

Monthly Economic Brief

August 2016



Highlights

Public protests dominated political-economy activity, sustaining a generalised environment uncertainty.

Government unveiled US\$500m import-substituting maize production program to close the output gap.

Seasonal gold and tobacco outturn presents positive surprise.

Year on year inflation closed July 2016 at -1.60%, down from -1.37% in the previous month.

ZSE market capitalization recovered 0.52%, closing the month under review at US\$2.865 billion.

Protests have grown in frequency and intensity

Anti-government protests persisted, albeit in greater frequency and magnitude and often turning violent. Security agents have managed to contain the protests from degenerating into total chaos, but a generalised tension still fills the market. A coalition of 18 opposition political parties is coordinating anti-government protests, calling for electoral reforms and better economic conditions.

Zimbabwe's fast evolving political-economy dynamics over the past few months have attracted noteworthy attention from the international community. The EU expressed 'concern at the violent conduct of some police officers in response to recent protests.' Closer home, Elders Kofi Annan, Desmond Tutu and Graca Machel called on SADC to support a successful and inclusive transition in Zimbabwe, proclaiming that Zimbabwe is 'on the verge of an important transition.'

US\$520 million command agriculture system for maize

In an attempt to address grain shortages and an accompanying grain import bill, government announced plans to implement a command agriculture system with capacity to produce 2 million tons of maize annually, against a national requirement of about 1.8 million tons. Participating farmers will receive privileges such as inputs at concessionary rates, uninterrupted power supply and debt restructuring, in exchange for at least 5 tons from each of the 400,000 ha covered under the scheme.

That government plans to close the maize output gap through an import substitution strategy is commendable. This notwithstanding; a few concerns arise. Under command systems, government dictates what to produce, by whom, for whom and at how much. Such influence tends to breed inefficient resource allocation. The target yield of 5 tons per ha implies an ambitious 525% increase from the current average of 0.8 tons. Raising US\$520 million could present a challenge under prevailing operating difficulties. Also of concern is that the proposal does not address underlying problems affecting lending to agriculture, among which includes security of loans.

Narrowing trade deficit presents limited delight...

Zimbabwe's trade deficit for the seven months to July 2016 closed at US\$1.59 billion, 27% lower than the same period last year. Imports and exports declined by 20% and 10%, to US\$2.89 million and US\$1.3 million, respectively. The drop in imports is attributed to shrinking aggregate demand and recent restrictions on imports. A strong dollar relative to trading partner currencies also lowered the US\$ import cost on a constant quantity basis. The persisting, though narrowing, trade deficit presents continued pressure on market liquidity.

Bond Notes are coming

RBZ Governor Dr. Mangudya said the impact of measures to ease cash shortages has been impressive to date. He cited a 33% increase in weekly gold exports to US\$16 million since the announcement of export incentives in May 2016. He also said the market has caught-on to use of plastic money, but there is need for more measures; ostensibly referring to 'bond notes.' In a joint statement with the ZSE, the RBZ assured investors that stocks would continue to be priced in United States Dollars. The market remains sceptical of the innovative notes.

Gold and tobacco outperforming expectations

Gold deliveries to the sole authorised buyer, Fidelity Printers and Refiners, firmed 7.14% in July 2016 to 1.8 tons. On a year to date basis, deliveries for the seven months to July 2016 reached 11.4 tons. Deliveries in 2016 are expected to exceed the 20 tons reached last year. Tobacco deliveries to the auction floors in the 2015/16 marketing season closed at 201.5 million kgs worth US\$592.4 million, representing growth of 1.2% and 3.7% in volume and value, respectively, from last season.

Gold output above 20 tons would represent a 12 year high, while the Tobacco Industry and Marketing Board expressed surprise at the tobacco outturn, 'given bad weather last year.'

Deflation entrenched...

Year on year inflation for July 2016 closed at -1.59%, down from -1.37% in the previous month. Month on month inflation in July 2016 closed at -0.19%, down from 0.19% in June 2016. Year to date inflation reached -0.71% in July 2016 as deflationary pressure persists under depressed aggregate demand conditions. Going forward, we anticipate sub-zero inflation to persist as the absence of a material boost to consumer purchasing power outweighs supply side bottlenecks.

ZAR faces headwinds while the Euro consolidates gains

The dollar retreated 0.8% against the Euro, closing the month ended 31 August 2016 at US\$1.12 per Euro. On a year to date basis, the dollar shed 2.2% against the Euro. Against the South African Rand (ZAR), the dollar firmed 1.7% during the month under review. On a year to date basis, the ZAR recovered 6.2%, from ZAR15.40 at the beginning of the year. Capital flight from South Africa in light of an increasingly fragile political-economy presents noteworthy headwinds for the ZAR.

Positive year to date for commodity prices, despite mixed month

Commodity prices struggled for direction during the month under review, capturing generally mixed global macro themes. The following table highlights international commodity price movements during the month ended 31 August 2016.

Commodity	Price	Aug'16	YTD
Nickel (usd/ton)	9,715.00	-7.74%	12.83%
Crude Oil (usd/barrel)	48.01	14.09%	30.82%
Gold (usd/oz)	1,315.06	-1.25%	23.76%
Platinum (usd/oz)	1,063.13	-5.91%	21.89%
Coffee (usd/lb)	146.15	3.73%	18.01%
Maize (usd/ton)	124.30	-6.24%	-12.10%
Sugar (usc/lb)	20.42	8.96%	34.25%
Cotton lint (usc/lb)	65.89	-8.23%	3.41%

A slowdown in stocking demand by the world's largest base metal consumer, China, weighed on the price of nickel during the month under review. Oil prices advanced as the world's largest oil exporter, Saudi Arabia, signalled firming global demand by increasing its prices. Most commodities sustained year to date gains, with the exception of maize in light of higher than earlier anticipated harvest projections in the world's largest maize producer, the United States.

Money market rates remained unchanged

Activity on the money market was notably depressed in light of weak deposit demand associated with inherent monetary policy uncertainties. Persistent deflation also weighed on nominal investment rates. 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 unchanged at 2.95%, down from 3.69% at the beginning of the year.

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Foreign investors still selling out...

The ZSE recovered a modest 0.42% during the month ended 31 August 2016, reducing its year to date decline to -13.57%. The mining index firmed 2.33% to extend year to date gains to 10.96% as highlighted in the following table.

Sector	Value	Aug'16	YTD
Commodities	225.64	2.21%	-22.47%
Consumer	140.39	-0.69%	-11.87%
Financial	75.90	5.23%	5.23%
Listed Property	91.83	-0.18%	-21.68%
Manufacturing	41.96	-2.82%	-9.06%
Industrial	99.26	0.42%	-13.57%
Mining	26.32	2.33%	10.96%
Market Cap (usd bln)	2.865	0.52%	-10.81%

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

Top 3 Performers	Price USc	Aug'16	YTD
BARCLAYS	1.80	20.00%	-57.65%
PADENGA	10.50	11.70%	35.83%
OLD MUTUAL	258.25	11.19%	26.96%

Bottom 3 Performers	Price USc	Aug'16	YTD
NTS	1.20	-29.41%	-29.41%
AFSUN	1.21	-19.33%	-28.82%
WILLDALE	0.15	-11.76%	-25.00%

For a tenth consecutive month, foreign investors were net sellers on the local bourse. Foreign investors registered net portfolio outflows of US\$3.7 million during the month under review. The cumulative net portfolio flow position since the beginning of the year closed August 2016 at a negative US\$30.2 million, compared to net inflows of US\$4.6 million over the corresponding period last year.

The total value of ZSE trades in August declined by 40.23% from the previous month to close at US\$7.08 million, the lowest monthly value of trades in seven years. In the previous month, the bourse had recorded the lowest daily value of trades in modern history at US\$105. The average daily value of trades also registered a new low in August 2016, declining 40.2% to US\$0.3 million in typical 'graveyard market' conditions.

Economic Outlook

The environment is likely to remain edgy. Weak macro-economic fundamentals and an uncertain policy outlook present a sustained risk of escalating to socio-political vulnerability, the pace and magnitude of which remains indeterminate. Key milestones that could materially disrupt the baseline outlook to year-end include the looming introduction of 'bond notes' and clearance of arrears to major creditors. A 'more of the same' muddle-through scenario is likely.