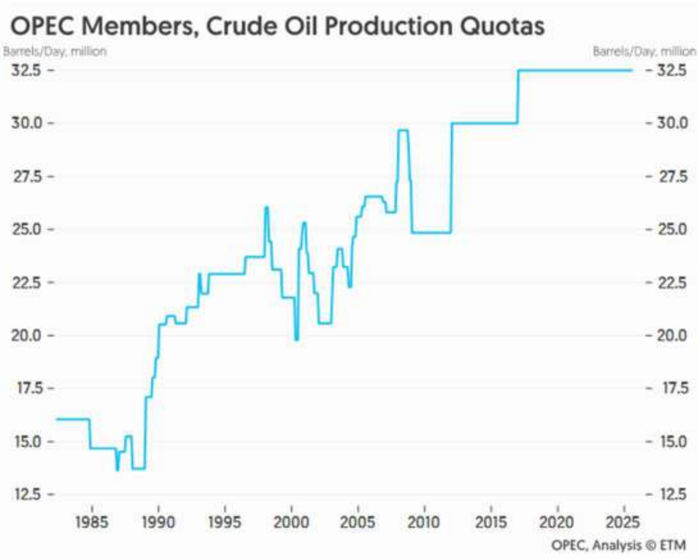
Key points

- The outlook for global oil prices has been just as volatile as what actual prices have experienced in recent weeks. Although fresh sanctions on Russia and Iran could disrupt trade flows and supply, slowing economic growth is likely to dampen demand. OPEC+ is also hiking output to further pressure prices through higher supply.

- The expected decline in oil prices will have a material impact on SA's trade account, and its terms of trade will remain positive and assist the ZAR in gaining some resilience. Weaker global oil prices provide an "easy win" as South Africa struggles to build any significant momentum in its reform agenda.

BASELINE VIEW: The outlook for weaker oil prices, combined with a strong gold price, and expectations of Fed easing that will continue to support other metals' prices, means that SA's terms of trade will remain supported over the coming months. This will provide a strong pillar of support to the ZAR, increasing its resilience and helping it take greater advantage of what will be a softer USD as the Fed cuts rates.

OPEC output hikes keeping oil under pressure



OPEC+'s surprise decision to hike output to 547,000 barrels per day from September has been linked to a mix of strategic and political motives.

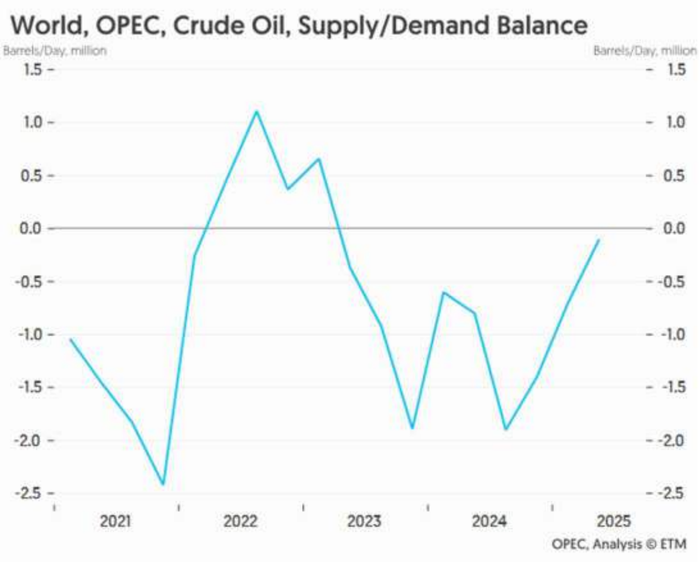
Officially, the group cites bullish expectations for demand in late 2025 and to unwind some of the involuntary cuts during the Covid pandemic, despite most forecasts warning of recession risks.

Analysts, however, point to other possible drivers: appeasing Donald Trump, who has pushed for lower energy prices; sending a warning to quota-breaching members such as Iraq and Kazakhstan by showing how oversupply can hurt prices; and defending market share by putting pressure on U.S. shale.

With many American producers needing Brent above $65 per barrel to break even, sustained low prices make Trump's revived "drill, baby, drill" call far less viable.

The move recalls past OPEC tactics, such as the 2020 price war, where flooding the market disciplined members and undercut competitors. The U.S. Energy Information Administration (EIA) expects Brent to average under $60 in Q4 2025, falling below $50 in early 2026, adding further strain on U.S. producers' margins.

Overall oil demand slows amid EVs and a mixed green energy transition



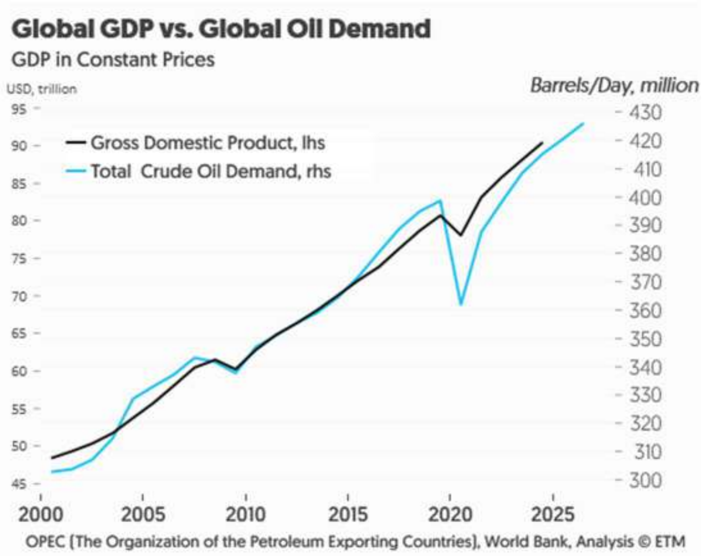
Despite OPEC's bullish outlook, signs of slowing oil demand growth are hard to ignore, shaped by the rise of clean technologies and uneven global commitment to the energy transition.

The IEA reports that oil's share of global energy demand fell below 30% in 2025, a multi-decade low, as EV adoption, biofuels, and renewables continue to erode fossil fuel consumption.

Global EV sales are on track to hit 20 million this year, potentially displacing more than 5 million barrels per day of oil by 2030. Yet momentum is uneven: July's 21% year-on-year EV sales growth was the slowest in over six months, reflecting weaker subsidies, higher battery costs, and consumer caution in some markets.

Meanwhile, the broader green transition is showing cracks. Europe and China are tightening climate rules, but others are stepping back, most notably the U.S., which withdrew from the Paris Climate Accord in early 2025, signalling a shift toward prioritising energy security and affordability over decarbonisation. This policy divergence suggests oil demand could plateau over the long term, but its decline may be slower and more volatile than once projected.

Weaker global growth to challenge OPEC's demand assumptions

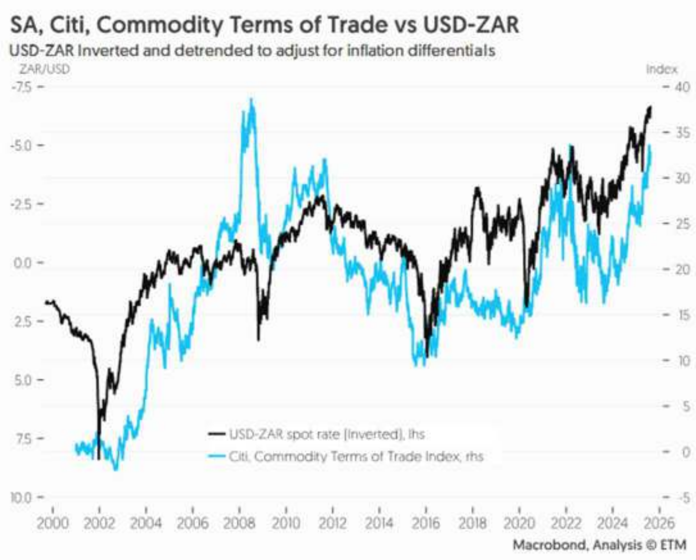


Simply put, if the global economy stalls, oil demand will suffer. Current macroeconomic indicators point to a softer growth outlook and the market has started to price this in. The World Bank now projects global GDP growth of just 2.3% in 2025, well below earlier estimates, with only a modest recovery expected through 2026–27.

The IEA warns that elevated supply and sluggish consumption could create a record oil surplus in 2026, underscoring broader economic weakness. The agency has repeatedly downgraded its forecasts for oil demand growth, which is now projected to rise by around 700 kb/d this year and next

While OPEC has raised its 2026 demand growth forecast to 1.4 million barrels per day, citing pockets of economic resilience, this optimism faces mounting downside risks. Weak consumer confidence, persistent trade tensions, and the threat of recession all cloud the outlook, making any demand recovery fragile in the year ahead.

SA’s terms of trade a strong driver of ZAR performance



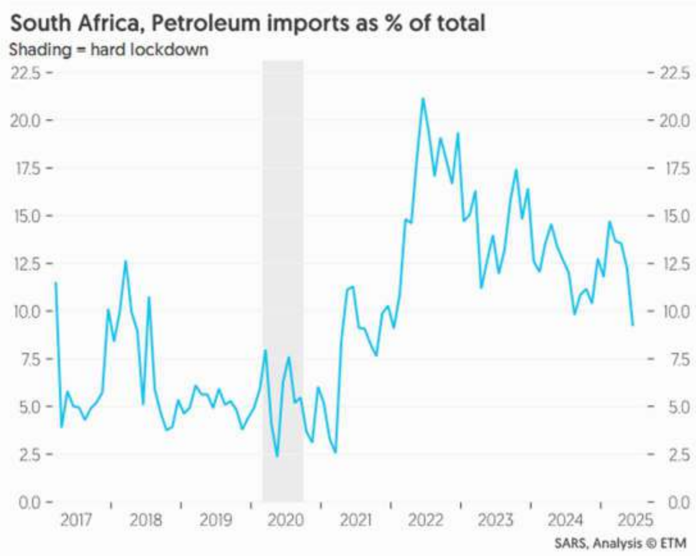
As one can see by the chart on the left, SA’s terms of trade have a very strong influence on the performance of the ZAR. While there have been periods of a breakdown in the relationship, these have come at times when local political and fiscal risks have risen sharply.

However, the relationship tends to quickly re-establish itself once the local noise dies down and fundamentals come back into focus.

While political risk cannot be ignored at the moment, an environment of a weakening USD has meant that the ZAR can enjoy the benefits of its strong terms of trade.

The question now becomes how much stronger SA’s terms of trade can become, and subsequently how much further the currency can appreciate, if oil prices weaken further over the coming months.

Lower crude prices to bolster trade account



The global price of crude oil has a notable impact on the value of petroleum that South Africa imports, one of the largest items in SA’s overall import bill.

As crude prices have dropped, so too has the percentage of total imports made up by petroleum products.

This is significant as it means that even if fuel imports by volume remain unchanged, or even potentially increase amid a pick-up in economic activity, the amount of foreign currency leaving the country is reduced.

South Africa has, to some degree, failed to take advantage of the improvement in the terms of trade that resulted from the surge in gold prices, given weak mining sector performance and the inability to export amid Transnet’s woes.

However, an improvement in the terms of trade as a result of lower global oil prices will make for easier improvements to the trade account.

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