

Monthly Economic Brief

May 2018



Highlights

The Electoral Amendment Act was gazetted and elections are set for 30 July 2018.

Government tabled a public sector wage increase offer of 17.5%.

Zimbabwe's trade deficit to April 2018 widened 65.7% to \$999 million.

April 2018 inflation was 2.71%, up from 2.68% in the previous month.

ZSE market capitalization firmed 9.3% to close May 2018 at \$10.925 billion.

Elections set for 30 July 2018...

Zimbabwe's presidential, house of assembly and council elections will be held on 30 July 2018. If the presidential election fails to produce a clear winner (50% plus 1 vote); a runoff will be held on 8 September 2018. The Electoral Amendment Act was gazetted; giving legal effect to the (new) biometric voter registration. Included among reforms in the Act is that printed ballot papers must not exceed the number of registered voters by more than 10%.

Proclamation of the election date moves the economy closer to a much anticipated democracy dividend. Electoral reforms aid the credibility of the election process. This notwithstanding, the opposition have called for enhanced transparency of the printing of ballot papers. Ballot paper printing was also a contentious issue in Kenya's contested 2017 elections. Overall, the prospects of a credible election remain tangible.

Public service wage bill could exceed revenue

Government reviewed its salary increase offer to the public service from 15% to 17.5%. This notwithstanding,

negotiations for a further review will continue amid reports a section of the public service (particularly teachers) are not satisfied with the offer.

Minister of Finance Hon. Patrick Chinamasa warned that public service salary increases could worsen the country's fiscal deficit. He noted that the public wage bill as a percentage of government revenue could increase from 90% to around 120% following the (ongoing) wage adjustments. Cost containment remains critical to managing fiscal imbalances, despite a noteworthy 31.2% increase in the current fiscal year's cumulative tax collections to April 2018.

Trade deficit widening

Zimbabwe's trade deficit in the four months to April 2018 reached \$999 million, a 65.7% increase from the \$603 million registered in the corresponding period last year. As was the case last year; gold, base metals and tobacco dominate exports while fuel, food and electricity dominate national imports. A widening trade deficit implies more pressure on the balance of external payments (as payments exceed trade receipts), sustaining the risk of foreign currency scarcity in the absence of alternative sources.

Inflation closed April 2018 at 2.71%

The poverty datum line (PDL) was \$133.27 in March 2018, down 0.05% from \$133.33 in the prior month. The food PDL closed at \$37.08, down 0.1% from the prior month. Provincially, the highest and lowest PDLs were in Matabeleland North (\$126.47) and Midlands (\$103.86). The International Labour Organization reportedly prescribes that the PDL be used as a reference for minimum wage determination.

The cost of living for an urban family of six as measured by the Consumer Council of Zimbabwe's 'low income urban earner monthly basket' increased by 0.49% to \$591.58 in April 2018. The increase was mostly attributed to the food basket (approximately 30% weight), which increased by 2.6% to \$144.20 in April 2018.

Year on year inflation for April 2018 was 2.71%, up from 2.68% in the previous month. Monthly inflation increased from -0.25% in March 2018 to 0.08% in April 2018, driving year to date inflation to 0.21%. The International Monetary Fund projects Zimbabwe's inflation to close 2018 at 7.9%, up from 2.5% last year.

Dollar closed firmer against most currencies

Strong jobs numbers in the United States sustained the United States Dollar's bullish run. The dollar closed the month ended 31 May 2018 firmer against most currencies, on anticipation that positive economic performance in the United States would raise interest rates. The dollar closed the month under review at US\$1.16 per Euro and ZAR12.58, translating to gains of 4.2% and 1.4%, against the Euro and ZAR, respectively.

Commodities predominantly positive

International commodity prices were broadly on an upswing during the month under review. The following table summarises international commodity price movements.

Commodity	Price	May'18	YTD
Nickel (usd/ton)	14,870.00	6.63%	22.99%
Crude Oil (usd/barrel)	77.68	5.16%	16.85%
Gold (usd/oz)	1,305.01	-0.93%	0.65%
Platinum (usd/oz)	914.25	0.77%	-1.66%
Coffee (usd/lb)	121.15	-0.02%	-2.92%
Maize (usd/ton)	156.09	0.48%	13.12%
Wheat	521.00	4.76%	22.16%
Sugar (usc/lb)	12.65	1.25%	-15.44%
Cotton lint (usc/lb)	91.16	10.67%	15.99%

A positive economic outturn and an accompanying firm United States Dollar weighed on gold's safe haven attractiveness. Resultantly, gold trended against the general upswing in international commodity prices. Cotton led the gainers, firming a noteworthy 10.7% to a six year high during the month under review. Cotton prices were supported by adverse weather restricting output in the United States as well as declining Chinese stocks.

Money market interest rates on gradual uptrend

Money market interest rates remained sticky upwards, as regulatory pressure for higher deposit interest rates outweighed weak borrower appetite. Activity was mostly in the very short end of the market, with the average interest quote on the 90 days horizon closing at 3.01%, up from 2.49% in the prior month.

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Equities rally sustained

The local bourse sustained positive momentum, with the industrial index closing the month to 31 May 2018 with gains of 9.34%. Consequently, most ZSE indices reversed earlier losses and registered positive year to date positions. The following table highlights ZSE market movements during the month under review.

Sector/Index	Value	May'18	YTD
Commodities	1147.08	23.15%	15.87%
Consumer	541.02	6.67%	9.16%
Financial	200.27	14.08%	6.92%
Listed Property	135.47	-8.94%	-32.32%
Manufacturing	194.25	5.52%	-0.62%
Industrial	361.53	9.34%	8.56%
Mining	151.53	21.77%	6.41%
Top Ten	108.3	9.72%	8.30%
All Share	111.2	10.30%	11.20%
Market Cap (\$ bln)	10,925	9.30%	7.96%

The following tables highlight the ZSE top and bottom three performing stocks during the month ended 31 May 2018.

Top 3 Performers	Price USc	May'18	YTD
BINDURA	5.17	71.19%	-6.34%
AFSUN	6.00	61.73%	25.00%
PADENGA	66.00	45.05%	20.64%

Bottom Performers	Price USc	May'18	YTD
DAWN	1.30	-18.24%	-35.00%
MASH	2.11	-13.88%	-39.02%
HIPPO	150.25	-9.71%	-14.63%

ZSE total value of trades firmed 25.7% to \$60.3 million in May 2018. The daily average value of trades during the month under review firmed 13.7% to \$2.9 million. Foreign investor participation increased from 21.2% to 28.4%. Foreign investors remained net buyers, registering net portfolio inflows of \$13.7 million. Cumulatively, net portfolio inflows reached \$43.3 million, compared to net outflows of \$28.7 million over the corresponding period last year.

Economic Outlook

Macro-economic recovery prospects remain solid, underpinned by ongoing structural reforms and international re-engagement efforts. Whereas the risk is low; the impact of a discredited election to the outlook is very significant, particularly in the context of the economy's ability to harness international capital. Overall, we remain cautiously positive.