



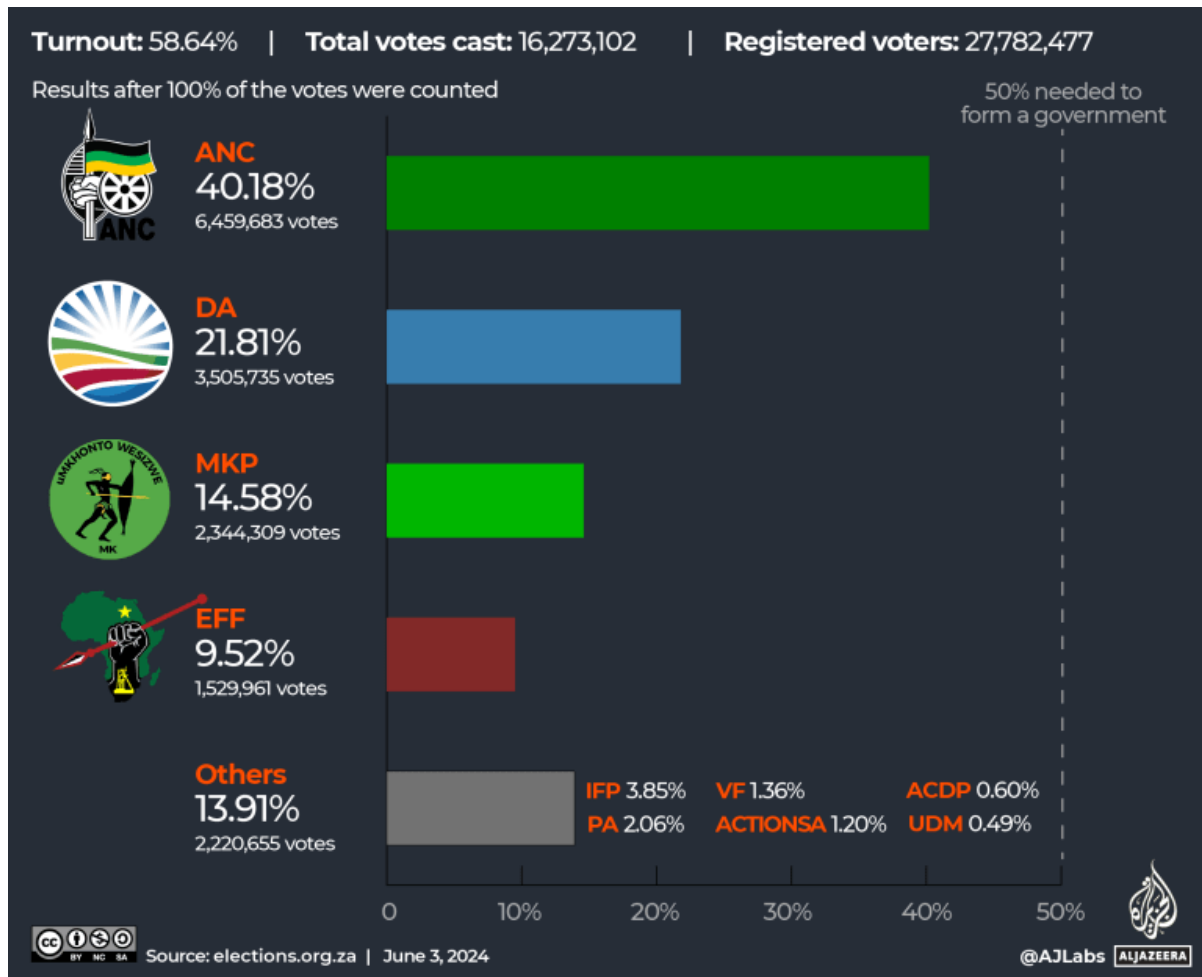
NVEST INSIGHTS

3 June 2024

SA Election Uncharted Territory

The IEC have officially announced what some are calling a watershed moment for South Africa's democracy. Our base case, and that shared by the majority of market participants, was for the ANC to win 45% of the vote, a coalition with the IFP and smaller parties formed, followed by business as usual.

What resulted came in far short of this with the ANC falling to 40.2% (from 57% in 2019), DA 21.8% (from 20.7%), MK 14.6% (from not existing sixth months ago) and the EFF 9.5% (from 10.8%).



INTERACTIVE-South-Africa-elections-results-2024-1717388721.png (770x770) (aljazeera.com)



A drop of this magnitude now requires the ANC to form a coalition with a larger opposition party, in addition to a smaller party, to create a functional majority in parliament. Within the next two weeks Parliament reconvenes and either a formal Coalition Government, a Minority Government or a Government of National Unity will need to be announced by this time.

We find ourselves in uncharted territory with what is viewed as a binary outcome at the national level.

ANC/DA/IFP

The outcome viewed as investor friendly comes with its own intricacies. Firstly, a coalition may be formed and while initial market reaction should be positive, whether the ANC and its biggest opposition party are able to work together raises many questions. Whether the DA would favour a coalition also remains to be seen as a coalition makes it difficult to separate out who is responsible for what. Performance will be blanketed across both, good or bad, having long term consequences. There is risk involved for all, and as such it is not a decision that will be taken lightly by either party.

A Minority Government remains an option. In this outcome, the DA assigns its vote to the ANC agreeing to support decisions in parliament and in return are given certain positions in the legislature. Essentially, the ANC are left to govern by themselves and separating out who is responsible for what becomes clear.

ANC/MKP or ANC/EFF and Smaller Parties

Coalition agreements amongst the ANC, EFF or MKP are not viewed as friendly by the market. Radical policy views aside, political analysts place more risk on the impact on governance over time and increased attacks on the constitution and the democratic factors of the post-apartheid era. The result undoing the important gains made under Ramaphosa to date.

EFF and MKP have made it clear that any coalition with the ANC would require Ramaphosa to step aside. Ramaphosa is well received globally and news of him stepping down would not be viewed favourably by the market.

The factionalism within the ANC is integral to the ultimate decision and whether Ramaphosa's supporters will be strong enough to protect him remains to be seen.

Demands

However you look at it, the outcome will be comprised of give and take. Importantly, at present we do not know what negotiations will involve. However, opposition parties have previously demanded the following:

- ANC have advised they will have Presidency, Treasury, Justice and International Negotiations and this is non-negotiable.
- DA wants Trade and Industry as it would not require legislative change, decisions would not need to be put before parliament, allowing them to achieve economic reform quickly. In addition, they want Speaker of Parliament and Home Affairs.
- EFF has demanded Treasury with Floyd Shivambu at the head and Ntombovuyo Veronica Mente as Speaker of Parliament.
- MKP demands Energy and Justice.
- IFP, while they have not pinpointed positions, have for some time had their eye on the Deputy President role.

The Market Awaits the Outcome



While investors can speculate, truth be told, no one is clear on what the outcome will be, and this uncertainty creates choppy market conditions.

The local market remains unsteady on its feet as it awaits the outcomes of important meetings amongst the National Working Committee today and the National Executive Committee tomorrow. As more details are released to the public domain we anticipate heightened volatility on the local bourse.

