

## The Macro Research Desk



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## President Zuma makes extensive changes to SA cabinet

### Long-anticipated cabinet reshuffle finally triggered

For some time there has been consistent rumours that President Jacob Zuma was about to reshuffle his cabinet to adjust to the dawning reality that he has lost the confidence of some key ministers that have increasingly becoming more vocal in opposing him in making decisions they deemed to be inappropriate for the direction the country needed to embark upon, to successfully complete

the next chapter of radical socio-economic transformation.

This finally happened overnight with the announcement that Zuma had made 20 changes to his administration. The new cabinet changes include the following in table 1 below.

**Table 1: Cabinet changes**

Department	Minister	Deputy Minister
Energy	Ms Mmamoloko "Nkhensani" Kubayi	
Transport	Mr Joe Maswanganyi	
Finance	Mr Malusi Gigaba	Mr Sifiso Buthelezi
Police	Mr Fikile Mbalula	Mr Bongani Mkongi
Public Works	Mr Nathi Nhleko	
Sports and Recreation	Mr Thembelani Nxesi	
Tourism	Ms Tokozile Xasa	Ms Elizabeth Thabethe
Public Service and Administration	Ms Faith Muthambi	Ms Dipuo Letsatsi-Duba
Home Affairs	Prof Hlengiwe Mkhize	
Communications	Ms Ayanda Dlodlo	Ms Thandi Mahambehlala
Public Enterprises		Mr Ben Martins
Arts and Culture		Ms Maggie Sotyu
Trade and Industry		Mr Gratitude Magwanishe
Telecommunications and Postal Services		Ms Stella Ndabeni-Abrahams
Small Business Development		Ms Nomathemba November

Of key concern to the market, is the removal of highly regarded Mr Pravin Gordhan and Mr Mcebisi Jonas from their posts as Finance Minister and Deputy Finance Minister. In their previous capacity, they had played a crucial role in improving SA's fiscal position and had put in place measures to curb corruption. They had also opposed unaffordable projects, such as the procurement of a nuclear fleet deemed to be unnecessary according to the latest Integrated Resource Plan, based on more realistic domestic growth assumptions.

It seems obvious that the President has used this cabinet reshuffle to surround him with personal loyalists within cabinet, while getting rid of those that have been seen as opposing him previously. It remains to be seen how the

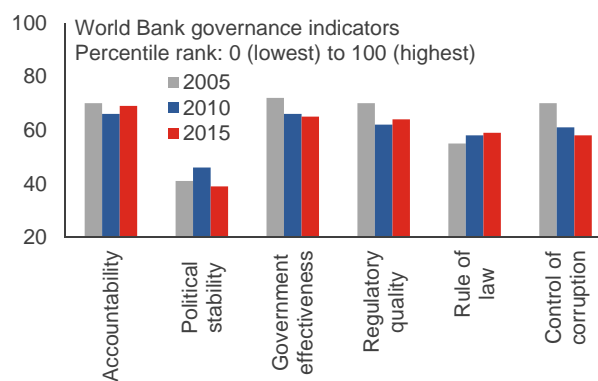
African National Congress (ANC) as a party will respond to these moves. The main opposition parties have applied for an impeachment of the President and a vote of no-confidence in government. According to SBG Securities, for such a motion to pass, at least 50 ANC MPs out of a total ANC caucus of 249 would need to support the motion. While, at first glance, the cabinet reshuffle suggests increased downside risks to SA's growth, fiscal, currency and sovereign ratings outlook, a strong response and pressure from within other factions of the ruling party (those seeking stability and reform) could alter this outlook. Nonetheless, rand volatility is expected to remain high given the unpredictable moves in SA's political setting currently.

## Market reaction

At its worst point, the rand sold off against the US dollar by more than 6% relative to its firmest point the afternoon before the cabinet reshuffle, but it remains stronger than levels seen at the beginning of the year. The credit default swap spread (a measure of country risk) at 198 is around 10% weaker than its best level for the year, seen in early March 2017. At the time of writing, SA's ten-year government bond yield traded at 8.9%.

The rating agencies will be evaluating SA shortly (Moody's by 7 April and Standard and Poors (S&P) scheduled for 2 June 2017). Previously, S&P noted that institutional credibility (see chart 1) and economic factors carry a higher weighting in the sovereign assessment. The recent moves in cabinet, casting doubt over the strength of SA's institutions and the direction of economic policy, has in Momentum Investments' view increased the risk of a sovereign downgrade for the foreign and local currency ratings (see chart 2). A downgrade to sub-investment grade status would likely have a negative effect on SA's near- and longer-term economic outlook.

Chart 1: SA's governance rankings have been slipping



Source: World Bank, Momentum Investments

Chart 2: SA's current sovereign ratings

	S&P	Fitch	Moody's
Investment grade	A3	A3	A3
	BBB+	BBB+	Baa1
	BBB	BBB	Baa2
	BBB-	BBB-	Baa3
Sub-investment grade	BB+	BB+	Ba1

Source: S&P, Moody's, Fitch, pink = foreign currency rating, blue = local currency ratings

## Diversified portfolios managed according to Momentum Investments' outcome-based principles protect client portfolios

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Momentum Investments constructs client portfolios according to an outcomes-based philosophy that incorporate the long-term goals of its clients, as well as their stated risk appetites. In this regard, the company continually ensures its portfolios are appropriately diversified to smooth the investment journey to its clients' required outcomes as much as possible and to cope with the inevitable short-term volatility that risk events like a cabinet reshuffle would cause. Momentum Investments remains steadfast in its view that appropriately diversified portfolios that incorporate a well-constructed asset allocation process within a multi-asset class portfolio

framework remain paramount to maximising long-term financial wellness for its clients. As always, the company also remains vigilant in identifying potentially lucrative opportunities from investment price weakness associated with any risk event to add strategic exposures to long-term portfolios if justified by an appropriate risk/reward ratio improvement, with the aim to increase portfolio returns for clients in the long run. In particular, Momentum Investments' significant exposure to global asset classes should provide some protection for its client portfolios during periods of rand weakness.

