Quarterly Report – 2017 Q2

GLOBAL ECONOMY

IMF upbeat on global growth…

The International Monetary Fund "IMF," in its April 2017 World Economic Outlook Report, revised upwards the 2017 global growth forecast by 0.1 percentage points to 3.5%. According to the IMF, a faster-than-expected rebound in advanced economies is expected to sustain global growth. In fact, advanced economies are predicted to build on the positive momentum recorded in the second half of 2016, particularly in the US, UK and Japan. On the other hand, continued recovery in commodity prices, underpinned by strong demand from China and reduction in excess inventory stocks, will support global growth. **Table 1** below illustrates the world economic outlook projections.

…IMF revised upwards the global growth forecasts to 3.5% for 2017…

Table 1: Overview of World Economic Outlook Projections

	2016	2017	2018
World Output	**3.1**	**3.5**	**3.6**
Advanced Economies	**1.7**	**2.0**	**2.0**
United States	1.6	2.3	2.5
Euro Area	1.7	1.7	1.6
Japan	1.0	1.2	0.6
United Kingdom	1.8	2.0	1.5
Emerging Market & Developing Econom	**4.1**	**4.5**	**4.8**
Russia	-0.2	1.4	1.4
China	6.7	6.6	6.2
Brazil	-3.6	0.2	1.7
Sub-Saharan Africa	**1.4**	**2.6**	**3.5**
Nigeria	-1.5	0.8	1.9
South Africa	0.3	0.8	1.6
Zimbabwe	0.5	2.0	-1.5

Source: IMF

Meanwhile, the IMF outlined the threat of protectionism, faster-than-expected pace of interest rates hikes, dilution of financial regulation and deepening geopolitical tensions in the Middle East and Africa, as the major downside risks.

US Fed in another rate hike…

During the period under review, the US Federal Reserve "Fed" raised its benchmark policy target rate by another 25 basis points from the 0.5-0.75% range to 0.75%-1.0% range. According to the Fed, strengthening labor market conditions led to the decision to increase the policy rate. Furthermore, the Fed still expects two more rate hikes in 2017, in line with the December 2016 announcement. **Table 2** below depicts the projections by the Fed with regards key economic indicators.

…Another rate hike by the Fed…

Table 2: Fed projections

Period	GDP Growth (%)	Unemployment rate (%)	Inflation rate (%)	Fed Rate (%)
2017	2.1%	4.5%	1.9%	1.4%
2018	2.1%	4.5%	2.0%	2.1%
2019	1.9%	4.5%	2.0%	3.0%

Source: Federal Reserve

Going forward, more rate hikes are expected to perpetuate a strong US dollar. This will, in turn, affect developing economies through different ways, chief among them currency depreciation and potential spike in inflation rates.

REGIONAL ECONOMIES

Lower bond issuances expected in 2017…

…Slowdown expected in bond issuance to SSA…

Global rating agency, Standard & Poor's "S&P", expects a 19% decline in Sub-Saharan Africa's "SSA" sovereign borrowing to US$43 billion in 2017. According to S&P, the decline is expected to stem from large depreciation in currencies and faltering economies. In 2017, 47% of the gross borrowing is expected to be used to refinance maturing long-term debt (38% in 2016), whilst the balance will be new borrowings (excluding refinancing). In the short term, SSA sovereigns are expected to continue utilising both domestic and international markets (including Eurobonds) for raising funds to support budgetary requirements. Nonetheless, the interest rate increase in the USA and relatively weaker SSA exchange rates will likely increase the borrowing costs.

Africa – Kenya in mini-launch of a mobile-based bond…

…Kenyan government launches first mobile-based bond…

During the period under review, the Government of Kenya launched its first mobile-based retail bond, M-Akiba, which was fully subscribed. The tax-free infrastructure bond worth Ksh150 million (c.US$1.5 million) had a three-year tenor at an interest rate of 10% per annum. According to Kenya's Treasury department, the mobile–based bond sought to widen government revenue sources from the traditional pool of banks and high net-worth individuals to include retail investors. In fact, policymakers set a minimum and maximum amount of Ksh3, 000 (c.US$30) and Ksh140, 000 (c.US$1,380) per day using a mobile phone. As such, a total of 5,000 out of the 102,632 investors that had shown interest participated in the actual purchases. The Treasury expects to sell another mobile based-bond worth Ksh4.85 billion (c.US$48 million) in June 2017. Overall, Kenya's focus on innovation and financial inclusion is expected to promote a culture of savings and inclusive growth.

S&P downgrades Mozambique's sovereign rating…

…S&P downgraded Mozambique's rating after missing a US$59 mln interest payment…

Global ratings agency, Standard and Poor's "S&P", downgraded Mozambique's sovereign long-term credit rating to Selective Default after the country missed an interest payment of US$59.3 million. Prior to the default, the S&P held a "CC" rating. According to S&P, a CC rating reflects a bond with an investment grade but regarded as highly vulnerable to non-payment. The default, regarded as Africa's first sovereign default since Ivory Coast in 2011, further dampened investor confidence, donor support and resultant investment inflows.

DOMESTIC ECONOMY

Table 3: Zimra revenue trends

Figures in US$mln	Q1 2016	Q1 2017	Change(%)
MOF Target	861.8	812.9	-5.7%
Gross Revenues	782.0	862.5	10.3%
Net Revenues	724.9	826.6	14.0%

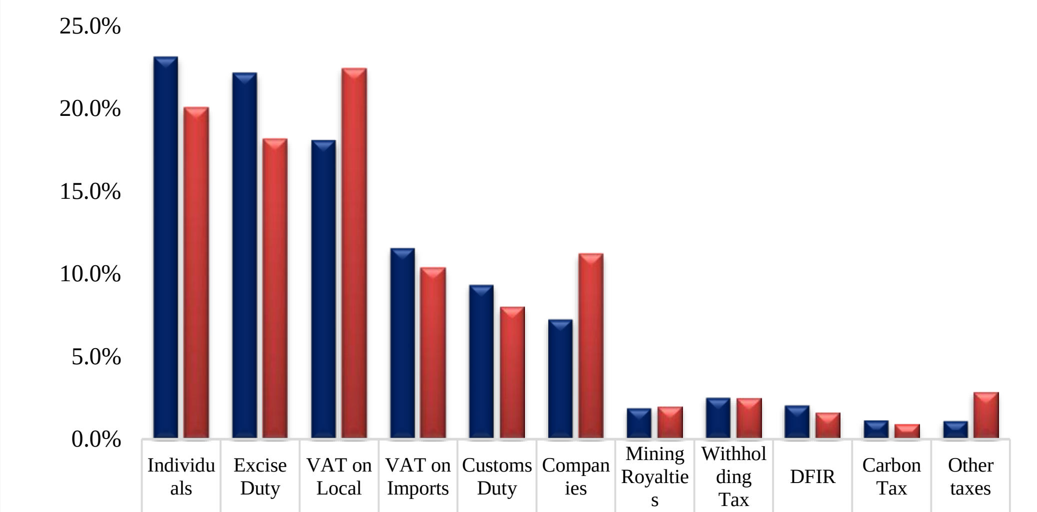
Source: Zimra

…Government net collections increased by 14% to US$826.6 mln in Q1 2017…

Government revenues surpass target…

According to the Zimbabwe Revenue Authority "ZIMRA", government gross revenue collections at US$862.5 million in the first quarter "Q1" 2017, was 6.1% above the target - **Table 3** across. In addition, the net collections increased by 14.0% from US$724.9 million in Q1 2016 to US$826.6 million in Q1 2017. ZIMRA attributed the positive performance to a cocktail of revenue enhancement measures including automation, greater enforcement and fight against corruption. **Fig.1** below outlines the trend in contribution by revenue heads led by Individuals, Excise Duty and Value Added Tax "VAT" on local and imported products.

Fig.1: Trend in quarterly revenue collection



	Individuals	Excise Duty	VAT on Local	VAT on Imports	Customs Duty	Companies	Mining Royalties	Withholding Tax	DFIR	Carbon Tax	Other taxes
Q1 2016	23.1%	22.1%	18.1%	11.6%	9.3%	7.3%	1.9%	2.5%	2.0%	1.1%	1.1%
Q1 2017	20.1%	18.2%	22.4%	10.4%	8.0%	11.2%	2.0%	2.5%	1.6%	0.9%	2.8%

Source: Zimra (DFIR – Dividend, Fees, Interest & Remittances)

As shown in Fig 1 above, with the exception of Value Added Tax "VAT" on Local Sales, Corporate Tax, Mining Royalties and Other Taxes, all tax categories' contributions recorded declines. Revenue collections generally depend on the overall economic performance. As such, it is important for the Government to expedite efforts to stimulate the productive base of the economy.

Tobacco season update…

The 2016/17 tobacco marketing season opened on the 15th of March 2017. Cumulative sales for the period to 19 April 2017 show that total volume and value traded increased by 34.2% and 31% to 39.1 million kgs and US$107.8 million, respectively, when compared to the 2016 marketing season. Meanwhile, the average price fell by 2% to US$2.69/kg in the current season compared to prior season. **Table 4** on the next page outlines the cumulative tobacco sales statistics as at 19 April 2017 (*latest available data*).

...Cumulative volumes and value up by 34% and 31%, respectively...

...Willowvale Motors Industries resumes operations...

...annual inflation rose from -0.99% in Q4 2016 to -0.13% in Q1 2017...

Table 4: Tobacco Marketing Statistics as at 19 April 2017 (Day 23)

Seasonal	Total Auction	Total Contract	Total 2017	Total 2016	Change (%)
Mass sold (million kg)	10.72	41.77	52.48	39.12	34.1%
Value (US$ million)	28.90	112.29	141.19	107.75	31.0%
Average Price (US$/kg)	2.7	2.69	2.69	2.75	-2.2%
Rejected %	10.78%	4.47%	5.94%	6.88%	0.9
Highest Price (US$/kg)	4.99	6.00	6.00	6.25	(0.0)
Lowest Price (US$/kg)	0.10	0.10	0.10	0.10	-
Average bale weight (kg)	69.0	76.0	74.0	80.0	-7.5%

Source: TIMB

Going forward, the tobacco marketing season is expected to somewhat boost short-term liquidity as the crop remains one of the major export earners. However, the low levels of plastic money usage, especially among most small-scale farmers is expected to put pressure on cash withdrawals for the banking system.

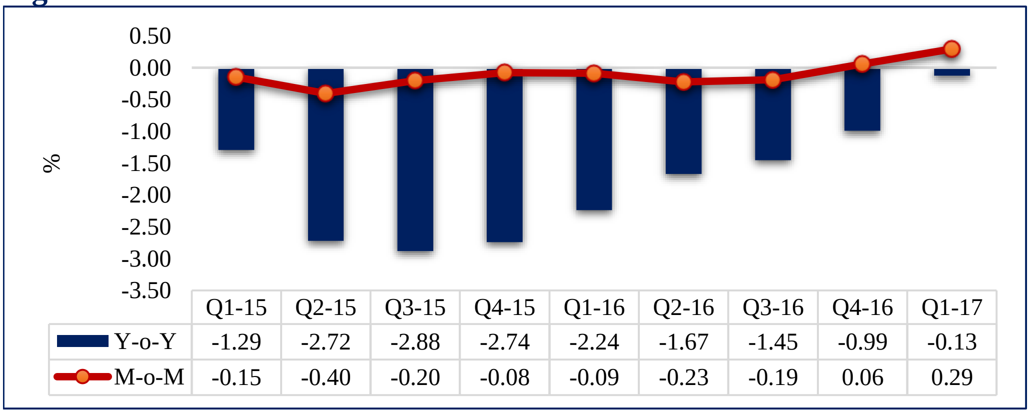
Automotive industry on recovery path…

During the period under review, Willowvale Motor Industries "WMI" officially resumed operations following a joint venture with Beijing Automobile International Corporation "BAIC". The joint venture, Beiqi Zimbabwe, is expected to assemble a new range of pick-up trucks from semi-knocked down kits imported from China. A cumulative total of 3,000 units are expected to be produced in 3 years, whilst sales will also be done in the SADC region. Given that WMI had been under care and maintenance since 2012, such a partnership is a step in the right direction in line with the government's import substitution policy. Therefore, policymakers need to swiftly forge more similar partnerships in key productive and export sectors as they translate to wider economic benefits, including job creation, government revenue and technology-transfer.

Rising inflationary pressures…

Annual inflation *"y/y"* rose by 0.87 percentage points from -0.99% in Q4 2016 to –0.13% in Q1 2017, whilst the month-on-month "*m/m*" inflation increased by 0.24 percentage points to 0.29% over the same period. The increases were largely driven by rising food prices and generally distorted pricing models across most sectors. **Fig.2** below illustrates the quarterly trends in the *y/y* and *m/m* inflation rates since Q1 2015.

Fig.2: Inflation trends



Source: ZimStat

Going forward, the recovery in international oil prices, the injection of liquidity through the export incentive scheme and the slowdown in imported deflation are expected to result in short term inflationary pressures.

FINANCIAL SECTOR DEVELOPMENTS…

Rising regulation…

During the period under review, the Reserve Bank of Zimbabwe "RBZ" published the 2017 Monetary Policy Statement. **Table 5** below outlines the key policy areas and measures.

…Lending rates to productive sectors capped at 12% and facility fees at 3% - effective 1 April 2017…

Table 5: Policy measures and impact on the sector

Policy area	Measure
Interbank market	• RBZ extended the Afrexim Bank Aftrades facility to February 2019.
Lending rates	• Capped lending rates to productive sectors at 12% and facility fees at 3% - effective 1 April 2017.
Interest on Savings	• Banks required to review interest paid on deposits and submit their frameworks to RBZ by 31 March 2017.
Foreign currency management	• All banks to ensure that international card switches facilitate local settlement of local transactions, • Banks to adhere to the import priority list, • US$70 million nostro facility by end of February 2017.
Money supply	• $94 million bonds in circulation against exports of US$107 million. • Export incentive scheme to include tourism and cotton growers. • Banks urged to uphold parity of bond notes
Financial inclusion	• Facilities sourced by the RBZ include; a. US$15 mln revolving women empowerment fund b. US$10 mln Business Linkage Facility c. Revamping US$10 mln horticultural facility d. Educational support facility for higher and tertiary students e. RBZ finalizing facility for cross-border traders f. Increase from US$20mln to US$40mln facility small scale gold miners.

Source: RBZ

Overall, the monetary policy statement sought to strengthen stability through extending the Afrexim Bank facility as well as supporting industry through lowering lending rates, introduction of nostro facility and expansion of gold facility.

National Payment System (NPS)

The RTGS platform maintained its dominance on NPS in Q1 2017, accounting for an average 80.4% of transactions, compared to 81.4% in Q4 2016. On the other hand, the cash crisis and drive towards use of plastic money lifted the proportion of point of sale "POS" transactions. In fact, POS contributed 9.6% in Q1 2017 compared to 7.9% in Q4 2016 (4.6% - Q1 2016) - **Fig.3** below.

...RTGS platform dominates at 80.4% in Q1 2017...

Fig.3: Trends in National Payment System

	RTGS	Mobile	ATMS	POS	CHEQUE
Q1-2016	78.7%	9.2%	7.2%	4.6%	0.3%
Q2-2016	80.2%	8.9%	4.7%	6.0%	0.2%
Q3-2016	80.6%	9.6%	3.4%	6.2%	0.2%
Q4-2016	81.4%	8.5%	2.1%	7.9%	0.1%
Q1-2017	80.4%	8.6%	1.3%	9.6%	0.1%

Source: RBZ

Going forward, increased innovation on digital platforms will continue to reshape the NPS but the RTGS is expected to remain dominant in terms of value of transactions.

Treasury Bills

According to the RBZ, the stock of Treasury Bills "TBs" held by banks and building societies stood at US$1.51 billion as at December 2016. Commercial banks, on average, accounted for 93% of the TBs stock in circulation, whilst the balance was held by Building Societies. Nonetheless, the total treasury bills in circulation were estimated at c.US$4.4 billion by the Ministry of Finance split as shown in **Table 6** below.

... TB stock estimated at US$4.42 billion by the Ministry of Finance...

Table 6: Trends in Treasury Bills

TBs - US$mln	2014	2015	2016	Total
Amount issued	705.04	1,381.37	2,018.73	4,416.90
Matured and Liquidated	(260.04)	(648.83)	(192.94)	(1,101.81)
Outstanding	445.00	732.54	1,825.79	3,315.09

Source: Finx/MoFED

Going forward, it remains critical that the Government utilize the funds raised from TBs to fund developmental projects as this will have multiple effects on the whole economy. Subsequently, the TBs will become self-liquidating.

FINANCIAL MARKETS REVIEW

1. Equities – Industrial index subdued in Q1 …

On the Zimbabwe Stock Exchange "ZSE", the industrial index fell by 3.9% to end the quarter at 138.96 - **Table 7** across. Losses recorded by Econet (-47%), Innscor (-6%), Seed Co (-6%) and Delta (-3%), dragged the mainstream index. On the other hand, the mining index advanced by 0.1% to 56.56 lifted by a recovery in RioZim. Meanwhile, the market breadth for the ZSE comprised of 24 movers, 22 shakers and 11 stocks that closed unchanged in Q1 2017. **Table 8** below illustrates the Top 5 movers and shakers.

Table 7: ZSE Performance

Domestic	30-Dec-16	31-Mar-17	Qtrly Change(%)
Industrial	144.53	138.96	-3.9%
Mining	58.51	58.56	0.1%
Market Cap (US$bln)	4.01	3.87	-3.4%
Turnover (US$m)	72.66	46.46	-36.1%

Source: ZSE

...the industrial index fell by 3.9% in Q1 2017...

Table 8: ZSE Movers and Shakers

Movers				Shakers			
Counter	31-Dec-16	31-Mar-17	Change(%)	Counter	31-Dec-16	31-Mar-17	Change(%)
ZBFH	4.52	11.00	143.36%	Falgold	0.60	0.10	-83.33%
FMLH	4.20	6.86	63.33%	Econet	30.00	16.05	-46.50%
Ariston	0.35	0.50	42.86%	Bindura	4.00	3.00	-25.00%
Zimpapers	0.50	0.70	40.00%	Dawn	1.60	1.25	-21.88%
GB	0.08	0.11	37.50%	Edgars	4.80	3.90	-18.75%

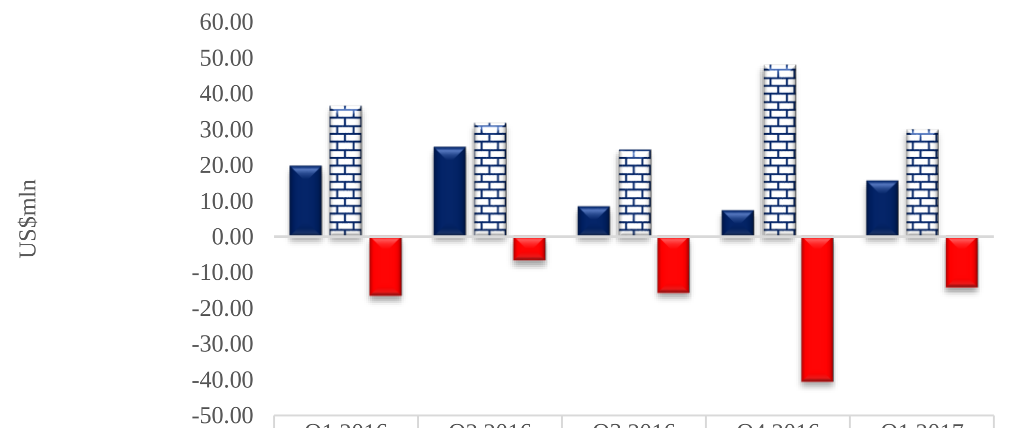
Source: ZSE

Market turnover also declined by 36.1% from US$72.66 million in Q4 2016 to US$46.46 million in Q1 2017. The ZSE market capitalisation declined by 3.4% or US$136.7 million to US$3.87 billion as at the end of Q1 2017, in line with movements on the industrial index.

.... turnover declined by 36.1% to US$46.46 million in Q1 2017…

In terms of participation, offshore investors remained net sellers at US$14.38 million in Q1 2017. However, this was an improvement relative to the US$40.61 million logged in Q4 2017 - **Fig.4** below.

Fig.4: Foreign Investor Participation Trend



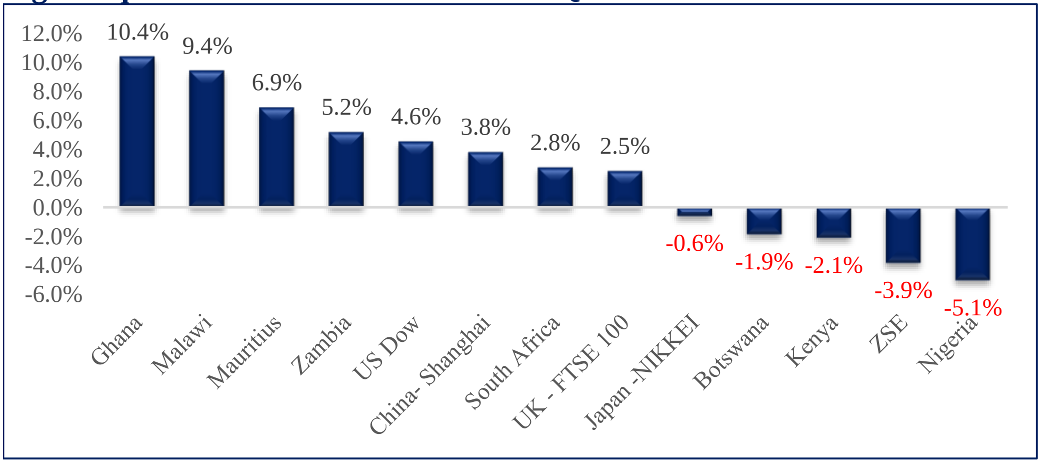
	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017
Foreign purchases	19.69	24.83	8.42	7.32	15.51
Foreign Sales	36.41	31.71	24.27	47.93	29.89
Net Foreign Purchases	-16.72	-6.88	-15.85	-40.61	-14.38

Source: ZSE

Meanwhile, global and regional markets were largely positive reflected by gains in 9 out of the 13 markets under our survey. Investor expectations of fiscal policy easing in the new US administration together with a less-hawkish Fed view drove equity markets. Ghana recorded the largest gain of 10.4% for Q1 2017, whilst Nigeria logged the largest loss of 5.1% dragged by weak economic fundamentals amidst rising political tension – **Fig.5** below.

…. Ghana was the best performer in Q1 2017…

Fig.5: Equities Market Performance for Q1 2017



Source: Various

Going forward, global markets are expected to be volatile on speculation concerning the US policies.

2. Precious metals on the rise…

Commodities were in mixed trades during Q1 2017. On the upside, gold and platinum advanced by 8.6% and 4.6% to end the quarter at US$1,245/oz and US$950/oz, respectively. For gold, renewed Chinese demand, political risks ahead of elections in European countries and negative real interest rates in the euro area, lifted the yellow metal - **Table 9** across. Furthermore, expectations by the World Platinum Investment council for a global deficit in platinum due to supply concerns in South Africa saw the metal advancing by 4.6% to US$950/oz. On the other hand, oil prices declined by 7% to US$52.83/b due to rising inventory levels in the US, which outweighed output cuts in Opec countries. In the short term, commodity prices are expected to remain on a recovery path, thereby providing a boost for commodity-driven economies. However, this will result in higher costs in net oil importers.

Table 9: Quarterly commodities performance

Commodities	31-Dec-16	31-Mar-17	Q4 Change(%)
Metals			
Gold - US$/oz	1,145.90	1,244.85	8.6%
Platinum - US$/oz	908.00	950.00	4.6%
Copper - US$/t	5,501.00	5,860.00	6.5%
Nickel - US$/t	10,230.00	9,935.00	-2.9%
Oil - US$/b	56.82	52.83	-7.0%
Agricultural			
Wheat - US$/t	150.19	156.71	4.3%
Soybeans - US$/t	383.78	354.94	-7.5%
Sugar - US$/pound	19.51	16.76	-14.1%
Cotton - US$/pound	70.65	77.33	9.5%

Source: Various

Table 10: Quarterly' currencies performance

Currencies	31-Dec-16	31-Mar-17	Q1 Change (%)
USD/ZAR	13.6474	13.4037	-1.8%
USD/BWP	10.5291	10.3034	-2.1%
USD/ZMK	9.8071	9.6186	-1.9%
USD/NGN	303.041	309.099	2.0%
USD/GBP	0.8127	0.8007	-1.5%
USD/EUR	0.949	0.9361	-1.4%
USD/JPY	116.724	111.75	-4.3%
USD/CNY	6.9472	6.8905	-0.8%
Dollar Index - DXY	102.21	100.45	-1.7%

Source: Oanda

3. Currencies Markets: US dollar softens…

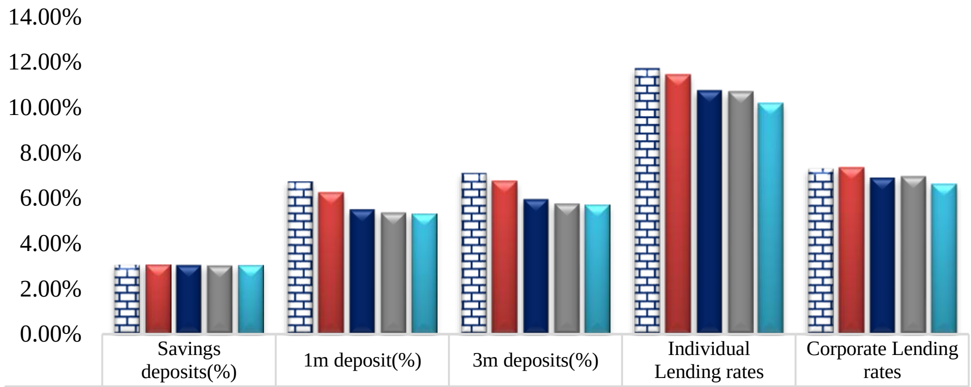
During the period under review, the US dollar softened, weighed down by a less-aggressive monetary tightening stance by the US Federal Reserve. In fact, the US Fed increased the policy rate from the 0.5-0.75% range to the 0.75-1% range in line with investor expectations. As a result, the dollar index – a measure of the value of the US dollar against a basket of currencies; namely Euro, Japanese yen, Pound sterling, Canadian dollar, Swedish krona and Swiss franc - fell by 1.7% to end the quarter at 100.45. On the other hand, the euro rose by 1.4% against the dollar as investors viewed the anticipated reduction in asset purchases by the European Central Bank from €80 billion to €60 billion beginning April 2017 as a less-aggressive monetary policy stance. Meanwhile, the South African rand rose by 1.8% to close at ZAR13.40/US$, despite South Africa being downgraded by S&P from BBB- to BB+. In the short term, the US dollar is expected to remain relatively strong as the Fed anticipates two or three hikes in 2017, amidst looser monetary programs in other advanced and developing economies.

4. Money Markets: Subdued interest rates…

In Zimbabwe, average deposit and lending rates remained restrained in Q1 2017, reflecting regulatory pressure - **Fig.6** below.

…Average deposit and lending rates remained subdued in Q1 2017…

Fig.6: Average deposit and lending rates



	Savings deposits(%)	1m deposit(%)	3m deposits(%)	Individual Lending rates	Corporate Lending rates
Q1 2016	3.04%	6.73%	7.10%	11.69%	7.30%
Q2 2016	3.06%	6.24%	6.76%	11.43%	7.34%
Q3 2016	3.03%	5.49%	5.94%	10.74%	6.88%
Q4 2016	3.01%	5.36%	5.76%	10.68%	6.95%
Q1 2017	3.06%	5.30%	5.70%	10.20%	6.62%

Source: RBZ

Table 11: Global interest rate trends

Country	Rate	Change	Easier/Tightening
Brazil	12.3%	75bps	Easier
Ghana	23.5%	200bps	Easier
Malawi	22.0%	200bps	Easier
Mozambique	22.8%	50bps	Easier
Zambia	14.0%	150bps	Easier
Mexico	6.5%	25bps	Tightening
US	1.0%	25bps	Tightening

Source: Central Bank News

Meanwhile, on the global markets, 14 central banks eased their monetary policy stance against 17 that tightened. **Table 11** across highlights some of the selected countries. In fact, all African countries that made changes in Q1 2017 eased their monetary policy programs mainly in response to a slowdown in inflationary pressures, among other factors. For instance, rising Kwacha, improving country prospects and mild inflationary pressures were advanced as the major reason for the rate cut by the Bank of Zambia. On the other hand, the US and Mexico were the major advanced economies that tightened their monetary policy instruments. For Mexico, the increase was largely meant to anchor inflation expectations while taking into account higher US interest rates.

Quarterly Report – 2017 Q2

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