

South Africa – don't get caught in the political stampede

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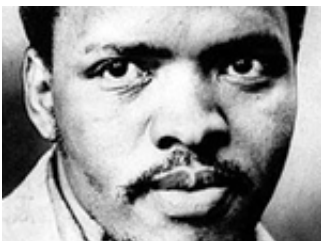
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South Africans don't need much of an excuse for a party and as next January marks the one hundredth anniversary of the founding of the ruling African National Congress (ANC), the Capes' vineyards are certain to be doing great business come 2012. However, although it is now seventeen years since Mandela's historic election victory in 1994, not all South Africans will be drinking hard to celebrate. Over half of the country's youth remain unemployed, their futures bleak, and there is a growing sense that black empowerment is an ideology now abused to help the privileged few rather than the impoverished many.



Poster for ANC conference
Source: sahistory.org.za

Although the ANC can look back fondly through its history and reflect upon many ground breaking achievements, cracks are beginning to appear from within the party and external threats are growing. Like many centuries the ANC is vulnerable. Much of this vulnerability however is of its own doing and has been brought about by internal greed and indecision. The ANC was formed to fight apartheid; membership privileges were confined to self-sacrifice and a belief in a strong ideology. With apartheid now history, the party has created an environment for self advancement and cronyism. Having recently returned from Johannesburg and spoken with celebrated political journalist Allistar Sparks, I believe that the trigger point for a catalytic event has never been closer. This spells danger for political and economic stability. Investors in South African assets need to pay close attention as events unfold.



Steve Biko
...the forgotten man?
Source: news.bbc.co.uk

Firstly, the ANC appear vulnerable. In the past two years the economy has underperformed its potential, strike action is on the up and the young, largely unemployed rural population of South Africa feel increasingly disenfranchised from the ANC machine. A generational change is taking place and many of South Africa's young voters have little empathy with "the struggle". Anecdotally, a recent poll indicated that a high percentage of the nation's youth had never heard of Steve Biko. Their vote is becoming more colour blind. They want a leadership that will put their interests first. The municipal elections in May of this year are a strong indicator of the declining popularity of the ANC. The centrist Democratic Alliance increased its share of the vote from 15% to 25% - predominantly at the expense of the ANC.

Whilst it is unlikely that the ANC will lose the 2013 election, any further deterioration in their popularity is likely to increase political "noise" for the remainder of 2011 and into 2012. At the extreme the ANC could call a state of emergency to ensure control. A greater probability, however, can be attached to a ramp up in populist rhetoric, which will lead to heightened volatility in the rand, bond and equity prices.

Secondly, Jacob Zuma is vulnerable. It is by no means certain that Zuma will lead the ANC into the next election. Whilst his two years as President have not been successful in transforming the South African economy, his policies have represented little danger to foreign investment. With the threat of more leftist candidates for the leadership emerging this policy continuity has been welcome.

Zuma has adopted a conciliatory approach to leadership throughout his tenure and this lack of direction could lead to his downfall as factions have grown within the party as a result.

In recent months the ANC youth wing leader, Julius Malema, has emerged as a potential candidate to the presidency. By challenging Zuma from the left, Malema is attempting to position Zuma as an ally of the white businessman. Malema's policies include the nationalisation of the mining and banking sector – moves that Zuma dare not directly oppose for fear of alienating voters.

The result of an in-party disciplinary hearing against Malema, this week, for bringing the party into disrepute is crucial. If Malema is suspended from the ANC, Zuma can begin to re-build his power base. If Malema survives there is a feeling that Zuma is finished politically and investors will demand considerably higher risk premium for owning South African assets than they do today.

Although Zuma currently has no other standout rival, the environment is ripe for one to emerge. COSATU (Congress of South Africa Trade Unions) has become unhappy with Zuma. Having helped sweep him to the leadership of the ANC, there is a feeling within that payback has been insufficient. With public sector wages settling at "only" 6.8% last month there is an increasing chance that they will place their valuable support elsewhere. Zuma's campaign anthem is "bring me my machine gun" but with his failure to support COSATU sufficiently he may well have shot himself in the foot.

Over recent years investors in South Africa have become immune to doomsayers. The stock market has performed as well as most of its competitors: foreign direct investment is up (Walmart's acquisition of Massmart being the most recent example); the economy did not collapse because of AIDS; the country did not follow the path of Zimbabwe to anarchy and hyper-inflation and it has not suffered from wholesale capital flight from the white minority. South Africa is also very fortunate in that it benefits from a tolerant society unlikely to descend into a Libyan-style crisis, extremely well run corporations, and an impressive forward thinking central bank and finance ministry that minimise the potential for extreme policy error. However, this is all well known and likely to be reflected in asset prices.

Nevertheless, the deep structural fault lines running through the economy are a source of constant concern and commentators who forecast more troubles ahead cannot be ignored just because the ever growing ranks of the young poor have stayed quiet until now. The 2013 general election is more than a year away but events in 2012 will be crucial in shaping their outcome. Political and economic risk in South Africa is on the increase and investors need to be ready to react if the situation deteriorates further or risk suffering a nasty hangover before the anniversary celebrations have even begun.



Zuma and Malema... more united times?
Source: independent.co.uk