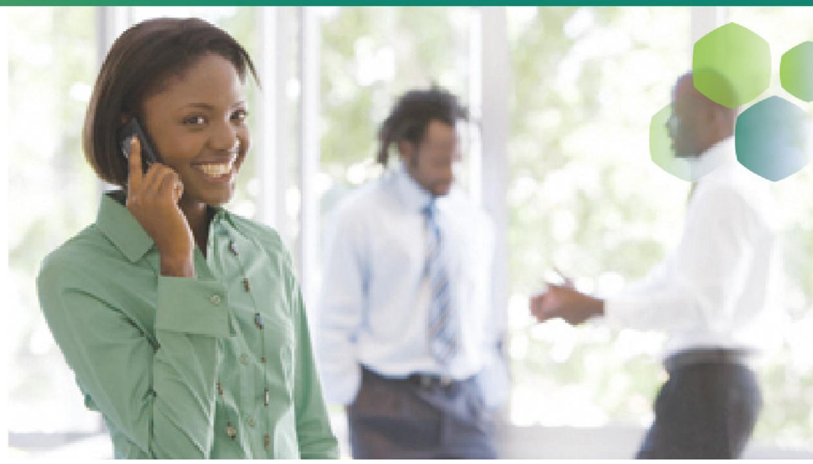
# Monthly Economic Brief

# July 2016



## Highlights

**Net Foreign Direct Investment (FDI) to Zimbabwe retreated 16% in 2015.**

**Tax revenue collections closed H1’16 12% below target and 7% lower than in H1’15 at US$1.55 billion.**

**2015/16 seasonal maize output projected to decline by 40% from last year.**

**Year on year inflation closed June 2016 at -1.37%, down from -1.69% in the previous month.**

**Total ZSE market capitalization retreated by 2.35% to close the month under review at US$2.850 billion.**

### Stability rocked by mass (urban) protests

Zimbabweans across most urban areas (approximately 30% of the population) embarked on a mass stay-away on the 6th of July, shutting down all business activity in one of the biggest mass actions in nearly a decade. The stay-away was primarily centred on government’s failure to settle public wages on time. Isolated pockets of social-media—coordinated civil disaffection also mushroomed, occasionally turning violent with protestors citing general economic difficulties and corruption.

Government seemingly responded by settling public wages a day earlier than previously announced; effectively ending public sector participation in the protests. Further calls for mass action were relatively undersubscribed. The EU delegation in Harare raised concern over violence and alleged human rights abuses in the aftermath of the protests. As the world watches, government’s response to further protests is likely to hugely dictate the country’s near-term outlook.

### Net FDI inflows down 16% in 2015 at US$399 million

The UN reported that Foreign Direct Investment (FDI) inflows to Zimbabwe closed 2015 at US$421 million, 23% lower than the US$545 million registered in 2014. Zimbabwe’s net FDI inflows in 2015 retreated 16% to US$399 million as outflows declined by 69% to US$22 million. Africa’s top 3 FDI recipients were Angola (US$8.7 billion), Egypt (US$6.9 billion) and Mozambique (US$3.7 billion). Outside market size and resource base; relative FDI inflows mirror policy competitiveness.

### Correcting some ‘misreporting…’

An IMF representative disclosed that the IMF is not engaged in any financing program with Zimbabwe at this moment. The IMF official was responding to some ‘misreporting’ on Zimbabwe’s progress towards an IMF funded program. The IMF however acknowledges that Zimbabwe is in the process of mending relations with lenders and once the country clears its arrears, the IMF Board would consider extending new funds. Overall, Zimbabwe is still a long way from new funding.

The IMF official also highlighted that ‘as is normal for the IMF and would also be true in this case, a couple of things need to be in place before even the consideration to extend new funding can take place.’ The IMF clarification on recent ‘misreporting’ on Zimbabwe’s progress towards new funding is likely to dent investor sentiment given the precarious state of domestic funding and the hopes that had been pinned on a new program.

### H1’16 national tax collections 12% below target

National net tax revenues closed H1’16 at US$1.55 billion, 12% below target. In the absence of a major structural shift, the funding gap is set to widen due to narrowing funding sources, presenting only two options to close the gap – lower the budget or borrow. The latter is less favourable but more likely, possibly crowding out private sector funding. Given the current expenditure mix, new debt is likely to go towards recurrent spending, compromising public debt sustainability.

Compared to the same period last year; H1’16 tax collections declined by 7%. The decline in tax collections points to a shrinking revenue base, in line with job losses (leading to lower PAYE) and company closures (lower corporate tax). As long as economic output declines, corporate tax and PAYE contributions are likely to decline, with further spill-overs extending to indirect taxes (taxes on consumption) such as VAT and customs duties.

### Seasonal maize output expected to decline by 40%

Preliminary results of the Zimbabwe Vulnerability Assessment Committee report suggest that national maize output for the 2015/16 season is likely to close around 445,600 tons, representing a 40% decline from last season’s 742,000 tons. Estimates by independent assessors are reportedly as low as 250,000 tons. The annual maize requirement for Zimbabwe is around 1.8 million tons, pointing to a looming shortage. The weak agriculture outlook weighs on the country’s GDP outturn.

## Monthly inflation turned positive in June 2016

Inflation for June 2016 closed at -1.37%, up from -1.69% in May 2016. Monthly inflation was 0.19%, up from -0.24% in the previous month. Inflationary pressures in June 2016 could be partly attributed to speculative pricing following heightened market fears of commodity shortages around June 2016. On a year to date basis, inflation decelerated to -0.53%, from -1.64% at the same time last year. Going forward, depressed demand is likely to outweigh any inflationary forces to sustain deflation.

## Dollar struggled to maintain strength

The US Federal Reserve adjusted their outlook on the US economy, predicting that near-term risks have diminished. The initial reaction was dollar supportive as the market predicted a looming rate hike, but that was quickly reversed amid weaker than expected consumer data from the US. The dollar closed the month ended 31 July 2016, 5.4% weaker against the ZAR at ZAR14.21 per dollar and registered minor gains of 0.03% against the Euro to close at US$1.11 per Euro.

## International commodity prices struggled for direction

International commodity prices struggled for direction during the month ended 31 July 2016. Hard commodities traded mixed while soft commodity prices were predominantly negative as highlighted in the following table.

| Commodity | Price | Jul'16 | YTD |
|---|---|---|---|
| Nickel (usd/ton) | 10,530.00 | 13.47% | 22.30% |
| Crude Oil (usd/barrel) | 42.08 | -15.86% | 14.66% |
| Gold (usd/oz) | 1,331.75 | 1.10% | 25.33% |
| Platinum (usd/oz) | 1,129.95 | 12.58% | 29.55% |
| Coffee (usd/lb) | 140.90 | -3.76% | 13.77% |
| Maize (usd/ton) | 132.57 | -11.21% | -6.26% |
| Sugar (usc/lb) | 18.74 | -11.18% | 23.21% |
| Cotton lint (usc/lb) | 71.80 | 8.26% | 12.68% |

Nickel prices registered a 13.47% gain during the month under review, finding support from lower stocks in the world's largest consumer, China. Gold prices maintained a positive trend, in light of general global macro-economic vulnerabilities, though the magnitude was notably uninspiring. Soft commodity prices were predominantly negative, weighed down by bullish harvest forecasts in major commodity producers. Cotton bucked the soft commodity price trend, albeit from a low base.

## Investment rates depressed by limited deposit demand

Domestic money market interest rates remained depressed under weak deposit demand and persistent deflation. Demand for deposits for on-lending has been capped by an arguably inflated credit risk profile while deflation preserves the time value of money. Deals remained mostly confined to the short end of the market, with the majority in the 90 days investment horizon. The average 90 days interest rate quote closed the month under review at 2.95%, down from 3.69% at the beginning of the year.

## Foreign investors still selling out…

Foreign investors remained net sellers for a ninth straight month, with net portfolio outflows of US$5.2 million in July 2016. The cumulative net portfolio flow position since the beginning of the year closed July 2016 at a negative US$26.5 million, compared to net inflows of US$3.2 million over the corresponding period last year.

Total trades on the local bourse retreated 34% to US$11.8 million in July 2016. The daily average value of ZSE trades declined 31% from the previous month to US$0.6 million. The month under review also registered the lowest daily trades this year, with trades of only US$105 on Tuesday the 26th of July 2016.

The ZSE industrial index retreated 2.18%, extending year to date losses to 13.94% during the month ended 31 July 2016, as highlighted in the following table.

| Sector | Value | Jul'16 | YTD |
|---|---|---|---|
| Commodities | 220.76 | 1.78% | -24.15% |
| Consumer | 141.36 | -3.28% | -11.26% |
| Financial | 72.13 | -0.72% | 0.00% |
| Listed Property | 91.99 | -1.24% | -21.54% |
| Manufacturing | 43.18 | -3.03% | -6.42% |
| **Industrial** | **98.84** | **-2.18%** | **-13.94%** |
| **Mining** | **25.72** | **4.13%** | **8.43%** |
| **Market Cap (usd bln)** | **2.850** | **-2.35%** | **-11.27%** |

The following tables highlight ZSE top and bottom 3 performing stocks for July 2016.

| Top 3 Performers | Price USc | Jul'16 | YTD |
|---|---|---|---|
| ART | 2.88 | 105.71% | 188.00% |
| CFI | 7.34 | 21.12% | 46.80% |
| COLCOM | 18.25 | 17.74% | 7.35% |

| Bottom 3 Performers | Price USc | Jul'16 | YTD |
|---|---|---|---|
| BARCLAYS | 1.50 | -37.50% | -64.71% |
| OK | 3.00 | -30.23% | -40.00% |
| ZIMRE | 0.72 | -17.24% | -24.21% |

Small and medium capitalised stocks continued to dominate major movers and shakers on the back of thin trades.

## Economic Outlook

The foreseeable outlook presents limited upside under the prevailing macro-economic framework. At the same time, persistent underperformance suggests a bottom could be close. Overall, the economy seems precariously balanced on the edge, with risks skewed to the downside. Immediate risks hinge on simmering central government funding pressures, which in-turn sustain monetary policy uncertainty in light of pressing funding needs. The sustainability of the status quo is compromised.