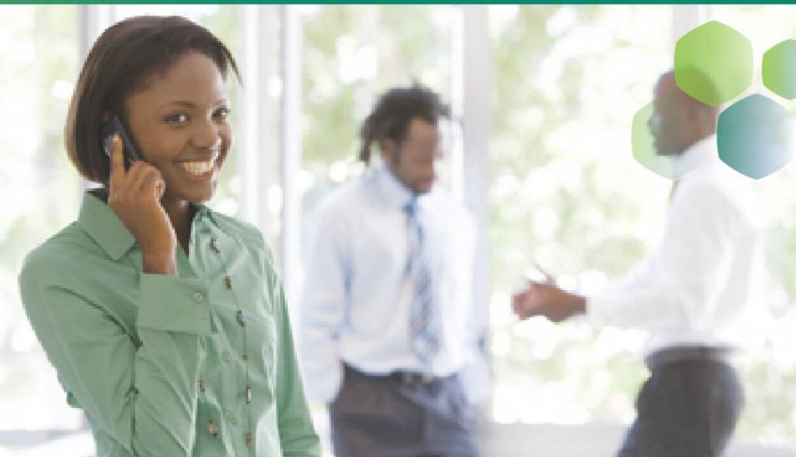
Quarterly Economic Brief

Q1' 2018



Highlights

Geo-political tensions heightened, fueled by global trade and cyber-security issues.

African Continental Free Trade Area is gathering momentum.

President Mnangagwa committed to credible polls and declared Zimbabwe 'open for business'.

Gold, tobacco and tax revenues showed bullish traits during the quarter under review.

ZSE market capitalization retreated 13.87% to close Q1'18 at $8.716 billion.

Global | 'America first' mantra inflates global tensions

The United States (US) administration intensified its 'America first' agenda - proposing protectionism measures against Chinese imports. China threatened retaliation if the US goes ahead with the proposals. The tit-for-tat tariff threats, could lead to trade barriers amounting to billions of dollars, sparking fears of a possible trade war. The heightened trade tensions led to fragile global trade and growth prospects.

In reaction to Rwanda increasing tariffs on used clothing from the US; the US announced plans to suspend duty-free privileges on eligible Rwandan exports (a benefit under the African Growth and Opportunity Act [AGOA]). African countries banning used clothes imports is feared to carry the risk of adverse environmental implications in the US, due to piling 'textile waste' ending up in landfills.

The United States (US) administration issued new sanctions against Russia, citing 'ongoing nefarious attacks' and broadly for hacking its infrastructure. Meanwhile, Russian President Vladimir Putin said Russia has a new array of nuclear-capable weapons including supersonic missiles (that can travel at 20 times the speed of sound) and drone submarines 'that render defense systems useless.'

Lessons (not learnt)… from Zimbabwe

In a move reminiscent of Zimbabwe's pre-dollarization era (also known as the lost decade), Venezuela plans to remove three zeros off its currency - the Bolivar. The country's largest note (100,000) barely buys a cup of coffee. Advancing the Deja-vu feeling with Zimbabwe's lost decade scenario is the fact that the measure is in response to a faltering economy and hyperinflation.

Bolivia's inflation reached 6,000% in February 2018. Critics trace the country's situation to political and macro-economic vulnerability; with President Maduro seeking re-election in May 2018 (the opposition has threatened a boycott citing electoral irregularities). If Zimbabwe's experience is anything to go by, the currency redenomination is unlikely to proffer a sustainable macro-economic solution.

Lessons (to consider)… for corrupt countries

To discourage political corruption; former President of South Korea, Park Geun-hye was sentenced to 24 years in prison after being convicted of abuse of power and bribery. In addition to the jail term, she was also fined US$11 million. Park (the country's first female President) was impeached on corruption allegations after weeks of mass public demonstrations in March 2017.

China made clear its intent to fight corruption - by handing the death penalty to a former deputy Mayor. Zhang Zhongsheng was convicted of accepting bribes in excess of US$160 million in exchange for mining concessions.

United Africa taking shape… slowly

Forty-four African leaders signed a framework establishing the 'African Continental Free Trade Area'. The free trade area aims to create a single market for goods and services; covering 1.7 billion people with an estimated spending power of US$6.7 trillion by 2030, assuming all 54 African countries have joined. For the agreement to come into effect, at least 22 countries must ratify it.

The Africa we "don't" want…

Kenya's main opposition leader Raila Odinga was 'sworn-in as the people's president' by two lawyers in front of his supporters in January 2018. Mr Odinga had earlier lost a disputed election to President Kenyatta, before boycotting a scheduled re-run citing the same irregularities as in the first election. Having sworn himself in, Mr Odinga refused to recognize President Kenyatta as head of State.

Tensions were partly tamed after President Kenyatta and Mr Odinga publicly appeared together; shaking hands, calling each other brothers and committing to re-unite the country in March 2018. The surprise announcement and settlement however angered some of Mr Odinga's supporters, reportedly labelling him a traitor. Kenya's socio-political framework remains fractured along ethnic grounds.

Uncomfortably familiar script…

South African Parliamentarians backed a motion to expropriate land, 'without compensation'. Isolated incidences of violent land invasion have since occurred raising fear of a looming exodus of white farmers. Meanwhile, South Africa's Treasury plans to accelerate the transfer of homes worth US$15 billion to an estimated one million poor people, allowing them full and transferable title to the homes.

Australia responded by pushing for fast-tracked 'humanitarian' visas for white South African commercial farmers. Land and property ownership redistribution is a hot topic ahead of South Africa's elections, scheduled for 2019. If not managed carefully, the emotive issues (already spooking investors) might yield net-negative macro-economic implications for South Africa's intended beneficiaries.

Hope this story has a happy ending…

African countries have developed a conspicuous appetite for Eurobonds as a funding option. Investors on the other hand, are attracted to high yields associated with African Eurobonds, currently averaging 6%, against 4.5% in North America and around 5% in Europe. A Eurobond is a debt instrument issued by a country and is denominated in foreign currency - usually United States dollars.

In Q1'18 alone, African countries sold Eurobonds worth about US$12.8 billion, with tenure of up to 30 years. Issuance to date makes a mockery of last year's full-year close (and current record) of US$18 billion. Senegal, Egypt, Nigeria, Kenya and Ivory Coast have so far issued Eurobonds, with South Africa (US$3 billion), Ghana (US$2 billion), Angola (US$2 billion) and Tanzania also reportedly queueing up.

Dollar on the back foot

The United States Dollar (US$) closed the quarter ended 31 March 2018 softer against most trading currencies. A general global trend of Central Banks tightening monetary policy, driving higher yields outside the U.S weighed on the US$. Further, the threat of a global trade war between the U.S and China, as well as the accompanying weak global trade outlook depressed US$ demand.

The US$ closed the quarter under review 5.03% weaker against the South African Rand (ZAR) at ZAR11.71 per US$. Against the Euro, the US$ retreated 3.33% to the close at US$1.24 per Euro.

Commodities closed softer… despite weak dollar

Commodity price movements were predominantly negative during the quarter ended 31 March 2018 as highlighted in the following table.

Commodity	**Price**	**Q1'18**	**Q4'17**
Nickel (usd/ton)	12,920.00	-5.54%	18.88%
Crude Oil (usd/barrel)	69.32	3.31%	15.56%
Gold (usd/oz)	1,323.00	-1.10%	0.91%
Platinum (usd/oz)	935.61	-6.50%	1.38%
Coffee (usd/lb)	117.85	-3.36%	-5.31%
Maize (usd/ton)	147.83	-0.33%	0.00%
Wheat (usd/ton)	448.50	-4.63%	-5.75%
Sugar (usc/lb)	12.23	-9.21%	6.63%
Cotton lint (usc/lb)	81.05	-1.07%	14.30%

International trade is primarily denominated in dollars. Resultantly, a weak dollar makes commodities more affordable in alternative currency terms - ordinarily driving up demand and prices. The above table shows commodities bucking the trend. This is partly attributable to speculative investors (already sitting on huge stockpiles) slowing down demand, amid fears of rising (trade-war related) barriers. Crude oil prices maintained positive momentum from the previous quarter, primarily supported by an Organization of Petroleum Exporting Countries (OPEC) global supply quota.

Global Economic Outlook

Heightened geo-political tensions across the global economy sustain a generalized fragility on the global outlook. Political vulnerabilities threaten the prospects of sustainable economic recovery across some African jurisdictions. Weak commodity prices also threaten domestic earnings for net commodity exporters, raising the likelihood of further debt accumulation. If not managed carefully, foreign debt could pose negative boomerang effects.

Zimbabwe | Open for business?

First 100 days…

During his first 100 days in office (clocked on 4 March 2018): President Mnangagwa lifted the contentious indigenisation laws (restricting them to diamond and platinum mining); awarded 99 year leases to remaining white commercial farmers and arguably tamed adverse inflation expectations. Critics however noted a policy relapse after government bought vehicles for traditional Chiefs against earlier austerity commitments. Critics also note the fight against corruption has been slower than anticipated.

Zimbabwe is open(ing) for business…

Zimbabwe's 'new' administration notably intensified efforts to re-engage the mainstream international community. Speaking at the World Economic Forum in Davos Switzerland - an annual gathering of global business and political leaders - President Mnangagwa pledged to hold credible elections before July 2018. He also indicated that the ruling ZANU-PF would accept any election outcome and international election observers are welcome. He declared that 'Zimbabwe is open for business'.

Mending relations

U.S Senators Chris Coon and Jeff Flake were among a five member bipartisan delegation of US Senators that visited Zimbabwe. The delegation met President Mnangagwa, public and civil society representatives and expressed general satisfaction with Zimbabwe's progress towards democratic reforms. The US Senate is set to debate a bill (earlier submitted by Senators Coon and Flake) proposing stringent pre-conditions for the lifting of ZIDERA restrictions.

The European Union (EU) Commissioner for International Cooperation and Development, Mr Neven Mimica became the highest ranking EU official to Zimbabwe post 2009. He noted that the EU looks positively at Zimbabwe's future and is committed to partnering Zimbabwe in its process of political and democratic transition. He however noted that the first step should be free and fair elections 'to legitimise the whole reform process'.

International Monetary Fund (IMF) spokesperson Gerry Rice noted that the Fund's relationship with Zimbabwe 'has been evolving in a very positive way for some months now'. The Fund however stressed that a new funding program for Zimbabwe required more than just clearance of outstanding arrears, citing the need for business enabling structural reforms. In addition to structural reforms, the Fund also noted that a concerted international effort would be required to revive and reintegrate Zimbabwe.

Strengthening relations

For his first state visit outside Africa, President Mnangagwa visited China and engaged Chinese President Xi Jingping on means of fostering political and economic relations. President Xi Jingping reportedly expressed his faith in President Mnangagwa's vision and agenda. Memoranda of Understanding signed included; the delinking of old debt from fresh loans, human resource development as well as Chinese investment in Zimbabwe's infrastructure and power projects.

Election preparations…

According to Information Ministry Permanent Secretary, George Charamba; all media institutions, public and private, will be placed under the authority of the Zimbabwe Electoral Commission (ZEC) from proclamation of election dates until announcement of election results. The measure is meant to ensure free and fair media coverage of all political parties.

United Nations, African Union and Southern Africa Development Community representatives broadly expressed satisfaction with preparations for the impending 2018 general elections, particularly citing the biometric voter registration exercise.

Government has prioritised amendments to the Electoral Act, placing it on Parliament's agenda as 'urgent government business'. This notwithstanding, debate on the Electoral Amendment Bill was postponed to May 2018. MDC-T leader Hon. Nelson Chamisa reportedly threatened a poll boycott if electoral reforms are not implemented; warning that 'it's either a free and fair election or no election. He cited the need to reconfigure the Zimbabwe Electoral Commission, alleging infiltration by the military. He also alleged deployment of the military in rural areas under the guise of agriculture extension officers and 'Champion farmers'.

Potential game changers?

President Mnangagwa commissioned the first batch of rail equipment from South Africa under a reported $400 million National Railways of Zimbabwe recapitalization program. President Mnangagwa also said negotiations are at an advanced stage for Zimbabwe to partner a Botswana-based diamond processing entity to enhance the earning potential of local diamonds on the international market.

Continental energy player, General Electric Africa reportedly approached Parliament, stating its interest in investing in the 2,400MW Batoka Hydro power project. Zimbabwe's peak national electricity demand is currently estimated around 2,200MW.

President Mnangagwa commissioned the $533 million Kariba South hydro-power project, adding an estimated 300MW to the national grid. The project is expected to half the national electricity import demand from the current 600MW. Zimbabwe's power demand is projected to increase with rising industrial revival.

Improving tax collections

National net tax revenue collections for the first quarter of 2018 closed at $1.058 million, 2.8% above target and 28% above collections in corresponding period of 2017. The tax debt increased by 7.2% to $4.2 billion in Q1'2018. The Zimbabwe Revenue Authority (ZIMRA) partly attributed the strong performance to enhanced collection measures by the authority, augmented by increased automation of transactions.

Fiscal policy efficacy requires an accompanying enhancement of national expenditure. In the absence of sustainable external support and inescapable spending such as impending elections; the commendable revenues face a real threat of being diluted by persistent budget overruns.

Bullish gold and tobacco expectations

National gold output in the first quarter of the year 2018 reached 7.308 tons, representing a noteworthy 57.6% increase from the 4.636 tons registered in the same period last year. Seasonal output is projected to close at 28 tons, up from 25 tons last year.

The 2018 tobacco marketing season opened on 21 March 2018. In the first 14 marketing days, seasonal volumes and values were down 14% and 3%, from last season, at 9 million kgs and $25.8 million, respectively. The seasonal target is 200 million tons, up 8% from last season. Market liquidity hinges hugely on gold and tobacco foreign currency earnings, particularly under the prevailing multi-currency framework.

March inflation closed at 2.68%

Consumer inflation closed March 2018 at 2.68%; having closed 2017 at 3.46%. Year on year food inflation to March 2018 was 4.5%, against non-food inflation of 1.8%. Government has an inflation target of 3 - 7%, consistent with the Southern African Development Community (SADC) macroeconomic convergence target. Inflationary pressures going forward are supported by persistent foreign currency shortages and associated parallel market premia on foreign currency being priced into consumer prices.

Foreign investors returning to the local bourse

ZSE indices closed the quarter under review softer across all indices, as negative momentum carried from the previous quarter. The following table shows ZSE movements during the quarter under review.

Sector	Value	Q1'18	YTD'18
Commodities	915.86	-7.49%	-7.49%
Consumer	422.31	-14.80%	-14.80%
Financial	170.47	-8.99%	-8.99%
Listed Property	157.66	-21.24%	-21.24%
Manufacturing	182.11	-6.83%	-6.83%
Industrial	**291.00**	**-12.62%**	**-12.62%**
Mining	**125.09**	**-12.16%**	**-12.16%**
Top Ten	**85.71**	**-14.29%**	**-14.29%**
All Share	**86.98**	**-13.02%**	**-13.02%**
Market Cap ($ bln)	**8.716**	**-13.87%**	**-13.87%**

The following tables highlight the ZSE top and bottom three performing stocks for Q1'2018.

Top 3 Performers	Price USc	Q1'18	YTD'18
CAFCA	60.00	100.00%	100.00%
ZIMPLOW	10.00	27.88%	27.88%
EDGARS	4.55	13.18%	13.18%

Bottom 3 Performers	Price USc	Q1'18	YTD'18
BAT	2,000.00	-43.98%	-43.98%
BINDURA	3.25	-41.12%	-41.12%
ART	4.50	-35.53%	-35.53%

Foreign investors bought and sold stocks worth $64.0 million and $42.5 million, respectively during the quarter ended 31 March 2018. Resultantly, the quarter registered positive net portfolio inflows of $21.5 million, 140.6% up from outflows of $53.1 million in the preceding quarter. Foreign investor participation on the ZSE increased from 27.7% to 37.6% in the quarter under review

Economic Outlook

International re-integration has been slower than previously envisioned. The outlook is increasingly complicated towards elections, as policy reform momentum is clouded by politics. This notwithstanding, domestic policy reform efforts to date have been positive, validating our cautiously optimistic view. The ZSE is likely to trend flat to positive, with support from investors taking positions ahead of impending elections. Prospects of polity reform support a relatively strong earnings outlook.