

South African Rand continues to weaken

The South African president, Jacob Zuma, may have survived a no-confidence vote, but a risk-premium for the Rand (ZAR) remains.



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ZAR: Zuma hangs on

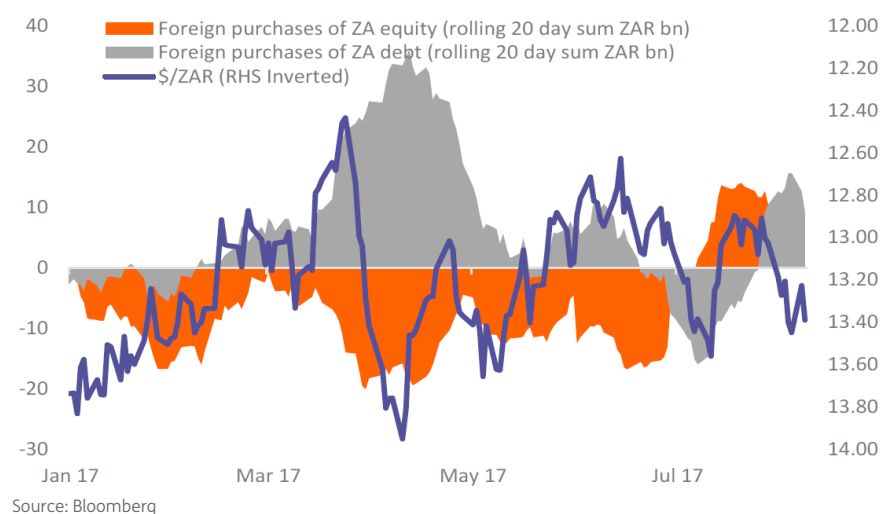
The result of Tuesday's No Confidence ballot in the South African parliament was 177 votes in favour of the motion, some 24 votes short of the number required to end Jacob Zuma's eight-year term as South Africa's President.

Understandably the Rand has given back gains seen when the Speaker announced the ballot would be secret.

A secret ballot was something which perhaps encouraged thoughts of defections from some of the ANC's 249 members of the 400 seat parliament. The failure of the no-confidence motion, assuming there won't be more, would leave Zuma in office as President until May 2019. The political focus will then shift to the 54th ANC Congress taking place in mid-December where a new leader of the ANC, and Zuma's likely successor as President, will be chosen. The two front-runners are Cyril Ramaphosa, the current Deputy President and Zuma critic, seen as a market-friendly outcome,

and Nkosazana Dlamini-Zuma, Jacob's former wife and favoured by the current President as a continuity candidate.

Foreign purchases of ZAR assets and \$/ZAR



Political risk premium

While we think USD/ZAR should be trading near 12.00 based on long-term fair value and the currently benign external conditions, we suspect Zuma's survival will maintain a political risk premium in the ZAR. This was most apparent when Zuma fired his respected Finance Minister, Pravin Gordhan, in March, prompting ratings agency downgrades on governance concerns.

We remain concerned that South Africa's local currency debt remains one notch above junk at the key ratings agencies of Moody's and S&P

A shift to junk status for the local currency ratings from both agencies would take South African government bonds out of key international benchmarks such as the WGBI and Barclays Global Aggregate, prompting ZAR outflows as much as 2.5% of GDP (around US\$8bn), according to the IMF. We suspect that as long as the market and ratings agencies have governance concerns, and the prospect of the ANC leadership, and Presidency, being handed to his former wife remains a possible outcome, USD/ZAR is more likely to trade in a 13.00/13.50 range rather than heading down to fair value closer to 12.00.

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