

MNI South African Reserve Bank Preview: January 2026

Details:

Decision due Thursday, January 29th, alongside a press conference with Governor Lesetja Kganyago. The presser will start at 13:00GMT/15:00SAST and will be broadcast via the central bank's website and social media channels.

MNI Point of View: Cut Hangs In Balance

The South African Reserve Bank (SARB) is expected to decide between a 25bp cut to the repo rate and delaying the move until later in the year, with the decision seen as a very close call. When this preview went to print, analysts polled by Bloomberg were evenly split between a cut and a hold. While an increasingly benign inflation outlook and contained underlying price pressures could prompt central bankers to reduce borrowing costs, the Monetary Policy Committee (MPC) may as well demonstrate an on-brand cautious stance and choose to dose interest-rate cuts more conservatively. In our view, the decision is finely balanced. If the SARB decides to stand pat, however, it should be merely a brief pause in its easing cycle.

The inflation picture has been relatively benign, despite a modest upturn in headline CPI from its cyclical low of +2.7% Y/Y printed in March 2025. Inflation has since accelerated to +3.6% Y/Y in December, albeit with no evident signs of intensifying tensions in the economy and staying within the +/-1pp tolerance band around the new +3.0% Y/Y point-target. Core inflation quickened to +3.3% Y/Y at the end of the year as underlying price pressures remained contained. On the other hand, the upward trajectory of headline and core inflation may encourage MPC members to tread with caution and delay the next cut until March, after two sets of CPI data, a fresh BER Inflation Expectations Survey, and Finance Minister Enoch Godongwana's National Budget Speech slated for February 25.

Meanwhile, the balance of inflation risks has arguably shifted to the downside. The external environment remains disinflationary overall. Since the SARB's most recent monetary policy meeting in November, the rand has appreciated by ~7% against the US dollar and by almost 5% in trade-weighted terms. Global oil prices crept higher at the turn of the year but have proven relatively immune to the turmoil in Iran and Venezuela. Within South Africa, inflation expectations have continued to normalise. The most closely watched two-years-ahead expectations fell to a record low of +3.7% in 4Q25 from +4.2% previously amid a broader improvement in the anticipated inflation profile. Market-based measures of inflation expectations have been testing cyclical (5-year breakeven rate) and all-time (10-year breakeven rate) lows amid strengthening confidence in sustainable disinflation.

Speaking on the margins of the World Economic Forum, Governor Kganyago was similarly optimistic, as he told Bloomberg that 'throughout the year, the prints that we expect for each one of the months is that they will all have a 3% handle.' He added that by 2027 inflation will converge toward 'our new +3% Y/Y target that then says that we still have room' to cut rates, although he did not commit to any specific timing. In a subsequent interview for Arise News, he described the latest inflation data as 'in line with expectations of the Reserve Bank' but played down its importance as 'it's just the past,' while admitting that the outlook remains benign.

On the other hand, the SARB is in no rush to cut interest rates, with the MPC set to assess the costs and benefits of a delay. GDP data beat expectations in 3Q25 and high-frequency indicators suggested that economic recovery continued in 4Q25, with decent retail sales and Naamsa vehicle sales prints pointing to a buoyant consumer demand. In addition, structural reforms and monetary easing delivered last year continue to filter through into the real economy, boding well for medium-term growth prospects.

We see this week's monetary policy decision as a virtual coin toss between a hold and a 25bp cut. In his recent communications, Governor Kganyago indicated that South Africa's domestic inflation outlook is benign, and upside risks stem chiefly from potential external shocks. With the external environment turning less inflationary, the MPC could easily build a case for a cut. However, policymakers may as well preserve some ammunition and wait for more certainty on the inflation outlook. In that case, a pause this week would represent a delay rather than a hawkish pivot.

Data Watch

mni Central Bank Watch - SARB

January 26, 2025

MNI SARB Data Watch List						2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
	Current	3m ago	3m Chg	6m ago	6m Chg					
Inflation										
CPI YoY	% y/y	3.6	3.4	↑	3.0	↑				-0.23
Core CPI YoY	% y/y	3.3	3.2	↑	2.9	↑				1.53
PPI YoY	% y/y	2.9	2.1	↑	0.1	↑				1.16
Economic Activity										
Trade Balance Rand	ZARbn	37.7	2.4	↑	20.0	↑				1.95
Manufacturing Prod YoY	% y/y	-1.0	-1.6	↓	0.2	↓				-0.05
Absa Manufacturing PMI	Index	40.5	50.8	↓	48.8	↓				-1.62
SACCI Business Confidence	Index	132.3	120.0	↑	115.8	↑				2.04
Monetary Analysis										
Money Supply M3 YoY	% y/y	8.26	6.18	↑	6.86	↑				1.76
Private Sector Credit YoY	% y/y	7.79	5.86	↑	4.94	↑				1.66
Total Loans and Advances	ZAR bn	4767	4678	↑	4560	↑				1.32
Net Reserves	\$bn	71.14	67.86	↑	65.22	↑				1.48
Consumer / Labour Market										
Retail Sales YoY	% y/y	3.5	2.2	↑	4.0	↓				0.17
BER Consumer Confidence	Index	-9.0	-13.0	↑	-10.2	↓				0.43
Unemployment	%	31.9	33.2	↓	32.9	↓				-1.04
Non-farm payrolls QoQ	%q/q	0.3	-0.7	↑	-0.6	↓				0.98
Markets										
Equity (FTSE/Jse Top 40)	Index	115851	100951	↑	88758	↑				2.13
SA 10-Year Yield	%	8.10	9.17	↓	9.96	↓				-1.52
SA 2-Year Yield	bps	115	170	↓	219	↓				-1.41
Effective Exchange Rate	Index	104.82	98.80	↑	97.09	↑				1.70

Note: For quarterly data the 3m ago column will display the previous data point and the 6m ago column will display the data point prior to that.
Source: MNI, Bloomberg

Sell-Side Views

BNY Mellon: SARB To Cut Rates Further

- They expect the SARB to cut rates further to 6.5% as inflation continues to run around +3.5% Y/Y, which ensures a sufficiently anchored level of real rates.
- Fiscal credibility remains strong, and ZAR is benefiting from ongoing inflows. There is ample scope for duration addition in the current environment. The surge in metals prices is adding to interest and supporting the financial account, especially if hedge ratios on equity positions remain low.
- However, November figures pointed to a surprise sequential contraction in mining production, and BNY caution that price gains do not necessarily translate into higher activity levels.

Capital Economics: SARB To Stay Put This Week; 100bp Worth Of Cuts In Pipeline This Year

- Capital Economics expect the SARB to pause its monetary easing cycle this week on the back of caution amid the recent uptick in inflation but concede that there is an outside chance of a cut and remain confident that rates will ultimately drop further – by more than expected by most analysts.
- In a note from January 23, they note that market pricing points to a low, but meaningful, probability of a rate cut amid falling inflation expectations and comments from Governor Kganyago, who sounded increasingly confident about meeting the new inflation target.
- They write that spare capacity in the economy remains substantial, which should keep a lid on core prices, while the anticipated decline in oil prices (to \$50/barrel by the year-end) should keep headline inflation below +3.5% Y/Y this year.
- As a result, they expect the SARB to deliver 100bp worth of monetary easing this year, bringing the repo rate to 5.75%, well below the consensus and current market pricing.

Goldman Sachs: SARB To Deliver Dovish Hold

- They forecast an on-hold rate decision at the SARB's MPC meeting on January 29th — likely resulting from a split vote with dovish dissents — despite their expectation for significant dovish revisions to the inflation outlook.
- While Goldman see the case for a rate cut and view the decision as a relatively close call given the recent sharp rand appreciation, they think that the SARB would prefer to err on the side of caution and remain behind the curve in the cutting cycle.
- This is especially the case in the context of somewhat stronger recent growth data that reduce the urgency to cut rates, as well as in the presence of geopolitical risks that could pose upside to the oil price or downside to risk sentiment and the rand.
- In their view, further signs that administered price increases and inflation expectations are falling to levels consistent with the +3% Y/Y inflation target would give the MPC confidence to ease policy more decisively.
- Goldman think that the SARB and market pricing overestimate the neutral real rate (which they see at 2% vs. the SARB's 2.5% steady state estimate). Accordingly, their medium-term outlook for the policy rate is significantly more dovish than market pricing, with their 5% forecast vs. the SARB's 5.5% and current market pricing around 6.25%.

Investec: Next 25bp Cut Expected In March

- Their Chief Economist Annabel Bishop says that with the repo rate currently at 6.75%, 325bp above the inflation rate, and with CPI inflation expected to fall below +3.0% Y/Y in 2Q26, the high real interest rate in South Africa supports further interest rate cuts. Indeed, without an additional -50bp cut this year (expected to be spread over two meetings), the real interest rate will rise further, nearing 4.00% mid-year.
- Investec expect the next move in the repo rate will be in March this year, a 25bp drop as CPI inflation falls to +3.0% Y/Y in February, lower on a rise in inflation a year ago and the modest inflation environment. Quicker than expected growth is a risk to the inflation outlook, reducing the chance of interest rate cuts.

JP Morgan: On Hold, With Risks For Earlier Cut

- The SARB's policy stance is currently marginally restrictive, suggesting an easing bias as inflation is on track to decline from the current +3.6% Y/Y to the new +3% inflation target by year-end.
- Indeed, downside risks have intensified as the rand gained 4% on a trade-weighted basis since the November MPC meeting, supported by rising precious metal prices.
- However, food inflation presents a potential upside risk as a the food-and-mouth disease outbreak could now be significantly worsening, rather than abating. Moreover, services inflation has continued its climb higher to +4.2% Y/Y in December with a step up in housing inflation, while retail sales momentum is overall stronger than expected.
- JP Morgan think this reduces the urgency to act and keeps the SARB in a wait-and-see mode for now, maintaining a steady repo rate of 6.75% at its upcoming meeting.
- Beyond January, risks are increasingly shifting in favour of a March cut, in their view, rather than their current May baseline. They see a total of two cuts this year to a policy rate of 6.25%.

Nedbank: Unchanged For Now

- They believe that the MPC will leave the repo rate unchanged at 6.75% at the upcoming meeting, given that inflation has risen above its +3% Y/Y target and the SARB's November forecast pointed to some near-term stickiness.
- Nedbank note that inflation ticked higher in December and the upward pressure came mainly from housing costs as well as restaurant and hotel fees. Core inflation also rose slightly from +3.2% Y/Y to +3.3%; consequently, underlying price pressures remained well contained.
- Furthermore, the risks to the inflation outlook have tilted to the downside since the November MPC meeting. Global inflation has mostly eased further. Key commodity prices remain broadly supportive. The downturn in global food prices intensified towards the end of last year.
- In addition, the rand strengthened further, supported by continued weakness in the US dollar, expectations of further US rate cuts, the record-breaking rally in precious metal prices, and South Africa's receding risk premium.

- Upside risks still stem mainly from the increasingly uncertain geopolitical landscape, which could lead to renewed spikes in global risk aversion. Other concerns include high electricity and water charges, damage from persistent foot-and-mouth disease, and the unknown effects of extreme weather conditions.
- In their view, space for further easing will likely emerge later this year. Although they expect inflation to remain sticky over the next six months, their forecast suggests a sideways drift rather than an acceleration, with inflation staying within the 1% tolerance band.
- Given these assumptions, they forecast two 25bp rate cuts, around July and September, bringing the repo rate down to 6.25%. At this stage, the risks to this inflation and interest rate forecasts appear stacked to the downside.

Scotiabank: Further Unwinding Of Restrictive Policy Would Make Sense

- They expect the SARB to cut rates by 25bp this Thursday.
- Scotiabank note that the appreciating rand lends room for monetary easing. Up 7% since November, the rand has been benefiting from surging gold prices that are closing in on US\$5,000/oz.
- The currency's rise contributed to recent comments by the central bank in favour of possibly hitting the +3% Y/Y inflation target this year.
- At +3.6% Y/Y with core CPI at +3.3% Y/Y, they don't have far to go. By extension, a further unwinding of the restrictive policy stance may be sensible.