



## DAWIE'S NOTES: Things will either get better - or much worse

### DON'T PANIC

**After the most recent political disruptions many investors may consider liquidating their domestic assets and moving their portfolios abroad. This decision is based on the depreciation of the currency and further probable volatility on financial markets. Making rash decisions like this should be discouraged. The reality is that the rand has been undervalued for some time and we have already paid a dear price for our political instability. Chances are that the currency will stay volatile, but may in fact appreciate after the dust has settled. Investment decisions must always be based on fundamental analysis and not on emotions.**

Read Dawie's full interpretation of current events below:

At last, Gordhan and several other ministers are out. Not that it is good news, particularly as far as Gordhan is concerned, but at least we now have more certainty. And don't think this is the end of the drama; two additional issues still need to be resolved.

Firstly, the political drama may turn out completely different. We do know that the opposition parties are sharpening their knives for a vote of no confidence while several legal issues may weaken Zuma. Additionally, a likely downgrade and a weaker currency and everything that goes with it, will all make Zuma's life more difficult. Maybe, just maybe, Zuma overplayed his hand and we could see the end of him...

But be careful what you wish for! For Zuma is a very dangerous man and he is very powerful, and he is in total control of the "security cluster". Who knows what he will be prepared to do to save himself and his patronage... That, is probably the worst possible scenario...

Secondly, and as expected, the rand took a huge knock but probably less than what many expected. The reason is because the currency has been hugely undervalued for a long period. We have already paid a significant price for this destructive government. And much of the political developments that are realising now have probably already been discounted by the market. In fact, now that we have some certainty I wouldn't be surprised if the currency acts surprisingly resilient. But still, a weaker currency is bad news. Depending on what happens next, the recent fall in the rand will add to inflationary pressures, weigh on economic growth, add to unemployment and poverty, and may eventually force the SARB to raise interest rates. However, if Zuma overplayed his hand and he is somehow forced out then the rand is a screaming buy!

In the meantime, the markets will not be happy with any of Zuma's appointed, as the new finance minister. The rating agencies are very likely to announce a downgrade at any time. In fact, even if the political balance swings in the opposite direction, a downgrade remains a likelihood. The reason is simply that so much damage has already been done to SA's image that, a lot of time will be required to regain our investment status.

So, where are we? I think the following summarises our country and our economy: Chances are that Zuma et al have strengthened their stranglehold on the state and that those sections of the state that eluded the Zumanites up to now, have finally fallen i.e. Treasury! And that is very, very bad news. The fiscal matrixes are already unsustainable and any form of populism or cronyism from the new finance minister, is likely to push the fiscus over the edge and guarantee a downgrade.

Politically, it seems, our only hope is that a few ANC parliamentarians support a vote of no confidence in Zuma. If not, we still have two more years of this madness until the next election.

Until then things can get much worse.

 Dawie Roodt the Chief Economist at Efficient Group.  
Dawie can be contacted on [dawieroodt@efgroup.co.za](mailto:dawieroodt@efgroup.co.za)