SOUTH AFRICA: STEPPING AWAY FROM THE NOISE

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2013 IS A WATERSHED YEAR FOR SOUTH AFRICA
Cry, the beloved country
South Africa’s sad decline

Is South Africa Really Investment Grade?

A flurry of concern over political risks in South Africa kept the rand under pressure for much of last year. Labour strife quickly spread from the mining sector via wildcat strikes, and splits appeared between the more radical elements of the ruling African National Congress (ANC) and its mainstream leadership. These trends raised the issue of whether populism and the drive of nationalisation could lift the economy.

MRB South Africa Recommendations*

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* F12 month horizon
** Relative to common currency, emerging market equity benchmark

Global investors should avoid the rand, bonds and maintain a maximum underweight in equities. Locally-based investors should avoid bonds and focus on more globally-oriented equity sectors.
Our message was

Fix SA’s problems or face a crisis

Can it be done?

Yes,
but needs energised politicians
and a clear vision
2014: ASSESSING SA’S DIFFERENT MARATHONS
- Social delivery: **GOOD**
- Economic growth: **TOO SLOW**
- Employment and government performance: **POOR**
Our message was

Fix SA’s problems or face a crisis
Can it be done?

Yes,
The vision and plan is in the NDP

But
needs energised politicians
2015
ASSESSING SCENARIOS FOR SA
Our message was: Reform or face a crisis. Populism and ineffective state, divided economic actors.
THE GLOBAL BACKDROP IS DIFFICULT...

All items commodity price index

Source: The Economist
ECONOMIC GROWTH STALLS YET AGAIN...
CRISIS SPILLS INTO THE STREETS...

Number of major service delivery protests

Source: Municipal IQ
Number of major service delivery protests

Source: Municipal IQ

...THEN INTO PARLIAMENT
...THEN ONTO THE CAMPUSSES
A GROSS POLICY ERROR CRASHES THE RAND...

Rand exchange rate (trade weighted)

Source: Old Mutual Investment Group
AND A DEBILITATING DROUGHT too...

Source: SA Weather Service

SA's Annual Rainfall
2016: FACING THE CONSEQUENCES...
NOW WE HAVE CONFIDENCE CRISIS…

Politics as a concern in investment decisions

Consumer confidence in the economy

Source: Bureau for Economic Research, University of Stellenbosch
INFLATION & INTEREST RATE PAIN AHEAD...

Source: Old Mutual Investment Group
TAXES WILL RISE MORE …

Tax as % of household income

Source: SA Reserve Bank
SA FINALLY REACHES THE FORK IN THE ROAD
Our message

REFORM

or

face an even worse crisis
FAILURE TO REFORM WILL SMASH THE RAND FURTHER…

Rand/Dollar exchange rate

Source: Old Mutual Investment Group
WHAT NEEDS TO BE DONE?

Admit SA is in a crisis

Commit to:
- market-friendly, predictable policies
- sound governance
- democratic principles

Fiscal consolidation

Government, Business & Labour compact

Fix SOE’s & local authorities

No more policy blunders
What are the signs?

‘Crises are useful. They force you to face reality and become more creative in finding solutions.’

Finance Minister Pravin Gordhan

Zuma forced into Nkandla about-face
Our message: Fix SA’s problems or face an even worse crisis.

Chances of turnaround rising...

But it is not guaranteed & will not be smooth.

Watch the SONA & Budget.

FINALLY, FINALLY, FINALLY SOME REASON FOR HOPE?
THANK YOU

...AND WE WILL REPORT BACK NEXT YEAR
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