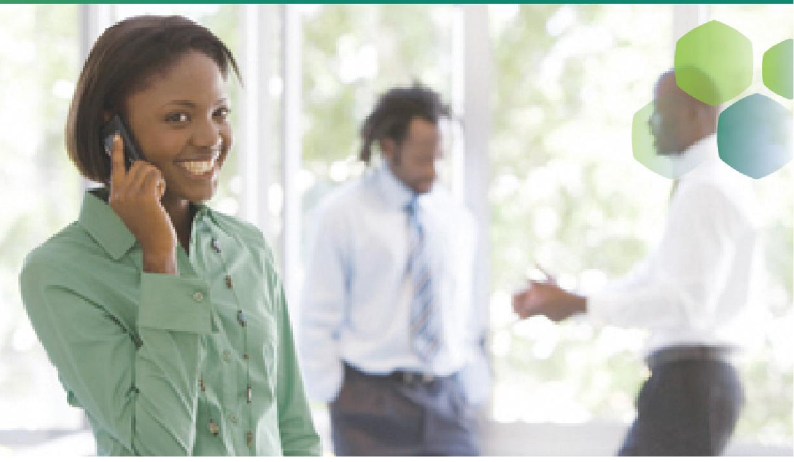
Monthly Economic Brief

May 2017



Highlights

The IMF warned that maintaining positive growth momentum will require reforms.

Cash shortages persisted; cash in bank vaults estimated at 2% of deposits.

Inflation sustained an upward trajectory, rising from 0.21% in March to 0.48% in April 2017.

ZSE market capitalization firmed a noteworthy 14.4% in May 2017, closing the month at $4.910 billion.

Government ready to clear external arrears…

In a press statement dated 27 April 2017, government announced it had met all conditions precedent to the repayment of World Bank and AfDB arrears (US$1.7 bln). Arrears clearance is expected to incentivise new capital flows and debt rescheduling – under an IMF financing program. Having met the conditions precedent; government intends to clear the arrears 'after evaluating possibilities of future flows from International Financial Institutions.'

IMF Article IV highlights…

At the conclusion of their May 2017 Article IV consultations with Zimbabwe, IMF staff warned that excessive spending against weak revenues threatens macro-economic stability. Difficulties also stem from past droughts and slow reform momentum. Staff warned that government must reduce its reliance on debt and 'quasi-currency instruments.' Recovery in mining and agriculture is projected to drive growth this year – but maintaining growth momentum will require structural reforms.

The IMF was conspicuously silent on Zimbabwe's progress on external arrears clearance and prospects for an IMF financing program, ostensibly suggesting that full re-engagement will require much more than arrears clearance.

Command maize model complemented nature

According to a Southern Africa development Community (SADC) meeting of Agriculture Ministers; favourable rains after two consecutive drought years have driven a major rebound in grain output across the entire region. Countries that released their grain output figures showed impressive growth as follows; South Africa (83%), Namibia (80%), Malawi (38%) and Zambia (32%). In Zimbabwe preliminary estimates also predict a bumper harvest.

The above normal rains in Zimbabwe might have been complemented by government initiatives such as 'Command maize production scheme and the Presidential inputs scheme.' Resultantly, government has reportedly taken a position that the command agriculture model should be applied to all sub-sectors of agriculture.

Cash 'varnishing' from banks…

Reserve Bank of Zimbabwe (RBZ) Deputy Governor, Kupukile Mlambo said local banks hold 2% cash reserves in vaults, against an ideal threshold of about 15%. He cited limited banking deposit activity and growing externalisation amid reports bond notes are being traded in neighbouring countries. Meanwhile, the RBZ reportedly agreed in principle to 'industry's proposal to increase the bond note funded export incentive scheme from 5% to 10%.

If the low cash deposit trend persists in the absence of tangible foreign currency inflows; the low cash ratio might incentivise issuance of more bond notes.

SI64 still stands - until local industry is up…

Minister of Industry and Commerce Hon. Mike Bimha said Statutory Instrument 64 (SI64 of 2016) that restricts imports of some basic commodities remains in place (until local industry can satisfy demand) - contrary to media reports suggesting the policy had been reversed. Proponents of the policy cite a lower import bill and local industry revival, while the alternative view cites the possibility of limited supply creating inflationary conditions.

Inflation surging…

Inflation sustained an upward trajectory from 0.21% in March to 0.48% in April. Monthly inflation moved from 0.03% to 0.05% in April, driving year to date inflation to 0.93%. Inflation was primarily driven by the food sub-sector (34% weight) which gained 1.35% on a year-on-year basis. Import restrictions, foreign currency shortages and accompanying supply side constraints, if left unabated; could fuel further inflation pressures.

Dollar on the back foot

The US$ closed the month under review 1.43% weaker against the South African Rand (ZAR) at ZAR13.09 per dollar. Against the Euro, the dollar shed 2.74% to close at US$1.13 per Euro. Dollar weakness was partly due to market speculation that U.S authorities could ease monetary policy tightening following weaker than anticipated jobs data in May 2017, despite unemployment falling to a 16 year low at 4.3%.

ZAR appreciation was aided by Fitch and S&P credit rating agencies keeping South Africa's credit rating unchanged. The stable rating presents support for foreign portfolio investment inflows and ZAR demand.

Commodity prices closed the month soft

International commodity prices closed the month ended 31 May 2017 predominantly weaker as highlighted in the following table.

Commodity	Price	May'17	YTD
Nickel (usd/ton)	9,025.00	-1.58%	-10.06%
Crude Oil (usd/barrel)	51.55	-0.35%	-9.83%
Gold (usd/oz)	1,263.38	-0.33%	8.94%
Platinum (usd/oz)	943.21	-1.02%	4.03%
Coffee (usd/lb)	132.10	1.93%	-2.47%
Maize (usd/ton)	145.76	0.68%	6.09%
Sugar (usc/lb)	15.02	-4.27%	-22.93%
Cotton lint (usc/lb)	72.38	-6.92%	1.91%

Hard commodity prices closed the month under review weaker, led by a 1.6% decline in nickel prices. Base metal prices were weighed down by a slump in expected demand from major industrialised nations. Gold prices eased in line with revived appetite for risker assets by global investors.

Soft commodity prices were mixed during the month ended 31 May 2017. Maize prices firmed 0.7% to extend earlier gains in line with low reserves in the world's largest maize producer – the United States. Coffee prices also firmed against the general trend, amid weak output in major producer – Brazil.

Equities sustained positive momentum…

The local bourse maintained positive momentum as highlighted in the table below.

Sector	Value	May'17	YTD
Commodities	407.87	3.20%	14.70%
Consumer	252.11	17.62%	20.07%
Financial	105.91	3.42%	11.13%
Listed Property	114.63	3.67%	-3.65%
Manufacturing	72.69	-3.10%	21.83%
Industrial	**162.34**	**13.37%**	**12.32%**
Mining	**69.63**	**4.98%**	**19.01%**
Market Cap ($ bln)	**4.910**	**14.06%**	**16.52%**

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

Top 3 Performers	Price USc	May'17	YTD
ECONET	30.50	69.1%	1.7%
MEIKLES	21.00	59.7%	61.5%
POWERSPEED	2.82	34.3%	28.8%

Bottom 3 Performers	Price USc	May'17	YTD
RTG	0.89	-25.8%	-25.8%
HWANGE	2.35	-19.0%	-21.7%
ART	5.50	-15.4%	9.8%

Econet rallied following the successful completion of its rights issue while the Meikles share responded to interest from a new investor. ZSE total market capitalisation gained a significant 14.1% to close the month at $4.910 billion. The total and daily average value of ZSE trades increased by 57% and 27% to $17.6 million and $0.840 million, respectively, during the month ended 31 May 2017.

First Merchant Bank (FMB) of Malawi purchased a majority stake in Barclays Bank Zimbabwe from Barclays Plc. Barclays Plc is expected to retain 10% of the entity while 15% will go towards an employee share ownership scheme.

Economic Outlook

Economic growth is likely to remain positive, though sub-par, over the foreseeable outlook. The baseline view is made fragile by the economy's reliance on externalities such as weather. Consequently, an adverse weather shock next year and increasing political activities could present outcomes much more dire than the baseline view. Generalised environment uncertainties sustain safe-have support for real assets. Resultantly, support for equities is likely to persist, despite weak fundamentals.

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