

Market Election Poll Results

2 MAY 2019

South Africa

- *Markets believe that there is only a one-third chance of growth-boosting reform after the elections and that President Cyril Ramaphosa will survive until 2022 at least.*
- *There is a moderately high degree of confidence that a 'mandate threshold' exists, though the market is split on what this is and if it will be reached. The sellside (largely institutional brokers) thinks it will be reached but the buy-side (asset managers) does not.*
- *Equally, market participants see that asset prices could have a sustained rally at some level of ANC vote but don't see this level being reached.*
- *People are roughly split down the middle on whether the ANC will keep Gauteng (as are we).*
- *Tito Mboweni is strongly favoured still to be finance minister at Christmas with others barely getting a look in. Pravin Gordhan is also expected to be DPE minister at Christmas though with some other views.*
- *Overall the market sees the national vote result at 57.4/20.7/11.5%. The latter two are in line with our range/bias views though the ANC is looking a little high versus our view that is closer to 55%.*

Intellidex Market Research conducted an online poll last week of market participants active in the South African asset markets. About 46 respondents completed the full survey. These were segmented into offshore buy-side (with a good balance of hedge funds and real money); onshore buy-side (which was skewed more towards real money); sellside (in which we included investment banks and institutional stockbrokers, private banks and private wealth manager advisory, both onshore and offshore).

We also opened the poll to a wider segment of our contact list which was segmented as 'non-financial'. This group included policy makers, lawyers, diplomats, academics and journalists. We present these results below too (they are quite interesting) but do not aggregate them into our headline 'findings' for the market which are the other segments mentioned above. The market totals are simple averages with no weighting provided between the segments. Results were cleaned where they did not pass robustness tests. Overall the market sample is made up of 45% offshore buy-side, 33% sellside and 21% onshore buy-side. The split of the full sample including the non-financial is in Figure 1 below.

Survey submissions were backloaded towards the end of the window and so we think there is a good number that incorporated the latest Institute of Race Relations poll.

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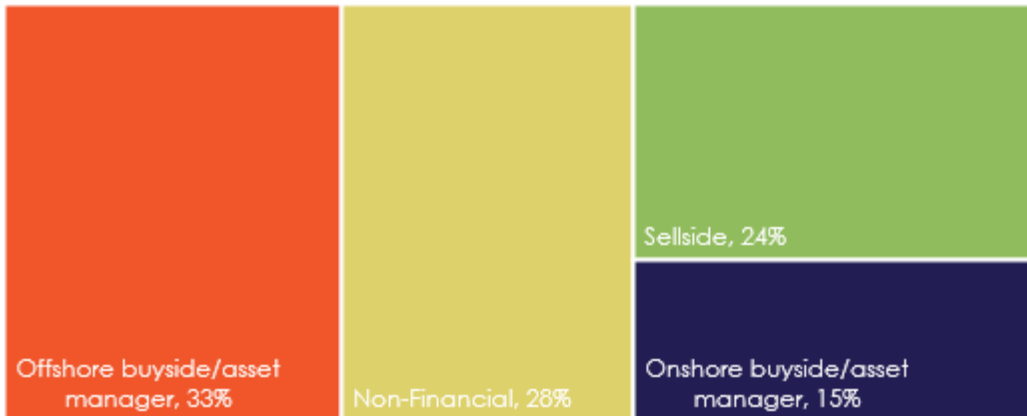
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Figure 1: Poll sample segmentation



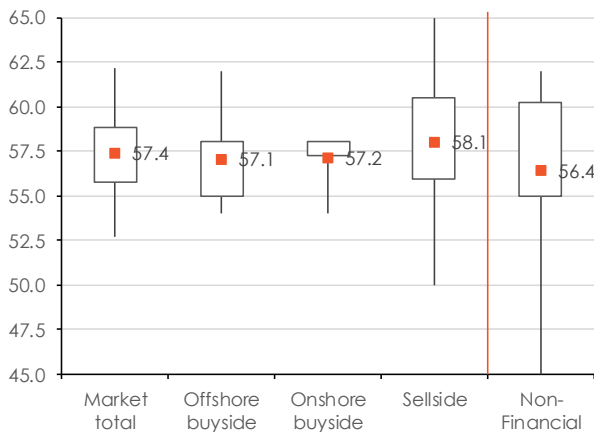
Source: Intellidex

Elections results

All market segments roughly agree on a result of around 57-58% for the ANC in next Wednesday's vote (Figure 2). The offshore buyside segment is the most pessimistic, seeing 57.1%, while the sellside is the most optimistic at 58.1% and has the highest-placed interquartile range, though also the largest overall range. The distribution for the onshore buyside is interesting with a long downside tail but high compression around 57-58%. Non-financial respondents have a very wide range of views but are the most pessimistic overall. The ANC view is a little more optimistic than ours, which is at the bottom of the 55-60% range.

There is a similar pattern for the DA (Figure 3), with the sellside the most optimistic at 22.5% and the offshore buyside the most pessimistic at 19.6%. There are a surprising number of outliers for the sellside, though removing these do not affect the average. The average for the market is 20.7%, which is roughly in line with our forecast of mid 19-22%.

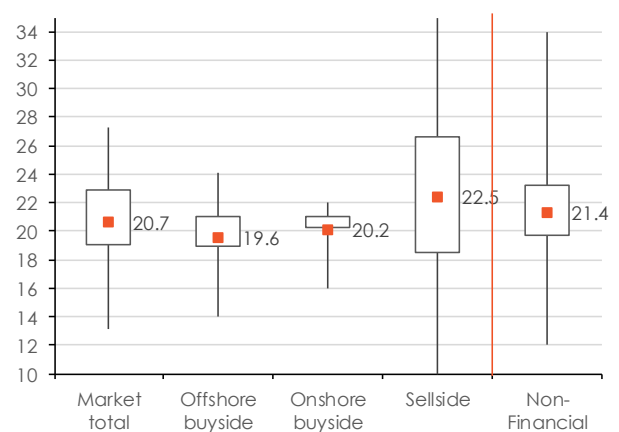
Figure 2: ANC national vote share view (%)



Note: Maximum, minimum and interquartile range marked point represents average.

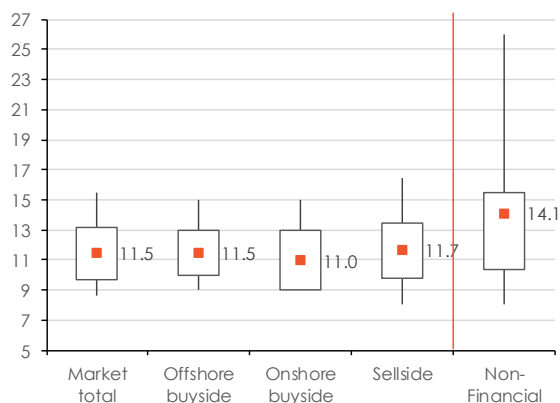
Source: Intellidex

Figure 3: DA national vote share view (%)



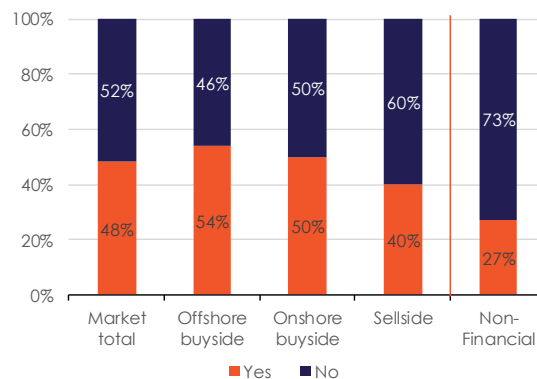
Source: Intellidex

Figure 4: EFF national vote share view (%)



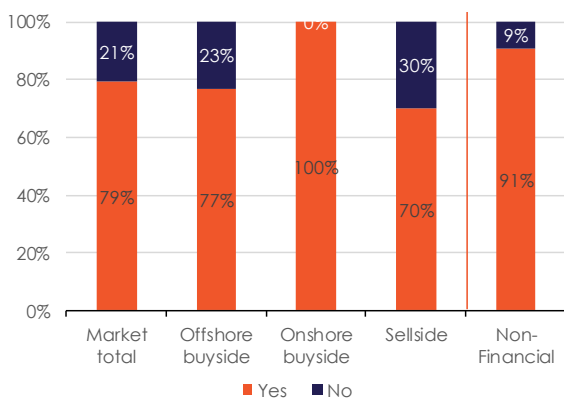
Source: Intellidex

Figure 5: ANC to keep outright control of Gauteng provincial legislature



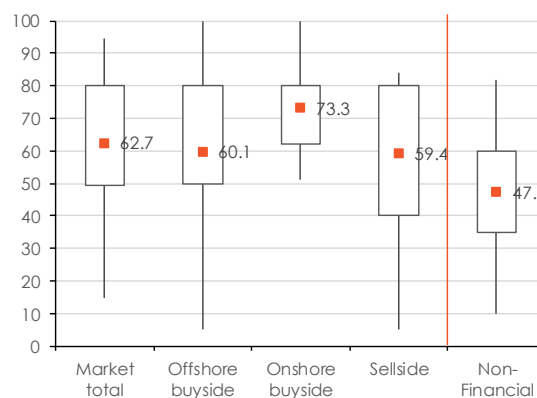
Source: Intellidex

Figure 6: DA to keep outright control of Western Cape provincial legislature



Source: Intellidex

Figure 7: Market confidence that a 'mandate threshold' exists



Note: 0=no confidence, 100=total confidence that a mandate threshold exists.

Source: Intellidex

The market sees 11.5% for the EFF (Figure 4). This is marginally above our mid 9-12% forecast but not too divergent. The sellside is again the most optimistic though this time the onshore buyside is the most pessimistic at 11.0%. It is interesting that the non-financial respondents give the EFF such a high level of 14.1%, though this is skewed by some unrealistic outliers. But even excluding these, the result is still very high at 12.6%.

The tight range of responses seem to mirror our view that the EFF has a tight target market which it will be effective at knocking out.

Only the offshore buyside seems to see a bias towards the ANC keeping outright control of Gauteng (Figure 5) while the sellside is the most pessimistic, seeing it being lost. That view is also shared surprisingly strongly by the non-financial group. We are with the market overall in seeing it too close to call and very much a 50:50 outcome.

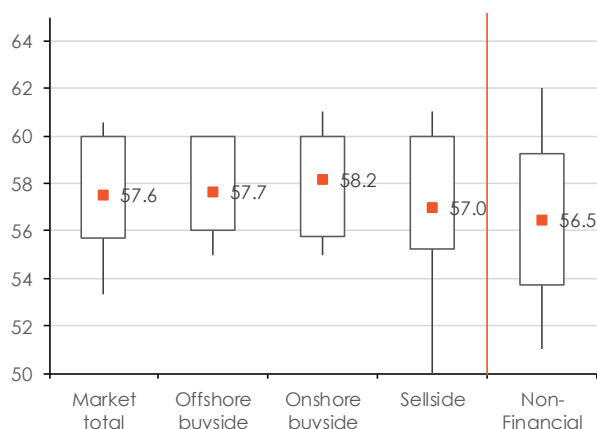
Mandate

We asked a number of questions about the how Ramaphosa could gain a mandate for reform through next week's result.

We are deeply sceptical of this issue and do not believe that a 'mandate threshold' exists beyond which it becomes easier for Ramaphosa to institute reforms. Our key message in the election is that the 'beta' of vote result for the ANC nationally to reform is very low. We will detail this much more, including how the Gauteng result complicates this, in our formal election preview.

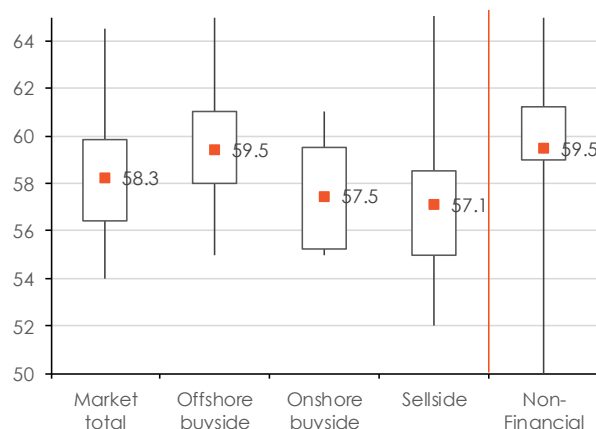
The market's confidence in the mandate issue (Figure 7) elicited a wide range of responses from no faith in it (our view) to total faith. The averages (62.7 on that scale) suggest the market believes it exists but with some scepticism. The onshore buy-side is most confident on the issue while the offshore buy-side is sceptical and the sell-side is more sceptical. The most sceptical of all however is the non-financial group. Overall, we think the market is far too bulled up on this issue, though depending on the vote result this may be academic.

Figure 8: Mandate threshold level in ANC national vote share if it exists (%)



Source: Intellidex

Figure 9: Level of ANC national vote share above which SA asset prices will rally (%)



Note: Question defined a 'moderate to strong rally'.

Source: Intellidex

Where respondents did think a mandate threshold existed they were asked to say where it was with respect to the ANC's national vote share (Figure 8). Non-financial respondents come out the lowest here which may seem odd given their scepticism on the issue, but it reflects the lower result they expect.

Market participants see a level of around 57.6%; the sell-side is the most positive seeing the lowest level at 57% while the onshore buy-side sees the highest hurdle at 58.2%.

Given the 60% threshold that is bandied about locally so much by local business leadership and media, it is surprising that such a small fraction of respondents agrees. This implies that a result above this kind of level would be a 'good' result for many even though it is still a substantial loss on 2014, though it is above the 2016 result. In other words, we think that bars are being set quite low on a number of fronts.

We then asked about levels of an ANC vote that would result in a significant market rally (we termed it moderate to strong; see Figure 9). The long upside

tails here suggest some market scepticism of a rally to come. Overall, however, the offshore buy-side sees levels quite a bit above where the mandate threshold supposedly exists and so it might be termed most bearish about a rally. The sell-side sees the two levels roughly in line.

Meanwhile, the onshore buy-side sees the level required for a rally below that of the mandate threshold which is odd but would suggest this is the most optimistic segment on market prospects. We shall see another example below where the onshore buy-side has divergent views.

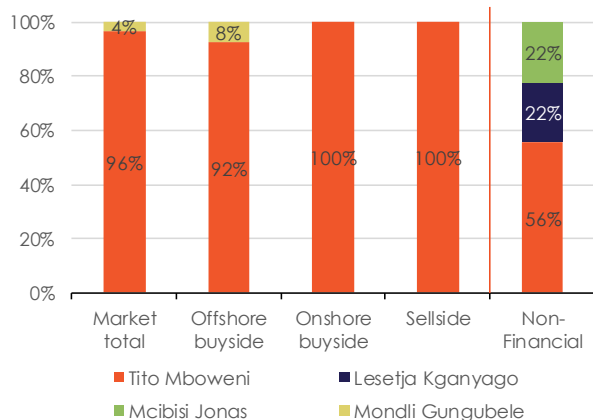
Post-election period

Nearly all market participants expect Mboweni still to be financial minister at year-end with others barely getting a look in (Figure 10). Non-financial respondents were surprisingly more split and saw other names including Reserve Bank Governor Lesetja Kganyago and Mcebisi Jonas. We see Mboweni continuing for a lack of alternatives despite Cosatu pushback and he will want to stay to finish the Eskom job, especially given how contested that issue is.

Markets also strongly expect Pravin Gordhan still to be public enterprises minister at year-end though the view is slightly more split than the finance minister question (Figure 11).

On both these questions it is interesting how things change – six months ago it was almost the baseline for us and the market that both Mboweni and Gordhan would not continue, but circumstances have changed.

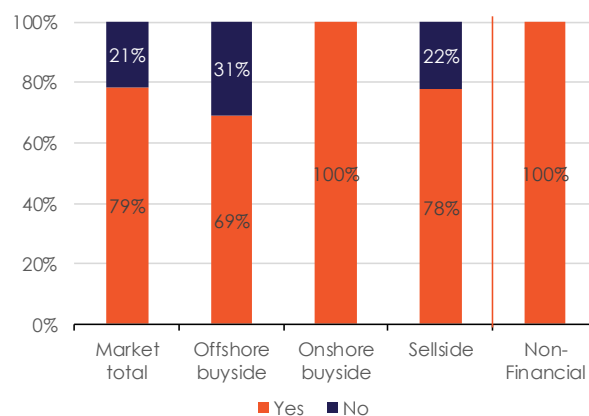
Figure 10: Who is most likely to be finance minister at end-2019



Note: Several other choices of names were given including Barbara Creecy, Siphon Pityana and Colin Coleman.

Source: Intellidex

Figure 11: Pravin Gordhan will still be DPE minister at end-2019



Source: Intellidex

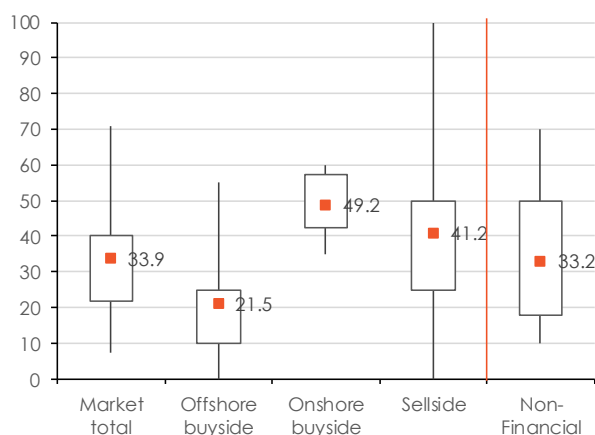
We think that the key question we asked was on the probability of growth-boosting reforms occurring to push growth higher by the end of the parliamentary term (Figure 12). There was widespread scepticism here with the market only assigning a one-third probability. The offshore buy-side was the most pessimistic at only 21.5% with the onshore buy-side the most optimistic (though still less than evens at 49.2%), followed a little way behind by the sell-side.

It would seem from this view that long-term market growth forecasts in the market are only very slightly upward sloping from here.

We can test the coherence (Figure 11) of the market view by looking at the gap between the ANC forecast of a survey segment and the mandate threshold identified against the probability of reform. The sellside has a coherent view with a higher probability of reform and a positive gap; vice versa for the offshore buy-side, with others split on both. The exception however is the onshore buy-side which sees reforms more likely to occur but doesn't see the mandate threshold level being reached. This would seem to suggest a more generalised optimistic disposition.

We would place ourselves on this scatter diagram around where the offshore buy-side is.

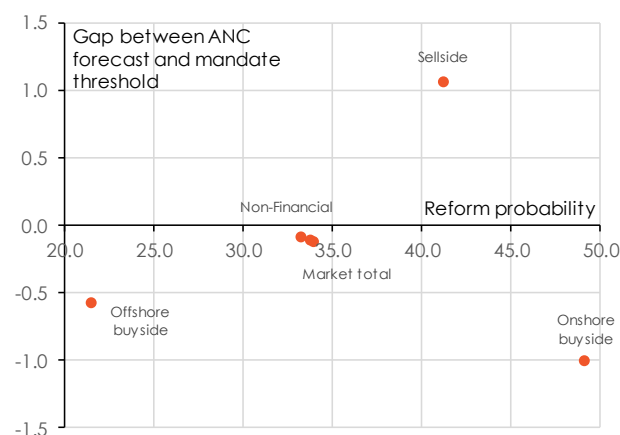
Figure 12: Probability of growth-boosting reform occurring in the next 5-year parliamentary term



Note: Reform was defined as that which would allow growth to reach 3% by 2024.

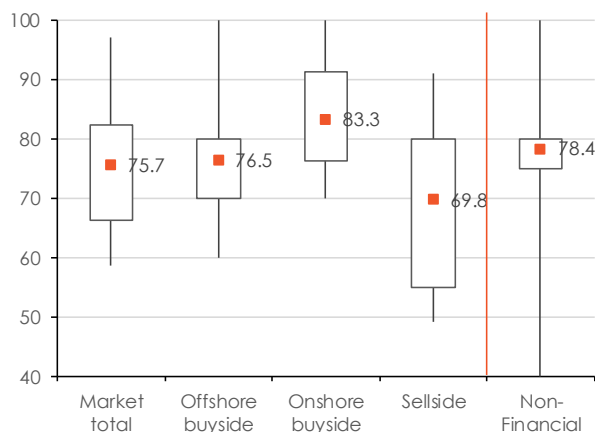
Source: Intellidex

Figure 13: Coherence of views of different segments



Source: Intellidex

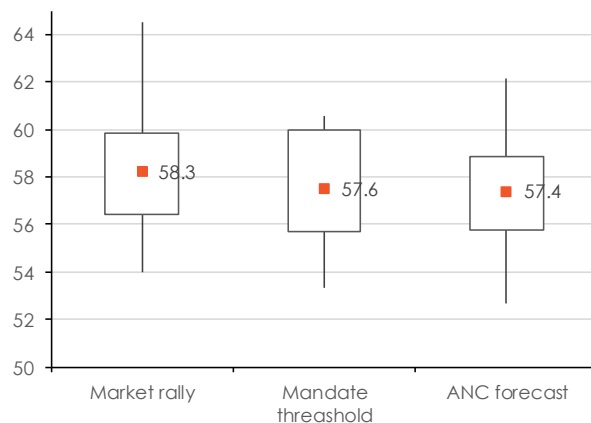
Figure 14: Probability that Cyril Ramaphosa serves a full ANC presidential term through 2022 (%)



Note: Lasting through the NGC 2020 to the next ANC elective conference was explicitly mentioned.

Source: Intellidex

Figure 15: Summary statistics for market total



Source: Intellidex

Finally, we asked about Cyril Ramaphosa serving a full five-year term as ANC president until its 2022 elective conference (Figure 14). We did not want to ask beyond this as it is too far out. Overall the market sees a 75.7% probability of him surviving. The onshore buy-side again is the most optimistic and we were surprised at the size of the positive tail on the offshore buy-side too. The sell-side is the most pessimistic on this point. The non-financial group sees the largest range, though most responses are tightly packed around 80%.

Overall it seems that market views align with ours, that while a fightback will occur after the election, Ramaphosa cannot be removed before 2022. The offset however is a lack of reform.

Looking at the market view in summary (Figure 15), we can see the market expects the ANC result to just miss the level required for the mandate threshold and be below what is needed for a meaningful market rally.

We do see some prospect of a rally if the vote share is above, say, 57.5% and if Gauteng is kept, though we think that the start of the fightback, loadshedding, the global backdrop and weak economic data will all keep this period short.

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