CBZ HOLDINGS
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Quarterly Report – 2017 Q1
January 2017

GLOBAL ECONOMY
Rebound in global growth anticipated …

…World Bank expects global growth to rise from 2.3% in 2016 to 2.7% in 2017…

In their January 2017 Economic Outlook Reports, both the World Bank and International Monetary Fund "IMF" expect global growth to rebound in 2017. In fact, the World Bank expects global growth to reach 2.7% in 2017, from 2.3% in 2016, whilst the IMF anticipates a higher global output growth rate of 3.4%. Despite the difference in the level of optimism, both institutions expect growth to be driven by rising commodity prices induced recovery in emerging markets and developing economies. **Table 1** below outlines the trends in global and regional growth rates.

Table 1: Real GDP

	2014	2015	2016e	2017p	2018p
World	**2.7**	**2.7**	**2.3**	**2.7**	**2.9**
Advanced economies	**1.9**	**2.1**	**1.6**	**1.8**	**1.8**
US	2.4	2.6	1.6	2.2	2.1
Euro Area	1.2	2.0	1.6	1.5	1.4
Japan	0.3	1.2	1.0	0.9	0.8
Emerging & Developing economies	**4.3**	**3.5**	**3.4**	**4.2**	**4.6**
China	7.3	6.9	6.7	6.5	6.3
Russia	0.7	-3.7	-0.6	1.5	1.7
Brazil	0.5	-3.8	-3.4	0.5	1.8
Nigeria	6.3	2.7	-1.7	1.0	2.5
South Africa	1.6	1.3	0.4	1.1	1.8

Source: World Bank

However, both institutions also cited rising policy uncertainty - particularly in the US and Europe and financial market disruptions as the major downside risks to projected global growth.

Trump Presidency - Implications to global economy and SSA

…SSA likely to be impacted by Trump presidency on issues related to remittances, international aid, currency movements, etc…

During the period under review, Republican candidate, Mr Donald Trump, won the US Presidential Elections to become the 45th President of the world's largest economy. Furthermore, the Republicans also secured controlling seats in both the Senate and House of Representatives. Meanwhile, although the impact of Mr Trump's presidency to the US economy, in particular, and the global economy, in general, can only be ascertained in the medium-term, there exists potential upside and downside risks of the new administration. On the upside, the new US administration is expected to lower personal and corporate taxes as well as embark on fiscal stimulus. If implemented, this will further stimulate economic growth in the US, which may result in higher global growth, especially for the US's closest trading partners. Such a scenario is supported by the fact that the US economy accounts for almost 22% of global output, 11% of global trade, 20% of global FDI stocks and almost 20% of remittances – according to the Word Bank. On the other hand, Mr Trump's proposals such as changes to trade agreements and import tariffs could lead to higher import costs and trigger protectionist policies, ultimately dragging the US economy and global trade. However, Sub Saharan Africa "SSA" will likely be impacted by the new presidency in many areas, among them, interest rates, liquidity flows, currency movements, remittances and international aid.

REGIONAL ECONOMIES

Progress on green bonds' market…

…Kenya and Nigeria focusing on development of green bonds market…

Following the successful issuance of US$118 million green bonds by Morocco in November 2016, the Nairobi Stock Exchange "NSE" announced its intention to issue its first green bond by April 2017. Ideally, green bond markets seek to unlock funding targeted at energy efficiency, pollution prevention, sustainable water management and clean transportations, among other areas. As such, the issuance by NSE, part of Sustainable Stock Exchanges "SSE" initiative, is intended to support capital raising initiatives for low-carbon and climate-resilient growth. Meanwhile, the Federal Government of Nigeria also released guidelines for Green bonds, targeting NGN78 billion (c.US$248 million) for climate finance. Going forward, increased activity in the green bonds' market is projected as governments, corporates and consumers become more environmental conscious.

Fitch downgrades Mozambique's rating…

…Fitch downgrades Mozambique's long term foreign currency rating…

Global ratings agency, Fitch, downgraded Mozambique's Long-Term Foreign Currency Issuer Default Rating "IDR" to Restricted Default "RD", from "CC", but affirmed the country's long-term local currency IDR at "CC". According to Fitch, a CC rating represents a non-investment grade that is highly vulnerable and very speculative. The rating decision was attributed to Mozambique's failure to make a capital and coupon payment, in May 2016, on the US$535 million loan to state-owned Mozambique Asset Management. Rising inflationary pressures and exchange rate vulnerabilities, on the back of curtailed foreign direct investment, are expected to continue undermining Mozambique's growth prospects in the short to medium term.

South Africa escapes ratings downgrade…

…whilst South Africa maintains investment grade from all 3 global rating agencies…

During the period under review, South Africa avoided a ratings downgrade with all global ratings agencies maintaining an investment grade rating for the country. In fact, both Fitch and Standard & Poor's affirmed the country's Long Term Foreign Currency Issuer Default Ratings at "BBB-", whilst the Moody's maintained its sovereign rating at Baa2. However, despite upholding the investment grade, all the rating agencies now hold a "negative" outlook on Africa's most largest and developed economy. According to S&P, the major reason for the negative outlook is the rising political risk ahead of the country's 2019 national elections.

DOMESTIC ECONOMY

Zimbabwe regains IMF membership rights…

The Government successfully settled its overdue financial obligations of US$107.9 million to the IMF through the partial transfer of Special Drawing Rights amounting to 78.3 million that were kept at the IMF Poverty Reduction and Growth Trust "PRGT" account. Subsequently, the IMF lifted the remedial measures that had been put on Zimbabwe since 2001, which included declaration of non-cooperation; the suspension of technical assistance and removal from PRGT eligibility. The payment represents a positive step towards the ongoing arrears clearance strategy, and a full settlement of the arrears remains key for a repricing of the country's risk premium and access to international capital markets.

But slips on Doing Business ranking…

Data from the World Bank's 2017 Doing Business Report shows that Zimbabwe's overall rank fell from 157 to 161 out of 189 countries. The decline was caused by poor ratings in the areas of starting a business, getting electricity, protection of minority investors and trading across borders – **Table 2** across. However, the country still recorded positive strides in the areas of dealing with construction permits, registering property and resolving insolvency.

Table 2: Doing Business Rankings

Category	2016 Rank	2017 Rank	Movement
Starting a business	182	183	⇓
Construction Permits	183	181	⇑
Getting Electricity	162	165	⇓
Registering Property	112	111	⇑
Getting Credit	78	82	⇓
Protecting Minority Investors	97	102	⇓
Paying Taxes	163	164	⇓
Trading across Borders	103	148	⇓
Enforcing contracts	165	165	-
Resolving insolvency	150	145	⇑
Overall rank	157	161	⇓

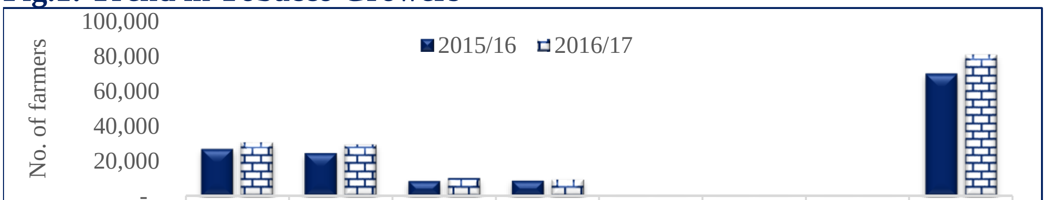
Source: World Bank

Tobacco growers on the rise…

According to the Tobacco Industry Marketing Board "TIMB", the number of registered tobacco growers rose by 15.0% to 72,575 in the 2016/17 season. Growth was driven by the 57% jump in the number of new farmers to 14,101 in the 2016/17 season. The bulk of the new growers emanated from the main tobacco-producing provinces of Mashonaland Central and West. **Fig.1** below outlines the distribution of farmers across the major tobacco producing regions as at 30 December 2016.

…Tobacco growers up by 15% whilst area under crop grew by 18% for the 2016/17 season…

Fig.1: Trend in Tobacco Growers



	Mash West	Mash Central	Manicaland	Mash East	Midlands	Masvingo	Matebeleland	Total
2015/16	27,170	24,803	8,762	8,994	295	132	5	70,161
2016/17	30,850	29,512	10,501	9,651	161	67	3	80,745

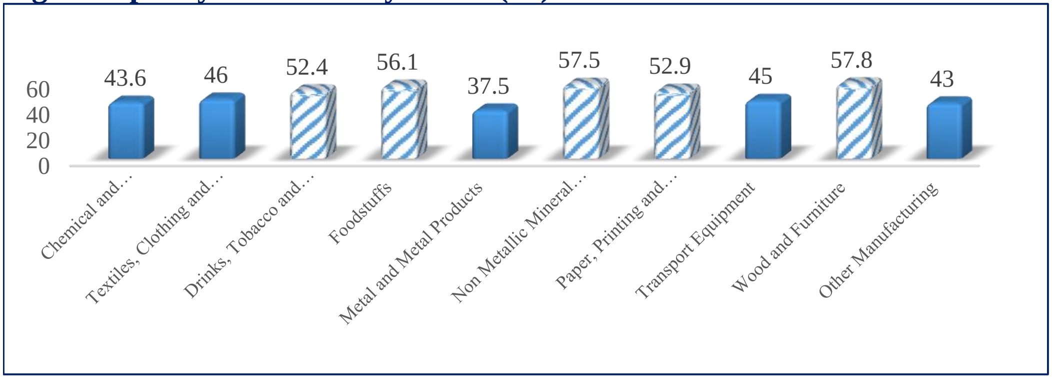
Source: TIMB

Meanwhile, the area under crop also increased by 17.5% to 66,554ha for the 2016/17 season. The combination of increased grower numbers and acreage is expected to result in higher output and value for the 2016/17 marketing season, compared to the 202.3 million kg worth US$596 million recorded in the previous season. However, there is a real risk that the incessant rains during the month of January 2017 might have adversely affected some of the tobacco crop, especially the dry land and land plantations. This is supported by the fact that c.83% of the crop is grown on dry land.

Recovery in capacity utilisation…

According to the Confederation of Zimbabwe Industries "CZI", the average capacity utilisation increased by 13.1 percentage points from 34.3% in 2015 to 47.4% in 2016. The introduction of new import measures through Statutory Instrument 64 "SI-64" was the major driver, with most local manufacturers reportedly recording increased production of the selected goods that were removed from the Open General Import Licence under SI 64. In fact, the foodstuffs; beverages, tobacco, wood and furniture as well as paper, printing and packaging sectors largely contributed to the improvement in capacity utilisation as shown in **Fig.2** below.

Fig.2: Capacity utilisation by sector (%)



Source: CZI

Table 3: Average capacity for selected minerals

Mineral	2015	2016
Gold	77%	79%
Platinum	100%	100%
Nickel	55%	41%
Chrome	17%	30%
Coal	30%	40%
Average	60%	64%

Source: CoMZ

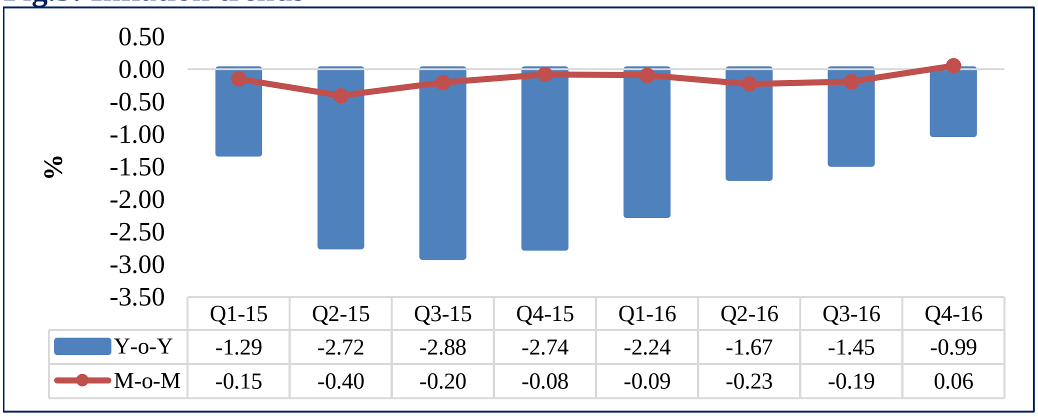
Meanwhile, according to the Chamber of Mines Zimbabwe, the average capacity utilisation for the mining industry also increased from 60% in 2015 to 64% in 2016. This was on the back of increased activity, especially in gold mining - **Table 3** across. In the short term, access to affordable long-term funding, improved foreign exchange payment flows as well as reliable and affordable supply of economic enablers will go a long way in resuscitating the local industry.

Receding deflationary pressures…

Annual inflation *"y/y"* rose by 0.46 percentage points from -1.45% in Q3 2016 to –0.99% in Q4 2016, whilst the month-on-month "*m/m"* inflation increased by 0.24 percentage points to 0.06% over the same period. The increases in annual and monthly inflation were driven by the impact of drought-induced higher food prices, recovery in international oil prices, injection of liquidity through bond notes and the slowdown on promotional activities by retailers. **Fig.3** below illustrates the quarterly trends in the *y/y* and *m/m* inflation rates since Q1 2015.

…annual inflation rose from -1.45% in Q3 2016 to -0.99% in Q4 2016…

Fig.3: Inflation trends



	Q1-15	Q2-15	Q3-15	Q4-15	Q1-16	Q2-16	Q3-16	Q4-16
Y-o-Y	-1.29	-2.72	-2.88	-2.74	-2.24	-1.67	-1.45	-0.99
M-o-M	-0.15	-0.40	-0.20	-0.08	-0.09	-0.23	-0.19	0.06

Source: ZimStat

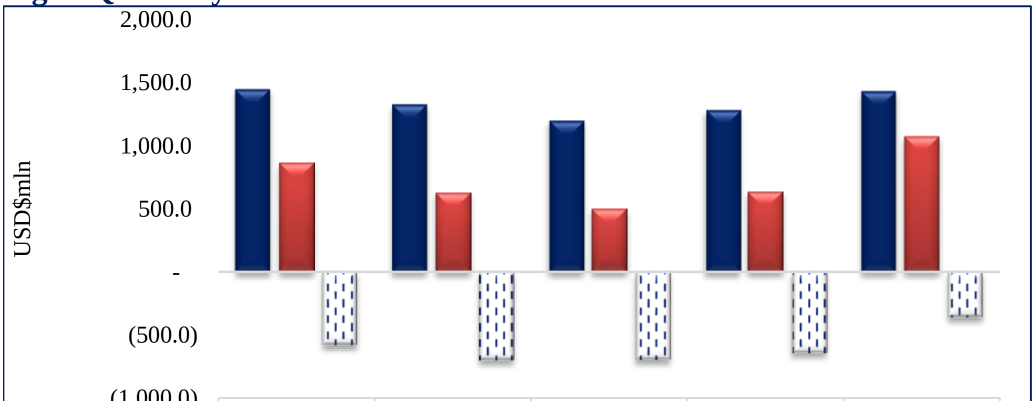
Going forward, the recovery in international oil prices, the injection of liquidity through the export incentive scheme and the slowdown in imported deflation are expected to result in short term inflationary pressures.

Shrinking trade deficit…

… Trade deficit fell by 43.7% to US$363 million in Q4 2016…

The country's trade deficit fell by 43.7% to US$363 million in Q4 2016, from US$644.4 million in Q3 2016. A relatively larger growth in exports (67.8%), compared to that on imports (11.8%), supported the improvement in the external trade position. In fact, higher proceeds from tobacco and gold exports, in November 2016, were the major export drivers. **Fig.4** below outlines the trend in the external trade position since 2009, for the respective 11-month periods.

Fig 4: Quarterly Trend in Trade Deficit



	Q4- 15	Q1-16	Q2-16	Q3 - 16	Q4 - 16
Imports	1,448.0	1,328.3	1,199.7	1,282.5	1433.7
Exports	864.5	626.0	499.7	638.1	1070.7
Trade deficit	(583.4)	(702.4)	(699.9)	(644.4)	(363.0)

Source: ZimStat

Government revenues underperform in Q4…

According to the Zimbabwe Revenue Authority "ZIMRA", government revenue collections at US$893.9 million in Q4 2016, missed the target by 4.4%. ZIMRA attributed the underperformance to harsh economic conditions and tax evasion by economic agents. In addition, the net collections were 6.8% lower than the US$959.1 million realised in Q4 2015. **Table 4** below outlines the quarterly collections trend for 2015 and 2016.

…net collections fell by 6.8% to US$893.9 million in Q4 2016…

Table 4: Trend in quarterly revenue collection

Period	Q1	Q2	Q3	Q4	Annual
Actual 2015	803.2	860.4	878.2	959.1	3,500.9
Actual 2016	724.9	825.3	854.2	893.9	3,298.3
Target 2016	861.8	892.9	917.3	935.2	3,607.2
2016 Variance (%)	-15.9%	-7.6%	-6.9%	-4.4%	-8.6%
Actual 2015 v Actual 2016	-9.8%	-4.1%	-2.7%	-6.8%	-5.8%

Source: Zimra

In terms of revenue heads, with the exception of Value Added Tax "VAT" on Local Sales and Other Taxes, all tax categories recorded declines. Nevertheless, revenue enhancing measures by ZIMRA, including automation and increased compliance resulted in an upward trend in quarterly collections.

FINANCIAL SECTOR DEVELOPMENTS

RBZ lowers cash withdrawal limits…

In its drive to promote the use of plastic money and financial inclusion, and at the same time manage the cash in circulation, the Reserve Bank of Zimbabwe "RBZ" further reviewed cash withdrawal limits and bank charges during the period under review. In fact, the fixed charges model was replaced with a proportional pricing model, targeted at aligning cash withdrawal charges to the amount withdrawn. Thus, the applicable charges for cash withdrawal were reduced to a maximum of 1% and 1.25% of the amount withdrawn through ATMs and over the counter, respectively, as shown in **Table 5** across. Meanwhile, the RBZ eventually introduced bond notes through an export incentive scheme as part of measures to both promote exports and foreign currency generation and simultaneously ease the cash crisis. As at 31 December 2016, the RBZ indicated that bond notes in circulation totaled US$72.9 million.

Table 5: Revised withdrawal charges

Withdrawal Amount	ATMs	Over the Counter
	1%	1.25%
$20	20c	25c
$50	50c	63c
$100	$1	$1.25
$150	$1.5	$1.88
$200	$2	$2.5
$500	$5	$6.25

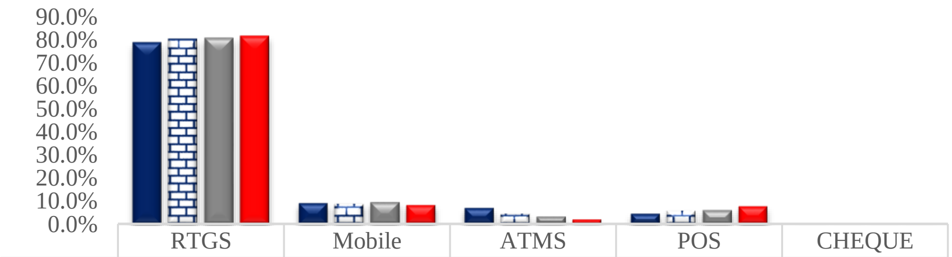
Source: RBZ

National Payment System

The RTGS platform remained the dominant channel for payments in Q4 2016, accounting for an average 81.4% of transactions, compared to 80.6% in Q3 2016. On the other hand, the cash crisis and drive towards use of plastic money lifted the proportion of point of sale "POS" platforms, whilst lowering the proportions of mobile and ATM platforms - **Fig 5** below. Mobile platforms mainly suffered from the lack of cash at agents/ cash out points.

…RTGS platform dominates at 81.4% in Q4 2016…

Fig.5: 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%

Source: RBZ

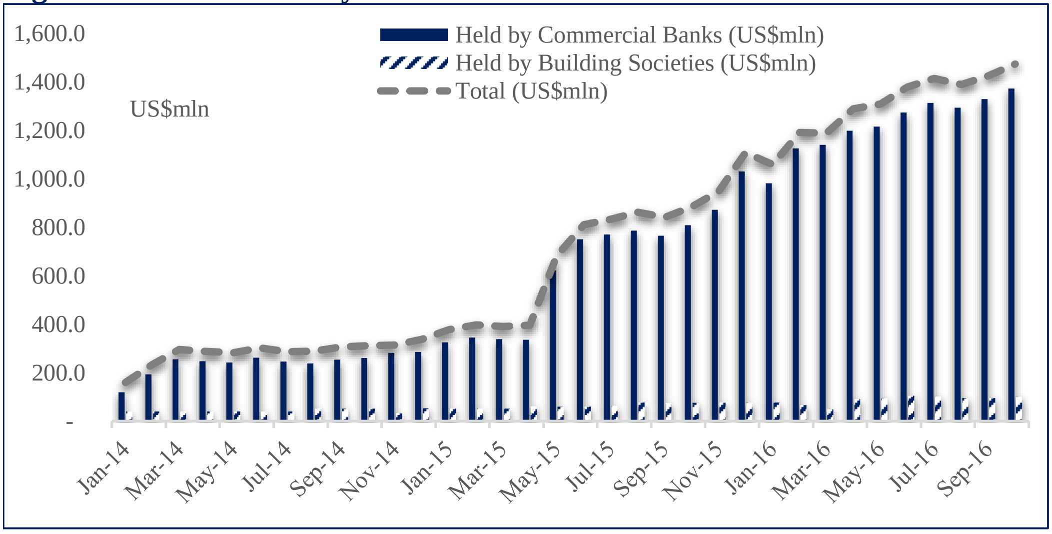
Going forward, the spontaneous increase in usage of POS machines and other electronic channels need to be buttressed by holistic policy interventions in order to sustain the drive towards a cashless society. Although cashless economies are relatively few across the world, even in the developed world, Nordic countries are among the few economies that have largely become cashless, and it is from such countries that lessons could be drawn.

….TB stock stood at US$1.47 billion as at end of October 2016…

Treasury Bills

According to the RBZ, the stock of Treasury Bills "TBs" increased by 33.1% from US$1.11 billion in December 2015 to US$1.47 billion in October 2016 - **Fig.6** below. Commercial banks, on average, accounted for 91% of the TBs stock in circulation, whilst the balance was held by Building Societies.

Fig.6: Trends in Treasury Bills



Source: RBZ

Constrained revenue collections, together with limited external budgetary support are expected to continue forcing the Government to rely on the domestic market for short term funding to meet its high expenditure requirements. As such, this will continue to push up both the Treasury Bills stock and the Government's budget deficit, going into 2017. To address this, the Government would need to ensure that it restrains its expenditure as announced in the 2017 national budget.

FINANCIAL MARKETS REVIEW

Table 6: ZSE Performance

Domestic	30-Sep-16	30-Dec-16	Qtrly Change(%)
Industrial	98.96	144.53	46.0%
Mining	26.61	58.51	119.9%
Market Cap (US$bln)	2.73	4.01	47.1%
Turnover (US$m)	31.96	72.66	127.3%

Source: ZSE

...the industrial index advanced by 46% in Q4 2016...

.... turnover improved by 127.3% to US$72.66 million in Q4…

1. Equities – Return to winning ways…

On the Zimbabwe Stock Exchange "ZSE", both the industrial and mining indices recovered by 46% and 119.9% to end the quarter at 144.53 and 58.51, respectively – **Table 6** across. The positive run was largely driven by hedging from local investors ahead of the introduction of bond notes through the export incentive scheme. Thus, gains ranging from 20% to 109% were recorded for large-caps; Old Mutual, Delta, Econet, Natfoods, Hippo, Seed Co, Innscor and OK Zimbabwe. Meanwhile, the market breadth for the ZSE comprised of 45 movers, just 3 shakers and 10 stocks that closed unchanged in Q4 2016. **Table 7** below illustrates the Top 5 movers and shakers for Q4 2016, with OK Zim and Innscor among the top movers.

Table 7: ZSE Movers and Shakers

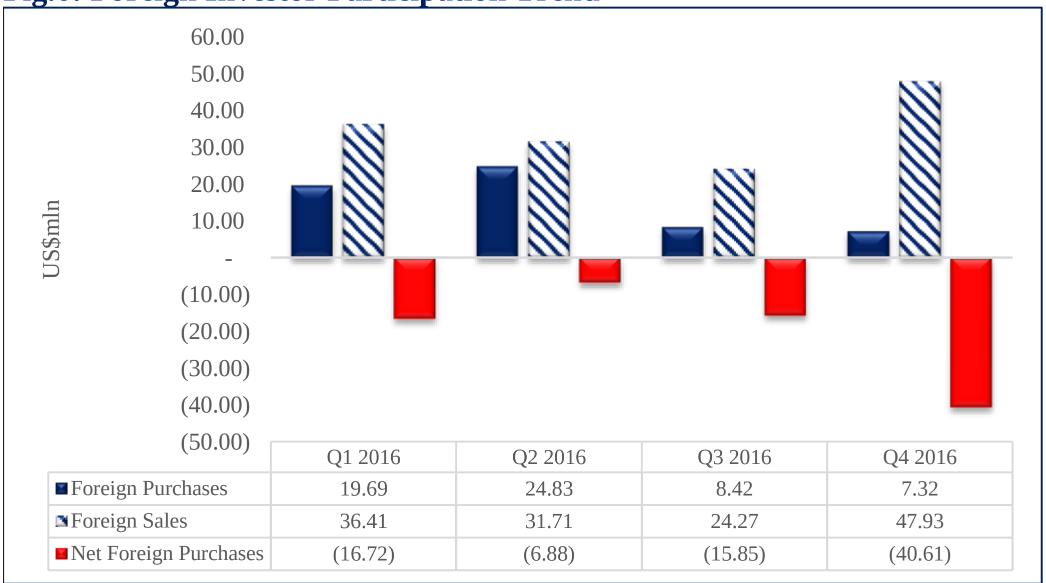
Movers				Shakers			
Counter	30-Sep-16	31-Dec-16	Change(%)	Counter	30-Sep-16	31-Dec-16	Change(%)
GB	0.02	0.08	300.00%	Ariston	0.45	0.35	-22.20%
Bindura	1.20	4.00	233.30%	NTS	1.15	1.10	-4.30%
Proplastics	0.75	1.70	126.70%	Powerspeed	2.20	2.19	-0.50%
OK Zimbabwe	3.40	7.10	108.80%				
Innscor	23.05	48.00	108.20%				

Source: ZSE

Market turnover also improved by 127.3% from US$31.96 million in Q3 2016, to US$72.66 million in Q4 2016, whilst the ZSE market capitalisation recovered by 47.1% or US$1.28 billion to US$4.01 billion as at the end of Q4 2016.

In terms of participation, offshore investors remained net sellers, recording the highest net outflow of US$40.6 million in Q4 2016, compared to the previous 3 quarters - **Fig.6** below.

Fig.6: Foreign Investor Participation Trend

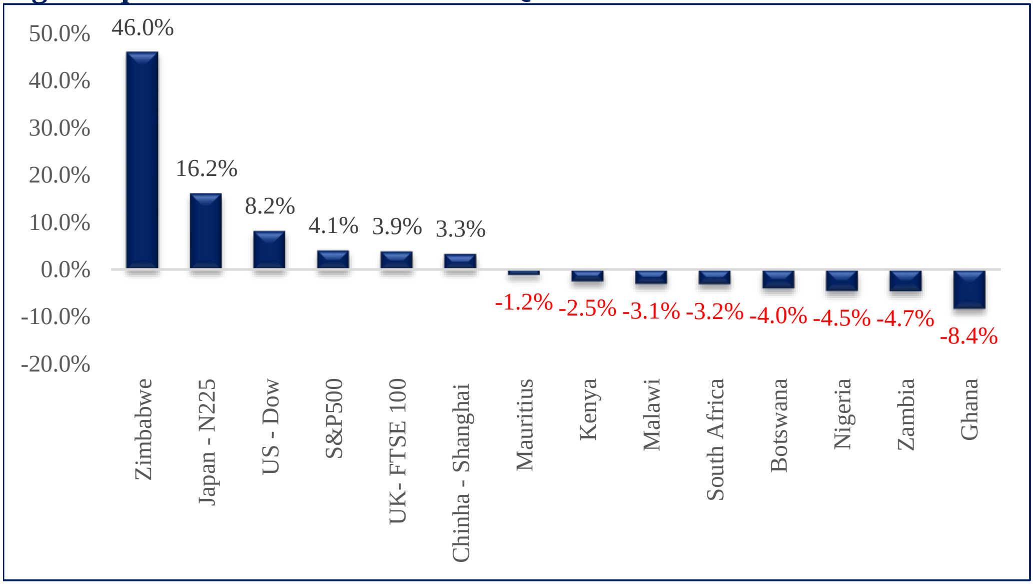


Source: ZSE

Meanwhile, global and regional markets traded mixed in Q4 2016. On the upside, the Dow Jones advanced by 8.2%, lifted by investor speculation over increased fiscal stimulus and lower taxes, following the US presidential elections. On the other hand, all major African markets recorded losses ranging from 1.2% to 8.4%, dragged by the interest rate hike in the US, which was viewed by investors as likely to cut excess global liquidity – **Fig.7** below.

…. Zimbabwe was the best performer…

Fig.7: Equities Market Performance Q4 2016



Source: Various

In the short term, activity on the local market is expected to be relatively firm, but volatile, on the back of sustained policy uncertainties, weak economic fundamentals and an injection of liquidity under the US 200 million facility. On the international front, global markets are expected to be volatile on speculation concerning the anticipated new tax, fiscal stimulus measures and foreign policy in the United States.

2. Commodities in mixed trades …

Commodities were in mixed trades during Q4 2016. On the upside, oil prices rose by 15.4% to US$56.82/b after OPEC members agreed to cut supply by 1.2 million barrels/day or about 4.5% of current production beginning January 2017. In addition, copper prices advanced by 13.8% to US$5,501/t, as shown in **Table 7** across, lifted by renewed demand from China. On the other hand, gold prices fell by 13.1% to US$1,145.9/oz as the metal lost its safe-haven appeal following the US Fed’s interest rate hike in December 2016. In fact, a strong dollar, buoyed by the interest rate hike, favored fixed income investments and stocks compared, to the non-interest paying bullion. In the short term, commodity prices are expected to remain on a recovery path, thereby providing a boost for commodity-driven economies.

Table 8: Quarterly commodities performance

Commodities	30-Sep-16	31-Dec-16	Q4 Change(%)
Metals			
Gold - US$/oz	1,318.00	1,145.90	-13.1%
Platinum - US$/oz	1,032.00	908.00	-12.0%
Copper - US$/t	4,832.00	5,501.00	13.8%
Nickel - US$/t	10,600.00	10,230.00	-3.5%
Oil - US$/b	49.24	56.82	15.4%
Agricultural			
Wheat - US$/t	146.88	150.19	2.3%
Soybeans - US$/t	370.09	383.78	3.7%
Sugar - US$/pound	22.76	19.51	-14.3%
Cotton - US$/pound	67.95	70.65	4.0%

Source: Various

3. Currencies Markets: Dollar edges to a 14 year high…

During the period under review, the US dollar remained firm, lifted by the US Fed's decision to increase its policy rate from the 0.25-0.5% range to 0.5-0.75% range. In fact, 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 - rose by 7.1% to end the quarter at 102.21, closer to a 14-year high of 103.82. On the other hand, the euro fell by 6.4% against the dollar after the European Central Bank maintained an accommodative monetary stance. Meanwhile, the South African rand rose by 7.0% to close at ZAR13.65/US$ after Africa's largest economy avoided a ratings downgrade and maintained its investment grade during the period under review – **Table 9** across. Going forward, the US dollar is expected to remain firm as the Fed anticipates two or three hikes in 2017 as well as looser monetary programs in other advanced and developing economies.

Table 9: Quarterly' currencies performance

Currencies	30-Sep-16	31-Dec-16	Q4 Change (%)
USD/ZAR	13.7327	13.6474	-0.6%
USD/BWP	10.3112	10.5291	2.1%
USD/ZMK	9.7549	9.8071	0.5%
USD/NGN	310.351	303.041	-2.4%
USD/GBP	0.7709	0.8127	5.4%
USD/EUR	0.8919	0.949	6.4%
USD/JPY	101.186	116.724	15.4%
USD/CNY	6.6694	6.9472	4.2%
Dollar Index - DXY	95.42	102.21	7.1%

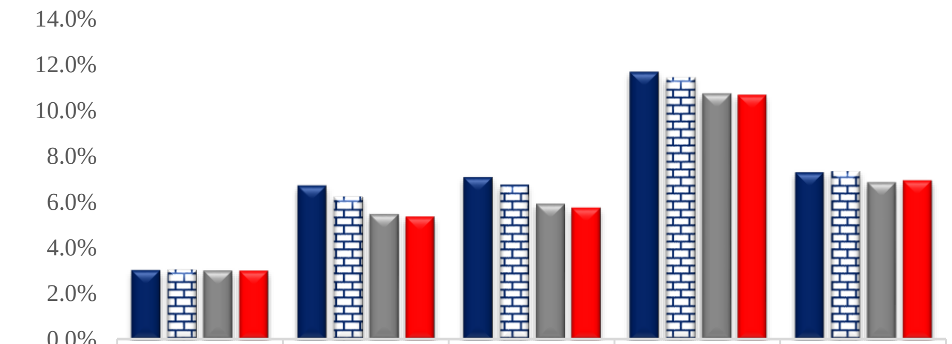
Source: Oanda

4. Money Markets: Subdued interest rates…

In Zimbabwe, average deposit and lending rates remained restrained in Q4 2016, reflecting increased competition for quality clients - **Fig.8** below.

…Average deposit and lending rates remained subdued in Q4 2016…

Fig.8: Average deposit and lending rates



	Savings deposits(%)	1m deposit(%)	3m deposits(%)	Individual Lending Rates	Corporate Lending rates
Q1-2016	3.0%	6.7%	7.1%	11.7%	7.3%
Q2-2016	3.1%	6.2%	6.8%	11.4%	7.3%
Q3-2016	3.0%	5.5%	5.9%	10.7%	6.9%
Q4-2016	3.0%	5.4%	5.8%	10.7%	7.0%

Source: RBZ

On the global markets, 18 central banks eased their monetary policy stance against 14 that tightened. **Table 10** across highlights some of the selected countries, with Ghana, Rwanda, Malawi and Uganda easing their monetary policy programs. On the other hand, Egypt and Mozambique were among the 14 central banks that tightened monetary policy stances, driven by rising inflationary pressures. In total, according to Central Bank News, 45 central banks eased their monetary policy in 2016, down from 48 in 2015, while 29 tightened their monetary stance, down from 34 in 2015. Such a scenario highlights the policy divergences across the globe.

Table 10: Global interest rate trends

Country	Rate	Change	Easier/Tightening
Rwanda	6.3%	25bps	Easier
Brazil	13.8%	25bps	Easier
Ghana	25.5%	50bps	Easier
Malawi	24.0%	300bps	Easier
Uganda	12.0%	100bps	Easier
India	4.8%	25bps	Easier
US	0.8%	25bps	Tightening
Mozambique	23.3%	600bps	Tightening
Mexico	5.8%	50bps	Tightening

Source: Central Bank News

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