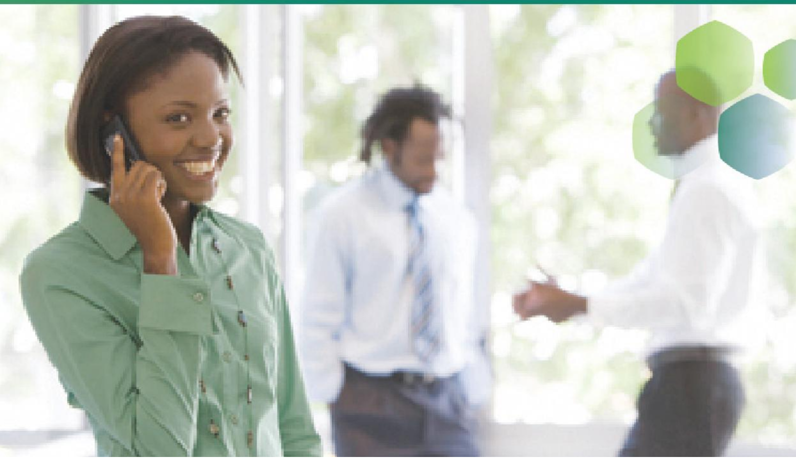
Monthly Economic Brief

March 2016



Highlights

Japan joined Zimbabwe's growing list of potential investment sources amid strategic international isolation.

Zimbabwe successfully met all quantitative targets and structural benchmarks under the final IMF SMP.

Cabinet ordered line Ministries to cancel operating licenses of foreign firms failing to comply with indigenisation law.

Year on year inflation closed February 2016 at -2.22%, down from -2.19% in the previous month.

Total ZSE market capitalization closed the month 1.27% weaker at US$2.808 billion.

It's complicated… Zimbabwe's international relations:

Japanese Prime Minister Shinzo Abe hosted President Mugabe on an official State visit and extended a US$5 million grant-in-aid pledge to Zimbabwe. Japan also pledged to fund road projects in Zimbabwe, extending the list of deals that Zimbabwe has entered with China, Russia and Nigerian billionaire Aliko Dangote. In the words of Deng Xiaoping: 'It doesn't matter whether the cat is black or white, as long as it catches mice.' In the context of Zimbabwe, any source of investment is welcome in order to revive the economy.

Meanwhile, the U.S Office of Foreign Assets Control (OFAC) added fertilizer manufacturers Chemplex Holdings and Zimbabwe Fertilizer Company (ZFC) to its sanctions list. The State-owned Industrial Development Corporation of Zimbabwe (already on the sanctions list) wholly owns Chemplex and has a 50% holding in ZFC. The economic cost of the sanctions is mitigated by inherent domestic structural constraints. This notwithstanding; the sanctions serve as a symbolic and brutal reminder of Zimbabwe's strategic international isolation.

Economic difficulties have deepened, despite SMP success

An IMF mission was in the country holding discussions with authorities and private sector representatives on the 2016 Article IV consultations and reviewing the 3rd and final Staff Monitored Program (SMP). At the conclusion of the mission, the IMF team highlighted that: 'Economic difficulties have deepened,' and Zimbabwe needs to act fast to revive economic growth.

A major positive from the IMF review was that Zimbabwe successfully met all quantitative targets and structural benchmarks under the SMP and is in the process of developing an economic transformation program. All things normal, meeting policy targets under an IMF program enhances public and investor confidence as it highlights a commitment to reforms. Note that an SMP is an 'informal' agreement between a country and IMF staff to monitor the implementation of a country's economic program.

Indigenise or shut down…

Cabinet reportedly directed that from the 1st of April 2016; line Ministries must cancel the operating licences of firms that fail to meet a 31 March 2016 deadline to submit indigenisation compliance plans. Cabinet also reversed the initially proposed non-compliance levies such that foreign firms must either 'indigenise' or close. Foreign firms in reserved sectors such as fuel retail, agriculture and transport are likely to be the most affected as reserved sectors require 100% local equity. Such measures compromise investor sentiment.

Minister of Mines, Hon. Chidhakwa reportedly said there will be no going back on government's February 2016 decision to bar 9 diamond firms from mining the Marange diamond fields. The decision follows allegations of contractual irregularities. Concessions that belonged to affected firms have already been registered under a newly formed State owned entity. Mafia-type syndicates have reportedly invaded the fields following the directive. Hundreds of illegal diggers have been arrested while 3 reportedly died in the ensuing chaos.

Tobacco marketing season reopened

The 2016 tobacco marketing season officially opened on the 30th of March 2015. Prices ranged from US$0.11 to US$4.50 per kg. The Tobacco Industry and Marketing Board projects seasonal deliveries to decline by 20% to around 170 million kilograms, from last year's 198.95 million kilograms. Tobacco exports are critical to domestic liquidity, contributing US$857 million in export earnings last year.

Zimbabwe's exports and imports for the first two months of 2016 declined from same period last year by 13.1% and 15.7%, to US$458.9 million and US$838.4 million, respectively. The trade deficit for the two months closed at US$379.5 million, down from US$466.2 million in the corresponding period last year. Zimbabwe's cumulative trade deficit since dollarization is estimated around US$20 billion, partly explaining prevailing tight market liquidity conditions.

Shrinking purchasing power driving deflation

Year on year inflation closed February 2016 at -2.22%, down from -2.19% in the previous month. Monthly inflation softened from -0.05% to -0.10%, depressing the year to date inflation rate to -1.15%. Persistent deflation is primarily attributed to low domestic aggregate demand, which in the absence of an expansionary fiscal policy is likely to persist. Expansionary fiscal policy entails increased government expenditure or reduced taxes to free up household purchasing power.

US$ under pressure

Minutes from the U.S Fed March 2016 meeting painted a weak outlook for the U.S economy. The weak output figures necessitate continued low interest rate policies hence the Fed lowered the frequency of possible rate hikes of 0.25% each in 2016 from 4 to 2. The benchmark Fed funds rate was maintained between 0.25% and 0.5%. Low U.S interest rates under continued accommodative policies present support for trading partner currencies, particularly emerging market currencies.

The US$ closed the month under review 6.51% weaker against the South African Rand (ZAR), closing at ZAR15.04, against an opening position of ZAR16.14 per US$. Against the Euro, the US$ retreated 3.67% to close at US$1.13 per Euro, from an opening position of US$1.09 per Euro.

Commodities on the rebound

International commodity trade is primarily conducted in US$ terms. A weaker US$ makes commodities on the international market cheaper in relative currency terms. The following table highlights commodity prices during the period under review.

Commodity	Price	Mar'16	YTD
Nickel (usd/ton)	8,400.00	-0.06%	-2.44%
Crude Oil (usd/barrel)	39.42	12.63%	7.41%
Gold (usd/oz)	1,235.49	0.16%	16.27%
Platinum (usd/oz)	974.70	5.97%	11.75%
Coffee (usd/lb)	127.25	10.46%	2.75%
Maize (usd/ton)	144.28	1.59%	2.02%
Sugar (usc/lb)	15.74	11.32%	3.48%
Cotton lint (usc/lb)	57.48	0.67%	-9.79%

Commodity prices responded positively to the weak US$, with the exception of nickel prices which remained flat. Oil, sugar and coffee prices registered the highest gains, albeit from low bases. Oil prices found considerable support from reports of a looming supply ceiling to be implemented by the Organization of Petroleum Exporting Countries (OPEC). Firming oil prices are likely to spur global inflationary pressures in the near future.

Market surplus position depressing interest rates

Money market interest rates remained weak in light of a low appetite for deposits for on-lending by banks. The average 90 days interest quote eased from 3.29% to 2.95% in March 2016.

Foreigners selling out of the ZSE

ZSE underperformance continued unabated during the month under review. ZSE total market capitalization shed 1.27% to close at US$2.8 billion as shown in the following table.

Sector	Value	Mar'16	YTD
Commodities	231.26	-14.76%	-20.54%
Consumer	133.12	-0.41%	-16.43%
Financial	75.76	4.52%	5.04%
Listed Property	99.53	-7.63%	-15.10%
Manufacturing	40.17	0.27%	-12.93%
Industrial	**97.61**	**-1.90%**	**-15.01%**
Mining	**19.53**	**2.04%**	**-17.66%**
Market Cap (usd bln)	**2.808**	**-1.27%**	**-12.57%**

The following tables highlight the ZSE top and bottom 3 performing stocks for the month under review.

Top 3 Performers	Price USc	Mar'16	YTD
GBH	0.02	100.00%	100.00%
GETBUCKS	3.70	8.19%	8.19%
OLD MUTUAL	180.00	5.89%	-11.56%

Bottom 3 Performers	Price USc	Mar'16	YTD
CAFCA	22.45	-43.88%	-43.88%
LAFARGE	27.00	-22.86%	-22.86%
MASIMBA	0.70	-22.22%	-30.00%

ZSE total and daily average value of trades for the month ended 31 March 2016 recovered 5.6% from the previous month. The year to date total value of trades closed the month under review 37.8% weaker at US$43.3 million, compared to the corresponding period of 2015.

Foreign trades constituted 68.9% of total trades. Net foreign portfolio flows recorded a net outflow position of US$4.2 million, down from US$6.6 million in the previous month. The cumulative year to date net portfolio outflow position closed the month under review at US$14.7 million, compared to inflows of US$3.1 million in the same period last year.

Economic Outlook

The likelihood of further underperformance is considerably high. Negative net portfolio investments underscore fatigued investor sentiment, presenting an adverse forward indicator for gross investment. Combined with a persistent trade deficit, negative capital inflows threaten domestic liquidity conditions, more so in the prevailing multi-currency regime framework.

The confluence of tight market liquidity, deepening deflation and limited policy response mechanisms significantly inflates the policy risk outlook. Resultantly, investment performance is likely to remain depressed in line with a generalised macro-economic underperformance and shaky investor sentiment.