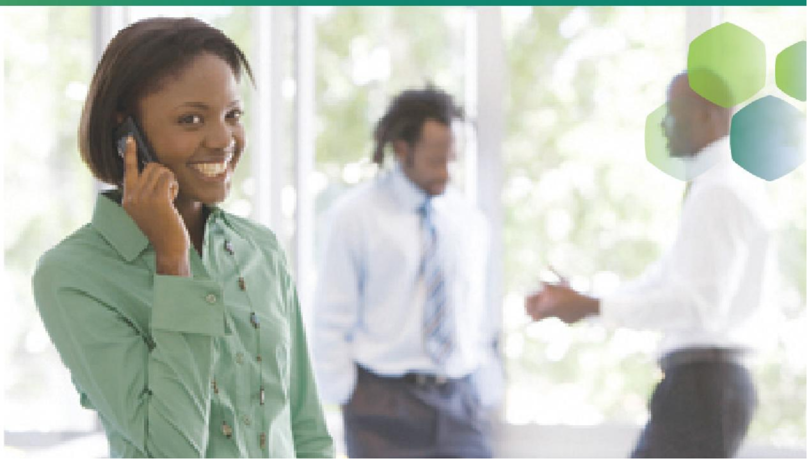
Monthly Economic Brief

October 2017



Highlights

Domestic public debt estimated at $5.3 billion; sustainability compromised.

The IMF revised Zimbabwe's 2017 GDP growth forecast up from 2% to 2.8%.

Local manufacturing sector capacity utilization estimated at 45.1%, down from 47.4% last year.

September 2017 inflation closed at 0.78%, up from 0.14% in the previous month.

ZSE market capitalization firmed 29.5% to close October 2017 at a record $16.149 billion.

New Cabinet, same issues…

President Mugabe reshuffled Cabinet on 9 October 2017. There were changes to key portfolios such as Finance, Justice and Indigenisation. Intra-government disharmony between senior Cabinet members and associated policy inconsistency is thus expected to decline; amid speculation the reshuffle was meant to re-enforce the President's authority in light of widening intra-party and government polarization.

Of concern is that the changes are likely to slow momentum on macro-economic reform initiatives – particularly regards international re-engagement and confidence rebuilding under the finance portfolio.

Fiscal imbalances fuel monetary concerns

Quasi-public institution, the Parliament Budget Office (PBO) conspicuously raised concern at government's domestic debt (estimated at $5.3 billion as of August 2017). The PBO warned that the total stock of public debt now exceeds the Debt Management Act ceiling of 70% of GDP. The PBO also noted that Treasury Bills held by commercial banks amount to about 1.7 times of the banks' total equity capital.

Latest Reserve Bank of Zimbabwe statistics show that broad money increased by 37% during the 12 months to August 2017 to $7.1 billion. Of the total broad money, currency in circulation constitutes approximately 2.8%. The excessive skew towards non hard cash balances on the overall broad money base, amplified by generalised scepticism towards local monetary assets incentives a (parallel) scarcity premium on hard currency (Thiers Law).

2017 growth forecast revised up…

In its latest regional economic outlook report on sub-Saharan Africa, the IMF projects Zimbabwe's GDP growth to rebound from 0.7% last year to 2.8% in 2017. The latest 2017 forecast represents a 0.8% upward review from the IMF's earlier forecast. The fragility of projected recovery is captured by a 0.8% growth forecast for 2018. Underlining inherent monetary policy concerns; the IMF projects inflation of 7% and 10% in 2017 and 2018, respectively.

The IMF classifies Zimbabwe among countries in a 'fragile situation', citing the need for political stability as well as reforms on governance, public debt and exchange rate frameworks.

Rising capacity depressing utilization?

According to the Confederation of Zimbabwe Industries (CZI); industry capacity utilization eased from 47.4% last year to 45.1% in 2017. Going forward; the CZI projects capacity utilization to decline to 43.6% in 2018. Interestingly, industry output gained 5.5% despite the decrease in capacity utilization - seemingly suggesting the decline in capacity utilization is in-part due to 'increased capacity'. This notion is supported by 50% of survey respondents reporting having invested in increased capacity.

Inflation remained below 1%...

Year on year inflation closed at 0.78% in September 2017, up from 0.14% in the previous month. Monthly inflation surged from -0.13% to 0.38% in September 2017, driving year to date inflation to 0.61%.

Independent inflation estimates are generally higher than official statistics. Higher than official inflation estimates are in part attributable to differing consumer basket item samples, their corresponding weights and differences in record periods. Parallel market devaluation of non-hard cash balances, accompanying dual pricing and implied price increases also contribute to higher informal estimates.

US$ on a strong rebound

In the month ended 31 October 2017, the United States Dollar (US$) registered considerable gains against most trading currencies. The US$ firmed 3.8% against the South African Rand (ZAR), to close at ZAR14.08. Against the Euro, the Dollar closed at US$1.16 per Euro, 1.2% firmer, against the opening position of US$1.18 per Euro.

Euro and ZAR depreciation was aided by policy uncertainty in Spain and South Africa. Catalonia's unilateral declaration of independence from Spain rocked the Euro Area while South Africa's newly appointed Treasury signalled an inclination towards populism, ahead of 2019 general elections.

Commodities struggled for direction

International commodity prices were mixed during the month ended 31 October 2017, as highlighted in the following table.

Commodity	Price	Oct'17	YTD
Nickel (usd/ton)	11,500.00	13.08%	14.60%
Crude Oil (usd/barrel)	60.62	5.37%	6.03%
Gold (usd/oz)	1,276.59	-0.65%	10.07%
Platinum (usd/oz)	921.37	0.47%	1.62%
Coffee (usd/lb)	125.90	-4.48%	-7.05%
Maize (usd/ton)	137.20	-0.57%	-0.14%
Wheat	425.75	-5.91%	5.06%
Sugar (usc/lb)	14.64	4.35%	-24.88%
Cotton lint (usc/lb)	68.89	0.19%	-3.00%

Nickel prices were conspicuously bullish during the month under review. Nickel is used in the manufacture of corrosion-free stainless steel as well as in electric car batteries. Demand for the manufacture of stainless steel is expected to increase in line with improving global macro-economic conditions. The ongoing transition towards hybrid and electric vehicles is also projected to boost nickel demand.

Grain prices were depressed by projections of market glut conditions. Wheat prices took the hardest knock following an upward review of global production estimates necessitated by record output in Russia.

Sanctions shake financial sector stability

Zimbabwe's largest commercial bank by deposits, CBZ Bank, was reportedly fined US$385m by the United States Treasury's Office of Foreign Assets Control (OFAC). The penalty relates to transactions by CBZ on behalf of ZB Bank which was then under OFAC sanctions. The allegations stem systemic risk concerns, though details remaining sketchy.

Investors pricing macro risks on the ZSE

The flight to non-monetary assets persisted, with the ZSE industrial index gaining 24.7% during the month ended 31 October 2017 as highlighted below.

Sector	Value	Oct'17	YTD
Commodities	1308.14	5.45%	267.88%
Consumer	833.72	26.99%	297.05%
Financial	305.04	37.74%	220.07%
Listed Property	214.88	9.10%	80.62%
Manufacturing	217.11	45.61%	263.90%
Industrial	**521.85**	**24.73%**	**261.07%**
Mining	**132.49**	**8.09%**	**126.44%**
Market Cap ($ bln)	**16.149**	**29.46%**	**283.22%**

The following tables highlight the ZSE top and bottom three performing stocks for October 2017.

Top 3 Performers	Price USc	Oct'17	YTD
PPC	346.00	141.11%	529.09%
ECONET	181.99	114.38%	506.63%
FML	20.00	110.53%	376.19%

Bottom Performers	Price USc	Oct'17	YTD
AXIA	25.97	-21.33%	286.46%
OK	25.05	-16.50%	252.82%
TURNALL	1.18	-15.71%	13.46%

ZSE monthly value of trades peaked at $168.8 million, 85.3% higher than in the previous month. Foreign investor participation increased from 29.4% to 39.4%, albeit remaining net sellers. Foreign investor net sales in the month under review were $31.5 million, driving the year to date net foreign portfolio outflows to $87 million, up from net outflows of $52.9 million in the corresponding period last year.

Economic Outlook

A generalised unease clouds the outlook. Risks centre on pre-election fiscal and monetary frameworks and the associated threat of excessive inflation. This notwithstanding, we remain cautiously optimistic of the medium to long term outlook.