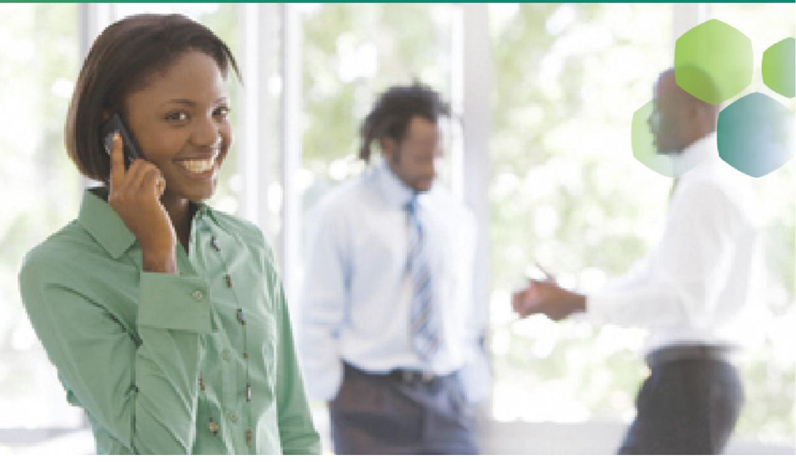
Monthly Economic Brief

January 2017



Highlights

The World Bank projects that Zimbabwe's economy will expand by 3.8% in 2017.

Net FDI inflows retreated 36% from $399.2 million to $254.7 million in 2016.

Total tax collections for 2016 closed at $3.462 billion, 4% below target.

ZSE market capitalization shed 5.14% in January 2016, closing the month at US$3.998 billion.

Incessant rains threatens economic output

Incessant rains and accompanying floods reportedly damaged more than 1,000 homesteads since they commenced towards the end of 2016. Police also reported that 132 people drowned over the past two months due to flooding. The economic costs of the adverse weather conditions are yet to be quantified, but seasonal agriculture output is at risk amid reports of extensive crop damage.

Mining activity also faces the risk of extended downtime if tunnels are flooded, further compromising growth prospects. This notwithstanding, electricity generation is expected to improve in light of increased water supplies. Overall, excessive rains could have adverse effect on overall growth.

Wide forecast variances on Zimbabwe's GDP outlook

The World Bank predicts Zimbabwe's economy to grow by 3.8% in 2017. The World Bank prediction is conspicuously above Treasury's projected 1.7% growth forecast and the IMF's 2.5% predicted contraction. In line with many independent analysts, the World Bank acknowledged that risks remain tilted to the downside; citing drought and political uncertainty. The wide variance across forecasts underlines generalised environment uncertainty.

Foreign investment at risk

Net foreign direct investment (FDI) inflows closed 2016 at $254.7 million, down 36% from $399.2 million in 2015. The data from the Central Bank also showed that portfolio investment flows closed on a net negative position of $26 million, significantly down from positive net inflows of $122.8 million in the previous year. Quarterly FDI inflows averaged $79.8 million in the first three quarters of 2016 and then slid to $55.1 million in the final quarter.

Portfolio investment outflows peaked in the final quarter of 2016, ostensibly owing to investor nervousness arising from the risk of disruptive monetary policy. Policy stability and predictability, particularly monetary policy in this instance, remains critical to for sustainable gross investment growth.

Trade deficit narrowed

Zimbabwe's trade deficit closed 2016 at US$2.38 billion, down from US$3.29 billion in the previous year. Exports gained 4.8% to US$2.83 billion while imports declined by 13% to US$5.21 billion in 2016. Government had set a target of US$3.36 billion for exports in 2016, while the National Trade Policy (2012) had projected exports to grow from US$4.3 billion in 2011 to US$7 billion in 2016. Persistent trade deficits, exacerbated by depressed capital account inflows point to continued cash shortages in the context of the prevailing foreign currency regime.

Authorities tightening tax structures

Total tax collections for Q4'16 closed at $893.89 million, representing growth of 4% from the previous quarter. This notwithstanding, Q4'16 collections were 4% below target. Cumulative collections for 2016 closed at $3.462 billion, 4% below target and about 10% lower than in 2015. In January 2017, collections of $262.21 million exceeded target by 3%, primarily driven by lower Value Added Tax refunds as authorities tightened tax structures. Tax revenue is crucial in light of limited foreign budget support.

Inflationary pressures creeping in…

Annual inflation closed December 2016 at -0.93%, up from -1.09% in the previous month and -2.47% in December 2015. Monthly inflation registered a third consecutive positive movement, closing at 0.06%, up from 0.02% in the previous month. Inflationary pressures in the final quarter of 2016 were largely attributed to seasonal consumption demand and reports of speculative pricing in light of supply side concerns associated with restricted imports.

Dollar on the back foot

The dollar softened in response to President Trump's push to implement some arguably radical reforms, including withdrawing the United States from the 'Trans-Pacific Partnership' trade deal. The dollar closed the month ended 31 January 2017 0.8% and 1.64% weaker against the South African Rand (ZAR) and Euro, at ZAR13.57 per dollar and US$1.07 per Euro, respectively. This notwithstanding, the new administration in the United States is expected to advance monetary policy tapering, presenting support for the dollar on limited supply.

Commodity prices responded positively to weak US$

International commodity price movements were largely positive during the month under review. Commodity price appreciation was partly driven by a weaker US$, making dollar denominated prices more accommodative in alternative currency terms. The following table summarizes commodity price movements in January 2017.

Commodity	Price	Jan'17	YTD
Nickel (usd/ton)	9,490.00	-5.43%	-5.43%
Crude Oil (usd/barrel)	55.15	-3.53%	-3.53%
Gold (usd/oz)	1,197.29	3.24%	3.24%
Platinum (usd/oz)	987.54	8.92%	8.92%
Coffee (usd/lb)	150.25	10.93%	10.93%
Maize (usd/ton)	141.04	2.65%	2.65%
Sugar (usc/lb)	414.75	2.34%	2.34%
Cotton lint (usc/lb)	20.30	4.16%	4.16%

Nickel and oil prices registered declines against the general trend, amid concerns of possible global oversupply. Chinese demand for nickel was expected to prop prices, but Chinese nickel inventories turned out to be larger than earlier projected. Oil prices weakened amid increased production in the United States, partly diluting a resolution by the Organisation of Petroleum Exporting Countries (OPEC) to curtain global oil supply.

ZSE cooling off…

The ZSE industrial index shed earlier gains, closing the month under review 2.97% weaker. Total ZSE market capitalization retreated 5.14% to $3.998 billion amid concerns the market might have been overbought. The table below summarises returns in January 2017.

Sector	Value	Jan'17	YTD
Commodities	363.32	2.18%	2.18%
Consumer	199.77	-4.86%	-4.86%
Financial	93.97	-1.40%	-1.40%
Listed Property	118.70	-0.23%	-0.23%
Manufacturing	64.48	8.08%	8.08%
Industrial	**140.24**	**-2.97%**	**-2.97%**
Mining	**56.31**	**-3.76%**	**-3.76%**
Market Cap (usd bln)	**3.998**	**-5.14%**	**-5.14%**

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

Top 3 Performers	Price USc	Jan'17	YTD
ZIMPAPERS	0.70	40.00%	40.00%
LAFARGE	48.00	23.08%	23.08%
ZB	5.56	23.01%	23.01%

Bottom 3 Performers	Price USc	Jan'17	YTD
ECONET	16.87	-43.77%	-43.77%
MEIKLES	10.50	-19.23%	-19.23%
DAIRIBORD	5.00	-16.67%	-16.67%

Foreign investor participation on the local bourse increased from 43.7% to 57.4% in January 2017. Foreign investors registered net sales of $7.0 million, down from $10.9 million in the previous month. Continued net foreign sales threaten net portfolio and gross foreign investment inflows. The total and daily average value of ZSE trades retreated 67.1% and 70.2% to $8.554 million and $0.407 million, respectively during the month under review.

Economic Outlook

External risks such as natural catastrophes, exchange rate and commodity price fluctuations compound downside risks over the near-term outlook. Domestic risk factors such as budgetary imbalances and cash shortages sustain a depressed earnings outlook on the foreseeable outlook, more so as impending elections raise the risk of business inhibiting populist policies. Inflationary pressures threaten household disposable incomes and aggregate savings. The local bourse is likely to trend sideways in the absence of material price support.