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## AFRICA-ASIA POLITICAL RISK RESEARCH, DUE DILIGENCE, GEOPOLITICAL, REGULATORY RISK ADVISORY SERVICES

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## ABOUT DAMINA

DaMina is a preeminent independent Africa-Asia frontier markets political risk, research, due diligence, M&A transactions and strategic consulting firm.

DaMina Advisors is legally registered in multiple jurisdictions with staff presence in the UK, US, Canada, Australia and Ghana. DaMina Advisors is headquartered in Toronto

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## Periscope 2019: Year Ahead Risk Forecasts

### FLASHING RED

Regardless of how we mark the past year on our calendars, AM 5 778, 1439AH or AD 2018, the past 12 months has seen an unprecedented acceleration in the disintegration of the 29-year old post-Cold War US-led international democratic liberal capitalist world order. Additionally, deepening socio-economic and political schisms has created a near permanent era of quasi-revolutionary discontent in many nations. These two trends threaten key multinationals and the global capital markets in 2019. The future of globalization itself – free global capital flows, free global technology transfers and ease of labor migration – which are ultimately the bedrock of the Wealth of Nations is at risk.

In 2018 almost all the key markets indices recorded abysmal performance. The S&P and Dow in December had their worst performance since 1931! Sadly the worst is still to come.

From a global geo-political, geo-economic and geo-security perspective, 2019 is not likely to bring any sustained relief. The year ahead is likely to witness even more intense political and economic turmoil in many of the key G-7/OECD, BRIC/ EM and FM markets. Political risk has migrated from the periphery FM/EM markets to the center of the global capital system – the key G7 nations. The key risks in 2019 will emanate from within the G-7.

It will therefore not be surprising if the US Fed Chair Jerome Powell abruptly resigns this year, while embattled US President Donald Trump is impeached/ and or indicted by the Mueller probe. Severe political turmoil in France, Germany and Italy are all but assured in 2019. An unexpected Anschluss of Russia and Belarus could shock Europe, while a failed BREXIT in March 2019 will throw the UK into a prolonged political crisis, trigger an inconclusive election and a splintering of at least one, if not both major political parties.

In Frontier Africa and Frontier Asia, where we focus the bulk of DaMina's work, we expect a new North Korea – China Treaty, which would effectively torpedo the rapprochement between Pyongyang and Washington DC; a lackluster US-China trade deal, increased border skirmishes between India and China, a Japan-Russia Peace Treaty and a major naval incident in the South China Sea. Longtime Israeli Prime Minister Benjamin Netanyahu will be soundly defeated in the April snap polls; Saudi Arabia will finally devalue the Riyal in order to restore fiscal sanity.

In Africa a postponement of the elections in Nigeria slated for February 2019, and a doubling (if not tripling) of electoral support for South African firebrand Julius Malema in the 2019 national election are likely. A new civil war in DRC is not inconceivable. South Africa's debt will be downgraded further into junk; more banks may fold in Ghana, and Cote d'Ivoire's president may abruptly resign early to boost the candidacy of his preferred successor VP Kablan Duncan. South Africa will launch an aggressive multibillion dollar privatization effort to help stabilize several cash strapped state owned enterprises. Crude oil prices will continue to whipsaw as Opec+Russia grapple with unrelenting US supplies.

## KEY 2019 GLOBAL FORECASTS

- I. **BREXIT becomes BREXSTAY:** The UK will likely postpone the March 29 deadline to fully exit from the European Union throwing the country's increasingly acrimonious politics into even further turmoil. Public anger against the political class could see the splintering of both the dominant Labor and Conservative parties and the emergence of a popular centrist third force in UK politics forestalling any BREXIT whatsoever.
- II. **US Fed Chair Powell may step down:** US Federal Reserve Bank Chair Jerome Powell will likely step down from his post as criticisms of his tenure mount with US equity markets poised to slide towards Dow 20,000 in 2019. While President Trump will not remove Powell for cause, the mounting criticism of his tenure in 2019, especially from key institutional participants may see the 65-year old throw in the towel. Richard Clarida, an academic and vice chair of the Fed may prove more acceptable to the markets and Trump.

## 2019 FRONTIER AFRICA & ASIA FORECASTS

- III. **Netanyahu Out:** Israel's longtime Prime Minister Benjamin Netanyahu will likely be indicted and ultimately forced out of national politics as public support for charismatic Retired Army Chief Benny Gantz surges and the Likud party afraid of losing the elections pushes Netanyahu to resign as party leader.
- IV. **Saudi Arabia devalues Riyal:** Saudi Arabia's depleted state finances, falling oil prices and a stalled economy will force the country to finally devalue its currency, the Riyal by at least 10% bringing the country's overvalued currency peg closer to market equilibrium.
- V. **Nigeria's February 16 general election to be postponed:** Unable to resolve a dispute between the president and legislature over the law governing the upcoming polls, Nigeria's scheduled February 16 general election will be unexpectedly postponed hurdling the country into a political crisis and triggering significant capital flight.
- VI. **North Korea to ink new treaty with China, shun US deal:** Chinese President Xi Jinping's 2019 historic visit to North Korea will see the two countries ink a revamped treaty that will place substantial obstacles in the way of a US-North Korea deal. North Korea, which depends on China for more than 90% of its trade is looking to gain leverage in its own fraught bilateral relationship with the US, as is China.
- VII. **Cote d'Ivoire's President Ouattara may step down ahead of the 2020 polls:** Cote d'Ivoire's President Alassane Ouattara will likely step down in a surprise resignation to boost the candidacy of his lackluster deputy, Vice President Kablan Duncan and stifle the

candidacy of National Assembly Speaker Guillaume Soro ahead of the 2020 elections. An artificial handover to Duncan will dramatically raise the risks of a successful military coup.

- VIII. South Africa to launch partial privatization of SAA, Eskom:** Ahead of South Africa's early 2019 national elections, President Cyril Ramaphosa is set to launch an ambitious partial privatization plan to stabilize several state-owned enterprises, Eskom, SAA, Denel etc.
- IX. Malema to win nearly 20% of South African parliamentary vote:** Firebrand South African Black Nationalist politician Julius Malema is very likely to double, or even triple his national vote share in the 2019 national elections. Promising an accelerated land and mine nationalization agenda, Malema is expected to cut into the ruling African National Congress (ANC) party's strength in several poorer provinces and in Kwa-Zulu Natal.
- X. Oil price volatility to persist:** Crude oil prices will see a modest recovery from current levels in Q1 2019, but Brent will probably only move into the low \$60s. While the OPEC+ production cuts will see cheating, Saudi Arabia will take on a disproportionate share of the burden. The Trump administration will push for incremental reductions in imports of Iranian crude for countries with sanctions waivers. Holding a price floor will limit the slowing of US production growth, however, presenting a dilemma for the cartel.

# HAPPY NEW YEAR

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