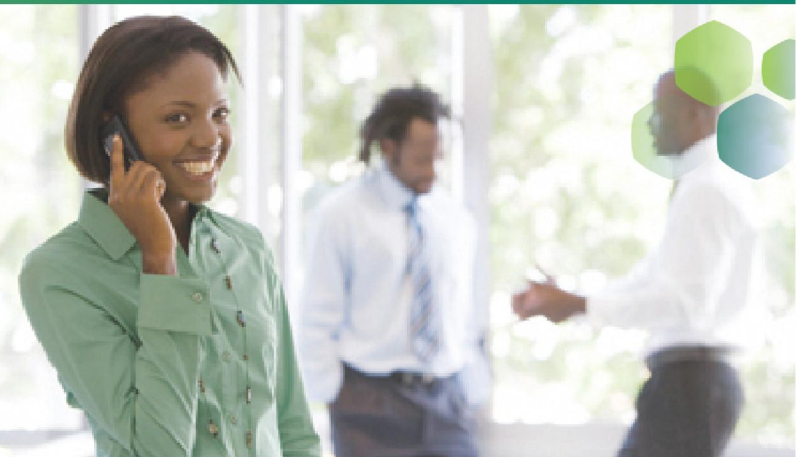
Quarterly Economic Brief

Q3' 2017



Highlights

The IMF projects the global economy to expand by 3.6% in 2017, up from 3.2% last year.

Kenya's Supreme Court annulled Presidential election results, won by the incumbent President.

Africa's population could double to 2.4 billion by 2050 – presenting new challenges.

Zimbabwe ranks 124 out of 137 countries by global competitiveness; two places better than last year.

Reserve Bank of Zimbabwe secured a US$600 mln nostro stabilization facility from AFREXIMBANK.

ZSE market capitalization firmed 110.1% to close Q3'17 at $12.475 billion.

Global | Firm but fragile global growth

The bi-annual IMF World Economic Outlook report projected world economic output, as measured by GDP, to close the year at 3.6% in 2017 and accelerate to 3.7% next year. The forecasts represent an upward revision of 0.1% in both years. The numbers also point to a recovery in global economic conditions, having closed last year at 3.2%, the lowest global growth rate since the 2008 global financial crisis. Growth is anticipated to be driven by pickups in investment, trade and industrial production.

Unlike same time last year, global financial conditions remain buoyant across the world and financial markets expect little turbulence going forward. The IMF noted that 'such conditions give good cause for greater confidence, but neither policymakers nor markets should be lulled into complacency'. The IMF also warned that not all countries are participating in the growth recovery; hence global recovery may not be sustainable. Recovery is also exposed to serious risks, requiring policymakers to build short-term resilience while maintaining a longer-term vision.

China managing its slow landing…

The world's second largest economy by GDP, China, expanded by 6.9% during the first half of 2017, fueled by government infrastructure spending and a property market boom. Chinese authorities believe growth will end the year around the targeted 6.5%, possibly exceeding it. Authorities are confident they are fully in control of the economic outlook, with steps taken by government to reign in an overheating property market bearing fruit.

If growth exceeds last year's 6.7% (lowest in 26 years) it would mark the first acceleration in China's growth in seven years. The World Bank recently revised China's 2017 growth forecast up from 6.5% to 6.7% and unemployment was estimated at 4.8% in September 2017 - the lowest since 2012. Improving economic output allows authorities to push tough reforms such as tackling public debt. A growing Chinese economy has positive spillover effects on most developing countries, particularly exporters.

Costs and benefits of judicial autonomy: Kenya

Kenya's Supreme Court annulled results of the country's August 2017 presidential elections, won by President Uhuru Kenyatta, citing widespread irregularities in the vote counting process. The court ordered a re-run on 26 October 2017. In a shocking turn of events; main opposition leader Raila Odinga, who had challenged the election outcome, withdrew from the re-run, alleging the initial irregularities had not been addressed – declaring the re-run would be 'worse than the previous one'.

A second election is likely to be expensive. The initial election cost about US$480 million. Following the court decision, the Kenyan Stock Market halted traded for half an hour after stock prices plummeted. Millions that travelled for the earlier election; either to vote or flee the threat of violence in cities, will have to do it again. Previous instances of disputed elections in Kenya have been violent. Total costs of the court decision are still indeterminate, but the upside is the country's judiciary asserting its independence from government interference.

Africa's demography could turn into a threat…

Former Nigerian President Olusegun Obasanjo, in his new co-authored book '*Making Africa Work; A Handbook*' warns African countries to manage their demographics carefully. Obasanjo warns that demographics are at the heart of challenges that African countries need to address, despite the significant opportunity they present. By 2050, Africa's population is projected to have doubled to about 2.4 billion – even as problems with poverty, unemployment and health mount.

Obasanjo warns that growing population means 'we will be in a more frightful situation than we already are today unless we stop doing business as usual'. In a 1998 interview, management expert Peter Drucker said 'Demographics are the single most important factor that nobody pays attention to, and when they do pay attention, they miss the point.' Obasanjo fears that without planning; African countries might not benefit from their young growing populations. He argues that without appropriate preparation, Africa's so-called demographic dividend becomes a liability.

Angola has a new leader?

After 38 years in power, Africa's second longest serving President, Jose Edwardo dos Santos - the only known ruler to a generation of Angolans - decided to step down. In January 2017, it took a regional military intervention to force Gambia's Yahya Jammeh to leave office after 21 years in power. Uganda's Yoweni Museveni secured his fifth 5-year term in 2016, while Rwanda's Paul Kagame secured a third term (after garnering 98% of the vote). Dos Santos' decision to step down without intervention or war was generally hailed as a positive step in Africa's democracy.

Jose Edwardo dos Santo's successor, President elect, Joao Lourenco, emerged as a surprise amid rife speculation one of dos Santos' children would take over from their father. Joao Lourenco is however, a former defense Minister and veteran of the ruling party – ostensibly compromising the promise of a radical polity reform.

Before stepping down, former President dos Santos' Parliament created a special position of 'president emeritus', meaning he will enjoy most perks of a sitting president such as immunity from prosecution. Dos Santos remains head of the ruling party and his daughter also remains head of the National Oil Company. In essence, Jose Edwardo dos Santos' stepping down after 38 years in power seems symbolic, suggesting full polity reform requires more than stepping down.

US dollar struggled for direction…

During the quarter ended 30 September 2017, currencies struggled for direction amid mixed geo-political and macro-economic themes. The United States Dollar (US$) retreated 3.5% against the Euro, from an opening position of US$1.14 per Euro to close at US$1.18 per Euro. Against the South African Rand (ZAR), the US$ firmed 4.1% during the quarter under review, to close at ZAR13.49 per US$.

Commodity prices mixed

International commodity prices were mixed during the quarter ended 30 September 2017. Hard commodity prices were largely positive in line with a bullish global industrial demand outlook while soft commodity prices closed softer, in-part as a correction to earlier gains. The following table summarizes commodity price trends.

Commodity	**Price**	**Q3'17**	**YTD'17**
Nickel (usd/ton)	10,170.00	9.71%	1.35%
Crude Oil (usd/barrel)	57.53	21.12%	0.63%
Gold (usd/oz)	1,284.88	3.32%	10.79%
Platinum (usd/oz)	917.07	-0.82%	1.15%
Coffee (usd/lb)	131.80	2.97%	-2.69%
Maize (usd/ton)	137.98	-6.22%	0.43%
Wheat (usd/ton)	452.50	-10.88%	11.66%
Sugar (usc/lb)	14.03	2.48%	-28.01%
Cotton lint (usc/lb)	68.76	2.11%	-3.18%

Crude oil prices registered strong gains in response to supply side constraints from production cuts by the Organization of Petroleum Exporting Countries (OPEC) as well as geopolitical tensions in Iraq. An arguably soft US$ against most major trading currencies presented support for gold prices. Further support for gold came from inflated geo-political tensions after North Korean tested an intercontinental missile.

Wheat and maize prices registered significant declines during the quarter under review, weighed down by higher than earlier anticipated output projections from the United States – the world's largest grain producer.

Global Economic Outlook

Global economic output conditions remain sub-par, despite considerable stability in major economies such as the United States and China. Sustained stability and growth in major economies presents considerable spill-overs for the rest of the world. Political-economy fragility in Africa threatens policy certainty and socio-economic development prospects for the continent.

Growth hinged on agriculture and mining

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. Treasury expects the 2017 budget deficit to close at $1.4 billion, against an initial target of $400 million.

The cyclical nature of agriculture and mining growth drivers, particularly weather and price fluctuations compromises the sustainability of near-term growth prospects. Underlining the fragility of current growth; seasonal tobacco volumes and value for 2017 were 5.0% and 4.7% lower than last season, at 188.8 million kilograms worth $558.9 million. Overall, sustainable economic growth will require tangible macro-economic policy reform ensuring savings and investment growth.

Aggregate growth is compromised…

The Confederation of Zimbabwe Industries (CZI) revised its 2017 industrial capacity utilization target down from 65% to 'between 50 and 60%.' The CZI cited equipment and raw material import restrictions arising from foreign currency shortages for the depressed national manufacturing output. Industry capacity utilization closed 2015 and 2016 at 34.3% and 47.4%, respectively; ostensibly buoyed by import substitution measures.

The Southern African Development Committee (SADC) Climate Services Centre (CSC) urged countries in the region to 'prepare for the worst' in the 2017/18 rainfall season - stretching from October 2017 to March 2018. The CSC projects a drought in the first half of the season followed by floods in the second half. Agriculture and associated output will be at risk.

Mining target output at risk

Gold deliveries in the first eight months of the year reached 14.7 tons, up from 9.9 tons in the first half of the year. Of the deliveries to August 2017, small scale miners contributed 49%. Government set a target of 26 tons for the year, up from 23 tons last year. The full year target is now under threat after government reduced cash pay-outs to small-scale gold miners from 100% to 60%, ostensibly due to pressing cash shortages. According to media reports, government also turned down a proposal from platinum and chrome miners to have their currency retention threshold increased from the current 20%.

New bond notes facility secured…

The Reserve Bank of Zimbabwe (RBZ) Governor Dr. Mangudya presented the 2017 mid-year monetary policy statement announcing a new US$300 million AFREXIMBANK facility to extend the ceiling on bond note issuance from $200 million to $500 million. AFREXIMBANK also availed a US$600 million nostro stabilization facility and a new 2 year US$400 million Aftrades interbank lending facility. Zimbabwe is a shareholder in the AFREXIMBANK. The RBZ also developed a tax-free, fixed rate savings Bond with a minimum investment amount of $100.

The expansion of the export incentive scheme is envisioned by the authorities to improve the availability of foreign currency since bond notes are paid as an incentive to exporters. This notwithstanding, reports of US$ cash hording and associated diminishing foreign currency in circulation - against rising circulation of bond notes - raise the threat of devaluation of electronic and bond notes balances. The nostro stabilization and Aftrades facilities secured by the Central Bank could aid monetary policy functionality, though notably compromising sovereign debt sustainability.

Foreign currency crunch…

Panic reigned amid reports of shortages of imported products. Retailers resorted to rationing basics such as cooking oil, while fuel queues emerged. Panic buying intensified during the weekend of 23 September 2017, in part fuelled by adverse social media reports. On his return from New York, President Mugabe reportedly blamed economic saboteurs for the panic hoarding and associated price increases that occurred during his absence. In response, the Reserve Bank of Zimbabwe allocated US$25 million (drawn down from the AFREXIMBANK $600 million facility) to smoothen fuel and cooking oil imports.

Underscoring prevailing foreign currency shortages - The Zimbabwe Electricity Supply Authority has been struggling to settle arrears with South Africa's Eskom, compromising electricity supply. Managing foreign currency receipts and spending will be critical in managing macro-economic stability. On 29 September 2017, government gazetted law criminalising illegal cash trading. The law provides for jail terms of up to 10 years for anyone convicted. The measure seems well meaning sufficiently punitive. This notwithstanding, the concomitant risk is that the worsening foreign currency 'shortages' could incentivise additional risk and scarcity premia on the informal (now illegal) foreign currency market.

Improved competitiveness ranking for Zimbabwe

Zimbabwe ranked 124 out of 137 economies on the global competitiveness rankings by the World Economic Forum. The rank implies an improvement by two places from last year, though the ranking score (at 3.32 out of 7) declined to its lowest since 2010. The improved rankings despite a low score suggest some countries might have regressed significantly - more than Zimbabwe - rather than local competitiveness improving. Zimbabwe's worst sub-sector rankings were on rules regarding foreign investment and protecting property rights.

Elections as early as January 2018?

The Zimbabwe Electoral Commission (ZEC) said it plans to hold elections between June and August 2018, but warned that the ultimate decision lies with the President. The disclosure followed speculation that ZANU-PF was pushing to hold early elections. The ZEC acknowledged that once the voter registration exercise is complete, they would be ready to hold elections. Consequently, President Mugabe proclaimed 14 September 2017 to 15 January 2018 as the voter registration period. Voter registration has since commenced.

Fiscal expansion…

Government reportedly ordered the recruitment of 2,300 teachers in order to 'address manpower shortages.' The measure is meant to facilitate the smooth implementation of a recently implemented education curriculum. It is also expected to benefit teaching graduates that had been frozen out of employment by a government recruitment freeze to contain public costs.

Government recently launched an audacious housing scheme offering public service employees and staff at State universities housing stands. The public service housing scheme is envisioned to benefit at least 500,000 workers. Opposition political parties raised concern at the measure, alleging the scheme is tantamount to electioneering ahead of the impending 2018 general elections.

National Savings Bond Issued

In line with the mid-year monetary policy proposals, the RBZ started issuance of 'savings bonds' in September 2017. Features of the bonds include interest of 7% per annum and maturity periods ranging from one to five years. The bonds have a minimum investment threshold of $100 and are envisioned to encourage retail savings.

Flight to quality sustained ZSE Bull Run

The ZSE industrial index reached a post dollarization peak of 418.39 points, translating to gains of 113.5% for the quarter ended 30 September 2017. On a year to date basis, the industrial index extended gains to a noteworthy 189.48% as highlighted below.

Sector	Value	Q3'17	YTD
Commodities	1,240.53	122.89%	248.87%
Consumer	656.50	113.86%	212.66%
Financial	221.47	89.80%	132.38%
Listed Property	196.96	62.64%	65.56%
Manufacturing	149.10	68.20%	149.91%
Industrial	**418.39**	**113.50%**	**189.48%**
Mining	**122.57**	**75.63%**	**109.49%**
Market Cap ($ bln)	**12.475**	**110.13%**	**196.02%**

The following tables highlight the ZSE top and bottom three performing stocks for Q3'2017.

Top 3 Performers	Price USc	Q3'17	YTD
GBH	0.60	445.45%	650.00%
CFI	67.00	298.81%	587.89%
SIMBISA	70.00	250.00%	337.50%

Bottom Performers	Price USc	Q3'17	YTD
ART	4.80	-12.73%	-21.31%
FML	9.50	-10.38%	126.19%
FIDELITY	13.75	-1.79%	25.00%

ZSE quarterly value of trades reached a record $128.8 million, of which $91.1 million was registered in the final month of the quarter under review. Total trades in the quarter under review closed at $68.6 million, 87.3% higher than in the previous quarter.

Foreign investors intensified sales, closing the quarter under review with net sales of $24.5 million, up from net sales of $13.5 million in the previous quarter. On a year to date basis, foreign investors have registered net outflows of $55.5 million, up from $36.1 million in the corresponding period last year.

Economic Outlook

In the absence of a significant foreign currency injection, and/or some reconsideration of the currency peg, monetary policy stability is likely to remain considerably compromised. Consequently, external payment constraints and domestic inflationary pressures are likely to intensify into the foreseeable outlook. Portfolio shifting from monetary assets is likely to sustain support for real assets. Overall, prudence is of the essence.