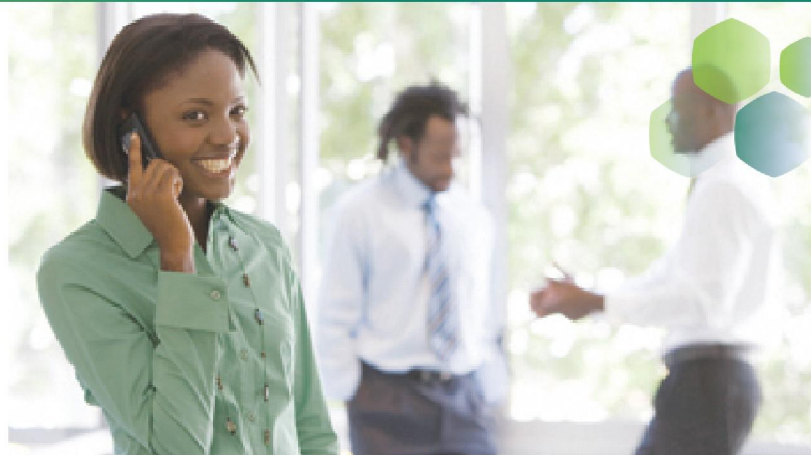


Monthly Economic Brief

June 2017



Highlights

Zimbabwe total public debt was estimated at \$11.8 billion as of March 2017.

The World Bank expects modest growth to persist under incomplete policy reforms.

Inflation sustained an upward trajectory, advancing from 0.48% in April to 0.75% in May 2017.

ZSE market capitalization firmed a noteworthy 20.9% in June 2017, closing the month at \$5.937 billion.

Public debt estimated at \$11.8 billion

The Parliament Budget Office estimated Zimbabwe's public debt as of March 2017 at around \$11.8 billion. Domestic debt amounted to \$4.3 billion, against external debt of \$7.5 billion. The total public debt bill translates to 82% of GDP, while \$5.2 billion of the \$7.5 billion in external debt is in arrears. Resultantly, the economy's ability to settle its debts from internal resources is increasingly compromised, inflating the need for some form of future debt rescheduling.

China cancelled Zimbabwe's debt...

China reportedly cancelled a number of Zimbabwe's debts. The debt cancellation was first announced in 2015 when China's President Xi Jinping visited Zimbabwe. Based on the December 2015 pronouncements during President Jinping's visit, the cancelled debt amounts to US\$40 million, making the gesture primarily symbolic in the context of Zimbabwe's total debt burden.

Long term view on sustainable growth prospects

The World Bank projects that Zimbabwe's economy will expand by 2.8% in 2017, underpinned by a rebound in agriculture. The World Bank also noted that medium term growth prospects 'remain modest'

due to incomplete implementation of fiscal-adjustment policies. According to the World Bank, external arrears clearance will expand government's access to international capital - if sound fiscal management and structural reforms are successfully restored. Overall, the World Bank suggests near-term underperformance will persist, though painting a more bullish outlook on the long term prospects.

Government advancing 'command' agriculture

The ministry of agriculture said government's special maize output program 'command agriculture,' must not be politicised as it aims for national food security. The pronouncement followed fears of widening polarization within government over the expansion of command agriculture. Government plans to advance the program beyond maize. Government has since secured a \$487 million loan for the 2017/18 command agriculture season.

Inflated monetary policy-induced vulnerabilities

Generalised uncertainty regarding monetary policy stability has reportedly sustained speculative market tendencies including hoarding of hard currencies and dual pricing. The central bank has issued about \$160 million in bond notes (local quasi-currency) by the end of June 2017, against a US\$200 million guarantee from the AFREXIMBANK.

Two retail outlets, Bathroom Boutique and Eurostar Electricals, were fined over allegations of contravening sections of the Bank Use and Promotion Act. The court cited failure to bank cash by the companies. Bathroom Boutique was fined \$9,700, while Eurostar was fined \$20,000 for their alleged transgressions.

Surging inflation pressures

Inflation surged from 0.48% in April 2017 to a 43 month peak of 0.75% in May 2017. Month on month inflation was 0.27%, driving year to date inflation to 0.96%, up from -0.72% in the same period last year.

Inflation pressure seems unrelenting. Food inflation drove inflation, though it seasonally tends to ebb in winter (improved supply from grain harvest). Food inflation against expectations could be attributed in part to speculative pricing. Further food inflation is expected from a mandatory government requirement for food producers to fortify processed foods starting 1 July 2017 – the cost of which is likely to be transferred to consumers.

Dollar still on the back foot

The United States Dollar (US\$) extended a weak run, closing the month ended 30 June 2017 softer against most trading currencies. The dollar shed a percentage point against the South African Rand (ZAR) and 1.9% against the Euro to close the month under review at ZAR12.96 and US\$1.14 (per Euro), respectively. On a year to date basis, the dollar extended its weakness against the ZAR and Euro to 4.9% and 8.4%, respectively.

Euro appreciation was supported by investors speculatively attempting to get-ahead of the European Central Bank's expected tapering of stimulus programs. Lower stimulus implies reduced funds injection making the Euro more valuable on a demand and supply basis - thus presenting some upside for Euro denominated asset holders.

Commodity prices closed the month mixed

International commodity prices were mixed in June 2017, as highlighted in the following table.

Commodity	Price	Jun'17	YTD
Nickel (usd/ton)	9,270.00	2.71%	-7.62%
Crude Oil (usd/barrel)	47.50	-7.86%	-16.91%
Gold (usd/oz)	1,243.58	-1.57%	7.23%
Platinum (usd/oz)	924.61	-1.97%	1.98%
Coffee (usd/lb)	128.00	-3.10%	-5.50%
Maize (usd/ton)	147.14	0.95%	7.09%
Sugar (usc/lb)	507.75	17.33%	25.29%
Cotton lint (usc/lb)	13.69	-8.85%	-29.76%

Hard commodity prices were largely depressed, with nickel bucking the general soft trend. Nickel prices were buoyed by signs of global short supply conditions amid concerns the base metal's price had fallen below viable thresholds for most producers.

Soft commodity prices were mixed, with sugar registering a noteworthy 17.33% gain during the month ended 30 June 2017. Global supply concerns were triggered as major supplier Cuba projected its harvest to be 300,000 tons short of earlier forecasts.

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Equities sustained positive momentum...

The ZSE industrial and mining indices closed the month ended 30 June 2017 firmer by 20.7% and 0.2%, respectively, as shown in the table below.

Sector	Value	Jun'17	YTD
Commodities	556.57	36.46%	56.52%
Consumer	306.97	21.76%	46.20%
Financial	116.69	10.17%	22.43%
Listed Property	121.10	5.65%	1.80%
Manufacturing	88.65	21.96%	48.58%
Industrial	195.97	20.72%	35.59%
Mining	69.79	0.23%	19.28%
Market Cap (\$ bln)	5.937	20.90%	40.87%

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

Top 3 Performers	Price USc	Jun'17	YTD
MASIMBA	4.80	100.00%	182.35%
HIPPO	75.26	67.24%	115.03%
NAMPAK	5.00	56.25%	108.33%

Bottom Performers	Price USc	Jun'17	YTD
ZB	16.50	-2.94%	265.04%

Underlining the bullish returns; only one of the active 59 listed stocks registered a negative return on the ZSE in June 2017, while 15 stocks closed unchanged.

ZSE market capitalization gained 20.9%, extending year to date gains to 40.9%, after closing at \$5.937 billion. The total value of ZSE trades firmed 125.4% to \$39.7 million, while the average daily value of ZSE trades gained 115.1 % to close the month under review at \$1.8 million. Local investors remained net buyers, ostensibly shifting funds from monetary assets in light of sustained monetary policy uncertainties.

Economic Outlook

A cloud of uncertainty still hangs over the outlook, dis-incentivising gross investment growth in light of sustained macro-economic policy vulnerability. Conditions of gradual growth decelerations are likely to persist into the foreseeable outlook, particularly in the absence of material structural reforms.

Inflation poses a noteworthy risk to macro-economic stability into the foreseeable outlook. The threat of eroding monetary values (under excessive inflation) is likely to sustain demand for physical and non-monetary assets as an inflation hedging measure. The outlook still prescribes prudence.