

19 December 2017

Dear Investor

Brief comment on the leadership changes of the ANC

After much song and dance, counting (and recounting), the election of the top-6 leaders was finalised yesterday:

- President: Cyril Ramaphosa
- Deputy President: Mpumalanga Premier, David Mabuza
- Secretary General: Free State Premier, Ace Magashule
- National Chairperson: Gwede Mantashe
- Treasurer General: ANC Gauteng chairperson, Paul Mashatile
- Deputy Secretary General: Jessie Duarte

Given the composition of the candidates that backed the 2 key protagonists at the outset, the final outcome is clearly a compromise between the NDZ and CR17 camps. For those hoping for a clearer mandate in favour of Mr Ramaphosa, this is disappointing. A more pragmatic view of the political landscape however, leads us to conclude that a different outcome was highly unlikely.

Mr Ramaphosa has led a campaign which targeted clean governance, anti-corruption and his potential to attract business investment to boost the economy. The test will be whether he will be able to deliver on all of these goals and how speedily it can be done. We all know what the other critical issues are:

- Raising the level of primary and secondary education. Related to this is the promise made by the State President of free tertiary education and how that will be financed
- Regulatory clarity on the mining charter and energy (nuclear) policy
- The financial distress of the SOE's and the related weakness of local infrastructure
- Quality healthcare
- Low economic growth

The Rand has responded positively to the news of Mr Ramaphosa's appointment, clawing its way down to R/\$12.50 after hitting a most recent low of R/\$14.50,

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post the release of the medium term budget policy statement by the Minister of Finance. Should the Rand maintain its current level, it will have a positive effect on the inflation rate. Were it to strengthen from here, a case could be made for a rate cut in 2018.

We are less sanguine. Firstly, the Rand is trading close to its long-run, real effective exchange rate. Further strengthening will be an increasingly difficult ask without clear progress on the issues mentioned above. Whilst Mr Ramaphosa's election has been a confidence boosting plus for the currency, it is probably the easiest hurdle to have cleared. The real test for a sustainably stronger currency will be his ability to institute the changes that he based his ticket on. Given the fractious nature of the South African political landscape, we doubt that it will be an easy ride.

Yours sincerely

Matt Brenzel

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