

The new ANC President – the tough job ahead

The news has been filled with only one thing over the past week, the 54th ANC National Conference. This conference occurs every five years and is a gathering of the ANC at which party policies are determined and the major positions within the ANC are voted for. These positions include the Top-6 National Executive Committee (NEC) member positions, these are the highest offices within the ANC and determine the direction of the party and by default our country given their status as ruling party.

Within the conference, the focus has almost entirely been on the result of the election of the new ANC president. This is because it is probable that the new president of the ANC will be elected as the next president of South Africa at the national elections in 2019. The new president of the ANC will therefore set the course of South Africa over the next five years.

Coming into the conference two main contenders for the presidency emerged. The pro-business, anti-corruption, 'modernist' Ramaphosa and the traditionalist Dlamini-Zuma who was seen as being a continuation of the current status quo. In the lead-up to the conference the outcome of the election was unknown with most market commentators putting the odds at 50:50.

The tough road ahead

On Monday the 18th of December 2017, the election results revealed that Cyril Ramaphosa was elected as the new president of the ANC. He was elected by a margin of 52% to 48% in a close-run race. Ramaphosa has long been the business-friendly candidate who has been very outspoken about state capture and corruption, and is a 'modernist' candidate for a progressive ANC. He is a shrewd negotiator who was instrumental in the drafting of the much-lauded South African constitution.

Ramaphosa came into these elections with six focus areas:

- Accelerate the process of meaningful radical economic transformation
- Create jobs for young people
- Lead a skills revolution
- Make ownership of the economy less concentrated
- Build South Africa's manufacturing base
- Build a more competitive economy

These focus areas seek to bring the ANC into the modern era and have been viewed positively by the market.

While the headline of Ramaphosa winning is positive for South Africa, the results of the elections for the rest of the of the top six in the NEC were less so. The members of the Top-6 are split evenly between the modernist (Ramaphosa) and traditional (Zuma) factions within the ANC. While these appointments can be seen as a positive development the concern now is that this split will delay and harden the task ahead of Ramaphosa as he faces opposition from within his own executive. Attempts to replace Jacob Zuma as president of the country before the general elections, reforms on nuclear energy and replacement of underperforming cabinet ministers will all be stymied by this split in the executive. Ramaphosa must still deal with a widening budget gap, a struggling economy and an incumbent South African president mired in legal battles surrounding allegations of corruption, before he can claim any modicum of success.

Ramaphosa needs to act quickly and has a small window of opportunity, similar to the famous 100 days, to prove his worth and show local and international audiences that he is the right person to bring about the much-needed change in government.

Effect on South African Markets

This result is likely to have the following ramifications for South African asset classes over the coming months.

Asset Class	Effect	Comment
SA Focussed Equity and property	++	Net positive for domestic dependent shares
Offshore assets	-	Rand strength lowers offshore returns in Rand
SA Bonds	+	Net positive for domestic assets
SA Rand	+	Positive as long as the positive outlook remains

The table above summarises what we feel will be the relative effect Ramaphosa's victory will have on South African asset classes over the coming months. Prior to the election it was widely agreed that the election of Cyril Ramaphosa would be positive for South Africa, or as often referred to 'SA Inc'. This expectation stems more from relief that current corruption and mismanagement will cease more than any major shift in economic policy by the new leadership of the ANC.

Now that Ramaphosa has been elected it is assumed that there will be a rise in prospects for any locally biased asset class, this includes the Rand, bonds, property and SA focussed equities. There have already been significant moves in these asset classes over the past week to higher valuation levels. In the short-term, the asset classes that will decline in value are those with an offshore bias. This is merely a currency effect as a stronger Rand translates into lower offshore values measured in Rands. In the medium-term, offshore assets will continue to perform according to their valuations as this short-term currency volatility dissipates. The assets affected by this include rand-hedge equities listed on the JSE as well as any direct offshore assets.

We believe that although this outcome is positive for South Africa, it is not going to be a simple task for Ramaphosa to correct the path of South Africa from this point. South African business is cheering, but this cheering is rather muted as the magnitude of the task ahead becomes more apparent.

The Fundhouse Team