



## The B&M Weekly Africa Markets Report on the Dow Jones Africa Titans 50 Index Week Ending Friday, October 30, 2009

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### Development

Muslim Brotherhood Will Not Bid for Presidency

**Countries Affected:** Egypt

**Companies Affected:** Orascom Construction Industries (OCI), Orascom Telecom Holding (OT), Commercial International Bank, Egyptian Financial Group-Hermes Holding Company, Egyptian Company for Mobil Services (MobiNil), Egyptian Kuwait Holding, Telecom Egypt and Talaat Moustafa Group Holding (TMG Holding)

**Sector:** Telecoms, Banking/Financial Services, Construction/Infrastructure & Real Estate

### Description

Mohammed Mahdi Akef, Chairman of the Muslim Brotherhood, quietly yet fundamentally unsettled Egypt's political landscape Saturday when he announced the **Muslim Brotherhood, Egypt's largest and best-organized opposition party, will not run a presidential candidate against the ruling National Democratic Party (NDP) in the upcoming 2011 elections under the terms of Egypt's current constitution.**

**Founded in 1928, the Muslim Brotherhood is the oldest and largest Islamic political group in Egypt and the world. The Brotherhood currently holds 88 (about 20%) of the 454 seats in the all-important People's Assembly (the "lower" house in the Egyptian Parliament), and it is widely viewed as the only political force capable of competing with the ruling party in resources and followership.** The NDP currently controls 331 or 68.5% of the 454 seats in the People's Assembly, and has held power since its founding by President Anwar Sadat in 1978. However, the Muslim Brotherhood, a mainstream non-violent organization in Egypt, is banned under the country's constitution which outlaws Islamist political parties. As such, the Brotherhood won the parliamentary seats it currently holds by running its candidates as independents in the 2005 elections. The third-largest party is the nationalist-liberal New Wafd Party, which holds a distant 6 parliamentary seats, followed by the socialist National Progressive Unionist Party (2 seats) and the centrist-liberal secular Tomorrow or *Ghad* Party (1 seat). The outstanding seats are held by independents.

"There are a lot of preparations that need to be addressed (before discussing) a presidential nomination, and at the forefront are freedom and a clean constitution," Akef told *Reuters*. "I made my own calculations. Should I go by force and clash with the regime? I say no, we don't do that." The announcement coincided with the launch Friday of the NDP's 3-day 6<sup>th</sup> Annual Conference, which many speculators calculated would culminate in the NDP choosing possible successors to President Hosni Mubarak. But the conference passed with almost no mention of successors.

### Implications for the Dow Jones Africa Titans 50 Index

**There are eight Egyptian companies in the Dow Jones Africa Titans 50 Index, constituting 16.09% of its net assets.** Only South Africa and Nigeria have more companies represented in the Index. Five of these companies are either in the telecommunications or financial services/banking sectors (see list above under "Companies Affected"). **The overall health of Egyptian markets is partly contingent upon the performance of these eight companies as they also happen to be the largest publicly-traded Egyptian companies in terms of market capitalization, assets and profits.**

As at August 2, 2009, the Egyptian Stock Exchange (EGX) lists the eight DJ Index-listed Egyptian companies (Orascom Construction Industries, Orascom Telecom Holding, Commercial International Bank, Egyptian Financial Group-Hermes Holding Company, Egyptian Company for Mobil Services, Egyptian Kuwait Holding, Telecom Egypt and Talaat Moustafa Group Holding, in descending order) as the top eight companies in the EGX 30 Index, which includes the top 30 companies in Egypt. **The eight companies hold a whopping 77.61% of the EGX 30 Index.**

### Short Term Outlook (Neutral)

**We expect the news of the Muslim Brotherhood pulling out of the upcoming 2011 presidential elections to have a neutral effect on Egyptian markets in the short-term.**

### Long Term Outlook (Negative/C-)

The longest-serving president in Egyptian history, Hosni Mubarak first came to power in 1981 soon after the assassination of Anwar Sadat. He is currently serving his fifth term, having been re-elected in 1987, 1993, 1999 and 2005 in elections that many independent observers consider questionable and undemocratic. Prior to 2005, President Mubarak was re-elected by majority votes in a yes-no referendum in which no other candidate was allowed to participate, due to a constitutional restriction requiring Egypt's NDP-controlled People's Assembly to nominate presidential candidates. In February 2005, under pressure from the international community, President Mubarak passed constitutional amendments permitting other parties to run against him for the first time in the September 2005 elections, which he won amid widespread election fraud and rigging. Less than 25% of the country's 32 million registered voters (out of a population of more than 72 million) voted in the 2005 elections, a clear indication of Egyptians' lack of faith in President Mubarak's democratization process.

**While appearing to liberalize the electoral process, the 2005 amendments actually placed new restrictions on the opposition.** For example, the amendments require presidential candidates to have held leadership positions for more than a year within a party at least five years old, thus undermining the formation of new parties and squashing the hopes of young aspirants. Furthermore, a party seeking to field a presidential candidate must control at least 5% of seats within the People's Assembly, a feat only the NDP and the Muslim Brotherhood can accomplish. Independent candidates face even stiffer restrictions, requiring the endorsement of 250 elected officials, including 65 members of the People's Assembly, 25 members of the Shura Council (the "upper" house in the Egyptian Parliament), and 140 local council members. Of course, the NDP dominates all these bodies. Even the Muslim Brotherhood would have found it difficult to secure enough votes to select a presidential candidate under these circumstances.

For the last decade, persistent speculation has been that President Mubarak, who will turn 82 in May 2010, has been grooming his younger son Gamal for succession to the presidency, a claim both have vehemently denied. Many observers insist that the constitutional change was President Mubarak's deft way of ensuring Gamal Mubarak's inheritance of power in 2011 is done in a manner that appears to be democratic and legitimate, replete with an election involving several, albeit weakened, opposition candidates. **Barring any highly unlikely changes in Egypt's standing electoral laws or some miraculous coalescing by the country's notoriously fragmented political opposition, the Brotherhood's pullout means the NDP's presidential candidate will likely run unopposed in the 2011 elections. In their current state, none of the other opposition political parties are remotely capable of fielding a presidential candidate.**

**The NDP needs reputable and recognizable foes, however weakened and enfeebled by its draconian electoral rules, to play ball with so as to legitimize the upcoming presidential elections and make their inevitable victory seem credible. Until Saturday, the Muslim Brotherhood fit that role perfectly.** While seemingly clearing the playing field for the NDP, its pullout essentially yanks the rug from underneath the NDP and casts a larger and darker cloud of uncertainty over Egyptian politics for the foreseeable future. **Without any foes to play ball with, the NDP risks appearing even more dictatorial, and this appearance in a political climate already overheated with widespread opposition to Gamal's hereditary succession and President Mubarak's rule in general, could easily rankle an already tense opposition and a fed-up populace and could unleash a very long list of political instabilities in the medium-long-term that could have ruinous consequences for Egyptian markets.**

**Such uncertainty in the run-up to the 2011 elections could dampen investors' appetite for a country barely clawing its way out of an ongoing economic slowdown with inflation estimated at 16.2% (up from 11.7% in 2008), according to the IMF.** However, Egypt's Central Agency for Public Mobilization and Statistics reported in September inflation fell to 8.4% from 9.7%. Nevertheless, in the fiscal year that ended in June, Egypt's real GDP growth was 4.7%, down from 7.2% in June 2008. The IMF projects growth to slow to 4.5% in 2010, not exactly the kind of robust growth needed to offset Egypt's soaring unemployment rate, which is currently estimated at 9.4%.

### Trends to Watch Next Week

**How will the opposition parties respond to the Brotherhood's announcement?**

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<b>Development</b> President Jacob Zuma Declares ANC Not Hijacked by the Left
<b>Countries Affected:</b> South Africa <b>Companies Affected:</b> 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. <b>Sector:</b> Banking & Financial Services, Mining, Oil and Gas, Telecommunications, and Media/Publishing.
<b>Description</b> <b>Facing growing pressure, South African President Jacob Zuma strove Friday to dismiss increasing fears of a leftist takeover of the African National Congress (ANC).</b> In his weekly letter as ANC president, Mr. Zuma felt compelled to reassure the markets that his cabinet was the sole decider of economic policy and not individual ministers. His declaration came on the heels of a series of developments that heightened investor fears of more populist measures. For example, Mr. Zuma excluded Trevor Manuel, a fiscal conservative, from his cabinet's economic planning and decision-making clusters last week after Mr. Manuel publicly stated a growth in welfare payments was unsustainable given South Africa's ballooning budget deficit, the biggest in post-apartheid South African history at 7.6% of GDP. <b>Another indication that the ANC is caught between two overwhelming political tensions was the fuming internal debate between Julius Malema, President of the ANC Youth League (ANCYL) and ANC Treasurer Mathews Phosa.</b> Mr. Malema recently accused Mr. Phosa of "living in dreamland" and "nursing his international friends..." "...at the expense of the majority." Mr. Malema's lambast came after Mr. Phosa told Western business representatives that the nationalization of the country's mines was neither an ANC policy nor a government one, and reassured investors that the ANC would not veer left. Lastly, <b>Mvume Dandala, parliamentary leader of the Congress of the People (COPE), formed by dissident ANC members, accused Jacob Zuma Monday of veering to the left and cowing to pressure from the country's influential labor unions</b> the Congress of South African Trade Unions (COSATU) and the South African Communist Party (SACP), which, along with the ANC, 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. "The discontinuation of Tito Mboweni's contract as Reserve Bank Governor and the resignation of the head of government's policy, Joel Netshitenze, is a growing concern," Dandala said in a statement. Facing a 22.36% unemployment rate, an increase in inequalities, and the growing discontent of the nation's poor, President Zuma has a very narrow margin of error.
<b>Implications for the Dow Jones Africa Titans 50 Index</b> <b>Of the 50 companies that constitute the Dow Jones Africa Titans 50 Index, 15 are headquartered in South Africa. The market's response to perceptions of an increasingly left-leaning ANC was mainly negative with investors flying out of the South African market.</b> The week was highly volatile, and President Zuma's declaration was designed to calm and reassure international investors. 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. <b>The Johannesburg Stock Exchange All Share Index closed Tuesday down for the first time in seven days, losing 1.5% as investors reduced their South Africa exposure due to news of the country's unsustainable budget spending, currency controls and the government's increasingly left-leaning policies.</b> The slide continued Wednesday with the JSE dropping 1.74% and the JSE banking sector notably shedding 1.53%. The JSE slid 1.74% on Thursday and closed the week on Friday down 1.74%, capping one of the most volatile weeks in months.
<b>Short-Term Outlook (Positive/A)</b> <b>In the short-run (this coming week), we expect South African and Rand-operating companies to recover progressively from last week's profit-taking.</b> Most economic commentators were pleased with President Zuma's declaration, which should reassure the markets in the short-term. His medium-term budget was widely lauded by the business community, analysts and economists, as well as opposition parties. His ambitious borrowing program is supported

by greater budget accountability, and his decision to relax exchange controls proved to ease the mounting pressure on the rand. On the other hand, trade unions and leftist organizations welcomed the stance on education, housing and infrastructure spending. South African stocks should benefit from a better understanding and an improved clarity of the government's vision on economic policies.

#### **Long Term Outlook (Negative/B-)**

**South Africa is in the midst of its first recession in 17 years.** The government expects the economy to contract to a GDP growth rate of 2.2%. Mining companies are facing mounting costs in labor wages and electricity shortages. Corruption scandals are shaking the basis of the ANC leadership's credibility. And, more importantly, some analysts are forecasting unemployment to skyrocket to 34.4%, with President Zuma recently declaring that "some people have not worked for years." Discontent is mounting and manifesting itself in soaring crime rates, protests, demonstrations for better wages and education, riots for better transportation, and rising xenophobia in the poor areas. Migrants have been attacked and their property looted.

**To combat structural unemployment, the government is planning to create 4.5 million temporary jobs for unskilled people over the next five years through its public works program.** It will also consider giving tax breaks to labor-intensive industries and pay a subsidy to companies employing young, low-wage workers. However, President Zuma has yet to fulfill his election promise of creating more jobs and reduce poverty among South Africa's black population.

**Nevertheless, Finance Minister Pravin Gordhan, in his first official state budget declaration, walked a fine line between taking a pragmatic stance on growing the economy and delivering on election promises.** The government will have to borrow more in the future to meet his spending demands. "Taken together with the financing requirements of Eskom, other State-owned enterprises and municipalities, the overall public sector borrowing requirement this fiscal year will amount to R285bn," he said. But Gordhan insisted on future fiscal policy conservatism, stating in a recent interview South Africa can expect "a high level of pragmatism and realism" from him. President Zuma also publicly stated the ANC had no intention of leaving a debt burden for his children. Analysts and economists welcomed these declarations as a sign the government was not shifting to leftist policies, and that pragmatism, realism and fiscal conservatism would remain the drivers of future government decisions.

#### **Trends to Watch Next Week**

**How will the market responds to President Zuma's commitment to fiscally conservative policies?**

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