

Flash Comment

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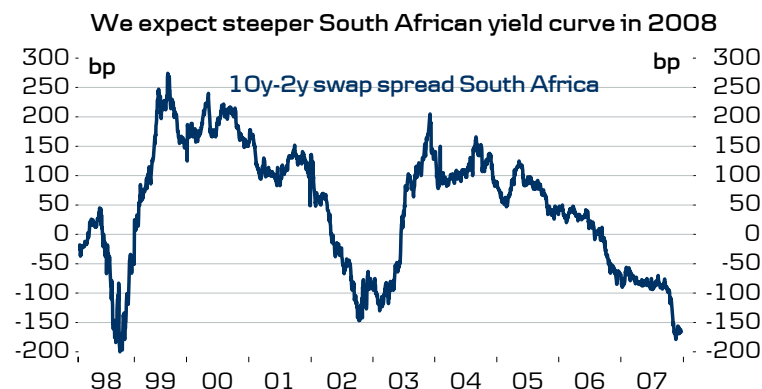
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South Africa: An end of the good days?

While yesterday's result of the vote for African National Congress (ANC) party leader was no surprise as Jacob Zuma's victory in the leadership race was widely predicted, we still held a slim hope that the current party leader and South African President Thabo Mbeki would be able to convince ANC delegates to give him the green light as a party leader for another term. Our hopes clearly failed, and now we are left only to fear what the controversial Jacob Zuma will do to South African politics and consequently to the economy. Alas, we do not expect anything positive under Zuma's governance.

Yesterday's victory of populist and left-oriented Jacob Zuma spelled greater fear among both the South African business community and investors and also abroad, that the market-friendly policies implemented by Thabo Mbeki will be gradually abandoned, particularly if Zuma becomes the new president. It is somewhat worrisome that despite Zuma's highly controversial past involving various corruption scandal allegations and a rape allegation he received such strong support among the ANC delegates (more than 60 percent of the votes). As a result, it seems likely that when Zuma decides to implement new measures he is very likely to get a green light from the party with no major opposition.

With Zuma's victory, South African politics has lost a lot of its credibility abroad. Furthermore, this is also clearly bad news for the South African FX and fixed income markets, and over the course of 2008 we in general recommend being short in both South African FX and fixed income markets. Furthermore, we forecast a steepening of the South African yield curve.



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