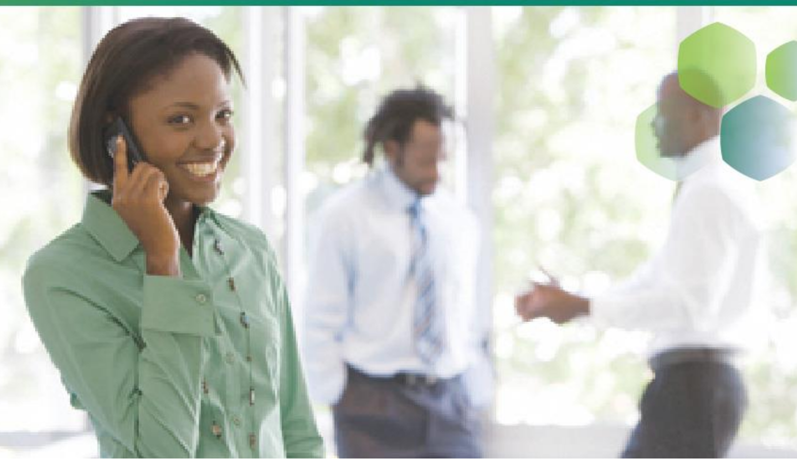
Monthly Economic Brief

September 2018



Highlights

Minister of Finance presented 'measures for reversing fiscal dis-equilibrium'.

Monetary policy review prescribed ring-fencing of hard currency.

Treasury expects 2018 GDP to close at 6.3%.

Government is advancing measures to mitigate effects of a looming *El Nino*.

Year on year consumer inflation for August 2018 was 4.83%, up from 4.29% in the prior month.

ZSE market capitalization retreated 1.76% to close September 2018 at $12.218 billion.

Back to basics… fiscal shock(er)

Minister of Finance Hon. Prof. Mthuli Ncube presented policy measures to curtail budgetary imbalances and close the budget deficit. The measures included an upward review of intermediate money transfer tax from 5c per transaction to 2% of value transacted with effect from 1 October 2018. Treasury also committed to limit use of the overdraft facility with the central bank to 20% of the previous year's revenue and contain Treasury Bill issuance in favour of government guarantees and public-private-partnerships to fund projects.

Review of the transfer tax significantly widens the tax collection base, particularly in the informal sector. The efficacy of the measure is enhanced by limited transaction media in the absence of cash. At current transaction values, the measure has potential to generate an additional $2.6 billion annually. On the flipside, the tax presents an additional cost, typical of a contractionary fiscal policy. Overall (though full implementation modalities are still outstanding), the motive to fund government expenditure through tax enhancement is welcome. We are however worried by the additional tax burden which may have a contractionary effect on aggregate demand.

Monetary policy insights…

Government revised its 2018 GDP growth forecast up from 4.5% to 6.3%, while revising the 2017 estimate from 3.7% to 4.8%. Inflation is projected to end the year below 7%. Going forward, government noted that the unsustainable budget deficit threatened policy stability. The deficit has been funded by public debt, currently estimated at $16.9 billion. From a monetary policy perspective, authorities' thrust is to strengthen the multi-currency system.

Monetary policy prescriptions include the creation of separate 'hard currency' foreign currency accounts (Nostro FCA) by 15 October 2018. The measure is aimed at preventing 'dilution of hard currency' balances - thus incentivising more official foreign currency deposits. Authorities reiterated that parity between the Bond Notes, bank balances and the United States Dollar remains. The general market expectation is for further currency reforms.

Noteworthy external risk to the outlook

Minister responsible for lands, agriculture and rural resettlement, Hon. Perrance Shiri said government has a 'major strategy' to minimise the effect of *El Nino* induced adverse weather projected by meteorologists in the 2018/19 season. The plan includes expediting the installation of irrigation infrastructure and encouraging farmers to broaden their range of crops. If not managed carefully, impending *El Nino* conditions pose a noteworthy threat to overall socio-economic stability.

Inflation pressures persisted…

Year on year consumer inflation reached its highest since December 2011 at 4.83% in August 2018. Monthly inflation was 0.39%, down from 0.98% in the prior month. Year to date inflation closed August 2018 at 1.56%, compared to 0.23% in August 2017. Tradable goods such as food, clothing and furniture continued to drive inflationary pressures, reflecting exchange rate dynamics. Going forward, risks are evenly balanced as a contractionary fiscal policy partly dilutes recent demand side pressures.

Dollar on the back foot

The United States Dollar (US$) closed the month to 30 September 2018 weaker. Trade tensions weighed on the dollar amid rising global supply chain fragilities. The dollar retreated 0.1% against the Euro to close the month under review at US$1.17 per Euro. Against the South African Rand (ZAR), the dollar shed 3.2% to ZAR14.12 as at 30 September 2018.

Euro support was in-part driven by European Central Bank efforts towards a 'more coordinated approach against financial crimes and sound bank supervision'. The ZAR appreciation was premised on a narrowing current account deficit. Positive trade and associated ZAR demand defied negative sentiment arising from South Africa registering a technical recession in the first half of 2018.

Commodities struggled for direction

Commodity prices were mixed during the month under review, as highlighted in the following table.

Commodity	Price	Sept'18	YTD
Nickel (usd/ton)	12 620,00	-4,97%	4,38%
Crude Oil (usd/barrel)	82,11	6,14%	23,51%
Gold (usd/oz)	1 183,03	-1,61%	-8,76%
Platinum (usd/oz)	813,30	2,54%	-12,52%
Coffee (usd/lb)	99,50	-2,83%	-20,27%
Maize (usd/ton)	143,79	1,95%	4,21%
Wheat	512,75	-6,09%	20,22%
Sugar (usc/lb)	11,01	3,09%	-26,40%
Cotton lint (usc/lb)	77,59	-5,78%	-1,27%

Commodity prices struggled for direction, exhibiting no clear trend across the board. Gold went against the traditional inverse relationship with the US$; closing the month under review weaker, despite a softer dollar. Oil prices firmed, propped by concerns of supply constraints as the United States is set to enforce sanctions against Iran in November 2018.

Money market rates remained sticky… upwards

Money market interest rates remained sticky upwards, as higher yields on government paper outweighed weak borrower appetite. Further pressure is expected from inherent inflationary pressures. The average interest rate quote on the 90 days investment horizon remained unchanged at 3.06%.

Foreign selling pressure weighed on equities

The ZSE industrial index retreated 1.9% during the month under review as highlighted below.

Sector/Index	Value	Sept'18	YTD
Commodities	999,83	-13,48%	0,99%
Consumer	707,10	-0,78%	42,66%
Financial	186,91	-0,09%	-0,21%
Listed Property	180,08	6,45%	-10,03%
Manufacturing	231,90	8,24%	18,64%
Industrial	**386,97**	**-1,94%**	**16,20%**
Mining	**163,76**	**1,50%**	**15,00%**
Top Ten	**117,60**	**-3,36%**	**17,60%**
All Share	**115,12**	**-1,88%**	**15,12%**
Market Cap ($ bln)	**12 218**	**-1,76%**	**20,73%**

The following tables highlight the ZSE top and bottom three performing stocks for September 2018.

Top 3 Performers	Price USc	Sept'18	YTD
TURNALL	2,07	45,77%	117,89%
UNIFREIGHT	3,60	42,86%	153,52%
GBH	1,10	37,50%	37,50%

Bottom Performers	Price USc	Sept'18	YTD
SEEDCO	190,00	-26,35%	-5,00%
FML	14,95	-12,06%	-23,33%
TSL	40,00	-11,11%	8,55%

The total value of trades on the local bourse gained 21% to $61.1 million during the month ended 30 September 2018. The average daily value of trades firmed 27%, to $3.1 million over the same period. ZSE foreign investor participation was 36.4% in September 2018, up from 29.2% in the prior month. For a 2nd consecutive month, foreign investors were net sellers; registering outflows of $1 million. Cumulatively, foreign portfolio inflows reached $63.3 million - compared to net outflows of $55.5 million in the corresponding period last year.

Economic Outlook

Policy reform measures to date point to significant rebalancing on the way. The recent monetary policy measures (while necessary to acknowledge reality on the ground) and the absence of a financial package, sustains risk on local monetary balances particularly if the measures are not accompanied by an aggressive reduction in money supply and confidence building blocks. In the absence of foreign support, short-term painful rebalancing seems inevitable. The environment prescribes caution as authorities roll out the full policy package.