

# Monthly Economic Brief

## August 2018



### Highlights

**The Constitutional Court upheld election results as announced by the Zimbabwe Electoral Commission.**

**Cumulative tax revenue collections to July 2018 went up by 35.1% at \$2.683 billion.**

**Gold headed towards all time record output.**

**Meteorologists are forecasting *El Nino* conditions in the coming season.**

**Year on year consumer inflation for July 2018 was 4.29%, up from 2.91% in the prior month.**

**ZSE market capitalization advanced 4.8% to close August 2018 at \$12.437 billion**

**ZEC results upheld by the ConCourt...**

The Constitutional Court (ConCourt) bench of nine unanimously upheld the 2018 election results as announced by the Zimbabwe Electoral Commission. The ConCourt dismissed, with costs, an MDC Alliance petition challenging the results. Incumbent President Mnangagwa said the ConCourt events (screened live on national television) were a clear testimony of the high level of justice in Zimbabwe. He also urged citizens to put differences behind and focus their energy on nation building.

President Mnangagwa was sworn into office on the 26<sup>th</sup> of August 2018 (two days after the ConCourt ruling). Speaking at the event, he committed to non-tolerance of bureaucratic bottlenecks, zero tolerance to corruption, promotion of savings, fairness and impartiality as well as pursuance of external debt resolution. President Mnangagwa re-appointed his two deputies on the 30<sup>th</sup> of August 2018 as the new Cabinet takes shape. Overall, environment prospects hinge on policy reform and reciprocal reintegration by the mainstream international economy.

**Tax collections ahead of target**

National net tax collections for July 2018 closed at \$372.58 million, exceeding target (\$336.20 million) by 10.8%. Compared to July 2017 collections (\$286.49 million); July 2018 collections were up 30%. Cumulatively from the beginning of the year, 2018 collections reached \$2.683 billion, surpassing target (\$2.436 billion) by 10.1% and exceeding collections in the same period last year (\$1.986 billion) by 35.1%. Cumulative tax collections to July 2018 amount to 62% of the full year target of \$4.3 billion.

**Gold output up 72% from last season**

Gold output reached 20.8 tons in the seven months to July 2018, driven by a surge in small scale output (65% contribution to the total seasonal outturn). In the same period last year, the seasonal output was 12.1 tons, implying a 72% increment this season. The full year outturn last year was 24.8 tons and the 2018 outturn is expected to surpass past record. The previous peak was 27 tons - registered in 1997. The impact of firm gold output this season is partly weighed down by relatively weak prices.

**Negative externality threatens output**

The Meteorological Services Department predicts a climate-change-induced drought, characterised by *El Nino* effects over the 2018/19 rainfall season. Agriculture's contribution to gross domestic product, export earnings and employment underlines the magnitude of the imminent threat. The Famine Early Warning Systems Network (FEWSNET) warned that approximately 1.1 million Zimbabweans will require food aid, especially in the southern region, over the coming lean season (October 2018 to March 2019).

**Consumer inflation surged from 2.91% to 4.29%**

Year on year consumer inflation surged from 2.91% in June 2018 to 4.29% in July 2018. Month on month inflation in July 2018 was 0.98% (the highest since October 2017), up from -0.05% in the previous month. Year to date inflation reached 1.17%, compared to

0.36% in the corresponding period last year. Inflationary pressures were mainly driven by the food subsector (34% weight). Going forward, inflation risks are tilted up by seasonal spending patterns, particularly in the final quarter, exacerbated by enhanced household buying power.

### Safe haven demand spurred US\$ appreciation

The United States Dollar (US\$) registered significant gains against most trading currencies during the month ended 31 August 2018. US\$ appreciation was in part supported by the reserve currency's safe haven attractiveness in light of widespread global trade tensions. Currency vulnerabilities in Turkey and Argentina, as well as accompanying fears of contagion risks across emerging markets propped the US\$ against emerging market currencies.

The US\$ closed the month ended 31 August 2018 10.7% firmer against the South African Rand (ZAR) at ZAR14.58. ZAR weakness was compounded by capital flight concerns around land reform policy. The US\$ gained 0.1% against the Euro, as it closed the month under review at US\$1.17 per Euro. Going forward, intensifying trade tensions and the threat of global credit rating downgrades for emerging markets supports a firm dollar outlook.

### Firm US\$ weighed down commodity prices

A strong US\$ made commodities pricier in alternative currency terms; weighing down international demand and prices as shown in the table below.

Commodity	Price	Aug'18	YTD
Nickel (usd/ton)	13,280.00	-3.07%	9.84%
Crude Oil (usd/barrel)	77.36	3.30%	16.37%
Gold (usd/oz)	1,202.33	-1.18%	-7.27%
Platinum (usd/oz)	793.14	-4.30%	-14.69%
Coffee (usd/lb)	102.4	-7.20%	-17.95%
Maize (usd/ton)	141.04	-6.89%	2.21%
Wheat	546.00	-1.53%	28.02%
Sugar (usc/lb)	10.68	-0.28%	-28.61%
Cotton lint (usc/lb)	82.35	-7.81%	4.78%

Safe haven attractiveness (in light of generalized global vulnerabilities) of gold was overshadowed by the commodity price's inverse relationship with the US\$. Oil prices went against the general trend, firming 3.3% during the month under review. Oil price support was predominantly premised on concerns that declining Iranian output will tighten global crude oil supplies as a US total ban on Iranian oil takes effect from November 2018.

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### ZSE gains supported by local buyers

The ZSE industrial index firmed 2.7% during the month under review, extending year to date gains to 18.5% as highlighted in the table below.

Sector/Index	Value	Aug'18	YTD
Commodities	1155.57	2.53%	16.72%
Consumer	712.64	17.90%	43.78%
Financial	187.08	4.34%	-0.13%
Listed Property	169.16	8.58%	-15.49%
Manufacturing	214.25	6.30%	9.61%
<b>Industrial</b>	<b>394.64</b>	<b>2.70%</b>	<b>18.50%</b>
<b>Mining</b>	<b>161.34</b>	<b>-1.62%</b>	<b>13.30%</b>
<b>Top Ten</b>	<b>121.69</b>	<b>2.40%</b>	<b>21.69%</b>
<b>All Share</b>	<b>117.33</b>	<b>2.63%</b>	<b>17.33%</b>
<b>Market Cap (\$ bln)</b>	<b>12.437</b>	<b>4.83%</b>	<b>22.89%</b>

The following tables highlight the ZSE top and bottom three performing stocks for August 2018.

Top 3 Performers	Price USc	Aug'18	YTD
ZIMFLOW	19.00	64.50%	142.97%
POWERSPEED	11.50	43.75%	53.33%
CBZ	15.00	36.36%	0.00%

Bottom Performers	Price USc	Aug'18	YTD
STARAFRICA	1.00	-22.48%	-50.00%
MASIMBA	5.50	-11.29%	-23.61%
ZB	30.00	-9.77%	-16.67%

ZSE total value of trades retreated 57.8% to \$50.5 million in August 2018. The daily average value of trades during the month under review also retreated 57.8% to \$2.4 million. Foreign investor participation increased from 26.9% to 29.2% as foreign investors sold out of the local bourse.

Foreign investors closed the month ended 31 August 2018 on a net sales position of \$4.4 million. Foreign investors were net sellers for the first time since November 2017, ostensibly signalling a reversal in foreign investor sentiment. The cumulative 2018 net portfolio inflow position eased to \$64.3 million, compared to net outflows of \$31 million in the corresponding period last year.

### Economic Outlook

Uncertainty on the depth and sustainability of policy reform momentum sustains general environment vulnerability. Macro-economic fragility is likely to hinge on actual inflation and inflation expectations. Monetary policy dynamics are likely to dominate policy themes over the foreseeable outlook.