



The B&M Weekly Africa Markets Report on the Dow Jones Africa Titans 50 Index Week Ending Friday, October 9, 2009

The B&M Weekly Africa Markets Report is a mere sampling of our more extensive coverage of the 50 securities listed in the Dow Jones Africa Titans 50 Index. To subscribe to our extensive coverage of the index or other B&M products and services, please contact us at info@bmconsultancy.net or 512-743-6294.

<p>Development African National Congress Youth League President Calls for Nationalization of Mines</p>
<p>Countries Impacted: South Africa Companies Affected: Anglo Platinum, AngloGold Ashanti, ArcelorMittal South Africa, Gold Fields, Harmony Gold, Impala Platinum, Aquarius Platinum and Riverside Mining. Sector: Mining</p>
<p>Description President of the African National Congress Youth League (ANCYL) Julius Malema declared Friday South Africa's mines will be nationalized, citing the Freedom Charter, a policy document adopted by the ruling ANC in 1955. The charter states "The mineral wealth beneath the soil, the banks and monopoly industries shall be transferred to the ownership of the people as a whole. All other industry and trade shall be controlled to assist the wellbeing of the people." The debate over whether the South African government should nationalize its mining sector has since permeated ANC policy circles. While establishing the country's first black government in 1994, ANC leadership, including President Nelson Mandela, openly contemplated nationalizing mines but elected not to, choosing instead to pass laws that require mining companies to sell 26% of their assets to blacks by 2014. An appraisal of these targets is due by year-end, but many analysts do not expect them to be fully met. The debate over nationalizing mines has gained traction lately since South Africa slid into its first recession in 17 years earlier this year with unemployment currently at 23.6%. Mr. Malema made similar calls in July and so has the highly influential Congress of South African Trade Unions (COSATU), which along with the South African Communist Party (SACP) and 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. On Saturday, South African central bank Governor Tito Mboweni played down talk of the government nationalizing mines, stating "I don't think that argument is going to gain traction." However, the issue is currently being debated in the South African Parliament. Last month, an article in the Johannesburg-based <i>Business Day</i> reported MP Fred Gona, chairman of the critical mineral resources portfolio committee and former National Union of Mineworkers parliamentary representative, as "saying the only way to avert [nationalization] was to create a successful state-owned mining company."</p>
<p>Implications for the Dow Jones Africa Titans 50 Index South Africa is the world's largest platinum, manganese, vanadium and chrome producer and its second largest producer of gold. Of the 50 companies listed in the Dow Jones Africa Titans Index, eight are mining companies with considerable operations in South Africa, constituting 13.7% of the total net assets of the Index (see list above under "Companies Affected"). Six of these companies are South African. Last week, the Johannesburg Stock Exchange (JSE) Africa All Share Index soared on a mining sector-induced rally, precipitated partly by a spike in platinum and gold prices. On Thursday, the JSE climbed for a fourth straight day by 0.9 percent, with Anglo Platinum, AngloGold Ashanti and Harmony Gold stocks enjoying a steady rise during the streak. Markets sobered mildly Friday sliding 0.6 percent. Overall, the JSE appreciated 3.5% last week, the largest weekly gain in almost three months. So far, Mr. Malema's comments and Mr. Mboweni's not-so-convincing rebuttal have had no effect on the markets.</p>
<p>Short Term Outlook (Neutral) B&M expects the talk of mine nationalizations to continue to have a neutral effect on South African mining stocks.</p>
<p>Long Term Outlook (Negative-Positive) The lesson of the MTN-Bharti merger failure is that political actors on the left (i.e. COSATU and ANCYL) are not fringe</p>

voices in South Africa. Some of the country's most venerated political figures (i.e. Nelson Mandela, Walter Sisulu, Oliver Tambo and Thabo Mbeki) came through ANCYL leadership ranks. As such, the statements of its current president should not be flippantly dismissed, especially when echoed and backed by the influential COSATU. **The longer the recession lasts and the more disproportionate its impact on blacks, the stronger the calls for mine nationalization will become and the harder it will be for the ANC to ignore them.** Alas, the nationalization of mines is not beyond reality in today's global economic climate in which the governments of several Western democracies have nationalized critical companies and sectors after succumbing to intense public pressure. In June 2009, the U.S. government fired and replaced the CEO of General Motors (GM) and took a 60% ownership stake in the company. In October 2008, Iceland nationalized its four largest commercial banks (Landsbanki, Kaupping, Icebank and Glitnir). The UK nationalized Northern Rock in February 2008 and partially nationalized the Royal Bank of Scotland (RBS) in October 2008.

On Thursday, *Renters* quoted Thozzi Gwanya, Director General of Rural Development and Land Affairs, as saying the South African government plans to revive a controversial draft bill that permits the state to forcibly expropriate land from farmers if talks to purchase these lands fail. In 1994, the ANC set a goal to transfer 30% of about 24 million hectares of agricultural land to blacks by 2014. However, only 5.2 million hectares or 21.6% has been reassigned thus far. The expropriation bill floundered last year amidst criticism that it seemed too "Mugabesque." However, in the face of a grinding recession, South Africa's political and economic priorities have since shifted dramatically. As such, the revival of the land expropriation bill may serve as a telling reading of the current political climate and popular disposition towards nationalization in general.

While recuperating demand for gold and platinum and easing inflation implies the South African mining sector is on the mend, the government announced Thursday manufacturing output contracted by a faster-than-projected 15% in August, suggesting the overall recovery will be slow and politically tenuous. Manufacturing is South Africa's second largest sector after mining. Slides in both sectors are the biggest burdens on South Africa's sputtering economy, which contracted by 3% in Q2. Several mines have been shut down since the recession began resulting in 30,000 mining jobs lost, thus rankling the ANC's trade union allies. Slow jobless recoveries are a political hard-sell. **In the long-term, B&M expects the likelihood of mine nationalization to increase if this trend continues or if the South African economy slides back into a recession.**

Trends to Watch Next Week

Will talk about the nationalization of mines gain traction this week? Or will Mboweni's reassurances prove enough to end speculation?

The B&M Weekly Africa Markets Report is a mere sampling of our more extensive coverage of the 50 securities listed in the Dow Jones Africa Titans 50 Index. To subscribe to our extensive coverage of the index or other B&M products and services, please contact us at info@bmconsultancy.net or 512-743-6294.

Development

MEND Announces End to Ceasefire

Countries Affected: Nigeria

Companies Affected: Tullow Oil, Sasol and Acergy S.A.

Sector: Oil and Gas

Description

Movement for the Emancipation of the Niger Delta (MEND) commander Government Ekpemupolo (Tompolo) accepted a government amnesty Sunday, October 4, three days after compatriot Ateke Tom did the same. President Yar'Adua's 60-day amnesty program gave militants until last week Sunday to surrender their weapons in exchange for clemency, job training and a stipend. MEND's activities are primarily to blame for the 20% reduction in Nigeria's oil exports since 2006. A MEND ceasefire combined with the government's amnesty program since July has helped Nigeria increase its oil production to 1.7 million barrels a day from 1.2 million earlier. The government has rejected requests by militants to postpone the amnesty deadline to permit more negotiations. In May, the government unleashed its largest offensive against Niger Delta militants after skirmishing with Tompolo-led militants. At the height of his power, Tom led up to 2,000 fighters and masterminded numerous attacks. However, despite thousands of militants accepting the amnesty, MEND kept its promise not to participate, and the Nigerian government has not shown any willingness to cede to the group's more ambitious demands. On Wednesday, MEND announced its intentions to resume its attacks once its ongoing ceasefire ends on Thursday, October 15.

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 percent of its net assets. 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 lull in militancy has been a boon for oil and gas companies operating in the Niger Delta, including Sasol and Acergy. Any return to violence will certainly threaten their assets and share prices, notably for Sasol, which announced last Monday a 33% drop in full-year headline earnings. The news of militants disarming in Nigeria helped weaken Tullow Oil shares Monday as crude prices fell below \$69 in anticipation of increased supply. However, between Monday and Thursday, Sasol gained 4.36% in tandem with crude prices recovering after a report showed a decline in U.S. fuel and crude stockpiles. Tullow closed the week down .6%.

Short-Term Outlook (Negative/C-)

In the short-term (this week), B&M projects MEND's threat to resume its activities on Thursday to spike supply concerns and thus push crude prices even higher. In our Weekly Report for the week ending Friday September 18, we accurately projected MEND to "resume its activities at the conclusion of this new 30-day cease-fire" on the grounds that "there is nothing in the ongoing negotiations between MEND and the Nigerian government that suggest otherwise." We also forecasted that "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." We maintain this forecast. In an e-mail statement released on Wednesday, Jomo Gbomo stated "In this next phase, we will burn down all attacked installations and no longer limit our attacks to the destruction of pipelines."

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." We maintain this as a short-to-long-term forecast. In an e-mail statement released on Wednesday, Jomo Gbomo stated "In this next phase, we will burn down all attacked installations and no longer limit our attacks to the destruction of pipelines." Such previous threats alone spiked global crude prices. We see little reason to expect anything else this time. And, while MEND's leadership ranks have been temporarily decimated by the amnesty, there is little preventing MEND from recruiting new ones in an underdeveloped and despondent Niger Delta brimming with discontent male youth. Also, there is little stopping amnesty participants from jumping ship and rejoining the cause, especially given recent reports the Nigerian government has failed to provide promised amnesty services (i.e. jobs). Lastly, on Wednesday, Nigerian customs officers impounded a container full of arms and ammunition in Lagos. The last time that happened was in June (in Calabar) at the height of a drawn-out series of skirmishes between government forces and Niger Delta militants.

Trends to Watch Next Week

MEND may seek to strike as earlier as this week, in an attempt to make a bold return statement.

Read past issues of the Weekly Africa Markets Report [here](#). Or contact us at weekly@bmconsultancy.net to register to receive them via e-mail. Include your **Name, Location** and **Organization**.

The B&M Weekly Africa Markets Report is a mere sampling of our more extensive coverage of the 50 securities listed in the Dow Jones Africa Titans 50 Index. To subscribe to our extensive coverage of the index or other B&M products and services, please contact us at info@bmconsultancy.net or 512-743-6294.

This document was produced by B&M Consulting for the unique use of its recipient. This is intended as general political, economic, security and social risk research and analysis. It is not intended to constitute investment advice on any specific security, investment opportunity or issue, and should not be used for such purposes. It is not to be distributed to any person other than the recipient. No part of this document may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic or otherwise, without the prior consent of B&M Consulting. © 2009 B&M Consulting.



B&M CONSULTING, INC.
POLITICAL RISK CONSULTANTS