

Monthly Economic Brief

April 2016



Highlights

Market wide cash crunch deepened on the back of chronic trade deficits and increased cash hoarding tendencies.

President Mugabe clarified the empowerment laws and committed to improving the welfare of workers.

Algeria expected to lend Zimbabwe US\$0.9 billion for multilateral arrears clearance.

Year on year inflation closed March 2016 at -2.31%, down from -2.22% in the previous month.

Total ZSE market capitalization recovered 7.90% to close the month under review at US\$3.030 billion.

Need for an urgent cash injection

Zimbabwe's Q1'2016 trade deficit narrowed by 19% from US\$854 million recorded over the same period last year to US\$694 million. Persistent external deficits compromise the domestic monetary base, more so given the multi-currency system in place. Resultantly, cash hoarding tendencies increased in line with concerns of increased demand during the schools opening. In the absence of a significant fresh liquidity injection, the risk of panic-driven banking sector instability further compromises market liquidity conditions.

Environmental risks are now more pronounced

The MDC-T held a demonstration in Harare on 14 April 2016 citing deteriorating economic conditions. The demonstration went ahead without major incident, despite generalised market concerns. Consequently, the MDC-T is reportedly planning a series of follow-up rallies across all provinces, culminating in a 'grandmaster of all demonstrations,' against the ruling ZANU-PF. If not handled carefully, the concomitant risk arises from the wave of protests snowballing into a bigger socio-political crisis.

Presidential intervention presents some closure

President Mugabe issued a Presidential statement clarifying government's position on empowerment laws. The notably temperate Presidential statement followed 3 government official positions on the same policy since December 2015, highlighting policy fluidity and inherent fears of policy uncertainty. Minister responsible for the empowerment policy, Hon. Patrick Zhuwao

reportedly admitted his earlier misinterpretation of the law and stated that the President's interpretation is 'perfect and final'.

Speaking during Independence Day celebrations, President Mugabe allegedly promised to align minimum public wages to the poverty datum line (PDL). The current minimum public wage is around US\$300, against a PDL of US\$481.65. The minimum public wage can match the PDL; either through government increasing the minimum wage by 60%, or by allowing deflation to escalate to 'hyper-deflation' which can drive the PDL down to the minimum wage. Limited resources and restricted monetary policy limit the possibility of both.

Relationships (with key partners) matter...

Algeria is reportedly close to extending a US\$900 million loan towards Zimbabwe's US\$1.8 billion arrears clearance to multilateral lenders. All things constant, arrears clearance is a *sine quo non* for new credit. Zimbabwe's strained relations with key global players compromise prospects for fresh lending from multilateral institutions even if the country successfully clears its arrears. Before international relations are solved, the stakes are considerably raised given that the arrears clearance strategy incorporates the accumulation of new debt.

Serendipitous support for local tobacco prices

Seasonal tobacco sales reached 35.5 million kgs worth US\$96.3 million as of 30 April 2016. Seasonal volumes and value to date represent growth of 75.7% and 87.7%, respectively, from the corresponding period of last year. Seasonal prices (up 6.4%) have benefitted from *El-Nino* induced floods in other tobacco producing areas in the Northern hemisphere. Higher market prices have in-turn attracted increased volumes from deliveries to the auction floors. Overall seasonal volume is projected to decline by about 20% from last season to 170 million kgs.

Post *El Nino*: army worm, locusts and quelea birds loom

The International Red Locust Control Organisation for Central and Southern Africa (IRLCOCSA) predicts that 'all migratory pests will be a great concern next year and may affect food security in Southern Africa.' The pests include red locusts, armyworm and quelea birds. The region, Zimbabwe included, is currently saddled with an *El-Nino* induced drought, which is projected to transition into *La-Nina* induced excessive rainfall by the next rainfall season. Adequate precaution is required on the part of farmers and all their associates.

Deepening deflationary spiral

Year on year inflation declined from -2.22% to -2.31% in March 2016. Month on month inflation eased from -0.10% to -0.12%, to extend the year to date average consumer price decline to -0.28%. Annual inflation has consistently remained in negative territory since October 2014. The deflationary spiral is likely to be sustained as compromised household earnings shift demand to more competitively priced imports, exerting downward pressure on prices of local produce.

Low interest rate regime depressing US\$

The view that the U.S Fed could leave interest rates on hold for the remainder of the year gained noteworthy traction across forex traders. The U.S Fed is broadly expected to maintain low interest rates and delay plans to increase interest rates owing to lower than earlier anticipated U.S economic output. Relatively low interest rates in the U.S have the theoretical effect of lowering US\$ value on a demand and supply basis by depressing the return on dollar-denominated assets.

The US\$ retreated 0.21% against the Euro to close the month ended 30 April 2016 at US\$1.13 per Euro. On a year to date basis, the US\$ has retreated 3.76% against the Euro. Against the ZAR, the US\$ shed a considerable 4.40% and extended its year to date decline to 6.65% as it closed the month under review at ZAR14.37 per US\$. Better than earlier feared macroeconomic and policy stability in South Africa also waded off a sovereign rating downgrade to the benefit of the ZAR.

Commodities recovery gaining traction

Commodity prices registered significant gains in line with the weaker dollar as highlighted in the table below. A weak dollar makes commodities more affordable in relative currency terms for importers across the international market.

Commodity	Price	Apr'16	YTD
Nickel (usd/ton)	9,150.00	8.93%	6.27%
Crude Oil (usd/barrel)	48.27	22.45%	31.53%
Gold (usd/oz)	1,275.42	3.23%	20.03%
Platinum (usd/oz)	1,060.60	8.81%	21.60%
Coffee (usd/lb)	121.15	-4.79%	-2.18%
Maize (usd/ton)	153.53	6.41%	8.57%
Sugar (usc/lb)	15.87	0.83%	4.34%
Cotton lint (usc/lb)	63.24	10.02%	-0.75%

Hard commodities registered positive price movements during the month under review, with oil prices firming 22.45%. Support for oil prices was underpinned by speculation of a looming agreement by the Organisation of Petroleum Exporting Countries (OPEC) to cut supply in order to shore up prices. Soft commodities were primarily supported by anticipated market shortages associated with drought across most commodity exporters in the Southern hemisphere. Coffee prices bucked the trend on anticipation of higher than earlier anticipated output in Brazil and other major producers.

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ZSE in aggressive rebound mode

The domestic equities market rebounded strongly during the month ended 30 April 2016. The ZSE industrial index firmed a significant 8.38%, reducing its year to date decline to 7.89% during the month under review. The property index characteristically lagged other indices on the back of sticky voids and valuations.

Sector	Value	Apr'16	YTD
Commodities	212.67	0.64%	-26.92%
Consumer	151.23	9.59%	-5.06%
Financial	78.00	0.86%	8.14%
Listed Property	98.07	-1.36%	-16.35%
Manufacturing	40.83	1.90%	-11.52%
Industrial	105.79	8.38%	-7.89%
Mining	20.16	3.23%	-15.01%
Market Cap (usd bln)	3,030	7.90%	-5.67%

The following tables highlight the ZSE top and bottom 3 performing stocks for the month under review.

Top 3 Performers	Price USc	Apr'16	YTD
PROPLASTICS	2.75	52.78%	30.95%
OK	4.50	28.57%	-10.00%
DELTA	70.00	24.44%	-0.71%

Bottom 3 Performers	Price USc	Apr'16	YTD
RADAR	1.61	-35.08%	-35.08%
HIPPO	22.00	-18.52%	-40.54%
ARISTON	0.45	-13.46%	-13.46%

Radar and Pelhams were delisted from the ZSE on 29 April 2016. Pelhams was delisted over failure to meet listing requirements while Radar opted for voluntary delisting citing viability constraints.

The total value of trades on the local bourse retreated 14.62% to close the month under review at US\$14.027 million. The average daily value of trades retreated 10.35% during the same period to close at US\$0.701 million. Foreign trades constituted 55.2% of total trades, down from 68.9% in the previous month. Net foreign portfolio outflows closed at US\$1.1 million, down from US\$4.2 million in the previous month.

Economic Outlook

Risks have become more tangible as the outlook seems increasingly unlikely to sustain the fragile status quo. The practicality of continued muddle-through policy manoeuvring is compromised by deteriorating structural vulnerabilities needing practical structural adjustment. Implementation of radical policy reforms is necessary to avert a full return to the infamous '2008 scenario.' The political cost of radical reforms tilts the balance of probabilities towards the worst case.