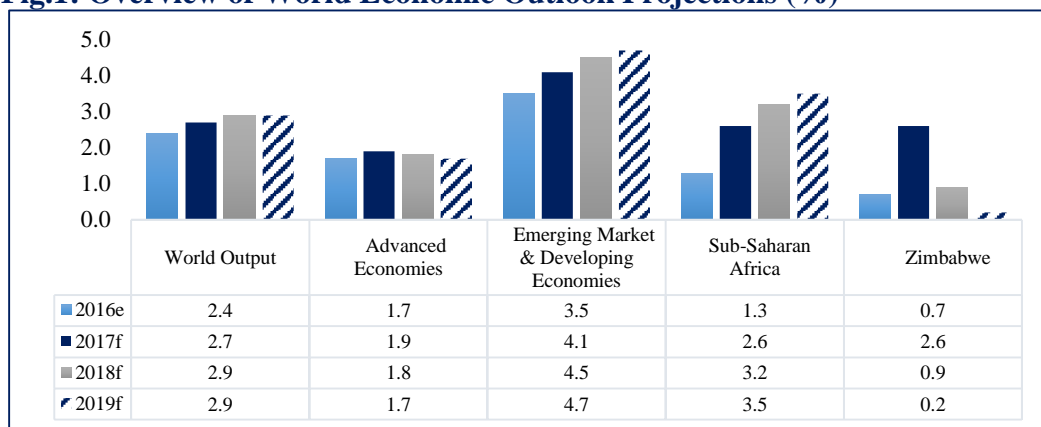


GLOBAL ECONOMY

Global growth on course...

The World Bank in its June 2017 Global Economic Prospects report maintained the global growth forecast for 2017 at 2.7%, in line with January 2017 projections. According to the multilateral institution, strengthening domestic demand and exports in advanced economies as well as recovery in commodity prices for emerging market economies, is expected to sustain global growth. **Fig.1** below illustrates the revised world economic outlook projections.

Fig.1: Overview of World Economic Outlook Projections (%)



Source: World Bank (June 2017)

Meanwhile, the World Bank outlined rising protectionism, elevated economic uncertainty and the possibility of financial market disruptions as presenting major downside risks to the global economic outlook.

Moody's downgrades South Africa's rating...

Global credit rating agency, Moody's, downgraded South Africa's long-term credit rating to Baa3 from Baa2 and assigned a negative outlook. According to the Moody's, the key drivers for the decision were; (1) weakening of South Africa's institutional framework, (2) reduced growth prospects reflecting policy uncertainty and slower progress with structural reforms and (3) the continued erosion of fiscal strength due to rising public debt. In addition, the global rating agency downgraded the top 5 banks namely; Standard Bank, FirstRand, Absa Bank, Nedbank and Investec Bank. Moody's noted that the weakening credit and macro profile of the South African government would likely exert adverse pressure on banks.

Ivory coast issues another Eurobond...

During the period under review, Ivory Coast raised US\$1.25 billion and €625 million in Eurobonds with 16-year and 8-year tenor, respectively. The euro-bonds were oversubscribed as Ivory Coast had initially planned to raise US\$1 billion to finance infrastructure projects. Yields stood at 6.25% and 5.13% per annum for the 16-year and 8-year, respectively. Prior to this issuance, the West African nation had successfully raised US\$750 million and US\$1 billion in 2014 and 2015, respectively. Given the relatively low yields in most advanced economies, short-to-medium term capital inflows in search of higher returns are expected in selected Sub-Saharan Africa "SSA" issuers. This scenario is also supported by the anticipated rebound in growth for SSA by the World Bank.

...World Bank maintains 2017 growth forecast at 2.7%...

...South Africa's credit rating downgraded...

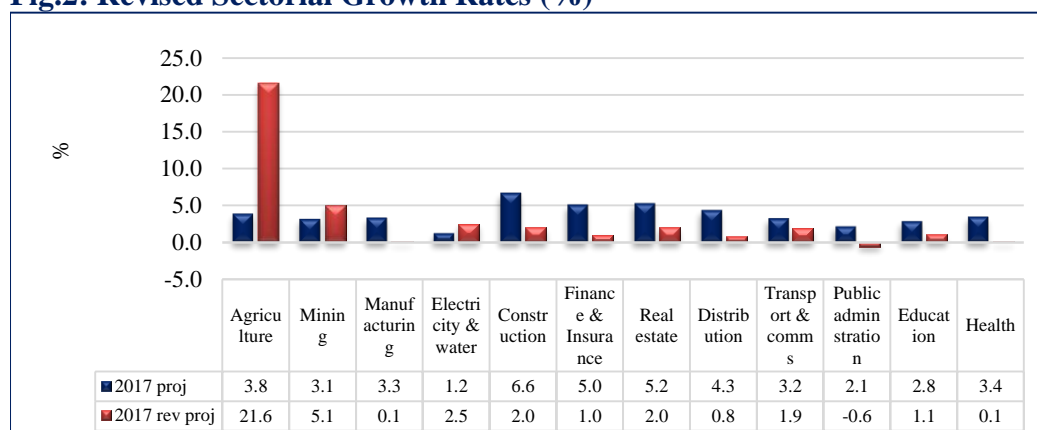
...Demand for Eurobonds still high...

DOMESTIC ECONOMY

Upward revision of growth prospects...

The Ministry of Finance and Economic Development “MoFED” revised upwards the economic growth from the initial projection of 1.7% to 3.7% for 2017. Strong performance in agriculture (21.6%), mining (5.1%) as well as electricity and water (2.5%) is expected to revive growth. **Fig.2** below illustrates the revised sector growth rates for 2017.

Fig.2: Revised Sectorial Growth Rates (%)



Source: MoFED (rev proj – revised projection)

However, the slow implementation of the re-engagement process and persistent liquidity and foreign currency challenges were advanced among the major downside risks. Going forward, relentless support in promoting food security and export-related initiatives will significantly be pivotal for sustainable growth. Thus, reducing or eliminating loopholes in the contract-farming model such as side-marketing remains a critical pillar for supporting the new agriculture “command” model and its multiplier effect on other industries.

Tobacco – contracted crop lifts national output

Cumulative sales volume and value stood at 170.4 million kg and US\$501.6 million, respectively, as at 30 June 2017. This was 2.3% and 2.1%, respectively, below the comparative figures for the 2016 marketing season. However, average prices were steady at US\$2.94/kg between the current market season and the prior season. **Table 1** below outlines the cumulative tobacco sales statistics as at 30 June 2017.

Table 1: Tobacco Marketing Statistics as at 30 June 2017 (Day 73)

Seasonal	Total Auction	Total Contract	Total 2017	Total 2016	Change (%)
Mass sold (million kg)	30.50	139.95	170.44	174.50	-2.3%
Value (US\$ million)	87.24	414.35	501.59	512.53	-2.1%
Average Price (US\$/kg)	2.86	2.96	2.94	2.94	0.0%
Rejected %	11.41%	4.52%	5.97%	6.28%	0.3
Highest Price (US\$/kg)	4.99	6.00	6.00	6.25	-4.0%
Lowest Price (US\$/kg)	0.10	0.10	0.10	0.10	-
Average bale weight (kg)	71.0	81.0	79.0	80.0	-1.3%

Source: TIMB

Given that contracted farmers, who account for c.80% of the value, are still delivering their crop, national output is expected to match the 2016 level of 202.3 million kg. Going forward, initiatives including irrigation and mechanization, targeted at improving yields per hectare will considerably boost output and earnings from the golden leaf. This is critical as the growth in hectareage over the previous years has not proportionately resulted in increased yields.

...agriculture and mining
expected to drive growth...

... a total of 170.4 million
kg sold as at 30 June
2017...

Table 2: Zimra Q2 and H1 2017 performance (US\$m)

	Q2 2016	Q2 2017	Change(%)
Gross Revenues	866.32	926.96	7.00%
Net Revenues	825.34	874.64	5.97%
	H1 2016	H1 2017	Change(%)
Gross Revenues	1,650.00	1,789.38	8.45%
Net Revenues	1,550.23	1,701.22	9.74%

Source: Zimra

...rising inflationary pressures in Q2 2017...

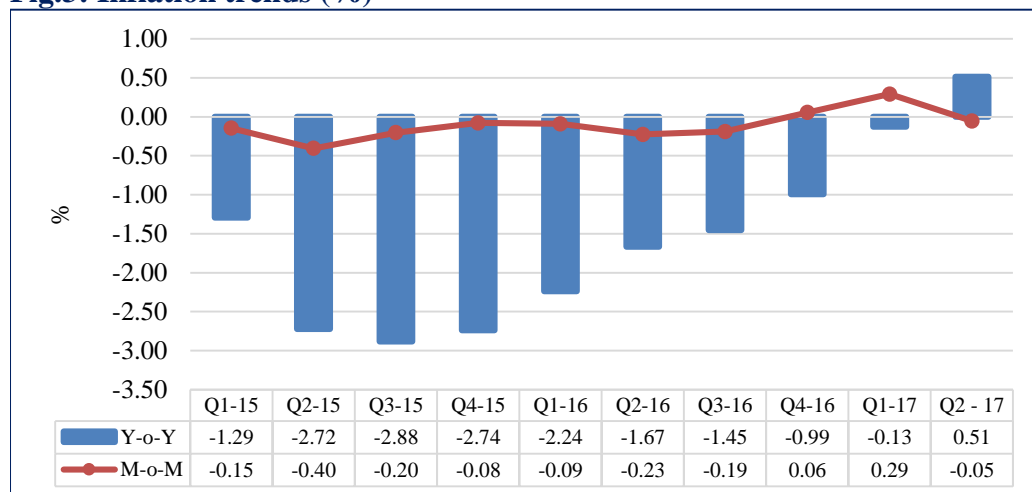
Government revenues surpass target...

According to the Zimbabwe Revenue Authority “Zimra”, net revenue collections increased by 5.97% to US\$874.64 million in the second quarter of 2017 “Q2 2017”, compared to US\$825.3 million in Q2 2016 – **Table 2** across. Zimra attributed the positive performance to improved efficiency in tax collection through various initiatives including enhancing Invoice Management System, implementing the Electronic Cargo Tracking System and augmenting the Fiscalisation System, among other initiatives. In the short term, policy makers need to augment Zimra’s efforts through formulation and implementation of supply-side policy interventions. Such initiatives include availability of affordable long-term capital, improved supply of utilities and technology transfer, among others.

Rising inflationary pressures...

The quarterly average annual inflation “y/y” rose by 0.64 percentage points from -0.13% in Q1 2017 to 0.51% in Q2 2017, whilst the month-on-month “m/m” inflation, however, fell by 0.35 percentage points to -0.05% over the same period. **Fig.3** below illustrates the quarterly trends in the y/y and m/m inflation rates since Q1 2015.

Fig.3: Inflation trends (%)



Source: ZimStat

In the short to medium term, the 2016/7 bumper agricultural season is expected to reduce food-related inflationary pressures. However, a combination of other macroeconomic challenges, among them the shortages of cash and foreign currency – which the authorities are visibly addressing – are expected to continue exerting pricing challenges especially in the retail sector.

Trade deficit narrows...

According to the Zimbabwe National Statistical Agency “ZimStat”, the country’s cumulative trade deficit fell by 6.2% to US\$1.08 billion as at end of May 2017 (*latest available data*) from US\$1.15 billion over the same period in 2016. A relatively higher growth in exports of 19%, against a 5% increase in imports, reduced the trade deficit balance. **Fig.4** on the next page outlines the trend in trade deficit between January and May from 2009 to 2017.

...the cumulative trade deficit narrows by 6% ...

Fig.4: Trend in external trade balance



Source: ZimStat

As shown in Fig.4 above, the trade deficit peaked in 2013. However, it has been consistently shrinking thanks to the import substitution policies by the Government and other import constraints such as shortages of foreign currency. Going forward, supply-side policies targeted at increasing production and exports will significantly aid in remedying the trade balance position thereby improving foreign currency inflows.

Manufacturers' focusing on lower-end products...

During the period under review, Nestle Zimbabwe commissioned a US\$2 million plant targeted at provision of affordable product lines for the lower-end market. In fact, the plant included a filling and packaging machinery for five products namely; Cremora 40g, Cerevita 30g, Cerevita flakes with milk 45g, Cerelac 50g and Everyday Milky tea 25g. According to Nestle Zimbabwe management, the new plant is expected to contribute at least 10% to volumes by end of 2017 and 50% after five years. Similarly, Dendairy also expects to commission another plant as it seeks to launch new products in light of the consumer's limited discretionary spend. Given the highly informalised nature of the economy and limited disposable incomes, product innovation in the retail sector targeting low-priced, small-sized product lines is expected to sustain short term revenues for manufacturers.

Chrome output on the increase ...

According to MoFED, output for selected minerals was subdued. The Treasury noted that temporary setbacks such as transitional challenges in consolidating former diamond companies and incessant rains weighed down diamond and gold output, respectively. However, chrome output increased significantly in Q1 2017, lured by higher international prices. **Table 3** below outlines the trend in mining output.

Table 3: Trend in mineral output "Q1 2017"

Mineral	2017 Budgeted Proj	Q1 2017	Q1 2016	Q1 Change(%)
Chrome/t (000)	375	317	-	
Coal/t (000)	3,000	385	754	-48.9%
Gold /kg	24,500	4,637	4,711	-1.6%
Diamond (carats)	1,900,000	567,024	603,950	-6.1%

Source: Q1 2017 Treasury Bulletin

In the short term, increased support through credit lines and export incentives is expected to lift mining output and earnings for 2017.

...Manufacturers' focusing on high-volume, low margin products...

...RBZ introduced measures for retailers and wholesalers...

FINANCIAL SECTOR DEVELOPMENTS

Rising regulation amidst heightened cash crisis...

The Reserve Bank of Zimbabwe “RBZ” on 12 April 2017 introduced a raft of measures targeted at retailers and wholesalers. The measures were meant to ensure the smooth circulation of currency and ease of transacting. **Table 4** below outlines the measures which were effected during the quarter under review.

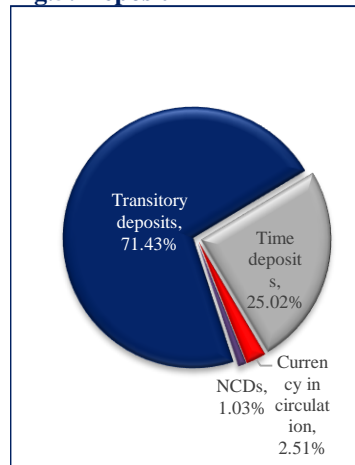
Table 4: Measures on retailers and wholesalers

a. Retailers and wholesalers to bank cash generated from their businesses and maintain records of all transactions (including purchases, sales, discounts and bankings).
b. Any cash-back facility made available by retailers and wholesalers shall not exceed an amount of US\$20.00.
c. Retailers and wholesalers shall bank all excess collections within 24 hours as required in terms of the Bank Use Promotion Act (Chapter 24:24).
d. Manufacturers and suppliers of goods, including fuel, should not demand cash for any goods supplied to retailers and wholesalers.
e. Retailers and wholesalers shall sell any particular product for the same price irrespective of the mode of payment and desist from multiple pricing of goods.

Source: RBZ

Going forward, efforts targeted at strengthening banking public confidence and use of e-platforms will play a crucial role in easing the cash crisis. However, in the medium-to-long term, policies aimed at promoting foreign currency inflows from foreign direct investments, export earnings, external loans and diaspora remittances will go a long way in remedying the cash and foreign currency challenges.

Fig.5: Deposit mix



Source: RBZ

Growth in deposits...

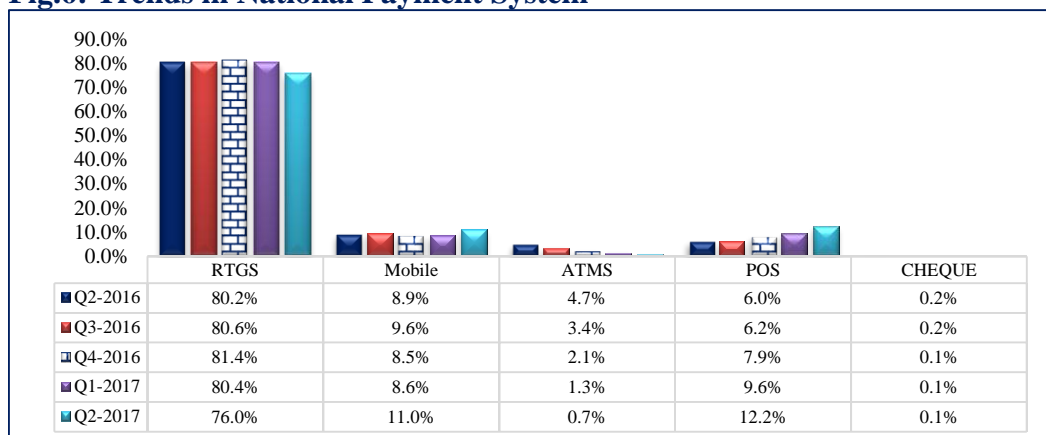
Total deposits grew by 4% from US\$5.88 billion in March 2017 to US\$6.12 billion in April 2017 (*latest available data*). The RBZ attributed the expansion of money supply to the injection of new money through tobacco sales. In fact, a total of 170.4 million kilograms of tobacco worth US\$501.6 million had been sold as at 30 June 2017. Meanwhile in terms of composition, transitory deposits accounted for 71.43% of total deposits as shown in **Fig.5** across. On the other hand, currency in circulation stood at 2.51%, well below the international standards of 10-15%. This reflected the depth of the prevailing cash shortages. In the short term, confidence-boosting mechanisms to lure cash circulating outside the formal system and the measures targeting improved foreign currency inflows, will inevitably improve the low currency in circulation ratio.

Rising POS and Mobile usage...

On the National Payment System “NPS”, the RTGS platform maintained its dominance at 76% of NPS transactions in Q2 2017, compared to 80.4% in Q1 2017. The decline in RTGS could be attributed to the growing usage of high volume, low-value transactions through Point of Sale “POS” and Mobile platforms in response to the cash challenges. In fact, POS and Mobile platform usage grew from 9.6% and 8.6% in Q1 2017 to 12.2% and 11.0% in Q2 2017, respectively - **Fig.6** on the next page.

...POS and Mobile platform usage on the increase in Q2 2017...

Fig.6: Trends in National Payment System



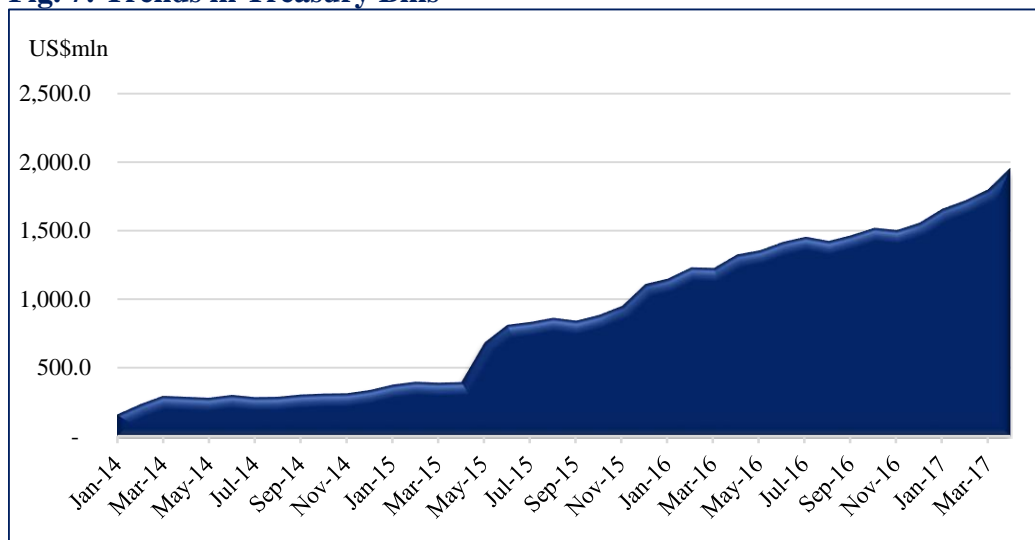
Source: RBZ

In the short term, continuous investment in electronic platforms by banking institutions with the support from RBZ is critical given the increased transaction volumes. In addition, innovation is also critical as technology remains dynamic with the emergence of Near Field Communication “NFC” devices.

Treasury Bills

According to the RBZ, the stock of Treasury Bills “TBs” held by banking institutions increased by 8.9% from US\$1.79 billion in March 2017 to US\$1.95 billion in April 2017 (*latest available data*). **Fig.7** below outlines the trend in the stock of TBs between January 2014 to April 2017.

Fig. 7: Trends in Treasury Bills



Source: RBZ

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.

... TBs held by banking institutions increased by 8.9% to US\$1.95 billion as at end of April 2017...

FINANCIAL MARKETS REVIEW

Table 5: ZSE Performance

Domestic	31-Mar-17	30-Jun-17	Qtrly Change(%)
Industrial	138.96	195.97	41.0%
Mining	58.56	69.79	19.2%
Market Cap (US\$bln)	3.87	5.70	47.1%
Turnover (US\$m)	46.46	68.59	47.6%

Source: ZSE

...the industrial index advanced by 41% in Q2 2017...

1. Equities – Renewed demand for stocks in Q2...

On the Zimbabwe Stock Exchange “ZSE”, the industrial and mining indices advanced by 41.0% and 19.2% to end the quarter at 195.97 and 69.79, respectively – **Table 5** across. The lack of alternative investment opportunities, given the persistent liquidity issues and subdued money market rates, lifted equities during the period under review. Gains were broad-based as reflected by 46 movers and 5 shakers. Only 7 stocks closed unchanged. Of significance were the solid gains recorded by all heavyweight counters led by Econet (120%), Hippo (93%), Innscor (60%), OK ZIM (56%) and Delta (48%). **Table 6** below illustrates the Top 5 movers and shakers for Q2 2017.

Table 6: ZSE Movers and Shakers

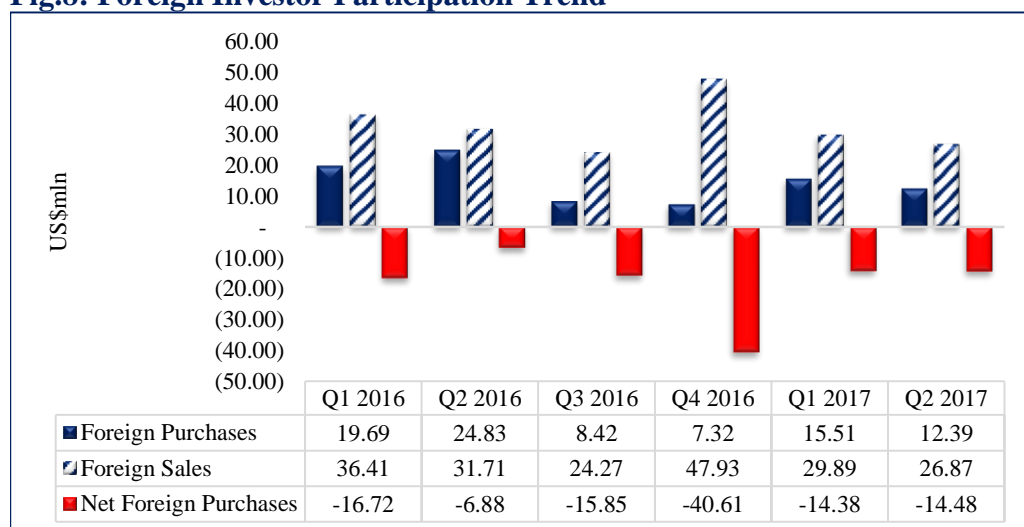
Movers				Shakers			
Counter	31-Mar-17	30-Jun-17	Change(%)	Counter	31-Mar-17	30-Jun-17	Change(%)
Masimba	1.90	4.80	152.63%	RTG	1.19	0.99	-16.81%
Econet	16.05	35.38	120.44%	ART	6.50	5.50	-15.38%
Meikles	12.00	25.00	108.33%	ZHL	1.65	1.40	-15.15%
Ariston	0.50	1.00	100.00%	Hwange	2.90	2.50	-13.79%
Powerspeed	2.10	4.20	100.00%	Turnall	1.04	1.00	-3.85%

Source: ZSE

The ZSE market capitalisation grew by 47.1% or US\$1.82 billion to US\$5.70 billion as at the end of Q2 2017, in line with movements on the industrial index. However, valuation metrics for most counters have overheated as reflected by the high Price to Earnings “P/E” and Price to Book “P/Bk” relative to the pre-rally period and that of regional peers.

On the other hand, market turnover also improved by 47.6% from US\$46.5 million in Q1 2017 to US\$68.6 million in Q2 2017. In terms of participation, offshore investors remained net sellers at US\$14.48 million in Q2 2017 (US\$14.38 million – Q1 2017) as shown in **Fig.8** below.

Fig.8: Foreign Investor Participation Trend

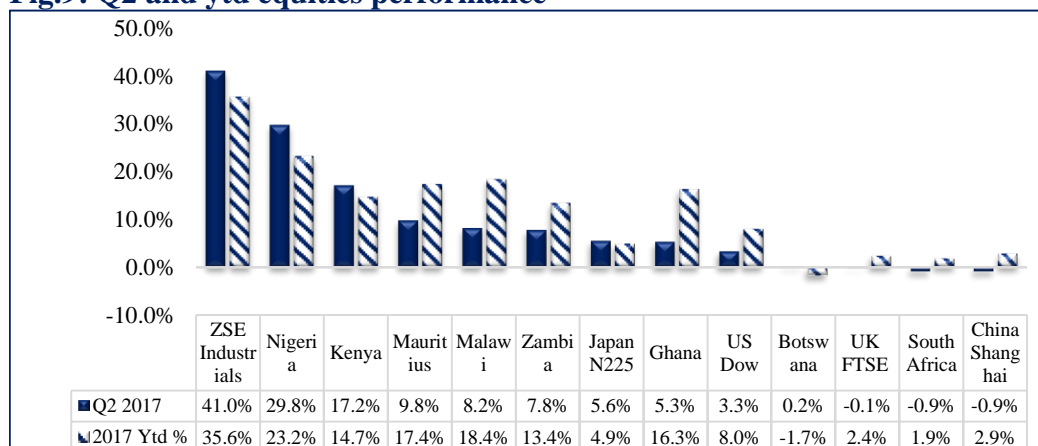


Source: ZSE

.... turnover improved by 47.6% to US\$68.6 million in Q2 2017...

Meanwhile, with the exception of UK, South Africa and China, all other major global and regional markets recorded gains in Q2 2017. Positive earnings from Europe and US corporates lifted investor sentiment. In addition, the sluggish pace in the US interest rate normalisation program supported demand for emerging market and frontier economies' stocks – **Fig.9** below.

Fig.9: Q2 and ytd equities performance



Source: Various

As shown in Fig 8 above, Zimbabwe recorded the largest gain of 41.0% for Q2 2017, whilst Botswana logged the lowest gain of 0.2% among SSA peers. On a year to date basis “ytd” as at 30 June 2017, Zimbabwe was once again the top performing market.

Table 7: Quarterly commodities performance

Commodities	31-Mar-17	30-Jun-17	Q2 Change(%)	Ytd Change(%)
Metals				
Gold - US\$/oz	1,244.85	1,242.25	-0.2%	8.4%
Platinum - US\$/oz	950.00	925.00	-2.6%	1.9%
Copper - US\$/t	5,860.00	5,907.50	0.8%	7.4%
Nickel - US\$/t	9,935.00	9,280.00	-6.6%	-7.3%
Oil - US\$/b	52.83	48.77	-7.7%	-14.2%
Agricultural				
Wheat - US\$/t	156.71	187.76	19.8%	25.0%
Soybeans - US\$/t	354.94	356.87	0.5%	-7.0%
Sugar - US\$/pound	16.76	13.81	-17.6%	-29.2%
Cotton - US\$/pound	77.33	75.31	-2.6%	6.6%

Source: Various

Table 8: Quarterly' currencies performance

Currencies	31-Mar-17	30-Jun-17	Q2 Change (%)	Ytd Change(%)
USD/ZAR	13.4037	13.0447	-2.7%	-4.4%
USD/BWP	10.3034	10.1089	-1.9%	-4.0%
USD/ZMK	9.6186	9.0875	-5.5%	-7.3%
USD/NGN	309.099	325.016	5.1%	7.3%
USD/GBP	0.8007	0.769	-4.0%	-5.4%
USD/EUR	0.9361	0.8754	-6.5%	-7.8%
USD/JPY	111.75	112.095	0.3%	-4.0%
USD/CNY	6.8905	6.7769	-1.6%	-2.5%
Dollar Index - DXY	100.45	95.63	-4.8%	-6.4%

Source: Oanda

2. Precious metals under pressure...

With the exception of copper, wheat and soybeans, all major commodities registered price declines during Q2 2017. On the upside, wheat prices advanced by 19.8% to US\$187.8/t lifted by fears of crop losses due to rising temperatures in major U.S. producing regions. On the downside, sugar and oil prices fell by 17.6% and 7.7% to US\$13.8/p and US\$48.8/b, respectively, on excess supply concerns – **Table 7** across. For oil, increased production in the US continued to outweigh output cuts by OPEC countries, thereby creating excess global inventories. Going forward, the rebound in China's economic growth and anticipated infrastructure spending in the US, is expected to support base metals. On the other hand, precious metals, particularly gold, will be sustained by the low global interest rates and continued safe-haven demand in light of geopolitical risks in the Middle East.

3. Currencies Markets: US dollar softens...

During the period under review, the US dollar softened, on the back of hawkish comments from central bankers in major advanced economies towards tighter monetary policy programs. However, a 25 basis points interest rate increase by the US Federal Reserve to 1%-1.25% range in June 2017, minimized the US dollar weakness. Thus, the dollar index fell by 4.8% to end the quarter at 95.63, compared to a 1.7% loss in Q1 2017 – **Table 8** across. Elsewhere, renewed demand for emerging markets riding on anticipated higher growth in Sub-Saharan Africa lifted the South African rand, Botswana Pula and Zambian Kwacha by 2.7%, 1.9% and 5.5%, respectively. In the short term, expectations of monetary tightening by the US Fed is expected to support the US dollar.

...Average deposit and lending rates remained subdued in Q2 2017...

Table 9: Global interest rate trends

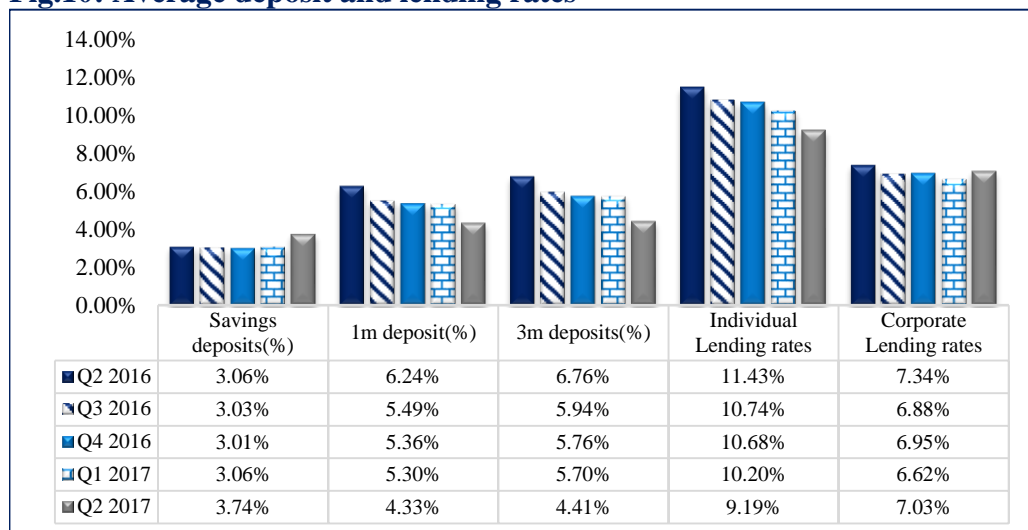
Country	Rate	Change	Accommodative/Tightening
Brazil	10.3%	100bps	Accommodative
Malawi	18.0%	400bps	Accommodative
Mozambique	22.8%	50bps	Accommodative
Zambia	12.5%	150bps	Accommodative
US	1.3%	25bps	Tightening
Mexico	7.0%	25bps	Tightening
Hong Kong	1.5%	25bps	Tightening
Jordan	3.8%	25bps	Tightening

Source: Central Bank News

4. Money Markets: Subdued interest rates...

In Zimbabwe, with the exception of savings deposits, 1-month and 3-month average deposit rates remained subdued in Q2 2017. On the other hand, average lending rates for individuals were also restrained, declining by 100 basis points to 9.2% in Q2 2017. Likewise, albeit a marginal 41 basis points increase to 7.0% in Q2 2017, average lending rates for corporates were largely restrained. In the short term, rising inflationary pressures are expected to adversely exert pressure on real returns on the money market. **Fig.10** below outlines the trend in average deposit and lending rates between Q2 2016 and Q2 2017.

Fig.10: Average deposit and lending rates



Source: RBZ

Meanwhile, on the global markets, Central Bank News noted that 19 central banks eased their monetary policy stance against 12 that tightened. **Table 9** across highlights some of the selected countries. In fact, the slowdown in inflationary pressures saw most African countries easing their monetary policy programs in Q2 2017 including Mozambique, Malawi, Zambia, Rwanda, Ghana and Uganda. On the other hand, the US, Mexico and Hong Kong were some of the economies that tightened their monetary policy instruments. For Mexico, Hong Kong and Jordan, the increases were effected to take account of higher US interest rates.

5. Property Sector - rental yields under pressure...

During the period under review, the sector remained under pressure due to major challenges including rental renegotiations, low occupancies, defaults and rising property management expenses. In fact, downbeat financials and trading updates from listed property management companies confirmed this view. For instance, Zpi's income fell by 15% to US\$1.17 million for the 5 months to May 2017, compared to the same period in 2016. In addition, FML Properties' (formerly Pearl Properties) revenue for the first quarter was 10% below prior year at US\$2.4 million. Mash's revenue for the first half of the year to March 2017 also declined by 15.7% to US\$2.39 million. As a result of subdued revenues, rental yields for FML Properties and Mash fell from 6.91% and 6% to 6.29% and 5%, respectively. However, on-going initiatives particularly in residential property, student accommodation and retail space is expected to present short-to-medium term opportunities for players.

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