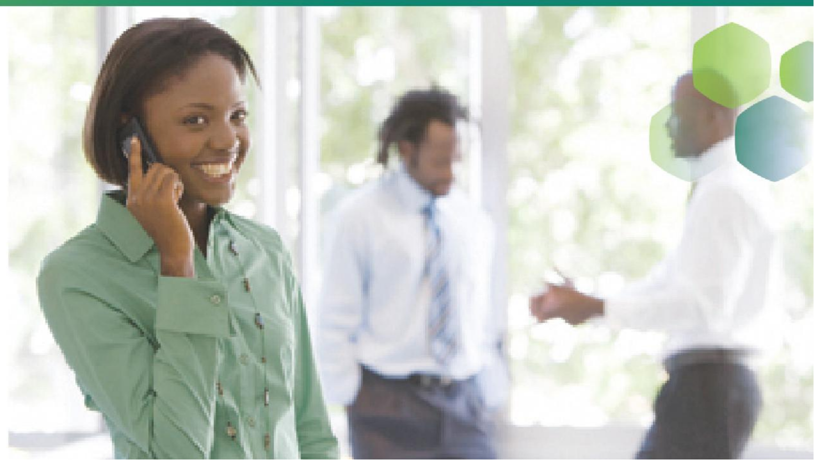
Quarterly Economic Brief

Q4' 2016



Highlights

US presidential election outcome raises policy and geopolitical uncertainties.

The US Fed increased its benchmark interest rate range by 0.25%.

Tanzania's radical reforms bearing fruit, as Ghana and DRC face heightened political uncertainty.

ZANU-PF endorsed President Mugabe as the party's 2018 presidential election candidate.

The IMF lifted sanctions on Zimbabwe, but reiterated that strong reforms are required for new funding.

ZSE total market capitalization firmed 47.55% to close the quarter at usd4.214 billion.

Global| US Presidential election 'shock' result

The United States 2016 Presidential election race was won by radical republican Donald Trump - a situation described by Oxford Economics as 'The single largest risk to the global economy.' The assertion was based on an Oxford Economics client survey raising concerns of an elevated degree of policy and geo-political uncertainty. President elect Trump promised radical 'America-first' reforms that pose a threat to international trade, migration and capital flows. He is expected to be inaugurated on 20 January 2017.

Financial markets reacted sharply to the shock election result, with investors selling out of risky assets in 'post-Brexit' proportions. By the end of the quarter under review, markets had rebounded as investors warmed up to the prospects of medium to long term positive effects of anticipated expansionary fiscal policy under the new regime. A generalized uncertainty is sustained by the fact that it is not unprecedented for a campaign trail to soften its stance by the time policies are implemented.

U.S Fed's 2nd interest rate hike in a decade…

The U.S Federal Reserve Bank (Fed) raised its benchmark interest rate range ceiling by 0.25% - a move well anticipated by the market. The interest rate hike was ostensibly backed by strong U.S economic growth indications depleting the need for expansionary monetary policy. The Fed also signaled a high likelihood of three more interest rate increases in the coming year; 2017. The change in U.S political administration points towards expansionary fiscal policy coupled with tighter monetary policy.

The Fed's interest rate increase implies a rise in debt-service costs in the United States. Higher interest rates would also have the effect of attracting funds flows to the United States in search of associated higher yields. This is likely to strengthen the dollar against alternative currencies. A stronger dollar would make dollar denominated international assets more costly, significantly impacting global funds flows and balance of payments for small economies.

India demonetized large bills to stem financial crime

Indian Prime Minister Narendra Modi suddenly declared all 500 and 1,000 Rupee notes (the 2 highest denominated bank notes accounting for 86% of total cash in circulation) worthless. The move is meant to stop cash hoarding, counterfeiting and other black market activities. Holders of the demonetized notes were required to deposit them with banks in exchange for new notes with redesigned features. Consequently, the move was expected to harness cash into the formal market.

Investment Bank BNP Paribus estimates that cash accounts for 90% of transactions in India's hugely informalized economy. The World Bank estimates that the informal market accounts for roughly one fifth of the official GDP. As such, the demonetization of the bills led to considerable cash shortages in the world's most populous market. GDP growth is also expected to take a noteworthy hit in line with output disruptions arising from cash shortages.

Tanzania's hundred-day milestone under Magufuli

Tanzanian President John Magufuli reached his 100 days in office on 5 November 2016. Nicknamed the 'Bulldozer,' for his rigid implementation agenda, Magufuli's first 100 days in office have not gone unnoticed across the world. New Africa Magazine voted him as the "2016 Person of the Year," for his efforts to rid Tanzania of corruption. According to an independent poll in Tanzania, Magufuli's approval rating is around 96%.

Within his first 100 days, Magufuli has reformed the public sector, unearthing over 10,000 ghost workers who have since been removed from the pay roll. After finding hospital patients on the floor, Magufuli dismissed a hospital head. Magufuli also introduced free education up to secondary school as promised in his election campaign. The business environment has also been transformed as the time required to clear a vehicle at Dar-es-salam port has been reduced from two weeks to only 48 hours.

Critics of Magufuli raise concern over dictatorial tendencies, citing new cyber laws which resulted in the arrest of more than 10 people on allegations of insulting the President on social media. His regime has also closed down two radio stations and a newspaper. Proponents of his methods argue that a country that has had its rule of law compromised to the extent of Tanzania requires a 'Patriotic democratic dictator' to clean up the chaos.

Gambia and DRC threaten democratic progression

Gambian President Yahya Jammeh said he will not step down when his mandate ends on 18 January 2017. This is despite December 2016 Presidential election results suggesting he lost out to challenger Adama Barrow. President Jammeh cites electoral irregularities and has condemned mediation efforts by regional and international bodies. Human rights groups in and outside Gambia have accused Jammeh of brutally persecuting any perceived opponents during his 22 year rule.

Violent clashes between protesters and security forces were witnessed in the Democratic Republic of Congo (DRC) following President Joseph Kabila's refusal to step down. President Kabila's 15 year rule was expected to end on the midnight of the 19th of December 2016. His tenure was extended as the DRC electoral board postponed elections from November 2016 to 2018, citing financial and logistical issues. The DRC has not had a smooth transition of power since independence from Belgium in 1960.

Gambia and DRC threaten Africa's 'emerging giant' pitch, suggesting socio-political regression on the continent.

Dollar registered strong rebound

The U.S. authorities' monetary tightening policies, against generally loose monetary policy in other jurisdictions such as Europe and Japan presented considerable support for the dollar. Britain's Q3'16 vote in favour of leaving the common monetary union (EU) exerted downward pressure on the Euro, in light of uncertainties over the financial soundness of the fragmented European economic bloc. The dollar gained 6.2% against the Euro to close the quarter under review at US$1.05 per Euro.

Commodity prices depressed by dollar strength

International commodity price movements were predominantly negative during the quarter ended 31 December 2016. The following table summarizes commodity prices over the period under review.

Commodity	Price	Q4'16	FY'16
Nickel (usd/ton)	10,035.00	-4.66%	16.55%
Crude Oil (usd/barrel)	57.17	17.22%	55.78%
Gold (usd/oz)	1,159.75	-12.50%	9.15%
Platinum (usd/oz)	906.67	-12.45%	3.95%
Coffee (usd/lb)	135.45	-9.82%	9.37%
Maize (usd/ton)	137.39	6.73%	-2.85%
Sugar (usc/lb)	19.49	-16.78%	28.14%
Cotton lint (usc/lb)	71.02	4.90%	11.46%

Soft commodity prices were mixed during the quarter under review. Hard commodity prices, outside oil, registered notable declines in line with a generally depressed global economic outlook signaling weak demand, particularly from industrialized economies. Oil prices responded positively to a deal by the Organization of Petroleum Exporting Countries (OPEC) to curtail output - its first such agreement since 2008. Expectations of limited global supply supported prices.

Global Economic Outlook

Inherent policy and geopolitical vulnerabilities in emerging and developing markets, exacerbated by policy uncertainty in the United States threaten global economic output. Weaker global demand is likely to result in depressed commodity export earnings and BOP pressure for commodity exporters, particularly developing countries.

Familiar factors, including but not limited to political uncertainties and fiscal imbalances are expected to dominate the sub-Saharan Africa region, becoming entrenched as part of the environment. External risks for regional economic output include macro-policies in advanced economies, particularly the United States and the threat of adverse weather conditions. Sub-par growth is likely to persist in the region.

Zimbabwe | On the edge…

President Mugabe to stand for another term

The ruling ZANU-PF party held its annual national conference, endorsing President Mugabe as the party's candidate in the 2018 elections. The youth league reportedly recommended that President Mugabe be appointed life-President and that government acquires all remaining white-owned farms. The women's league called for a women's quota in the party's 'three-man' Presidium. Overall, the conference recommendations suggest limited scope for sustainable macro-policy reform.

2016 State of the Nation…

President Mugabe fulfilled his constitutional mandate of presenting a state of the nation address at least once a year. In the brief address; President Mugabe said government is importing grain to mitigate El Nino-induced shortages, government is committed to improving the ease of doing business to attract investment inflows and import restrictions are yielding positive results for local manufacturers.

President Mugabe also commended citizens for maintaining their peace – despite difficult conditions. The address was silent on prevailing cash shortages and possible remedies. It was also quiet on the contentious issue of public sector bonuses, external arrears clearance as well as overall macro-economic prospects into the New Year 2017. Overall, the address suggested a 'more of the same' outlook.

Treasury predicting continued deficits

Treasury halved its 2016 GDP growth forecast to 0.6%, in line with adverse economic conditions. Treasury expects growth to rebound to 1.7% in 2017, backed by a post El-Nino agriculture recovery. A narrower budget deficit of $400 is projected, from $1.2 billion in 2016, ostensibly signaling austere measures. Zimbabwe's domestic debt was estimated at $3.7 billion (of which 45% went towards budget financing.)

Treasury's positive 2016 growth forecast still sounds arguably optimistic. This notwithstanding, the 50% downward revision is symbolic of inherent macro-economic vulnerabilities. The trend generally points to a sub-par economic growth outlook, regardless of the actual estimated numbers. Chronic budget deficits raise the risk of a fiscal crisis (failure to pay critical obligations) in the absence of material fiscal consolidation. The prevailing policy framework presents limited upside potential.

Long road to full international re-engagement…

International Monetary Fund (IMF) staff released their recommendations on Zimbabwe to the IMF board. Staff acknowledged that Zimbabwe fully settled outstanding financial obligations of US$108 million to the Fund and proposed that the Board lift remaining sanctions. Staff also disclosed that Zimbabwe 'updated' its plan to clear arrears with other international financial institutions – moving from a simultaneous arrears clearance plan to a sequential approach.

IMF staff noted that outstanding fiscal and external imbalances have led to deteriorating financial conditions. In conclusion – IMF reiterated that settlement of arrears and subsequent lifting of sanctions does not automatically provide Zimbabwe with access to IMF funding. New funding will require compliance with IMF policies such as resolving outstanding arrears to other creditors and strong reforms to restore fiscal and debt sustainability.

Weak revenues threaten fiscal stability

Treasury revised downwards its cumulative revenue projections for November and December 2016 by 14% from $773.1 million to $663.8 million. Meanwhile, President Mugabe reportedly summoned Minister of Finance Hon. Chinamasa and Minister of Public Service Hon. Mupfumira for a meeting to finalise a plan to honour public service bonuses. The meeting followed Cabinet's order reversing Hon. Chinamasa's mid-year fiscal policy proposal to suspend public sector bonuses for 2 years.

Bond Notes (and coin)…

On 31 October 2016, the Reserve Bank of Zimbabwe (RBZ) commenced 'with immediate effect' the public awareness process to issue 'bond notes.' The process was followed by issuance of $1 bond coins and $2 bond notes commencing 28 November 2016. The first tranche was worth $12 million with withdrawal limits set at $50 per day and $150 per week, under a 'managed issuance basis.' A generalised excitement bordering on nervousness filled the market upon the release of bond notes.

Bond notes worth $72.9 mln had been issued by year end. Uptake (and acceptability) of bond notes has steadily increased, ostensibly in light of their scarcity. Withdrawal limits have since been doubled. Scarcity will be imperative in managing market confidence. The impact of bond notes so far has been mild and predominantly restricted to speculative bases, while the material impact might still be too early to tell, more so as they have been restricted to small transactional denominations.

Ease of business ranking slipped 4 places down

The World Bank Ease of Business 2017 report ranked Zimbabwe 161 out of 190 comparable economies. The ranking is based on data as of June 2016 and represents a decline from 157 last year. Rankings are based on eleven categories of doing business is various jurisdictions, covering starting a business, operations and winding down. New Zealand was ranked first, followed by Singapore and Denmark. In Sub-Saharan Africa, Mauritius is the highest ranked at (49), followed by Rwanda (56) and Botswana (71).

Zimbabwe's bottom quartile ranking is despite deliberate attempts by government to improve on the annual rankings. Zimbabwe has successfully implemented reforms such as streamlining approval of building plans, making it easier to register property as well as improving access to credit. At 161 out of 190, Zimbabwe ranks as the worst-placed country in Southern Africa despite the noteworthy reforms. Deteriorating overall rankings against reforms suggest that other countries implemented more reforms compared to Zimbabwe.

Monthly trend shows increasing inflation pressures

November 2016 inflation closed at -1.09%, down from -0.95% in the previous month. Monthly inflation registered a 2nd consecutive month in positive territory, closing at 0.02% from 0.09% in the previous month. Year to date inflation was -0.99%. Seasonal consumption trends were generally cited for the notable inflationary pressures. Speculative pricing tendencies could also be cited given reports of parallel pricing structures driven by cash shortages.

Depressed on-lending weighing down deposit returns

Money market interest rate quotes remained largely unchanged, with the average 90 days interest quote at 2.95% throughout the quarter ended 31 December 2017. Persistent deflation and weak borrower appetite in light of generally compromised borrower quality weighed on nominal interest rate quotes. Trading in the quarter under review was primarily confined to the very short end of the market, in light of inherent monetary policy uncertainties.

Alternative Trading Platform Launched

During the quarter under review, the Securities Exchange Commission of Zimbabwe licensed an Alternative Trading Platform (ATP). The ATP commenced trading on 1 December 2016 and is envisioned to greatly enhance liquidity of unlisted instruments as well as improving trading efficiencies.

ZSE in strong finish, despite foreign investor net sales

The ZSE industrial index gained 46.05% during the quarter ended 31 December 2016, reversing earlier losses to close the year with gains of 25.84% as highlighted in the table below.

Sector	31 Dec'16	Q4'16	FY'16
Commodities	355.59	51.96%	22.18%
Consumer	209.98	51.97%	31.81%
Financial	95.31	20.90%	32.13%
Listed Property	118.97	29.71%	1.47%
Manufacturing	59.66	52.61%	29.30%
Industrial	**144.53**	**46.05%**	**25.84%**
Mining	**58.51**	**119.88%**	**146.67%**
Market Cap ($ bln)	**4.214**	**47.55%**	**31.20%**

The following table shows the top and bottom 3 performing stocks during the quarter under review.

Top 3 Performers	Price USc	Q4' 2016	Market Cap
GBH	0.08	300.00%	429,271
BINDURA	4.00	233.33%	49,586,265
MASIMBA	1.70	126.67%	3,748,393

Bottom 3 Performers	Price USc	Q4' 2016	Market Cap
ARISTON	0.35	-22.22%	5,602,785
NTS	1.10	-4.35%	2,792,597
POWERSPEED	2.19	-0.45%	8,195,875

Foreign investors remained net sellers on the local bourse, registering net sales of $40.6 million during the quarter under review, compared to net outflows of $4.9 million in the previous quarter. Cumulative foreign investor net sales reached $80 million, compared to net outflows of only $0.8 million last year. The total and daily average value of ZSE trades firmed 127.9% and 239% to $72.7 million and $1.2 million, respectively in the quarter under review. The inverse relationship between foreign investor interest and ZSE returns adds credence to the notion that local investors are shifting portfolios to real assets.

Economic Outlook

Persistent central government funding constraints pose a risk to sustainable macro-economic recovery. Such funding pressures against inescapable obligations raise the risk of unorthodox funding measures. The overall earnings outlook remains uninspiring in light of weak aggregate demand conditions. Environment risks remain tilted to the downside, necessitating continued caution.