

MNI South African Reserve Bank Preview: July 2025

Details:

Decision due Thursday, July 31st, alongside a press conference with Governor Lesetja Kganyago. The presser will start at 14:00BST/15:00SAST and will be broadcast via the central bank's website and social media channels.

MNI Point of View: Opportunistic Disinflation

The prevailing view is that the combination of a benign inflation picture and risks to growth will prompt the South African Reserve Bank (SARB) to cut the repo rate by 25bp to 7.00%. Although the economic outlook is clouded by the unstable global tariff regime and other sources of uncertainty, domestic inflation appears stabilised and is expected to remain benign in the coming quarters. This underlying picture creates conducive conditions for an immediate interest-rate reduction, the outlook is complicated by ongoing work on inflation target reform. The SARB is in talks with the government amid efforts to leverage the current 'opportunistic disinflation' and change the inflation-targeting regime to anchor price growth at lower levels.

Heading into the meeting, the latest set of CPI data reinforced expectations of a cut this week. Headline inflation ticked higher to +3.0% Y/Y, the lower end of the SARB's target band, but narrowly missed the consensus estimate of +3.1%. Core inflation unexpectedly inched lower to +2.9% Y/Y from +3.0%, signalling that underlying price pressures remain contained. In addition, stable current inflation has facilitated the normalisation of inflation expectations. The latest Bureau for Economic Research (BER) survey showed that current-year expectations dropped to +3.9% Y/Y in Q2 from +4.4% earlier, while the benchmark two-years-ahead index fell to +4.5% Y/Y (the mid-point of the existing inflation target range) from +4.7% prior. While market-based measures of inflation expectations have stabilised lately, 5-year and 10-year breakeven rates operate below where they sat after the SARB's May 29 rate decision and in close proximity to multi-year lows. These conditions create conducive conditions for the central bank to seize the opportunity and loosen monetary policy further.

The case for easing is amplified by headwinds to economic growth. The recovery in domestic demand has failed to impress, while the risk of a contagion from geopolitics to trade remains elevated. When this preview goes to print, US tariffs on South African exports to the tune of 30% are still due to take effect on August 1, as Pretoria awaits a 'substantive' response to its trade framework proposal. Should the tariffs come into force on schedule, they would take their toll on the agricultural and automotive sectors, bolstering the case for monetary stimulus. At the same time, it is difficult to estimate the risk of escalation of trade tensions and the SARB is cognisant of the current uncertain environment. In recent weeks, Governor Lesetja Kganyago's repeatedly complained about the 'clouded' outlook and said that US tariffs and China's deflation have made forecasting a 'nightmare'. Considering the SARB's relatively conservative approach to its mandate, we expect this to discourage the panel from cutting interest rates by more than the standard 25bp.

Alongside the immediate opportunity to loosen monetary policy, the SARB is also looking to leverage the conditions of 'opportunistic disinflation' to revise its inflation target lower. However, the looming overhaul of the inflation-targeting regime complicates the outlook for monetary policy, with central bankers treading softly as they deliberate strategy for the transition period. As part of preparations for the reform, the SARB may append a scenario analysis to the usual set of projections, feeding an assumption of a +3% Y/Y point-target to its forecasting model, as it did last time. Furthermore, there is a chance that Governor Kganyago could offer some more details on the target review, for example by sketching a more detailed timeline for its implementation. However, most SARB watchers expect the formal announcement to come from the Finance Minister, with the next opportunity provided by the Medium-Term Budget Policy Statement (MTBPS) in autumn. Still, any fresh information from the Governor will draw much interest.

Data Watch

mni Central Bank Watch - SARB

July 29, 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	3.0	2.7	↑	3.0	→			-1.11	-1.11
Core CPI YoY	% y/y	2.9	3.1	↓	3.5	↓			-1.22	-1.22
PPI YoY	% y/y	0.1	1.0	↓	-0.1	↑			-0.48	-0.48
Economic Activity										
Trade Balance Rand	ZARbn	21.7	20.0	↑	34.0	↓			0.82	0.82
Manufacturing Prod YoY	% y/y	0.5	-3.0	↑	-1.7	↑			0.87	0.87
Absa Manufacturing PMI	Index	48.5	48.7	↓	46.2	↑			1.13	1.13
SACCI Business Confidence	Index	115.8	120.0	↓	114.2	↑			-0.54	-0.54
Monetary Analysis										
Money Supply M3 YoY	% y/y	7.27	5.76	↑	6.71	↑			0.54	0.54
Private Sector Credit YoY	% y/y	4.98	3.47	↑	3.84	↑			1.19	1.19
Total Loans and Advances	ZAR bn	4623	4556	↑	4456	↑			1.63	1.63
Net Reserves	\$bn	65.22	63.17	↑	60.37	↑			1.31	1.31
Consumer / Labour Market										
Retail Sales YoY	% y/y	4.2	4.1	↑	7.6	↓			0.79	0.79
BER Consumer Confidence	Index	-10.0	-20.3	↑	-6.2	↓			0.44	0.44
Unemployment	%	32.9	31.9	↑	32.1	↑			0.71	0.71
Non-farm payrolls QoQ	%q/q	-0.7	0.2	↓	-1.0	↑			-0.59	-0.59
Markets										
Equity (FTSE/Jse Top 40)	Index	91658	81410	↑	75381	↑			2.20	2.20
SA 10-Year Yield	%	9.82	10.63	↓	10.33	↓			-1.59	-1.59
SA 2-Year Yield	bps	207	236	↓	204	↓			-0.42	-0.42
Effective Exchange Rate	Index	98.13	98.71	↓	100.64	↓			-0.70	-0.70

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

BER: Expecting 25bp Cut, Slight Chance Of Hold Remains

- They expect the SARB to cut by another 25bps, although there is a slight chance the monetary policy committee (MPC) decides to keep rates on hold.
- In addition to the actual decision, the SARB is expected to publish a +3% inflation scenario once again. In BER's view, it will be interesting to see if and how this has changed relative to May. If not mentioned explicitly in the statement, the Governor is sure to be quizzed about the progress with the potential move towards a target of +3% in the Q&A afterwards.
- Although the BER deem this unlikely, as they expect the announcement to come from the Finance Minister himself, they think there is a slight possibility that the Governor firms up timelines next week. They note that the markets would welcome more clarity.

BNY Mellon: 25bp Cut Likely Ahead Of Potential Imposition Of US Tariffs

- They write that the South African Reserve Bank is expected to cut its repo rate by 25bp to 7.00%.
- This follows June's headline inflation edging up to +3.0% Y/Y, still at the lower bound of its +3-6% Y/Y target, driven by higher food, rental and utility costs alongside declining fuel prices.
- Since August 2024 the SARB has trimmed rates at four of five meetings to provide some rate relief and ahead of tariff risks – the upcoming meeting is just ahead of the potential imposition of a 30% US tariff on South African exports on August 1, adding pressure to the economic outlook.
- Markets expect another 25bp reduction by year-end as the bank continues to emphasize flexibility, stating that future adjustments will depend on evolving macroeconomic conditions and the pace of disinflation.

Goldman Sachs: Unanimous Vote For 25bp Cut Most Likely

- They forecast a 25bp rate cut that they expect to be unanimous among MPC members, with risks in their view tilted towards potential dovish dissents in favour of a 50bp cut. This compares to the consensus for a

'hawkish' 25bp cut with dissenting votes in favour of keeping rates on hold (and a minority of forecasters expecting a hold).

- Developments since the May MPC meeting have continued to be dovish. Headline and core inflation remain weak; Q2 inflation expectations declined by more than expected and their composition was dovish – despite the survey likely being conducted prior to the May MPC and thus not reflecting the SARB's communication around a lower inflation target; GDP growth in Q1 was weak and accompanied by negative backward revisions; and the rand has strengthened somewhat further, supported in part by positive terms of trade developments.
- Partially offsetting these, oil prices have risen, food inflation has exceeded the SARB's forecasts, uncertainty on US trade policy remains elevated ahead of August deadlines, and the market pricing implies some concern over risks to the Fed's independence. Given these dynamics, Goldman think the case for a further rate cut remains strong, and would not be surprised if there is some discussion of a larger 50bp rate cut (potentially reflected in the vote count, as was the case in May).
- Outside of the rate decision and surrounding communication, the market is likely to focus on any additional information provided on the SARB's proposal to reduce the +4.5% Y/Y target mid-point (of the +3-6% range) to +3%.
- They note that the market consensus on the rate outlook under the +3% target scenario is much more hawkish than that implied by the SARB's path and Goldman's own modelling. They expect that the MPC will double down on its messaging around its ability to deliver interest rate cuts in both the short and medium term, communication that the market would likely interpret as dovish.

JP Morgan: SARB Likely To Cut Policy Rate To Neutral Stance

- In JP Morgan's view, the SARB is likely to cut the policy rate further by 25bp to a neutral stance of 7%.
- At the last meeting, the SARB shifted dovish as it recognized that the subdued inflation reasons were not only temporary, as initially presumed, and that the state of the economy was softer than so far projected.
- On balance, the outlook remains towards easier policy as the growth outlook may be revised down further (once the tariff outcome is somewhat clearer) and there is a scope for a further downward revision to 2H25 inflation on FX passthrough.
- However, the looming inflation target change complicates the outlook. The SARB has signalled a clear preference for a lower inflation target and may already now prefer inflation outcomes securely below the target mid-point.

Nedbank: Seeing Space For Another Cut

- They predict another cut of 25 basis points at this week's MPC meeting because, in their view, inflation remains tame, the risks to the outlook are relatively balanced, and demand pressure on prices is timid at best.
- Inflation inched higher from +2.8% Y/Y in May to +3.0% in June, still comfortably below the 4.5% target. Continued fuel price deflation and fading core inflation kept the impact of higher food prices in check. In essence, the sources of upward pressure remained few and isolated, with over 66% of the goods and services in the consumer price index rising by less than 4.5%. Just to underscore the benign environment, core inflation eased from +3% Y/Y in May to +2.9% in June.
- Since the May MPC meeting, the risks to the inflation outlook still appear broadly balanced. In Nedbank's view, food prices pose the most significant upside risk over the near term. On this front, a low base will amplify the impact of higher international food prices and potential supply disruptions caused by fresh outbreaks of foot-and-mouth disease. On the other hand, healthy local and global field crops should offer some counterweight. Furthermore, international oil prices have fallen to around \$70 per barrel as the focus shifted from the conflict in the Middle East to underlying market fundamentals.
- Nedbank still see inflation rising gradually off a low base, primarily driven by higher food prices, but contained by low fuel prices, a steady rand, and patchy domestic demand. Headline inflation is forecast to peak around +5.0% Y/Y in April next year before gradually returning to +4.5% throughout 2027. Based on this trajectory, they still expect inflation to average +3.5% this year, but have slightly reduced their forecasts for 2026 and 2027 to +4.5% and +4.4%, respectively.

Scotiabank: SARB Widely Expected To Lower Policy Rate

- They note that the SARB is widely – but not unanimously – expected to cut its policy rate by 25bps to 7% on Thursday.
- The SARB would pick up where it left off the last time it cut back in January in a step that took the rate down by 100bps starting last September.
- Previously provided forward guidance noted that "rates move steadily lower in the scenario as inflation comes down".
- Inflation is currently at the lower end of the +3-6% Y/Y inflation target range. Trade frictions with the US and trade frictions across the global economy weigh upon the nation's export exposures.