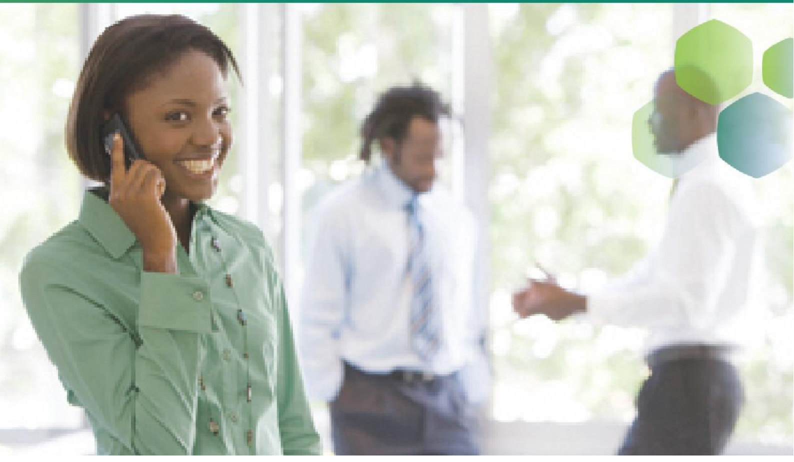
# Monthly Economic Brief

# July 2017



## Highlights

**Government maintained a 3.7% GDP growth forecast for 2017, premised on agriculture and mining growth.**

**Net tax revenue collections closed H1'17 2.7% above target at $1.701 billion.**

**Year on year inflation eased from 0.75% to 0.31% in June 2017.**

**ZSE market capitalization firmed 1.65% in July 2017, closing the month at $6.034 billion.**

### Succession politics resurfaced…

Succession politics re-surfaced as First Lady Dr. Mugabe publicly urged President Mugabe to shape the succession matrix. The comments attracted a backlash from some political circles, particularly from a section of war veterans alleging State capture by Dr. Mugabe. Meanwhile, President Mugabe urged the military to stay out of politics - ostensibly dealing a blow to an alleged ZANU-PF faction with military links. Succession-related polarization within the ruling party seems to be overtaking impending national elections.

### Growth at risk

Minister of Finance Hon. Chinamasa presented a mid-year budget review statement, maintaining a 3.7% GDP growth forecast for 2017. The forecast is premised on projected growth in agriculture (21.3%) and mining (5.1%). The statement confirmed a dire macroeconomic standing, revealing a $1.5 billion trade deficit and a $1.4 billion budget deficit in 2016.

The cyclical nature of agriculture and mining growth drivers, particularly weather and price fluctuations compromises the sustainability of near-term growth prospects. Seasonal tobacco volumes and value to 28 July 2017 were down 7% and 6.5%, at 181 million kgs and $536 million, respectively, from the same period last year.

### Budget deficit likely… despite solid collections

Net tax collections for the first half of 2017 closed at $1.701 billion, 2.7% above target and 9.7% higher than in the same period last year. Performance was attributed to improved collections, mostly driven by automation. The tax debt increased by 16.9% in H1'17 to reach $3.12 billion, underlining inherent market conditions. Government's 2017 full year revenue target is $3.4 billion. Employment costs in the past year amounted to $3.2 billion, raising the likelihood of another wide budget deficit in 2017 as taxes contribute around 92% of total revenue.

### Trade deficit likely to persist…

Trade data for the first half of 2017 shows that exports gained 18.7% to $1.3 billion, compared to the same period last year. Imports firmed 5.7% in H1'2017 to $2.636 billion. Resultantly, the trade deficit shed 5% from $1.371 billion in H1'2016 to $1.302 billion in the first half of 2017. Gold and tobacco contributed 29.5% and 22.3%, respectively to total exports. Imports were dominated by diesel (14.9%), petrol (7.4%) and electricity (3.4%). The critical nature of the major imports means closing the trade gap will require more export growth than import restrictions.

### Increasingly fragile monetary policy

According to media reports, the Reserve Bank of Zimbabwe (RBZ) estimates that Zimbabwe's nostro account balances are at US$350 million, against a US$600 million requirement. Resultantly, the RBZ is seeking a US$500 million facility to cover the nostro funding gap, especially to cover the period to the next tobacco marketing season, around February 2017. The RBZ also disclosed that negotiations with a foreign bank for a bond note extension facility are progressing well, without stating the amount.

Bond notes issuance is estimated around $188 million against the AFREXIMBANK guaranteed $200 million threshold. The bond note quantity and rate of issuance will be critical in influencing inflation expectations over the foreseeable outlook.

## Inflation pressure eased in June 2017

Inflation eased from 0.75% in May 2017 to 0.31% in June 2017. Monthly inflation softened from 0.03% in May to -0.24% in June 2017, driving year to date inflation to 0.72%. The dip in monthly inflation is in line with the seasonality of food inflation - which ebbs post the summer crop harvest. This notwithstanding, food inflation pressures could be fuelled by additional cost-push factors amid reports some food processing firms started complying with a directive to fortify basic food items, with effect from 1 July 2017.

## Dollar traded mixed

The United States dollar traded mixed against major trading currencies during the month ended 31 July 2017. The dollar firmed 0.8% against the South African Rand (ZAR), reducing its year to date retreat against the ZAR to 4.6% at ZAR13 per dollar. Against the Euro, the dollar closed the month under review 3.5% weaker at US$1.18 per Euro to extend its year to date decline to 11.7%.

Dollar weakness, particularly against the Euro was amid heightened policy uncertainty in the United States, in light of persistent White House staff turnover. ZAR depreciation can in part be attributed to a volatile environment outlook in South Africa ahead of general elections in 2019. A statement by global rating agency Moody's highlighting concerns over political risks in South Africa also weighed on the ZAR.

## Commodity prices closed the month firm

Commodity prices were largely positive during the month ended 31 July 2017 as highlighted below.

| **Commodity** | **Price** | **Jul'17** | **YTD** |
|---|---|---|---|
| Nickel (usd/ton) | 10,180.00 | 9.82% | 1.44% |
| Crude Oil (usd/barrel) | 52.62 | 10.78% | -7.96% |
| Gold (usd/oz) | 1,267.18 | 1.90% | 9.26% |
| Platinum (usd/oz) | 937.62 | 1.41% | 3.41% |
| Coffee (usd/lb) | 138.05 | 7.85% | 1.92% |
| Maize (usd/ton) | 150.68 | 2.41% | 9.67% |
| Sugar (usc/lb) | 14.68 | 7.23% | -24.68% |
| Cotton lint (usc/lb) | 68.68 | 1.99% | -3.29% |

Oil prices led the gains, firming 10.78% during the month under review, albeit from a low base. Oil price support was driven by the world's largest oil producer - Saudi Arabia - signalling that it would reduce output starting August 2017. Gold sustained its rally during the month under review, supported by a weak dollar and heightened geo-political tensions after North Korean tested an intercontinental missile.

## Net Foreign buys for the first time in 18 months…

The local bourse extended its positive run in July 2017, with the industrial index gaining 3.7% to extend year to date gains to 40.6% as highlighted below.

| **Sector** | **Value** | **Jul'17** | **YTD** |
|---|---|---|---|
| Commodities | 578.86 | 4.01% | 62.79% |
| Consumer | 308.00 | 0.33% | 46.68% |
| Financial | 116.40 | -0.24% | 22.14% |
| Listed Property | 130.40 | 7.68% | 9.61% |
| Manufacturing | 94.81 | 6.96% | 58.92% |
| **Industrial** | **203.25** | **3.71%** | **40.63%** |
| **Mining** | **69.44** | **-0.50%** | **18.68%** |
| **Market Cap ($ bln)** | **6.034** | **1.65%** | **43.19%** |

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

| **Top 3 Performers** | **Price USc** | **Jul'17** | **YTD** |
|---|---|---|---|
| CFI | 37.25 | 121.73% | 282.44% |
| AFSUN | 2.00 | 33.33% | 66.67% |
| PROPLASTICS | 6.50 | 30.00% | 54.76% |

| **Bottom Performers** | **Price USc** | **Jul'17** | **YTD** |
|---|---|---|---|
| MEIKLES | 18.55 | -25.80% | 42.69% |
| BNC | 2.45 | -18.33% | -38.75% |
| BARCLAYS | 3.61 | -11.52% | 12.81% |

Total ZSE value of trades for the month ended 31 July 2017 were $24.705 million, down 37.8% from the previous month. The average daily value of trades retreated 34.9% to $1.176 million during the month under review. For the first time since November 2015, foreign investors were net buyers on the local bourse, with net buys of $1.8 million, from net sales of $2.4 million in the previous month. Foreign trades constituted 19.1% of total trades, down from 20.6% last month and 57% in the same period last year.

## Economic Outlook

Impending elections and an increasingly fragile political environment could sustain market scepticism. Resultantly, a generalised 'wait and see' environment is likely to persist, weighing on gross investment growth and aggregate output. The likelihood of political short-termism supplanting macro-economic policy reform further sustains a sub-par growth outlook.

Prudent management of the quasi-currency - bond notes - issuance remains critical to holding together monetary policy. Overall, environment stability remains precariously on the edge.