

## MNI South African Reserve Bank Preview: May 2025

### Details:

Decision due Thursday, May 29<sup>th</sup>, 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: Will SARB Resume Cuts?

Consensus is leaning towards a 25bp cut at South African Reserve Bank's (SARB's) monetary policy meeting this week, as recent price dynamics have proven relatively benign, with headline inflation tracking below the +3.0-6.0% Y/Y target range. However, the wider perception is that it is a close call, with upside inflation risks further ahead and broader uncertainty around the outlook encouraging the Monetary Policy Committee (MPC) to remain cautious. In the meantime, SARB watchers will be on the lookout for any announcements surrounding ongoing talks with the National Treasury on the inflation target revision.

Benign price trends have continued since the MPC's March meeting. Price pressures have eased further across both headline and core metrics, with overall inflation undershooting the +3.0-6.0% Y/Y target range in both March (+2.7%) and April (+2.8%), while CPI ex-food and energy slowed to +3.0% Y/Y last month. Considering that the SARB has generally preferred to focus on the target mid-point (+4.5%), this gives the rate-setting panel a degree of comfort, should they decide to reduce interest rates this time around. Although the SARB is in talks with the National Treasury on a potential switch to a lower, narrower target, Governor Kganyago previously dismissed speculation that the SARB was operating a 'secret inflation target' in anticipation of future reforms.

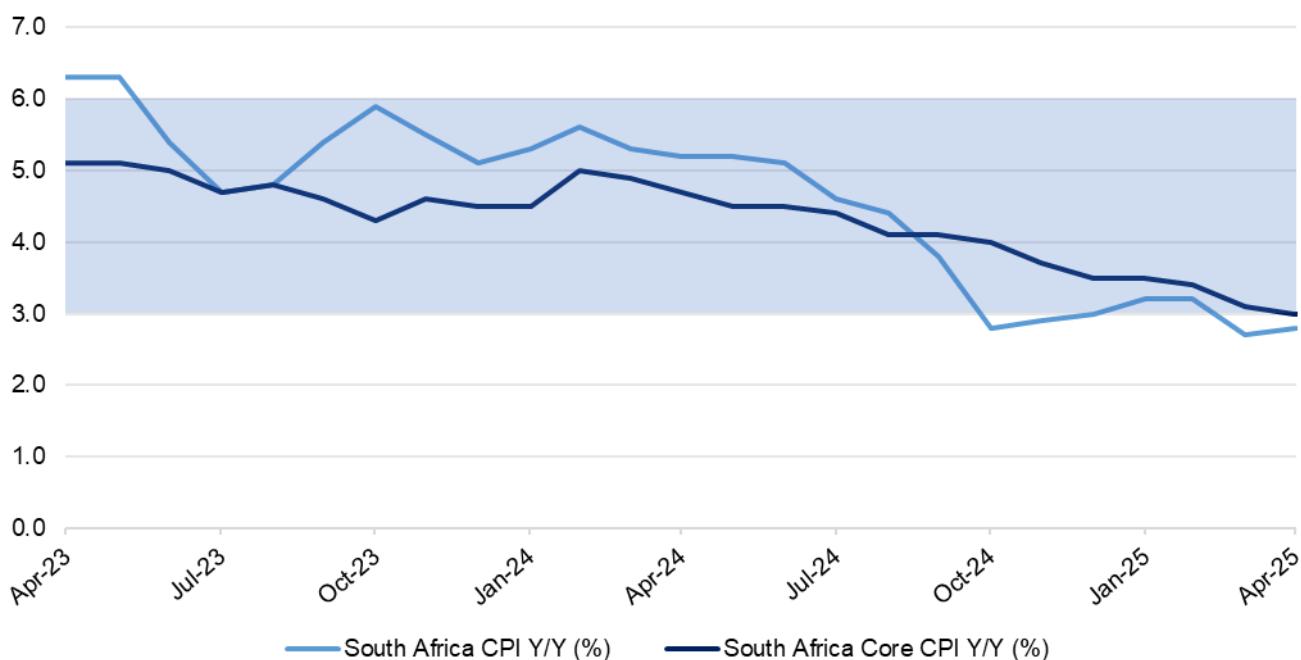


Figure 1. South Africa's CPI & Core CPI Y/Y (%). Source: MNI – Market News/Bloomberg.

On top of that, immediate upside inflation risks have arguably diminished. The rand has recuperated losses incurred on the back of the implementation of US tariffs and is around 1.5% stronger than in the aftermath of the SARB's March monetary policy meeting, as the US administration walked back some of its tariffs. Despite a widely publicised clash between Donald Trump and his South African counterpart over the alleged persecution of Afrikaner farmers, local source reports pointed to progress on bilateral trade matters, raising hopes for a lowering of tariff barriers. Furthermore, political consensus around Budget 3.0 has reduced South Africa's risk premium. In addition, global oil prices remain depressed, with Brent trading around \$65/barrel.

As a reminder, the SARB paused its monetary easing cycle in March in a 4-2 vote, with two dovish dissenters. The decision was underpinned by an asymmetric risk profile – MPC members were content about short-term inflation developments but assessed medium-term risks to the upside and pointed to 'extreme levels of uncertainty' in the global economy. Although the picture is arguably somewhat clearer now than a couple of months ago, there is still substantial uncertainty around US foreign and domestic fiscal policy. Furthermore, there is a marginal risk of quiet preparations for the expected revision of the inflation target being factored into current rate decisions.

Heading into the meeting, a clear majority of the 21 economists polled by Bloomberg expect the SARB to reduce rates, but many of them flag a risk of an on-hold decision, while six dissenters call for an extension of March's pause in rate-cutting. South Africa's 1x4 FRA contracts trade around 12bp shy of 3-month JIBAR, reflective of split consensus. Looking further out the curve, the profile of the FRA curve is relatively flat, suggesting that the market sees the repo rate as nearing its terminal levels in this cycle. We think that a continuation of favourable short-term price dynamics and a reduction in inflationary risks have increased the odds of a rate cut this week, although the SARB's assessment of longer-term risks remains a puzzle.

## Data Watch

### mni Central Bank Watch - SARB

May 27, 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						
<b>Inflation</b>											
CPI YoY	% y/y	2.8	3.2	⬇️	2.8	➡️				-1.50	
Core CPI YoY	% y/y	3.0	3.5	⬇️	4.0	⬇️				-1.38	
PPI YoY	% y/y	0.5	0.7	⬇️	1.0	⬇️				-0.28	
<b>Economic Activity</b>											
Trade Balance Rand	ZARbn	24.8	14.7	⬆️	12.6	⬆️	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
Manufacturing Prod YoY	% y/y	-0.8	-1.2	⬆️	-1.3	⬆️					1.14
Absa Manufacturing PMI	Index	44.7	45.3	⬇️	52.6	⬇️					0.32
SACCI Business Confidence	Index	123.5	121.0	⬆️	110.2	⬆️					-0.95
<b>Monetary Analysis</b>											0.97
Money Supply M3 YoY	% y/y	5.75	6.71	⬇️	7.25	⬇️	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
Private Sector Credit YoY	% y/y	3.45	3.84	⬇️	4.63	⬇️					-0.77
Total Loans and Advances	ZAR bn	4555	4456	⬆️	4439	⬆️					-1.44
Net Reserves	\$bn	64.32	61.33	⬆️	61.20	⬆️					2.16
<b>Consumer / Labour Market</b>											1.92
Retail Sales YoY	% y/y	1.5	3.1	⬇️	1.0	⬆️	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
BER Consumer Confidence	Index	-20.3	-6.2	⬇️	-5.5	⬇️					0.11
Unemployment	%	32.9	31.9	⬆️	32.1	⬆️					-0.91
Non-farm payrolls QoQ	%q/q	0.1	-1.0	⬆️	0.6	⬇️					0.71
<b>Markets</b>											0.05
Equity (FTSE/Jse Top 40)	Index	86171	77802	⬆️	77328	⬆️	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
SA 10-Year Yield	%	10.44	10.40	⬆️	10.57	⬇️					2.18
SA 2-Year Yield	bps	242	215	⬆️	540	⬇️					0.83
Effective Exchange Rate	Index	97.50	98.12	⬇️	100.73	⬇️					-0.51
											-2.23

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: SARB May Err On Side Of Caution

- The Bureau for Economic Research believe that there will surely be lively discussions among MPC members, and it is unlikely to be a unanimous decision. While a strong case can be made for further easing (price pressure remains subdued with a relatively benign inflation outlook as the economy is under pressure), they believe the SARB may again err on the side of caution and keep its rate unchanged.
- They write that when thinking about SARB decisions in recent months, they have started to talk about what the SARB is likely to do, but stress that this is not always the same as what the SARB could, or even should, do (which in their mind, would have been to cut a bit more aggressively at the start – but hindsight is 20/20 of course).
- That said, on Tuesday, the Reserve Bank of Australia (RBA) cut rates for a second time this year, to a two-year low, despite warning about heightened global uncertainty. However, with inflation around target and risks seen as balanced, a cut was seen as appropriate – there is a chance the SARB agrees with respect to SA.

### BNY Mellon: SARB Expected To Cut Repo Rate But There Is Case For Hold As Well

- They write that the South African Reserve Bank is expected to cut the repo rate to 7.25%.
- Even though April inflation edged up to +2.8% Y/Y it remains below the 3-6% target range.
- FRA pricing supports easing expectations but given the current environment there is a compelling case for a hold as well, with potential cuts later in the year.
- The central bank is likely to maintain a cautious stance amid global uncertainties and domestic fiscal challenges. However, the market has retained confidence regarding the budgetary outlook and the more assertive inflation target from SARB, which combined can prove supportive for real rates and duration flows, which reversed again this week after a good run since the end of April, according to iFlow.

### Goldman Sachs: Expecting Unanimous Vote For 25bp Repo Rate Cut

- Following the hold in March (resulting from a 4-2 decision, with two dovish dissents), Goldman expect the MPC to deliver a 25bp repo rate cut, in line with market expectations and consensus. In their view, the decision is most likely to be unanimous among MPC members in contrast to their assessment of the market consensus for a split vote (with 1-2 hawkish dissents). In their view, risks for dissent are two-sided (for on hold and a 50bp cut).
- Goldman write that developments have been dovish since the March MPC meeting. Inflation has softened by more than expected, led by broad-based weakness in core, demand-sensitive goods/services components (where price growth in the past year and as of the April CPI print is tracking around +1% Y/Y, far below the +4.5% target mid-point). Activity has weakened and they have lowered their Q1 GDP forecast to +0.1% Q/Q, as well as downgraded the outlook for the remainder of the year on account of weaker global growth. Additionally, the rand has rebounded sharply against the dollar and is now flat on the year in trade-weighted terms.
- In their view, these developments are likely to translate into significant and dovish forecast revisions to both growth and inflation. Along with an easing of concerns over domestic fiscal and political risks on the back of the recently tabled budget and the strengthening of the rand, they think this also argues for the removal of the assessment of upside inflation risks.
- In Goldman's view, weak inflation and growth, an easing of FX risks (and scope for currency appreciation) and a still-restrictive policy stance make a clear case for further easing, arguably even to a below-neutral policy setting. As such, their baseline is for a unanimous vote for a 25bp rate cut, although they are sympathetic to the case for a larger 50bp cut (and see the possibility of a dissent in this direction).
- On the other side, the case for caution here would have to hinge on either a) global concerns; and/or b) a potentially more hawkish reaction function in light of the SARB's well-articulated desire to push for a lower inflation target. The former is mostly reflected in the MPC's eyes in risks to the rand exchange rate (which have recently eased, and possibly flipped towards appreciation pressure). On the latter, the policy decision sits with National Treasury, which has signalled that no announcement is imminent (and Goldman are sceptical that there is currently political support for lowering the inflation target).

- They thus think that it would be premature for the SARB to conduct policy now so as to front-run any potential reduction of the target down the line, which in the best case scenario they could envisage taking place sometime next year. Nonetheless, these two factors introduce some risk of a hawkish dissent in favour of keeping rates on hold.

**JP Morgan: SARB To Cut Repo Rate By 25bp**

- They expect the SARB to cut the repo rate by 25bp (previously expected for July).
- The MPC likely will retain a cautious approach given the substantial uncertainty around the global outlook, in their view. However, they note that visibility has improved somewhat compared to March and the rand reaction to tariff announcements has been far less than the 15% depreciation assumed in its risk scenario.
- They expect a split decision with a further cut in July to 7%.

**Morgan Stanley: Cut More Likely In May Than July**

- They write that with key near-term event risks behind us, South Africa's services inflation steadily sliding below +4% Y/Y, the rand overall stronger and the extent of global outlook uncertainty somewhat easing, they think the SARB may already ease in May rather than July.
- No inflation target change was announced at the Budget and the finance minister did not make references, but the SARB (in addition to Treasury) has referred to joint technical work being at an advanced stage; MS expect an announcement over the next few months.

**Nedbank: Fear Of Unknown Will Likely Keep Interest Rates On Hold**

- They expect the SARB to leave interest rates unchanged but admit that it is a difficult one to call. In their view, the decision hinges on how much weight the Committee places on recent price dynamics relative to potential upside risks posed to the inflation outlook by a highly unpredictable global environment.
- If the focus falls on the underlying price dynamics, a strong case can be made for further rate cuts, in Nedbank's view. Recent inflation outcomes have been benign. Inflation increased slightly to +2.8% Y/Y in April but remained well below the SARB's +4.5% target. More importantly, more evidence emerged of subdued underlying price pressures. As expected, food prices increased, but fuel prices declined further. Finally, the prices of around 72% of the goods and services in the consumer price index rose by less than +4.5%. As a result, core inflation eased to +3%.
- The upside risks to the outlook have also subsided since the March meeting. Nedbank still see food prices rising off last year's low base. However, a healthy summer harvest will partly contain the impact of higher global food prices, keeping the upward slope relatively shallow. International oil prices have declined sharply in recent weeks. OPEC+ and other producers increased supply as global demand prospects weakened amid increased protectionism by the US and retaliation by China. These developments are unlikely to be reversed quickly. Even the rand proved more resilient than Nedbank anticipated. The currency benefitted from some good domestic news and a lacklustre US dollar, weighed down by US tariff uncertainty and mounting fiscal concerns. Consequently, Nedbank's inflation forecast aligns with the SARB's projections in March, with the headline figure averaging +3.5% in 2025 and +4.5% in 2026 and 2027. In the context of a +4.5% inflation target, there is space for further cuts of around 50bp in this cycle.
- Nedbank argue that the decision becomes murkier if MPC focuses on potential upside risks to the inflation outlook. The MPC paused in March because US policy uncertainty posed downside risks to the rand and upside risks to inflation. Since then, clarity has been elusive. US trade policy is still evolving and changing. Despite concessions to some countries, notably China, US tariffs are still higher than at any other time in its long history. While the inflation effects are not yet visible in the numbers and are largely unknown, recent indicators suggest that the US economy is losing momentum. The US Federal Reserve (Fed) and the markets are also in a standoff. The Fed has kept its policy rate on hold to assess the impact of the policy changes on inflation and economic activity. In contrast, the markets are discounting cuts of 50bp in the second half of the year in anticipation of a faltering economy and higher unemployment. At the same time, President Trump's budget bill is making its way through the legislature, threatening to weaken America's already compromised debt metrics even further. The rising fiscal risks have alarmed global investors and soured sentiment towards US Treasuries, driving bond yields up and weighing on the US dollar. In conclusion, the risk of renewed market volatility remains high due to fragile investor sentiment, battered by

the relentless barrage of US policy changes. With the switch to a lower inflation target looming, the MPC will likely wait for more clarity.

- Nedbank's central forecast is for rates to remain unchanged for the rest of this year. However, they think that if the Fed cuts later this year, the MPC could easily follow without placing undue pressure on the currency.

#### **Scotiabank: Softer Core CPI May Have Tipped Balance To 25bp Cut**

- They expect the South African Reserve Bank to cut 25bps to 7.25% on Thursday.
- A slight weakening of core CPI inflation to +3% Y/Y this past week may have tipped the balance to a cut as it extends the downward trend over the past two years, in their view.
- They note that a great deal has changed in the world since the last decision way back on March 20th when SARB held. The rand has slightly appreciated since then and readings like retail sales and manufacturing output have been weakening. Trump's deplorable ambush of President Ramaphosa this past week was based on distorted and false facts, but Ramaphosa showed composure and discipline that supported the currency whereas he could well have turned the spotlight back on US race issues.

#### **Société Générale: Risks Have Diminished Sufficiently To Resume Cuts**

- They expect the SARB to cut by 25bp in May and again in July, with the terminal repo rate at 7%.
- SocGen note that CPI developments have been benign for some time, but more importantly, external risks have diminished sufficiently for the MPC to resume rate cuts.