

The Big Seven of 2015

The Big Seven trends that dominated our politics and economy in 2015 are: Eskom and electricity supply; the commodity collapse; the drought; slow economic growth; ratings downgrades; student unrest; and SOEs.

Eskom

Eskom's construction progress is much slower than what the utility stated at the Investment Analyst Society in 2014. The first unit at Medupi did come into operation at mid-year, providing 794 MW and much needed space for maintenance. However, the next unit from Medupi will now only come into operation during the first half of 2017 – not 2016. The four units at Ingula pump storage scheme in the Drakensberg will come into operation during 2017 adding more than 1000 MW. So relief will come through in 2017, but power supply in 2016 will remain tight.

In the meantime, the private sector's role is expanding. This time last year 1 000 MW from private producers had been connected to the grid. By May 2015 it increased to 1 827MW. Contracts have been concluded for 6 327MW, so there is still another 4 500 MW from private producers to come online (almost the size of a Medupi). Bid windows for another 6 300 MW have been opened.

Eskom also embarked on a programme to build 10 000 km of high voltage lines at a cost of R213 billion rand, inter alia helping to connect private producers with the grid.

Treasury calculates that power supply constraints are costing the country about 1% growth a year. So do not expect a meaningful improvement in growth before power supply is restored in 2017.

Drought

SA is experiencing its first real drought in more than 20 years. This played a major role in causing the economy to shrink in the second quarter. It is also pushing up food prices; bankrupting a lot of farmers; and causing serious water shortages and intense heat waves. We do not know when this agony will end. Some meteorologists predict March next year, but only time will tell.

Collapse of commodity prices

The collapse of commodity prices is certainly one of the Big Seven of the year as those readers who own resource shares can painfully testify. Anglo is down 63% for the year; BHPBilliton 36% and Glencore 65%. (The decline in Anglo's price is before the 12% fall on 8 December, after this report was written, following the Company's decision to suspend its dividend and drastically re-organise itself - Ed.) AngloGold Ashanti fell out of the JSE's Top 40. There is no longer a gold mining company in the JSE's Top 40! Harry Oppenheimer and Wim de Villiers must be spinning in their graves.

In economics-speak the collapse caused a huge terms of trade shock for the economy (simply meaning the same exports now buy less imports), causing the rand to weaken substantially, bringing in its wake inflation pressures and a general collapse of confidence.

Slow growth

Combine the three trends above and one has a perfect storm. Thus no surprise that growth for the year will be around 1.5%, the second year in a row. Most economic units have now published their forecasts for next year and the consensus for growth is again around 1.5%. As we wrote in this

Newsletter in September, SA is now looking at a hat-trick of sorts: three years of economic growth at the same level as population growth, so per capita incomes will effectively be standing still for three years running.

Ratings downgrade

At the beginning of December SA escaped the much predicted downgrade to junk status, although its status did deteriorate. As we said in the November newsletter, the bond market is the 800kg gorilla on this topic and it was not signalling junk status. However, the on-going 1.5% growth rate does put SA at risk of junk. Unless we do things in 2016 which will increase growth in 2017, the country could be downgraded to junk in the course of 2016.

In its reaction to the ratings Treasury has signalled three priorities: restore electricity supply, sort out SOEs out and curb the duration of strikes. Three specific areas where one can monitor progress.

Student unrest

The student unrest of October/November must rate as one of the Big Seven of the year. The next ignition point will be registration in Jan/Feb 2016. The unrest showed up weaknesses that need to be addressed, primarily in the funding of universities and the funding and running of NSFAS (National Student Financial Aid Scheme). Retired Firstrand CEO Sizwe Nxasana is now in charge of NSFAS and some promising changes are mooted. More money will, however, be required and it will have to come from either re-allocation of existing expenditure or higher taxes. The February budget will tell.

State Owned Enterprises (SOEs)

The shambles at some of the SOEs really plumbed new depths during 2015. Eskom's debt was downgraded; SAA has become the poster girl for ineptitude and corrupt nepotism surpassing even the SABC.

However, there has also been some push-back. Eskom got a new board and permanent CEO, governance seems to have stabilised and new money has been raised – an important test. An outsider from the business world, a non-ANC deployee, was appointed as CEO of the Post Office. The Minister of Finance has vetoed an aircraft financing deal by the Board of the SAA and the Hawks have launched an investigation of SAA. (The minister got fired for his efforts and we deal with that in a separate note, issued on 10 Dec – Ed).

At the time of writing changes to the SAA board seem to be in the air, but nothing has been announced yet. Let's hope we get a Xmas present in that respect.

Looking back – what happened to the 2014 Big Five

The Big Five last year were Eskom; strikes; the elections (yes, it was only 18 months ago!); the split in Cosatu and the (then) 40% drop in the oil price.

Eskom and electricity supply issues we updated above. The **oil price decline** was sustained for the year, but was of course followed by the **commodity price** collapse.

A noticeable change from 2014 was days lost through **strikes**. Mandays lost declined from nearly 13 million in 2014 to just over 1 million as at 4 December – a substantial decline. Even AMCU, the big

striker of 2014, is hesitant. It has jumped through all the loops for a legal and protected strike in the gold mining sector, but has not actually embarked on it.

Last year the **split in Cosatu** was a big story. It ended with a whimper in November this year when NUMSA and Mr Zwelenzima Vavi were formally expelled. Whether the expelled will conceive a new political party of the left, as we said last year, remains to be seen. One gets the impression that the fervour for such conception has cooled off considerably. Julius Malema and the EFF occupy that space and new comers may find it difficult to get in. Overall, organised labour is in a worse position than it was.

In a municipal by-election in Port Elizabeth Bantu Holomisa's UDM surprisingly captured a ward from the ANC. It was due to local NUMSA members putting their full weight behind the UDM. This may be the strategy NUMSA follows in the local government elections next year: pick local candidates from political parties or ratepayer associations and support them.

2014's **elections** saw the rise of the EFF. 2015 started with the EFF disrupting the State of the Nation speech in Parliament and being evacuated by the "White Shirts". Anguished cries of "the end of democracy" echoed through our nation and the chattering classes had a nervous breakdown. As the year progressed the EFF's antics were exposed for the anti-democratic behaviour they were and by year-end ALL political parties united against them – not the case at the beginning of the year. Dedicated personnel to back the Speaker up were introduced; as were rule changes, including loss of pay for members expelled from the House. At the time of the Minister of Finance's mini-budget speech in November things were much more orderly than in February despite the EFF's best attempts to disrupt his speech on the back of the student unrest - they merely delayed it by about 45 minutes. Hardly democratic collapse. Far from "the end of democracy", the year saw the beginning of democracy for those parties who have to learn to play by democratic rules.

So What?

- Looking back it is really only **Eskom** that has remained as one of the Big Issues. Do not expect normal power supply before 2017, but take some comfort from the huge investments taking place in both generation and transmission.
- **Strikes** declined substantially, the **EFF** is being forced to become a normal political party and **Cosatu** weakened itself. The face of protest has shifted to students, who may be back with more protests in 2016.
- The **oil price** remained subdued, but the benefit has been eroded by the collapse in commodity prices and the drought.
- Looking forward **Eskom**, **drought** and the **collapse of commodities** combine to keep economic **growth weak** at one and a half per cent. This is likely to remain true for 2016 as well, causing SA to score a "negative hat trick" – three years of 1.5% a year.
- The much predicted downgrade to junk status did not happen, but slow growth may very well rekindle the issue in 2016.
- Not much government can do about the drought and commodities, but the management of SOEs and taking steps to enhance growth have become more important than ever. Not a new idea, just some action needed. 2016 will be tough so ...

... I wish you a happy festive season.

JP Landman