GLOBAL ECONOMY

IMF lowers 2016 growth prospects…

The International Monetary Fund "IMF," in its October 2016 World Economic Outlook, projected global growth to slow to 3.1% in 2016, before recovering to 3.4% in 2017. The forecast, revised down by 0.1 percentage points for 2016, reflects a more subdued outlook for advanced economies, following the U.K. vote in favour of leaving the European Union (Brexit), weaker-than-expected growth in the United States and an uneven path in emerging market economies. In fact, the ongoing slow rebalancing in China has been the major drag on other emerging market economies, especially for commodity-exporters. **Table 1** below outlines the IMF's revised growth rates.

… IMF expects growth to slow to 3.1% in 2016 before recovering to 3.4% in 2017…

Table 1: Revised growth forecasts

Macro-economic Indicator	2015	2016	2017
World	3.2	3.1	3.4
Advanced Economies	2.1	1.6	1.8
United States	2.6	1.6	2.2
Euro Area	2.0	1.7	1.5
Japan	0.5	0.5	0.6
Emerging & Developing Economies (EMDEs)	4.0	4.2	4.6
China	6.9	6.6	6.2
Brazil	-3.8	-3.3	0.5
India	7.6	7.6	7.5
Sub-Sahara Africa	3.4	1.4	2.9
Nigeria	2.7	-1.7	0.6
South Africa	1.3	0.1	0.8
Zimbabwe	1.1	-0.3	-2.5

Source: IMF October 2016

In light of the weak commodity prices, the global watchdog urged short-term fiscal policy adjustments for emerging and frontier market economies' policymakers. This entails creation of fiscal space as well as increasing the contribution of non-commodity sectors to revenue generation. This assertion reflects the limited impact of monetary policy programs towards stimulating sustainable growth.

IMF adds Yuan to SDR Basket…

During the period under review, the IMF also launched the new Special Drawing Rights "SDR" valuation basket, which now includes the Chinese yuan. As approved by the IMF Executive Board in November 2015, effective 01 October 2016, the yuan became the fifth currency with a weight of 10.9%, along the U.S. dollar, Euro, Japanese Yen and the British Pound. **Table 2** across outlines the old and new weights for the respective currencies. The inclusion of the yuan reflects China's expanding role in global trade and the substantial increase in the international use and trading of its currency. Additionally, the move is also significant to emerging and frontier markets including Zimbabwe, as China has become Africa's main export market (15%) and also the largest source of imports (20%). Thus, inclusion of the yuan in SDR increases the wider acceptance and use of its currency in international trade.

Table 2: SDR weight/currency

Currency	Old Weight	New Weight
US Dollar	41.9%	41.7%
Euro	37.4%	30.9%
Yuan	-	*10.9%*
Yen	9.4%	8.3%
Pound	11.3%	8.1%

Source: IMF

REGIONAL ECONOMIES

Ghana re-enters the Eurobond market…

…. Ghana issued its fifth Eurobond…

Ghana issued its fifth Eurobond, worth US$750 million, during the period under review. With a tenor of 5 years, yield of 9.25% and a 40% guarantee from the World Bank, the bond will be used to retire the first Eurobond maturing in 2017. Key to note is the fact that the US$750 million bond will be repaid in three instalments - in 2020, 2021 and 2022, thus, making it easier for the issuer to meet the repayments targets. Overall, the low interest rate environment in developed economies will continue to boost the short-term appetite for emerging market sovereign bonds. Nonetheless, a relatively strong US dollar increases the repayment costs for issuers.

Slowdown in FDI inflows…

According to the United Nations Conference on Trade and Development "UNCTAD), foreign direct investment inflows "FDI" fell by 6.8% to US$54 billion in 2015. The slowdown was caused by soft commodity prices, which forced global investors to reduce their investments. This was mainly pronounced in the extractive industries. **Table 3** below outlines the trend in FDIs by region.

…FDI to Africa fell by 6.8% to US$54 billion in 2015…

Table 3: FDI Flows by Region in USD$bln (2013-2015)

Region	Foreign Inflows			Foreign Outflows		
	2013	2014	2015	2013	2014	2015
World	1,427	1,277	1,762	1,311	1,318	1,474
Developed Economies	680	522	962	826	801	1,065
Europe	323	306	504	320	311	576
North America	283	165	429	363	372	367
Developing Economies	662	698	765	409	446	378
Africa	52	58	54	16	15	11
Asia	431	468	541	359	398	332
Latin America & the Caribbean	176	170	168	32	31	33
Ocenia	3	2	2	2	1	2
Transition economies	85	56	35	76	72	31

Source: UNCTAD 2016 Report

Africa commanded the lowest inflows among established regions. The continent's major recipients of FDI were Angola (US$8.7 billion), Egypt (US$6.9 billion), Mozambique (US$3.7 billion) and the pair of Morocco and Ghana at US$3.2 billion apiece. Going forward, subdued commodity prices may continue to restrict FDI inflows into resource-based African countries.

DOMESTIC ECONOMY

Need for speed on the arrears clearance program…

In its Mid-term Fiscal Policy, the Government announced that they were focussing on completing the remaining steps on the arrears program. In fact, the Government has formulated engagement programmes with IFIs post the arrears clearance period; namely Programme for Accelerated Economic Transformation with the IMF, Interim Poverty Reduction Strategy Paper "I-PRSP:2017-2018" and the Joint Country Strategy Paper being finalised by the AfDB. Furthermore, the Government cleared its obligations with the IMF through drawing down on its SDR holdings. Going forward, the re-engagement program remains critical for the country's growth prospects.

Government unveils special maize programme…

The Government adopted a Special Maize Production Programme targeting 400,000 hectares "ha" of land. Under this import-substitution programme, at least 2 million tonnes of maize is expected to be produced. According to the mid-term Fiscal Policy, 310,000ha of land had been identified, of which 35% was irrigable land. The programme is expected to cost c.US$516 million for the initial 3 years. The key expenditures are outlined in **Table 4** across. In addition, the programme will be funded by government and private sector players, including banking institutions. Early preparation and timeous distribution of equipment and inputs remains a key component for the success of any farming program.

Table 4: Programme Requirements

Input type	Qty (tons)	Value (US$mln)
Seed	10,000	24.0
Double Compound D	100,000	79.0
Ammonium Nitrate	160,000	76.8
Lime	280,000	16.8
Chemicals		10.0
Irrigation development		168.0
Working capital		140.4
Total		515.8

Source: 2016 Mid-Term Fiscal Policy

Tobacco Season – stellar performance…

The 2015/16 tobacco selling season ended during the period under review. The total volume and value traded increased by 2.7% and 2.5% to 201.95 million kgs and US$594.1 million, respectively, when compared to the 2015 marketing season. The total national output for the 2015 season was 198 million kgs. However, the average price for the 2016 season fell by a marginal 0.3% to US$2.94/kg, compared to US$2.95/kg recorded in the prior season. **Table 5** below outlines the cumulative tobacco sales statistics as at 01 September 2016 (*latest available data*).

Table 5: Tobacco Marketing Statistics as at 01 September 2016 (Day 110)

Seasonal	Total Auction	Total Contract	Total 2016	Total 2015	Change (%)
Mass sold (mln kg)	35.92	166.04	201.95	196.55	2.7%
Value (US$mln)	91.22	502.86	594.08	579.40	2.5%
Average Price (US$/kg)	2.54	3.03	2.94	2.95	-0.3%
Rejected %	14.23%	5.24%	7.20%	7.94%	0.8
Highest Price (US$/kg)	4.99	6.25	6.25	6.25	-
Lowest Price (US$/kg)	0.10	0.10	0.10	0.10	-
Average bale weight (kg)	72.0	84.0	82.0	83.0	-1.2%

Source: TIMB

… Contract farmers accounting for 82% and 85% of the volumes and value traded…

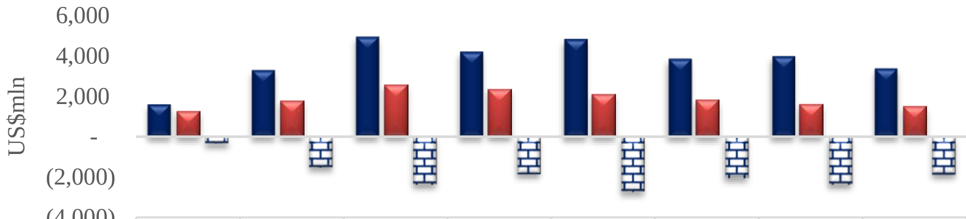
The tobacco sub-sector recorded growth, despite the late and erratic rains as well as limited funding. Into the future, growth in the sector will remain hinged on the contract farming model. On the other hand, efforts to build a relatively organized marketing system in other crops and increased support through contract farming would significantly improve contribution of the agriculture sector to economic growth.

Shrinking trade deficit…

The country's cumulative trade deficit fell by 21% to US$1.85 billion in the eight months to August 2016 (*latest available data*) from US$2.35 billion over the same period in 2015. A relatively larger decline in imports (-15%), compared to that on exports (-7%), supported the improvement in the external trade position. The generally weak economic activity, underpinned by the persistent liquidity crisis, remained the major drag on imports, whilst subdued commodity prices and below optimal production restricted growth in exports. **Fig.1** below outlines the trend in the external trade position since 2009 for the respective 8-month periods.

…The cumulative trade deficit for the eight months to August 2016 shrank by 21% to US$1.9 billion…

Fig 1: Trend in Trade Deficit (cumulative figures Jan to Aug)



	2009	2010	2011	2012	2013	2014	2015	2016
Imports	1,608	3,293	4,915	4,196	4,817	3,848	3,971	3,367
Exports	1,267	1,792	2,564	2,349	2,116	1,817	1,618	1,512
Trade deficit	(341)	(1,501)	(2,350)	(1,847)	(2,701)	(2,030)	(2,353)	(1,854)

Source: ZimStat

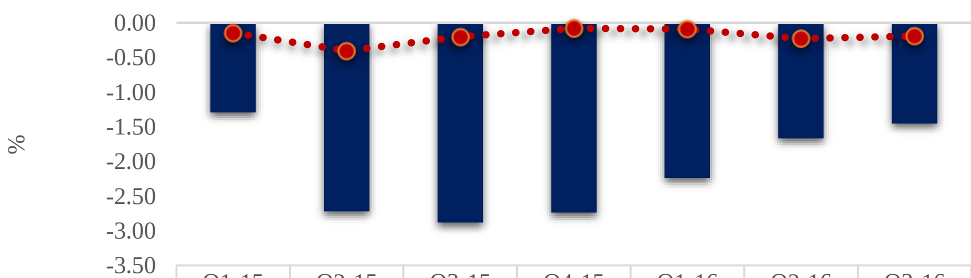
Going forward, policies and measures targeted at increasing production and productivity in key exports will considerably assist in remedying the external trade position and the subsequent liquidity flows.

Receding deflationary pressures…

Annual inflation *"y/y"* gained 0.22 percentage points from -1.67% in Q2 2016 to –1.45% in Q3 2016, due to price increases in food, furniture, transport and communication categories. Likewise, month-on-month "*m/m*" inflation increased by 0.04 percentage points to -0.19% in Q3 2016, compared to -0.23% in Q2 2016, supported largely by the same factors that lifted y/y inflation. Of significance were the price increases for food and pharmaceutical products. This could have been triggered by market imbalances emanating from the implementation of the SI 64 of 2016. **Fig.2** below illustrates the quarterly trends in the *y/y* and *m/m* inflation rates since Q1 2015.

...annual inflation gained from -1.67% in Q2 2016 to -1.45% in Q3 2016…

Fig.2: Inflation trends



	Q1-15	Q2-15	Q3-15	Q4-15	Q1-16	Q2-16	Q3-16
Y-o-Y	-1.29	-2.72	-2.88	-2.74	-2.24	-1.67	-1.45
M-o-M	-0.15	-0.40	-0.20	-0.08	-0.09	-0.23	-0.19

Source: ZimStat

Going forward, the deflationary environment could persist, supported by the general weak aggregate demand and rand weakness. Nonetheless, short-term price increases are expected, driven by the intermittent market distortions.

Reduction in FDI inflows

According to UNCTAD, FDI inflows to Zimbabwe fell by 23% from US$545 million in 2014 to US$421 million in 2015. This also resulted in a decline in Zimbabwe's share of Southern Africa's FDI from 3.1% to 2.4%, over the same period. **Table 6** below outlines the trends in FDI inflows for selected African economies, including Zimbabwe.

...FDI flows to Zimbabwe fell by 23% to US$545 million in 2015...

Table 6: Selected FDI Flows to Southern Africa (USD mln)

Country	2010	2011	2012	2013	2014	2015
Southern Africa	3,521	9,137	8,101	11,036	17,540	17,900
Angola	(3,227)	(3,024)	(6,898)	(7,120)	1,922	8,681
Botswana	218	1,371	487	398	515	394
Malawi	97	129	129	120	130	143
Mozambique	1,018	3,559	5,629	6,175	4,902	3,711
Namibia	793	1,120	1,133	801	432	1,078
South Africa	3,636	4,243	4,559	8,300	5,771	1,772
Zambia	634	1,110	2,433	1,810	3,195	1,653
Zimbabwe	166	387	400	400	545	421

Source: UNCTAD 2016 Report

In 2016, the UNCTAD expects global FDI to decline by 10-15%, reflecting the fragility of the global economy. Thus, FDI inflows to most commodity-based economies in Sub-Saharan Africa could slowdown amidst the low commodity prices. In Zimbabwe, the authorities may need to accelerate ongoing efforts to improve the investment climate, in order to boost direct investment.

FINANCIAL SECTOR DEVELOPMENTS

Earnings driven by improved asset quality…

According to the Reserve Bank of Zimbabwe, the interim reporting season for the banking sector was upbeat as earnings rose by 99.3% from US$34.01 million in June 2015 to US$67.8 million in June 2016. This was driven by lower loan provisions in line with improving asset quality, lower interest expenses and realignment of cost structures by most institutions. In fact, the RBZ noted that seventeen out of the 18 operating banking institutions recorded profits. The sector's capital base subsequently rose by 19.8% to US$1.21 billion in June 2016 driven by higher profits. However, weak aggregate demand and disposable incomes as well as relatively high credit risk remain the major downside risks for the sector's earnings outlook. Nonetheless, ongoing cost-containment initiatives, could limit the downside.

Table 7: Key Financial Sector Indicators

Nominal Indicators	Jun-15	Jun-16	Change(%)
Total Assets (US$b)	7.59	8.01	5.5%
Total Loans (US$b)	3.97	3.73	-6.0%
Total Deposits (US$b)	5.45	5.91	8.4%
Net Capital Base (US$b)	1.01	1.21	19.8%
Net Profit (US$m)	34.01	67.79	99.3%
Ratios			
Cost to Income Ratio	90.76%	84.25%	(6.5)
Return on Equity	3.26%	5.54%	2.3
Loans to Deposit Ratio	72.84%	63.11%	(9.7)
NPL Ratio	14.25%	10.05%	(4.2)
Capital Adequacy Ratio	19.68%	23.28%	3.6
Liquidity Ratio	44.95%	52.47%	7.5

Source: RBZ

...RBZ introduced measures in its mid-term Monetary Policy...

Additional measures by the RBZ…

The Reserve Bank of Zimbabwe "RBZ" introduced further measures in its 2016 Mid-Term Monetary Policy Statement. These measures were meant to support the prior measures (cash and growth measures) announced in May 2016 and they are highlighted in **Table 8** below.

Table 8: 2016 Mid-Term Monetary Policy measures

Policy Area	Measures
Interest Rates	• Interest rates for banks maintained with maximum lending rate of 15% per annum. • Microfinance institutions to reduce lending rates to a maximum of 10% per month from 20%, effective 01 October 2016.
Money Supply	• Export incentive scheme of 2.5-5% on diaspora remittances, effective 01 October 2016. • Bond notes in 2 and 5 denominations to start circulating in October 2016.
Other measures	• Upward review of external loans for exchange control approval from US$10 million to US$20 million. • Establishment of a US$215 million Nostro Stabilisation facility from International Finance Institutions. An additional facility of US$330 million at an advance stage. • RBZ secured US$20 million for Fidelity Printers and Refiners to support artisanal and small-scale gold mining production. • Resuscitation of credit guarantee scheme under the Export and Credit Guarantee Company effective 01 October 2016. • RBZ arranged a US$10 million pre-and-post shipment facility for horticulture and floriculture.

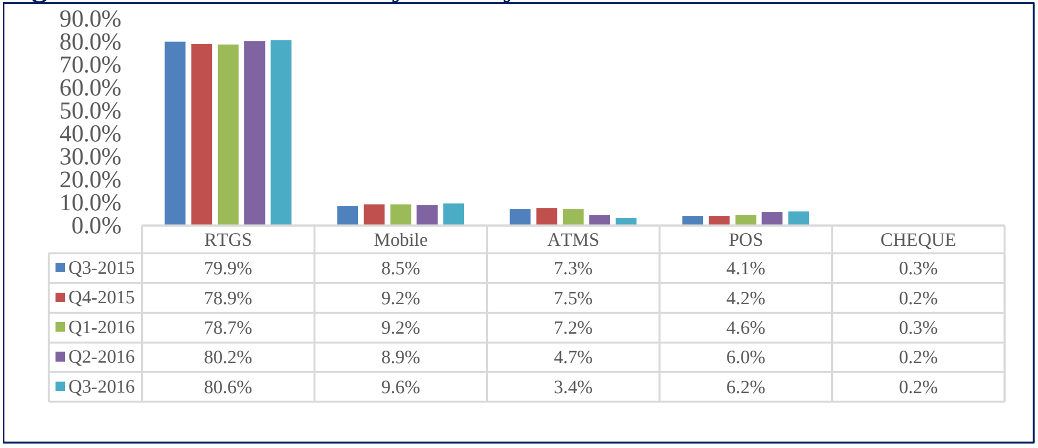
Source: RBZ

...Mobile money and POS platforms gain prominence...

National payment system

The RTGS system remained the dominant channel for payments in Q3, accounting for 80.6% of transactions, compared to 80.2% in Q2. On the other hand, the cash crisis and drive towards use of plastic money lifted the proportion of mobile money and point of sale "POS" platforms - **Fig 3** below.

Fig.3: Trends in National Payment System



Source: RBZ

In the short term, POS terminals and usage is expected to increase, riding on the on-going cash crisis and lower e-banking charges.

Table 9: ZSE Performance

Domestic	30-Jun-16	30-Sep-16	Qtrly Change(%)
Industrial	101.04	98.96	-2.1%
Mining	24.7	26.61	7.7%
Market Cap (US$bln)	2.78	2.73	-2.0%
Turnover (US$m)	45.96	31.96	-30.5%

Source: ZSE

FINANCIAL MARKETS REVIEW

1. Equities – Industrial Index returns to losing ways…

On the Zimbabwe Stock Exchange, the industrial index registered a 2.1% loss to end the quarter at 98.96. This was caused by losses ranging from 0.5% to 14% recorded by heavyweights Hippo, Econet, Simbisa, CBZH and Delta. On the other hand, the mining index advanced by 7.7% to 26.61 following gains logged by Bindura and RioZim – **Table 9** across. The ZSE market capitalisation subsequently fell by 2.0% to US$2.73 billion at the end of Q3 due to the earlier mentioned losses in large-cap stocks.

Meanwhile, the market breadth for the ZSE comprised of 17 movers, 22 shakers and 20 stocks that traded unchanged. **Table 10** below illustrates the Top 5 movers and shakers for Q3, with Old Mutual among the top movers.

...the industrial index fell by 2.1% in Q3...

Table 10: ZSE Movers and Shakers

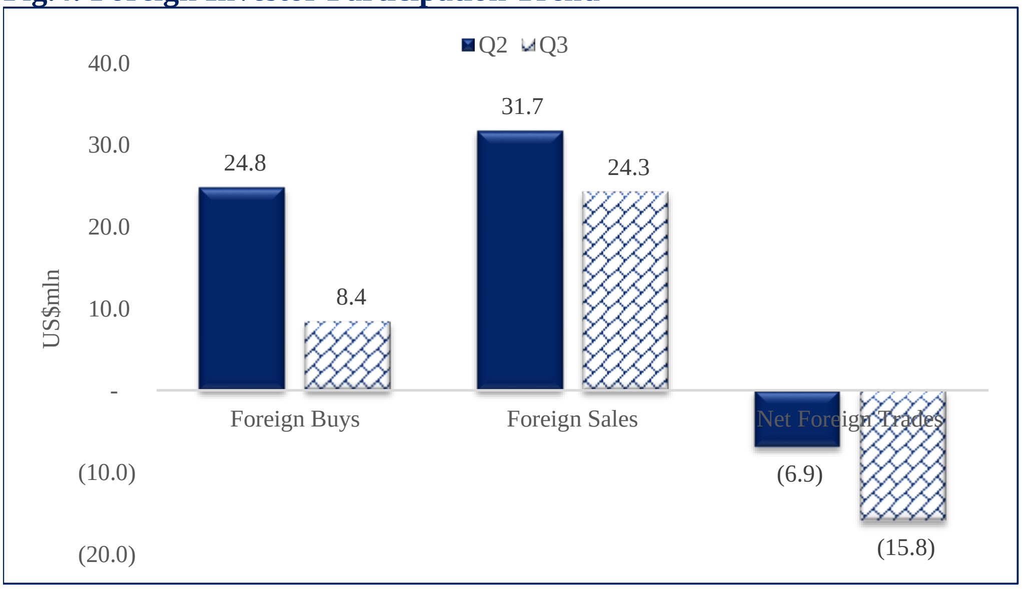
Movers				Shakers			
Counter	30-Jun-16	30-Sep-16	Change(%)	Counter	30-Jun-16	30-Sep-16	Change(%)
Barclays	1.50	2.00	33.33%	Axia	7.50	3.60	-52.00%
Innscor	17.30	23.05	33.24%	PPC	65.25	40.00	-38.70%
Padenga	8.66	11.45	32.22%	NTS	1.70	1.15	-32.35%
CFI	7.34	9.50	29.43%	DZLH	5.00	3.60	-28.00%
Old Mutual	228.75	290.00	26.78%	Lafarge	27.00	20.00	-25.93%

Source: ZSE

Meanwhile, on a quarterly basis, turnover declined by 30.5% from US$46.0 million in Q2, to US$32.0 million in Q3. In terms of participation, offshore investors remained net sellers, whilst local investors were buyers -**Fig.4** below.

.... turnover declined by 30.5% to US$32.0 million in Q3…

Fig.4: Foreign Investor Participation Trend

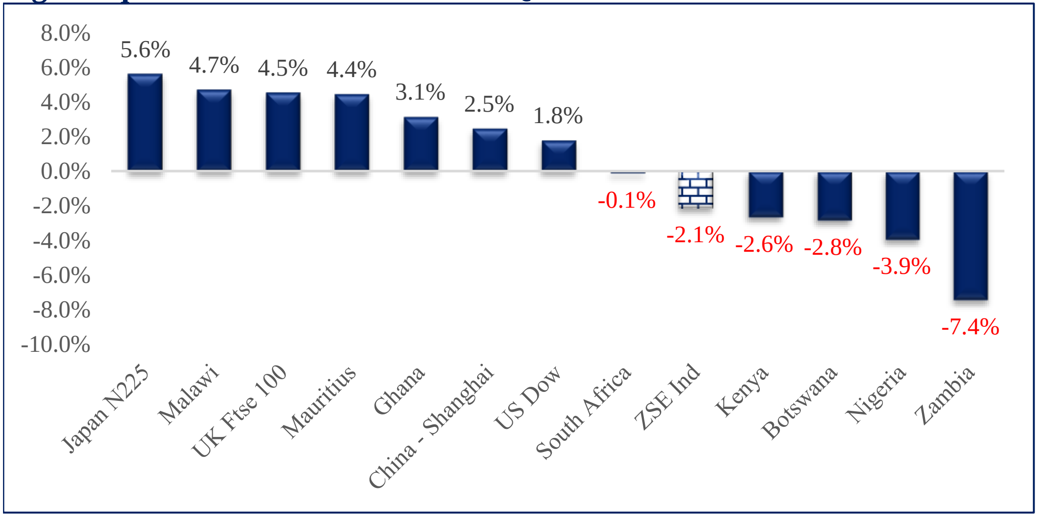


Source: ZSE

…. the Zambia market was the worst performer…

Meanwhile, global and regional markets traded mixed in Q3. Japan's Nikkei 225 recorded the largest return of 5.6% buttressed by an accommodative monetary policy stance by the Bank of Japan. The UK's FTSE-100 managed to shrug off the Brexit fears as it advanced by 4.5% bolstered by the Bank of England's decision to lower its policy rate from 0.5% to 0.25%. On the other hand, the anxiety that gripped Zambia towards the presidential elections in Q3 resulted in the largest loss of 7.4% being recorded on the LuSE. As illustrated in **Fig 5**, Zimbabwe recorded a lesser loss relative to Kenya, Botswana, Nigeria and Zambia in Q3, within the markets under our survey.

Fig.5: Equities Market Performance Q3 2016



Source: Various

Going forward, a short-term recovery on the domestic market is expected as investors hedge through selective large-caps stocks. On the international front, global equity markets will take a cue from the interest rate decision by the US Federal Reserve. The possibility of a rate hike before the end of the year potentially shifts the flow of funds from equities towards fixed income markets.

2. Commodities in mixed trades …

With the exception of gold, oil, wheat and soybeans, all commodities traded in the positive territory in Q3. In fact, nickel prices rose by 12.2% to close at US$10,600/t after the world's largest nickel producer, the Philippines, intensified its environment crackdown on nickel miners. On the other hand, increased acreage of soybeans resulted in a 9.0% decline in prices to US$370/t. Gold fell by 1.1% to trade at US$1,318/oz after the US Fed hinted that at least a single rate hike was possible before the end of 2016. **Table 11** across highlights the Q3 commodities performance. In the short term, the fragile recovery of the global economy and mounting geo-political risks in the Middle East and Europe will most likely support precious metals such as gold and platinum. Base metals could remain subdued, dragged by the ongoing rebalancing in China, whilst the anticipated above normal rains for the 2016/17 season "La-Nina" could suppress agricultural commodity prices.

Table 11: Quarterly commodities performance

Commodities	30-Jun-16	30-Sep-16	Q3 Change(%)
Metals			
Gold - US$/oz	1,332.00	1,318.00	-1.1%
Platinum - US$/oz	1,004.00	1,032.00	2.8%
Copper - US$/t	4,826.00	4,832.00	0.1%
Nickel - US$/t	9,450.00	10,600.00	12.2%
Oil - US$/b	50.35	49.24	-2.2%
Agricultural			
Wheat - US$/t	152.95	146.88	-4.0%
Soybeans - US$/t	457.10	370.09	-19.0%
Sugar - US$/pound	20.78	22.76	9.5%
Cotton - US$/pound	63.62	67.95	6.8%

Source: Various

Table 12: Quarterly' currencies performance

Currencies	30-Jun-16	30-Sep-16	Q3 Change (%)
USD/ZAR	14.7737	13.7327	-7.0%
USD/BWP	10.788	10.3112	-4.4%
USD/ZMK	10.2552	9.7549	-4.9%
USD/NGN	279.848	310.351	10.9%
USD/GBP	0.7466	0.7709	3.3%
USD/EUR	0.9005	0.8919	-1.0%
USD/JPY	102.848	101.186	-1.6%
USD/CNY	6.6434	6.6694	0.4%
Dollar Index - DXY	95.96	95.42	-0.6%

Source: Oanda

3. Currencies Markets: Rand recovery…

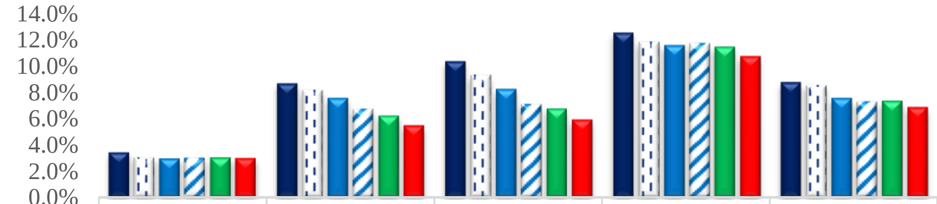
During the period under review, risk appetite for emerging market currencies was renewed after the slow pace by the US Fed over its monetary policy tightening program. As a result, the dollar index fell by 0.6% to 95.42 in Q3. Emerging market currencies were the major beneficiaries. The South Africa rand rose by 7.0% to close at ZAR13.73/US$ supported by positive economic growth data for Q2 as well as softening inflation pressures. The Zambian kwacha also strengthened by 4.9% to ZMK9.75/US$ buoyed by peaceful election and slow recovery in copper prices. On the other hand, the British pound lost 3.3%, after the Bank of England lowered its policy rate in order to minimise the effects of Brexit– **Table 12** across. Going forward, the US dollar might find support from the highly anticipated interest rate hike towards the end of the year, as well as continued looser monetary policies by most central banks in advanced economies.

4. Money Markets: Subdued interest rates…

In Zimbabwe, average deposit and lending rates remained restrained in Q3, reflecting the interest rate framework and heightened competition among banking institutions - **Fig.6** below.

…Average deposit and lending rates remained subdued in Q3…

Fig.6: Average deposit and lending rates



	Savings deposits(%)	1m deposit(%)	3m deposits(%)	Individual Lending Rates	Corporate Lending rates
Q2-2015	3.5%	8.7%	10.4%	12.5%	8.8%
Q3-2015	3.1%	8.2%	9.3%	11.8%	8.5%
Q4-2015	3.0%	7.6%	8.2%	11.6%	7.6%
Q1-2016	3.0%	6.7%	7.1%	11.7%	7.3%
Q2-2016	3.1%	6.2%	6.8%	11.4%	7.3%
Q3-2016	3.0%	5.5%	5.9%	10.7%	6.9%

Source: RBZ

Table 13: Global interest rate trends

Country	Rate	Change	Easier/Tightening
Botswana	5.5%	50bps	Easier
India	6.3%	25bps	Easier
Kenya	10.0%	50bps	Easier
Mexico	4.8%	50bps	Tightening
Mozambique	17.3%	300bps	Tightening
Namibia	7.0%	25bps	Tightening
Nigeria	14.0%	200bps	Tightening
Russia	10.0%	50bps	Easier
UK	0.3%	25bps	Easier

Source: Central Bank News

On the global markets, most central banks maintained an accommodative stance, in light of the fragile recovery on the global economy. In fact, 16 central banks including India, Russia, UK, Botswana and Kenya eased their monetary policy stance in Q3, through lowering interest rates. On the other hand, 6 central banks, including Mozambique, Nigeria and Namibia, tightened their interest rates to contain rising inflationary pressures. Going forward, global interest rates for most developed economies could be subdued in light of the recent global growth downgrade by the IMF. Nonetheless, rising inflationary pressures and the need to support currencies could trigger upward pressure on interest rates within the sub-Saharan African region. For instance, Namibia raised its repurchase rate by 25 basis points to 7% to align the rate with South Africa thereby preventing possible capital outflows.

Outlook

The effects of subdued commodity prices could adversely affect the investment appeal for Sub-Saharan African countries as well as the resultant capital inflows. On the domestic front, the country's growth prospects remain largely hinged on the arrears clearance program, as this is the cornerstone for the much needed sustainable economic reform program and stimulus. Given the deceleration in domestic economic activity, as evidenced by the downward revision in growth projections for 2016 and 2017 by the IMF, it is therefore critical for the Government to expedite the ongoing engagements with the international community.

Analysts:

Andrew Chirewo
achirewo@cbz.co.zw

Victor Makanda
vmakanda@cbz.co.zw

Godknows Muwandi
gmuwandi@cbz.co.zw

Contact Details

3rd Floor, Sapphire House,
Cnr Speke/ Angwa St,
P O Box 3313,
Harare, Zimbabwe,

Tel: +263 4 759101-16
Website: www.cbz.co.zw
Email: research@cbz.co.zw

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