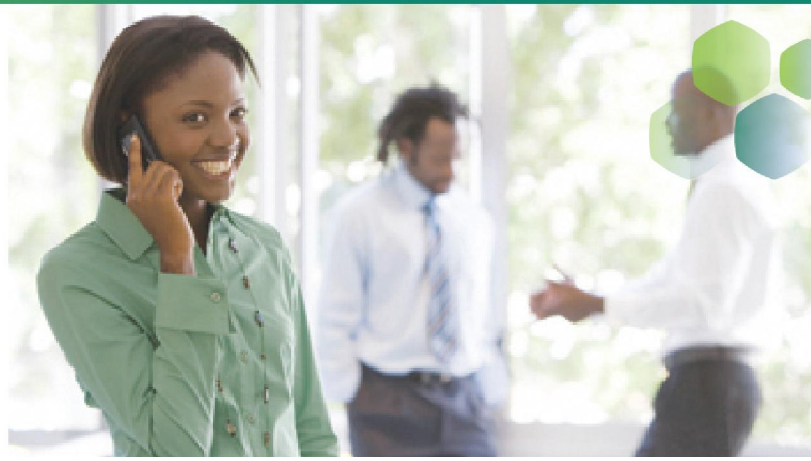


Monthly Economic Brief

August 2017



Highlights

The RBZ secured a new AFREXIMBANK facility to increase bond note issuance by \$300 million.

Industry capacity utilization target for 2017 revised down from 65% to between 50 and 60%.

Government settled 2016 public sector bonuses and remains committed to paying 2017 bonuses.

Year on year inflation eased from 0.31% to 0.14% in August 2017.

ZSE market capitalization advanced 16.1% in August 2017, to a post-dollarization high at \$7.006 billion.

New bond notes facility secured...

The Reserve Bank of Zimbabwe (RBZ) Governor Dr. Mangudya presented the 2017 mid-year monetary policy statement announcing a new US\$300 million AFREXIMBANK facility to extend the ceiling on issuance of export incentives funded by bond notes from \$200 million to \$500 million. AFREXIMBANK also availed a US\$600 million nostro stabilization facility and a new 2 year US\$400 million Afrades interbank lending facility. The RBZ also developed a tax-free, fixed rate savings Bond with a minimum investment amount of \$100.

The expansion of the export incentive scheme is envisioned to improve the availability of foreign currency since bond notes are paid as an incentive to exporters. This notwithstanding, reports of US\$ cash hoarding and associated diminishing foreign currency in circulation - against rising circulation of bond notes - raises the threat of an emerging local currency (based on concentration in circulation). The nostro stabilization and Afrades facilities aid monetary policy functionality, though notably compromising sovereign debt sustainability. If implemented, the savings bond would encourage national savings.

Aggregate growth is compromised...

The Confederation of Zimbabwe Industries (CZI) revised its 2017 industrial capacity utilization target downwards from 65% to 'between 50 and 60%.' The CZI cited equipment and raw material import restrictions arising from foreign currency shortages for the depressed industrial output. Industry capacity utilization increased from 34.3% in 2015 to 47.4% in 2016, buoyed by import substitution measures.

The Southern African Development Committee (SADC) Climate Services Centre (CSC) urged countries in the region to 'prepare for the worst' in the 2017/18 rainfall season - stretching from October 2017 to March 2018. The CSC projects that there will be a drought in the first half of the season followed by floods in the second half. Agriculture and associated output will be at risk in the coming season.

Good news for public service employees

The Civil Service Commission (CSC) reportedly froze the public service staff rationalization exercise - until the commission gets guidance from Cabinet. The measure followed President Mugabe's directive for the reinstatement of 'thousands' of youth officers that had been retrenched as part of the staff rationalization exercise.

Labour Court Judge, Justice Gladys Mhuri ruled that the Labour Amendment Act of 2015 applies in retrospect. The judgement means workers that had their employment terminated on three months' notice prior the establishment of the Labour Amendment Act in August 2015 are entitled to reinstatement or payment of damages.

Minister of Public Service, Labour and Social Welfare, Prisca Mupfumira said 2017 public service bonuses will be paid (in phases next year), with the first batch to be settled in February 2018. Minister Mupfumira said public workers must be rewarded for their efforts, despite tight funding conditions. Between April and August 2017, government managed to settle 2016 public service bonuses.

Inflation closed August 2017 softer

Inflation eased from 0.31% in June 2017 to 0.14% in July 2017, weighed down by rentals (down 7.95%), education (3.28%) and transport (1.72%). Month on month inflation eased from -0.24% to -0.36%, driving year to date inflation to 0.36%. The International Monetary Fund predicts inflation to close the year at 5% and accelerate to 8% in 2018 while World Bank projects it to close 2017 and 2018 at 3.2% and 9.6%, respectively. Overall, the outlook remains inflationary.

US dollar on the back foot

The United States Dollar (US\$) was generally weaker against most trading currencies, closing the month ended 31 August 2017; 0.06% and 1.53% weaker than the South African Rand (ZAR) and Euro, respectively. The US\$ was trading at ZAR13.01 per dollar and US\$1.19 per Euro as at 31 August 2017.

US\$ depreciation was partly driven by Federal Reserve Chair Janet Yellen making no reference to US monetary policy in her speech at a central bankers' meeting. The Federal Reserve Chair was expected to point towards further monetary policy tightening. ZAR appreciation was aided by South Africa registering a sixth consecutive trade surplus as well as inflation falling to a two-year low in July 2017.

Commodity price movements mixed

Commodity price movements closed the month ended 31 August 2017 mixed. Hard commodity prices were largely positive in line with a bullish global industrial demand outlook whilst soft commodity prices closed softer, in-part as a correction to earlier gains. Cotton however, extended its decline, weighed down by cheaper alternatives. The following table summarizes commodity price trends.

Commodity	Price	Aug'17	YTD
Nickel (usd/ton)	11,550.00	13.46%	15.10%
Crude Oil usd/barrel	50.88	-3.31%	-11.00%
Gold (usd/oz)	1,306.42	3.10%	12.65%
Platinum (usd/oz)	989.11	5.49%	9.09%
Coffee (usd/lb)	128.20	-7.14%	-5.35%
Maize (usd/ton)	135.92	-9.80%	-1.07%
Sugar (usc/lb)	431.75	-9.25%	6.54%
Cotton lint (usc/lb)	13.99	-4.70%	-28.22%

International Brent crude oil prices softened 3.3% during the month under review, in line with increased global output as United States shale producers sought to capitalise on earlier price increases.

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ZSE rally extended...

The ZSE industrial index extended its rally, adding 15.6% during the month ended 31 August 2017. Year to date gains reached 62.6% during the month under review as highlighted in the table below.

Sector	Value	Aug'17	YTD
Commodities	741.23	28.05%	108.45%
Consumer	356.70	15.81%	69.88%
Financial	120.96	3.92%	26.92%
Listed Property	149.16	14.39%	25.38%
Manufacturing	107.59	13.47%	80.33%
Industrial	235.03	15.64%	62.62%
Mining	73.47	5.80%	25.57%
Market Cap (\$ bln)	7,006	16.10%	66.24%

The following tables highlight the ZSE top and bottom three performing stocks for August 2017.

Top 3 Performers	Price USc	Aug'17	YTD
CFI	0.55	400.00%	587.50%
AFSUN	0.05	150.00%	150.00%
PROPLASTICS	47.00	88.00%	193.75%

Bottom Performers	Price USc	Aug'17	YTD
MEIKLES	4.20	-23.64%	-31.15%
BNC	0.40	-2.44%	60.00%
BARCLAYS	13.50	-1.82%	22.73%

ZSE market capitalization closed at \$7.006 billion - a post-dollarization high. Support for equities is premised on firm demand as investors seek safety in non-monetary assets while scrip is limited as investors hold on to shares.

The total and daily average value of trades for the month under review retreated 45% to \$13.001 million and \$0.648 million, respectively.

Economic Outlook

Monetary policy remains fragile, particularly as the sustainability of reactive policy measures is increasingly compromised. A generally uncertain monetary policy outlook incentivises speculative tendencies, threatening financial sector stability over the short to medium term horizon.

Monetary policy concerns also stem from an increasingly populist inclined policy stance, raising the likelihood of further monetary policy expansion. Consequently, inflation expectations are likely to be carried forward, sustaining equities support.