



**The B&M Weekly Africa Markets Report on the Dow Jones Africa Titans 50 Index
Week Ending Friday, November 20, 2009**

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<p>Development European Union Gives Nigeria \$1 Billion to Tackle Corruption and Promote Peace</p>
<p>Countries Affected: Nigeria Companies Affected: Tullow Oil, Sasol and Acergy S.A. Sector: Oil and Gas</p>
<p>Description The European Union (EU) signed a \$1 billion development pact with the Nigeria government on Friday, aimed at tackling corruption, promoting peace, reforming elections and improving human rights. According to <i>Reuters</i>, nearly a third of the funds (\$300 million), are devoted address the underlying causes of violence and poverty in the Niger Delta region. The “financing will go to support conflict resolution and the peace process in the Niger Delta region,” announced EU Development Commissioner Karel De Gucht. Portions of the funding will support the government’s 6-week-old amnesty program for militants, which promised clemency, job training and a stipend for militants who put down their arms. The news comes at a particularly opportune time, as many Nigerians believe the current government is losing the fight against corruption. The first instances of violence since the amnesty began broke out this week in Port Harcourt and Rivers State over non-payment of monthly stipends to amnesty participants and delays in the opening of retraining centers. The government and leaders of the Movement of the Emancipation of the Niger Delta (MEND) are still conducting peace negotiations designed to agree on details of the amnesty program, but remain far apart on issues of revenue sharing and the military’s presence in region. As a result, it is unclear when the centers will open or stipends will be paid.</p>
<p>Implications for the Dow Jones Africa Titans 50 Index The three oil and gas companies in the Dow Jones Africa Titans 50 Index (Tullow Oil, Sasol and Acergy S.A.) constitute a weighty 11.06% of its net assets. Tullow Oil has a more diversified geographic coverage. But it is also the largest company in the index with 6.77% of its net assets, heightening the potential impact of any change in share value. Sasol and Acergy S.A. are particularly invested in Nigeria. Acergy’s “conventional business” focuses entirely on West Africa, including its 40-year-old Globestar fabrication yard in Warri, Nigeria. Acergy recently signed a \$190 million offshore platform revamping contract with Exxon-Mobil. Sasol is a joint-owner, along with Chevron and the Nigerian National Petroleum Company (NNPC), of the \$6 billion Niger Delta-located Escravos gas-to-liquid (GTL) project, which has been delayed on multiple occasions due to militant attacks, prompting Sasol to recently reduce its economic interest in the project from 37.5% to 10%. The reduction in violence has been a boon for oil and gas companies operating in the Niger Delta, including Sasol and Acergy, as production has continued to increase during the relative calm since MEND agreed to a ceasefire. A sustained period of non-violence would certainly support the asset values and share prices for all three companies. The news of available funding to sustain the amnesty program helped to drive share prices up early on Friday, but the continued drop in crude oil prices to below \$78 drove shares down on the day, with Tullow and Sasol closing down 0.7% and Acergy down 1.4%.</p>
<p>Short Term Outlook (Positive/A-) We expect the news of EU funding support to improve the likelihood of successfully beginning the amnesty program, thereby allowing production numbers to continue increasing as the ceasefire holds. While the recent outbreak in violence would indicate the amnesty program is breaking down, the announcement of funding should improve negotiations and allow the program to start making stipend payments in the short-term. A sustained period of non-violence</p>

would allow companies operating in the Niger Delta to offset any reduction in crude oil prices with a significant increase in production.

Long Term Outlook (Negative/C+)

In our Weekly Report for the week ending Friday September 18, we forecasted “MEND will be more forceful upon its return as it attempts to fill the notable void created by militant leaders who have accepted the government’s amnesty disarmament program.” While the amnesty program has been successful at weakening MEND’s ability to disrupt oil production, a return to violence would surely occur if the government is unable to implement the stipends and retraining programs promised in the amnesty offer. **As a result, we maintain this overall pessimistic long-term forecast, albeit with some increased optimism for success, on the grounds that while the funding support from the EU improves conditions, President Yar’Adua may be promising a deal he may not be able to deliver.**

As previously explained, the promise of amnesty in exchange for an end of violence is not a new proposition, nor is the promise of an increased share of oil revenue for the Niger Delta region. The increased revenue share has received crushing opposition in the past, and is likely to receive a similar response this time as well. President Yar’Adua is already having difficulty delivering the 2010 budget to parliament, delaying its delivery until next week. Additionally, the 2011 elections will likely provide another motivating factor for a return to violence as candidates look to engage militants in disruption activities designed to suppress the vote in the region. Overcoming this combination of pressures to achieve a lasting peace will require far more than \$1 billion in funding.

Trends to Watch Next Week

When will the amnesty program begin making stipend payments and open retraining centers?

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Development

The South African Reserve Bank Maintains a 7% Interest Rate, Declines to Intervene to Devalue the Rand

Countries Affected: South Africa

Companies Affected: ArcelorMittal South Africa, Bidvest Group, FirstRand, Harmony Gold, Remgro, Sanlam, MTN Group, Sasol, Impala Platinum Holdings, AngloGold Ashanti, Standard Bank Group, ABSA Group, Gold Fields, Naspers, and Anglo Platinum.

Sector: Banking & Financial Services, Mining, Oil and Gas, Telecommunications, and Media/Publishing.

Description

The South African Reserve Bank (SARB) held the discount rate at 7%, while SARB Governor Gill Marcus emphasized the market alone would determine the valuation of the rand. Between December 2008 and August 2009, SARB progressively lowered the discount rate from 12% to 7%, the rate it has since maintained. Also, SARB’s policy committee decided to meet bi-monthly rather than monthly, a sign it believes that volatility resulting from the global financial crisis and recession has largely passed, and it predicted South Africa’s economy would recover from recession in the fourth quarter of 2009.

The decision indicates SARB will maintain monetary policy continuity under the leadership of Marcus, who assumed the role of SARB governor November 9th. SARB has been charting a cautious monetary course, choosing a rate that simultaneously provides a stimulus for an economy in recession yet keeps inflation in check. There had been some uncertainty as to whether Marcus would resist political pressure to loosen monetary policy and increase foreign currency reserves in an effort to devalue the rand.

The left wing of the African National Congress (ANC), the Congress of South African Trade Unions (COSATU), and the South African Communist Party (SACP) had called for a rate decrease, for SARB to weaken the currency, and for inflation targets to be raised or eliminated. Cyril Ramaphosa of the ANC’s National Executive Committee said “The benchmark interest rate should be cut to about 5 percent... our interest rates are inordinately too high.” SACP leader Blade Nzimande opined that SARB policy was “throttling” the poor. Along with the ANC, COSATU and SACP form the

“Tripartite Alliance,” under which the SACP and COSATU promise not to directly contest any elections in exchange for being able to influence ANC policy.

Marcus strongly reaffirmed her independence saying, “I am [not] bound to anybody politically,” and flatly refused to use policy to affect the currency stating, “We do not do that and we will not do that.” SARB has not intervened to alter the rand’s market value since it unsuccessfully attempted to support it in 1998. SARB’s mandate is limited to meeting an inflation target, currently set by the National Treasury at 3%-6%. Annual inflation, as measured by the Consumer Price Index (CPI), fell to 6.1% in September. SARB predicted that inflation will fall into its target range by the second quarter of 2010, although the estimate assumed only a moderate increase in the price of electricity.

Implications for the Dow Jones Africa Titans 50 Index

Of the 50 companies that constitute the Dow Jones Africa Titans 50 Index, 15 are headquartered in South Africa. Altogether, the 15 DJ Index-listed South African companies account for 28.4% of the index net assets. MTN, Sasol, Impala Platinum Holdings, AngloGold Ashanti, Standard Bank Group, ABSA Group, Gold Fields, Naspers, and Anglo Platinum account for 40% of the DJ Index market capitalization.

Stocks were down on the week across sectors. MTN fared the best, down slightly less than 1% point. AngloGold Ashanti Ltd., Standard Bank Group, and Impala Platinum Holdings, the next three largest South African companies on the exchange, were down 4.5%, 4.7%, and 4.1% respectively.

Short-Term Outlook (Positive/A)

A change in monetary policy is extremely unlikely prior to January 25th, the date of the next scheduled SARB policy committee meeting. **By allaying fears of a lurch to the left in monetary policy, SARB’s maintenance of continuity with previous policy should buoy investor confidence in the stability of South Africa’s business environment.** In her first test, Marcus established a conservative monetary policy and reaffirmed the independence of SARB policy from political pressure. As the world emerges from the recession, her governorship of SARB should convince foreign investors that South Africa will continue to pursue a sound macroeconomic course.

Long Term Outlook (Neutral/B)

SARB’s decision highlights a fundamental disagreement within the Tripartite Alliance over South Africa’s economic policy, which is playing out both within the government and at SARB. The left wing of the ANC, COSATU, and SACP are pressing ANC moderates to abandon fiscal restraint and targeted inflation rates. South Africa’s first recession in 17 years has further bared the massive inequalities and structural unemployment plaguing the country. Government failure to provide basic services to all embitters those at the bottom, and leads leaders on the left like Nzimande to say, “We have political freedom in the context of a colonial type economy.” ANC moderates counter that sustainable development will only be possible if public debt remains manageable, (up to 50% of GDP), and inflation stays low.

The economic policy battle is playing out both at SARB and within the government itself. In an immediate sense, Marcus’ appointment and recent monetary policy stance represents a victory for the moderates. However, the issue is by no means settled. The ANC, COSATU, and SACP recently agreed to review SARB’s mandate in 2010 with an eye toward expanding it. Any expansion could well include a directive to target unemployment or a specific GDP growth rate. Such a mandate could in turn lead to a more expansionary monetary policy. Within government, a recent reshuffle of cabinet committees sent mixed signals over economic leadership. Pravin Gordhan, Minister of Finance and an ANC moderate, appeared to have gained authority. However, Trevor Manuel, a moderate and respected former finance minister currently serving as a minister on the National Planning Commission, may have been marginalized. Further complicating the issue, Ebrahim Patel, Minister of Economic Development and COSATU’s representative in the cabinet, seems to have increased his purview. How the reshuffle will affect economic policy remains to be seen, but it seems part of the ongoing political struggle to delineate economic policy.

President Jacob Zuma was elected on a platform of tackling poverty and unemployment, and support from the ANC’s left wing proved to be key to his elevation to the top of the party. Since the fourth quarter of 2008, approximately 800,000 jobs have been lost, and the country’s recovery may be largely jobless. Zuma, therefore, faces a delicate policy balancing act. In order to retain political support, his government must be seen to be acting effectively to create jobs and provide services. Yet he must also act as a responsible fiscal and macroeconomic steward. **So far, Zuma and ANC moderates have prevailed in crafting a conservative economic policy. However, their political power and fiscal resolve will continue to be tested as the country slowly and fitfully emerges from recession.**

Trends to Watch Next Week

Q3 GDP figures due to be released. COSATU will meet to review strategy vis-à-vis the ANC on economic policy.

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Development

Ghana to Double Mining Royalties

Countries Affected: Ghana

Companies Affected: AngloGold Ashanti, Gold Fields, Red Back Mining.

Sector: Mining

Description

During the presentation of a 2010 budget to parliament that aims to increase spending by 20%, Ghana Finance Minister Kwabena Duffour announced the government will double mining royalties to 6%. The “government will [also] engage all mining companies to address the issue of dividend payment, exemptions and the whole mining sector fiscal regime,” Mr. Duffour said. The royalty hike came as a surprise to international miners operating in Ghana, with AngloGold spokesmen saying they expect their prior agreements will be honored. The royalty increase will cause a reduction in investment returns and could force some companies to rethink their operations.

The royalty increase comes on the heels of two previous moves by the newly elected government of President John Atta Mills to renegotiate deals struck under the previous administration. Last month the government declared Exxon Mobil’s multi-billion dollar deal to explore Ghana’s offshore oil sector illegal, with no resolution to date. The government is also reviewing aspects of Vodafone’s purchase of a \$900 million stake in Ghana Telecom. **This latest announcement only raises further concerns within the investment community of a growing trend of reducing the viability of investing in Ghana.**

Implications for the Dow Jones Africa Titans 50 Index

The three mining companies with operations in Ghana in the DJ Africa Titans 50 Index (AngloGold Ashanti, Gold Fields and Red Back Mining) constitute 5.7% of its net assets. The mining sector in total is the second largest overall sector in the index, constituting 21.3% of net assets. The share prices of each company slid marginally on the news, with Red Back Mining down 1.5%. By the end of the week the companies were moving independently again as AngloGold Ashanti fell 1.8%, while Gold Fields and Red Back Mining were both up, 0.4% and 0.1% respectively.

Short-Term Outlook (Negative/C+)

In the short-term, we expect the royalty increase announcement to have a marginally negative impact on share prices. However, it will be some time before the full impact on share prices is felt as negotiations will take a while to be resolved and actual adjustments in royalty payments are still a long way off. Until then, the near record high price of gold will continue to drive up mining company asset values and induce current operators to produce at as high a level as possible.

Long Term Outlook (Neutral/B)

In the long-term, the Ghanaian royalty increase is likely to have much less of an impact on mining profitability than the market price of gold. If the price of gold continues to increase as it has over the past year, than share prices and asset values will increase, as local production in Ghana will expand to take advantage of historically high prices. Additionally, neither AngloGold Ashanti, Gold Fields nor Red Back Mining operate exclusively in Ghana, so any reduction in profitability in-country could be offset by an increase in production in other countries.

The royalty increases in Ghana could have a larger negative impact on the entire mining sector in the long-term if they become part of an effort to extract higher royalties by other country governments, specifically South Africa’s. While only Sierra Leone has officially announced plans to reevaluate royalty regimes, other governments will certainly be monitoring the Mills government’s ability to renegotiate higher royalty payments from mining firms. If successful, and as long as gold prices remain at or near record highs, there will be significant public pressure to renegotiate higher royalty rates in other countries. An industry-wide increase in royalties would have a negative impact on the profitability and share price

of all mining firms in the index. If the gold price were to fall in tandem with such a royalty adjustment, the impact on share prices would be severe.

Trends to Watch Next Week

Announcement of contract renegotiations with existing producers.

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