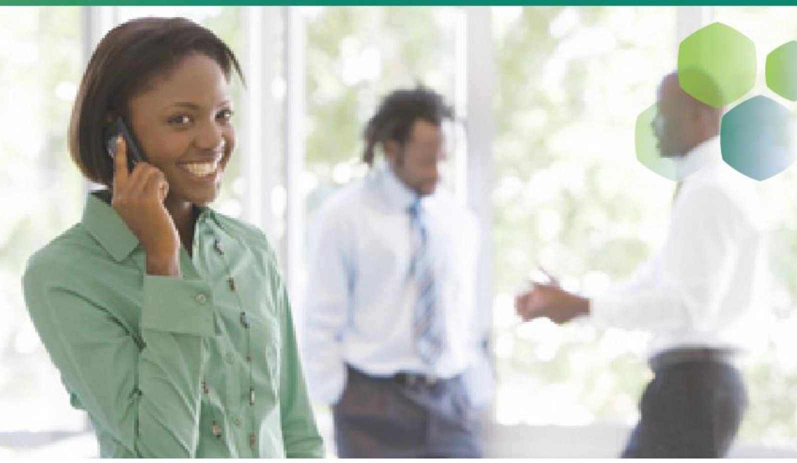
Monthly Economic Brief

October 2018



Highlights

Government launched a new economic blueprint; The Transitional Stabilization Program 2018-20.

Outstanding TBs are estimated at $7.5 billion, of which 55% matures between 2018 and 2020.

Government suspended import quotas on consumer basics indefinitely.

Year on year consumer inflation reached 5.39% in September 2018 (highest since May 2010).

The United States Dollar closed the month under review firmer against most trading currencies.

ZSE market capitalization advanced 48.1% to close October 2018 at $18.091 billion.

Vision 2030 underpins macro-economic policy

Government launched a new macroeconomic blueprint (Transitional Stabilization Program - TSP) covering October 2018 to December 2020. The TSP is the first of three blueprints under 'Vision 2030'. Vision 2030 targets upper middle income economy status by 2030. It has five strategic clusters, namely: governance; macro-economic stability; inclusive growth; infrastructure and social development. Vision 2030 targets real GDP of $43.3 bln ($94.9 bln nominal) and per capita GDP of $4,709 for the year 2030.

The TSP is premised on corrective/stabilization reforms - setting the foundation for two five year macroeconomic blueprints to 2030. TSP focus is on strict adherence to quick-win policy reforms 'that require painful trade-off and sacrifice'. Key policy rebalancing prescriptions under TSP include austerity, devolution and international re-engagement. It also recommends a policy shift towards a market based foreign currency allocation system - once confidence and reserves conditions permit such a transition.

Treasury expects $3.7 billion budget overrun in 2018

Cabinet approved the 2019 pre-budget strategy paper, with the budget presentation expected on 22 November 2018. The strategy paper predicts a $3.7 bln budget overrun in 2018, partly driven by pre-election public wage increases and agriculture input subsidies. Treasury Bill (TB) maturities between 2018 and 2020 are estimated at $4.1 bln, translating to 55% of total outstanding TBs ($7.5 bln). Budget imbalances and associated debt unsustainability underline the need for fiscal rebalancing.

Shortages, price spikes *et al*

A spike in consumer prices, several service providers demanding settlement in foreign currency and shortages of basics including fuel prevailed… as the market reacted to policy measures separating Nostro and RTGS bank accounts. Negative reaction was also fuelled by the announcement of the 2% Intermediate Money Transfer Tax. Symptomatic of the volatility were parallel market US$ premia swinging violently between 110% and 500% during the month under review. Consequently, Cabinet suspended SI 122 indefinitely, allowing the importation of basic commodities without import licenses. Further, Cabinet outlawed 3-tier pricing.

Opening up to imports is likely to improve supply of basics. On a basic supply and demand basis, prices are envisioned to come-down under improved supply. The concomitant risk from opening up is the threat of local manufacturers struggling to cope with the more competitively priced imports. Outlawing 3-tier pricing is likely to be difficult to enforce, in part due to the economy's high level of informalization. Mandatory parity pricing against an informal US$ premium (currently around 250%) underlines the dislocation between informal and formal markets.

Consumer inflation reached an eight year peak

Year on year consumer inflation increased from 4.83% in August 2018 to 5.39% in September 2018 (the highest since May 2010). Monthly inflation in

September 2018 was 0.92%, up from 0.39% in the previous month, driving year to date inflation to 2.49%. In the same period last year, year to date inflation was 0.61%. Meanwhile, the urban cost of living basket for a family of six advanced 1.1% to $604.50 in September 2018, up from $597.80 in the prior month. Further inflationary pressures are expected as recent price increases are likely to be captured in the October 2018 inflation numbers.

Dollar on the front-foot

The United States Dollar (US$) registered significant gains against most currencies during the month ended 31 October 2018. US$ appreciation was in part supported by the reserve currency's safe haven attractiveness in light of generalised global capital flow fragilities, with particular vulnerability from the Euro Area's continued loose monetary policy.

Support for the US$ was also premised on firm United States jobs data. The US$ closed the month under review 0.34% firmer against the South African Rand (ZAR) at ZAR14.63 per US$. ZAR weakness was compounded by a budget statement suggesting the country is set to miss deficit targets. Against the Euro, the US$ firmed 0.33% to close at US$1.14 per Euro.

Commodities closed mixed

International commodity prices closed the month ended 31 October 2018 mixed as highlighted in the following table.

Commodity	Price	Oct'18	YTD
Nickel (usd/ton)	11 700,00	-7,29%	-3,23%
Crude Oil (usd/barrel)	76,28	-7,10%	14,74%
Gold (usd/oz)	1 217,66	2,93%	-6,09%
Platinum (usd/oz)	835,62	2,74%	-10,12%
Coffee (usd/lb)	112,55	13,12%	-9,82%
Maize (usd/ton)	143,30	-0,34%	3,85%
Wheat	495,00	-3,46%	16,06%
Sugar (usc/lb)	13,27	20,53%	-11,30%
Cotton lint (usc/lb)	76,88	-0,92%	-2,18%

Oil prices partly reversed earlier gains, which had been driven by concerns that United States sanctions on Iran would create global shortages. Since the associated speculative buying pressures, the market seems to have reassessed the situation. Supply conditions have also been buoyed by Saudi Arabia (world's largest oil producer) increasing output to near-record highs. International sugar prices surged to reduce earlier losses in light of depressed harvest forecasts in the world's largest producer (Brazil).

Local buys drove equities rally

The local bourse closed the month under review bullish, with the mainstream industrial index up 42.08% as highlighted in the table below.

Sector/Index	Value	Oct'18	YTD
Commodities	1870,53	87,08%	88,94%
Consumer	1042,39	47,42%	110,31%
Financial	235,77	26,14%	25,87%
Listed Property	216,52	20,23%	8,17%
Manufacturing	284,03	22,48%	45,31%
Industrial	**549,81**	**42,08%**	**65,10%**
Mining	**217,34**	**32,72%**	**52,63%**
Top Ten	**167,48**	**42,41%**	**67,48%**
All Share	**163,82**	**42,30%**	**63,82%**
Market Cap ($ bln)	**18.091**	**48,07%**	**78,77%**

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

Top 3 Performers	Price USc	Oct'18	YTD
MEDTECH	0,03	200,00%	-40,00%
TURNALL	4,82	132,85%	407,37%
ZIMRE PROPERTY	3,25	103,13%	35,42%

Bottom Performers	Price USc	Oct'18	YTD
ZIMRE HOLDINGS	2,10	-11,76%	-18,92%
MASH	2,40	-7,69%	-30,64%
POWERSPEED	14,00	-6,60%	86,67%

ZSE total value of trades advanced a noteworthy 164.1% to $161.3 million in October 2018. The daily average value of trades during the month under review also firmed 129.6% to $7.0 million. Foreign investor participation decreased from 36.4% to 34.6% as foreign investors sold out of the local bourse.

Foreign investors bought and sold stocks worth $44.6 million and $67.0 million, respectively on the ZSE in October 2018. Cumulative net inflows from the beginning of the year to October 2018 reached $40.9 million, compared to net outflows of $87 million in the corresponding period last year.

Economic Outlook

Uncertainties regarding macro-economic policy interpretation, implementation and implication are likely to sustain a generalised fragility on the market. Overall environment prospects are likely to hinge on the depth and sustainability of on-going (painful) policy reforms as well as reciprocal international reintegration. Continued caution remains important.