

Monthly Economic Brief

July 2018

Highlights

Post-election vulnerabilities threaten sustainable recovery prospects.

H1'18 tax collections reached \$2.31 billion; 10.4% above target and 35.9% up from last year.

Money supply increased by 5.4% to \$8.6 billion in May 2018.

Seasonal tobacco deliveries surpassed the past peak of 237 million kilograms.

Year on year consumer inflation for June 2018 was 2.91%, up from 2.71% in the prior month.

ZSE market capitalization recovered 12.7% to close July 2018 at \$11.864 billion

Zimbabwe's watershed election update

For the first time in 38 years, former president Mr Mugabe did not participate in Zimbabwe's 30 July 2018 elections. Ironically, the list of presidential candidates exceeded the past record of 5 (2013), as 22 people contested. The pre-election environment and the voting process were notably peaceful and significantly better than in previous polls. Post-election violence and a court contestation of the election outcome have, however, since caused a generalized uncertainty on the post-election environment.

While attempting to map the post-election outlook; two key variables will be credibility and confidence. Assuming a credible poll, the immediate policy thrust is likely to be around settling external arrears, thereby facilitating concessionary credit lines. Domestically, policy focus is likely to centre on budget rebalancing and monetary policy stability - with a particular focus on optimal currency regimes. On the flipside, if the recent elections fail the credibility test and fail to inspire confidence - regression becomes a real risk.

Solid revenue performance

National tax collections (net) closed H1'18 \$2.31 billion, 10.4% above target (\$2.1 billion) and 35.9% up from the same period last year (\$1.7 billion). H1'18 collections at \$2.31 billion amounted to 53.7% of the full year tax collections target of \$4.3 billion. Revenue performance has been unambiguously positive, yet the picture would not be complete without reviewing the expenditure side. The absence of fiscal reserves, exacerbated by widening deficits threatens the overall fiscal balance.

Increasing money supply

Broad money supply increased by 5.4% to \$8.6 billion in May 2018. On a year on year basis; money supply increased by 38%. Broad money was dominated by demand deposits (78%) and time deposits (17%). Average nominal lending rates for individuals and firms were unchanged from the prior month at 9.3% and 7.1%, respectively. Public domestic debt gained 6% in May 2018 (76% year on year) to \$7.51 billion; of which \$4.7 billion is owed to the Central Bank. Public debt is strongly tied to budget imbalances.

Tobacco output breaks record

Seasonal tobacco deliveries as of day 88 (27 July 2018) reached a record 242.8 million kilograms worth \$709.4 million. The seasonal average selling price was down 1.4% from the same period last season at \$2.92 per kilogram - with the highest and lowest prices registered at \$6.25 and \$0.10 per kilogram, respectively. Seasonal volume and value to date represents growth of 35% and 33%, respectively, from the corresponding period last year. The previous record tobacco outturn was 237 million kilograms registered in 2000.

Softening inflation pressures

Year on year consumer inflation for June 2018 was 2.91%, up from 2.71% in the prior month. Monthly inflation eased from 0.03% in the prior month to -0.05% in June 2018, implying a decline in average

consumer prices. Year to date inflation closed June 2018 at 0.19%, down from 0.76% in the same period last year - giving credence to the notion of softer inflation pressures this year compared to last year.

Dollar closed weaker against most currencies

The United States Dollar (US\$) closed the month ended 31 July 2018 on the back foot, registering weakness against most major trading currencies. Weaker than earlier anticipated economic output; and low inflation, fuelled market speculation of a slowdown in monetary policy tightening by U.S authorities. The US\$ closed the month under review 4.6% weaker against the South African Rand (ZAR) at ZAR13.17 per US\$. Against the Euro; the US\$ retreated 0.9% to close at US\$1.17 per Euro.

Trade war fears weighed on commodities

International commodity prices closed the month ended 31 July 2018 predominantly negative as highlighted in the following table.

Commodity	Price	Jul'18	YTD
Nickel (usd/ton)	13,700.00	-6.87%	13.32%
Crude Oil (usd/barrel)	74.89	-5.14%	12.65%
Gold (usd/oz)	1,216.71	-2.71%	-6.16%
Platinum (usd/oz)	828.82	-2.71%	-10.85%
Coffee (usd/lb)	110.35	-4.00%	-11.58%
Maize (usd/ton)	151.47	7.47%	9.77%
Wheat	554.50	12.42%	30.01%
Sugar (usc/lb)	10.71	-11.41%	-28.41%
Cotton lint (usc/lb)	89.33	6.87%	13.67%

Cotton and grain prices went against the general trend, registering gains in line with adverse-weather-related global supply concerns in major producers.

Persisting concerns of a looming trade crisis between the United States and China continued to weigh down international commodity demand and prices. The impact was predominantly felt across base metal prices with nickel registering a 6.87% decline during the month under review. Surging output by American shale producers also weighed heavily on oil prices.

Money market interest rates on sticky uptrend

Money market interest rates remained sticky upwards, as regulatory pressure for higher deposit interest rates outweighed weak borrower appetite. Activity remained mostly in the short end of the market, with the average interest quote on the 90 days horizon closing at 3.21%, up from 3.09% in the prior month.

ZSE rebound spurred by foreign buyers

The ZSE industrial index registered a noteworthy rebound during the month ended 31 July 2018, closing with gains of 12.09%. On a year to date basis, the industrial index extended gains to 15.38%.

Sector/Index	Value	Jul'18	YTD
Commodities	1127.11	11.49%	13.85%
Consumer	604.43	14.98%	21.95%
Financial	179.30	1.06%	-4.28%
Listed Property	155.80	8.64%	-22.17%
Manufacturing	201.54	3.09%	3.11%
Industrial	384.25	12.09%	15.38%
Mining	163.99	1.68%	15.16%
Top Ten	118.84	15.03%	18.84%
All Share	114.32	11.97%	14.32%
Market Cap (\$ bln)	11.864	12.71%	17.24%

The following tables highlight the ZSE top and bottom three performing stocks for July 2018.

Top 3 Performers	Price USc	Jul'18	YTD
SEEDCO	258.00	27.70%	29.00%
FML	5.58	26.82%	-8.52%
TURNALL	1.35	22.73%	42.11%

Bottom Performers	Price USc	Jul'18	YTD
MEDTECH	0.01	-80.00%	-80.00%
FIDELITY	10.20	-15.00%	-7.27%
ZIMRE	2.00	-13.04%	-22.78%

ZSE total value of trades firmed 64% to \$119.7 million in July 2018. The daily average value of trades during the month under review also firmed 64% to \$5.7 million. Foreign investor participation increased from 25.4% to 26.6% as foreign investors remained net buyers on the local bourse.

Foreign net portfolio inflows closed the month under review at \$12.3 million, extending the year to date net inflows to \$68.7 million. Between January and July last year, cumulative portfolio flows closed at a net negative position of \$29.3 million.

Economic Outlook

The post-election outlook is more complicated than earlier envisioned. The 'post-election' environment is currently fragile with risks evenly balanced. This notwithstanding; the real sector outlook remains encouraging - having already locked-in a strong tobacco (and gold) outturn. The current unclear environment prescribes caution in decision-making.

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