

# Flash Comment

## After Zuma's resignation, start of new era for South Africa

**Last night, Jacob Zuma resigned as President of South Africa.** His decision comes after the ANC leadership group called for his resignation on Monday. Initially, he refused to leave his post but the ANC party stepped up the pressure, calling for a no-confidence vote, which would have been upheld today if Zuma had not stepped down.

**Zuma's resignation means that Vice President and ANC leader Cyril Ramaphosa can be voted in as new president today in the national assembly, where the ANC holds a majority.** Ramaphosa's main challenge will be to regain the confidence of the people ahead of next year's general election as the ANC has seen a slide in popularity in recent years under Jacob Zuma's corruption-plagued presidency.

**The immediate next steps for Ramaphosa will be to address the nation tomorrow, followed by a presentation of the national budget to parliament on 21 February.** A key thing to watch over is whether Ramaphosa will make any changes to Zuma's cabinet, especially with regard to the Minister of Finance post where the incumbent minister is seen as a close ally of Zuma's. This budget will be very important given the fragile state of South Africa's finances. However, reinvigorating the South African economy through structural reforms will also be important given the slide in economic growth in recent years.

**The rand has surged by almost 14% against the USD since it became clear that Ramaphosa would win the ANC leadership contest in mid-December.** Investors are clearly setting their hopes on Ramaphosa being able to push through the needed reforms, which we think will be the case based on past policy speeches by the incoming president. (see *Flash Comment - ANC leadership election outcome in South Africa – the dawn of a new era?*, 18 December 2017).

**After the recent surge, we think that much of the good news is priced in and hence the rand may trade flat against the USD near term.** However, we see the ZAR being somewhat under-priced still relative to long-term fundamentals and an improved current account balance. As a result, we think the market will reassess policy intentions of the new president and take a pause from pushing the rand higher near term. In addition, the rand may also be susceptible to a more hawkish monetary stance in advanced economies. Overall, we are cautiously bullish on the rand, seeing the trajectory for the USD/ZAR at 11.75 in 1M, 11.50 in 3M and in 11.25 in 6M and 11.25 in 12M.

### The South African economy derailed under Zuma



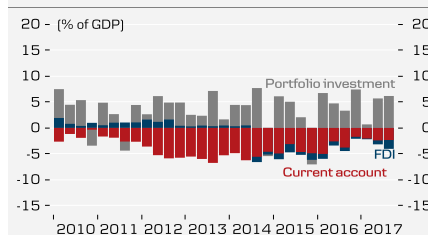
Source: Macrobond Financial

### As business confidence remains depressed



Source: Macrobond Financial

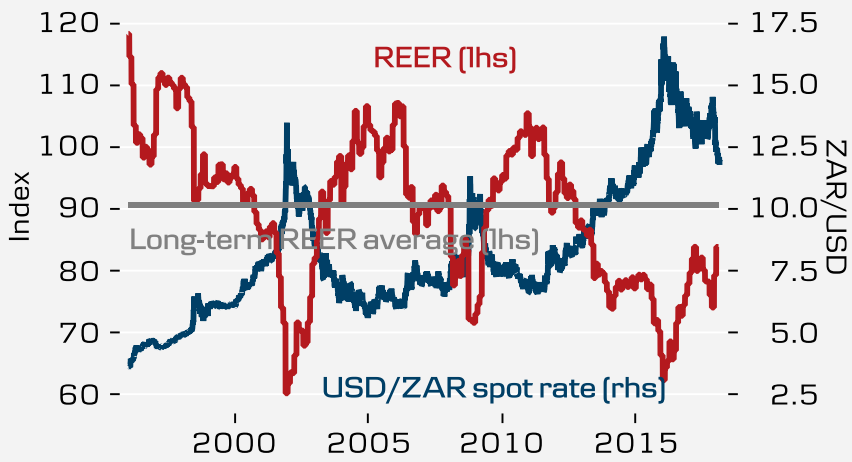
### External balances have improved with lower oil prices and cheap rand



Source: Macrobond Financial

**Chief Analyst**  
Jakob Christensen  
+45 4512 8530  
jakc@danskebank.dk

After its recent surge, the rand is not so cheap anymore relative to its long-term value



Source: Macrobond Financials

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This research report has been prepared by Danske Bank A/S ('Danske Bank'). The author of this research report is Jakob Christensen, Chief Analyst.

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### Expected updates

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**Report completed:** 15 February 2018, 09:29 CET

**Report first disseminated:** 15 February 2018, 10:30 CET