SARB September MPC Review

TreasuryONE
Optimising Your Cash Flows

etm ANALYTICS

Outcome

Unchanged

Repo Rate: 7.00%

Vote Split: 4-2

Summary

The SARB left interest rates unchanged at the September MPC meeting. The vote was split: four members opted for no change, while two preferred a 25bp rate cut.

The outcome matched our estimates and the broader consensus within the market. However, there were some interesting developments, including a shift higher for inflation estimates across the forecast horizon.

Economic growth forecasts were also revised higher, while the QPM output shifted to suggest one fewer 25bp rate cut through 2027. The QPM suggests that a rate cut at the November MPC meeting is still possible.

Dashboard

		Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25
Economics	Consumer Inflation	0,3	0,5	0,3	1,0	2,9	2,5
	Credit Growth	2,5	3,4	4,4	5,1	4,2	4,2
	SARB's Leading Indicator	5,1	4,1	2,4	2,9	2,7	2,5
	ABSA PMI	2,9	0,5	0,0	2,9	4,9	3,7
Market	SA-US Yield Spread	0,8	1,0	1,2	0,0	0,0	0,0
	SA 5y Breakeven Rate	4,1	4,2	2,5	1,4	1,2	1,0
	SA 10y Breakeven Rate	2,5	2,7	2,2	0,7	0,0	0,0
ETM	ZAR Sentiment Indicator	1,7	3,5	4,3	3,1	3,1	4,5
	Inflation Risk Indicator	6,3	6,1	5,9	3,1	3,7	4,2

**Ranked 1 – 10 based on 5-year history*

***Green indicates the measure favours looser monetary policy, Red favours tighter policy*

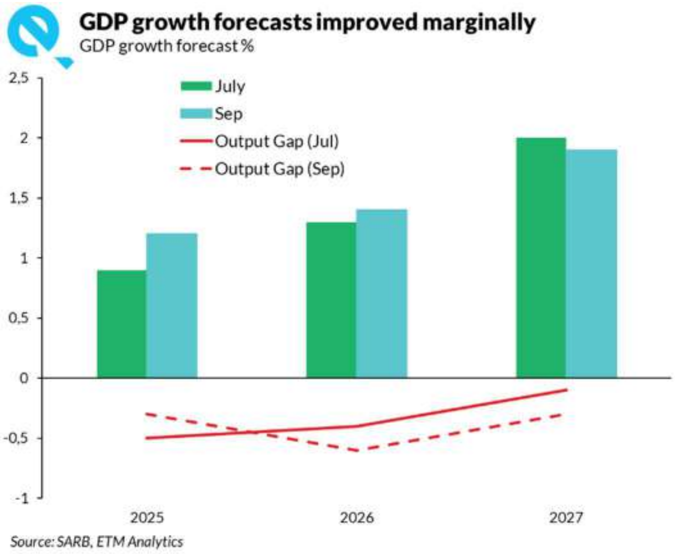
The SARB kept its benchmark rate unchanged at 7.00%, matching consensus estimates and our base case. While there was the risk of a rate cut today, the SARB's push to anchor inflation expectations near its preferred target of 3% meant that the majority of MPC members favoured keeping policy tighter, at least for now. As can be seen in our dashboard above, macroeconomic and financial market conditions still favour looser monetary policy, but the uncertainty regarding the timing of the inflation target shift has likely pushed out the timeframe. Currently, inflation remains low but faces risks from higher administered prices. These risks were deemed enough to raise the SARB's inflation forecasts across the board, albeit keeping them well below 4.00% through 2027.

Economic activity indicators remain weak, but the economy's surprise performance in Q2 has seen the SARB raise its growth estimate for this year to 1.2% from 0.9%. However, GDP growth is still not forecast to rise above 2.0% over the forecast horizon, indicating that the SARB does not see enough evidence of structural reforms being implemented to elevate South Africa out of its low-growth state.

Meanwhile, ETM's proprietary indicators continue to favour lower interest rates going forward, with inflation risk still assessed as being very low, albeit off the lows seen earlier this year. Furthermore, our ZAR sentiment indicator does not point to any major near-term depreciation risk for the currency, which will help to anchor inflation.

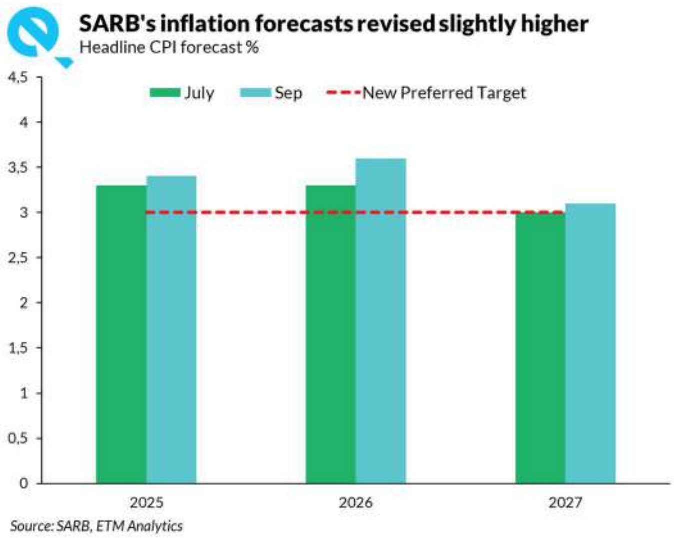
Overall, the meeting is unlikely to bring an end to the current easing cycle. While rates were kept on hold and the tone was notably less dovish than seen before, the SARB is taking some time to assess how recent monetary policy easing is affecting the economy, and if inflation expectations will continue to hold around the new preferred inflation target of 3%. If CPI inflation surprises to the downside over the next two months, and inflation expectations remain contained, there will be scope for a resumption of easing at the final MPC meeting for the year. However, if these factors play out according to the SARB's revised estimates, then we should see a resumption of rate cuts in early 2026.

Analysis



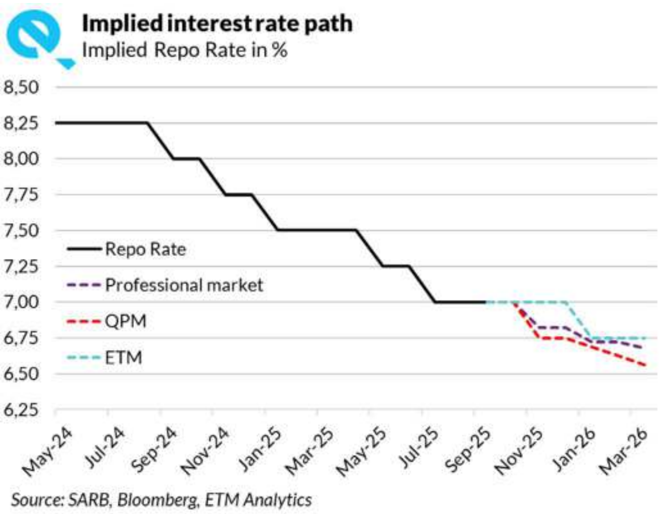
In a rare positive development for economic growth, the SARB revised its estimates higher through 2027. The latest GDP figures showed the strongest quarterly growth in two years, prompting the central bank to revise the full-year growth forecast from 0.9% to 1.2% despite weaker export prospects due to higher tariffs. While the report was encouraging, we do caution against overinterpreting a single strong quarter.

Growth is expected to remain modest in the coming years, supported by some positive cyclical indicators such as credit extension. However, achieving stronger, sustainable growth will require a significant boost in investment, as we have often highlighted. Overall, risks to the growth outlook are seen as balanced by the SARB, although it could be argued that they remain to the downside given SA's structural hindrances and the lack of progress made in eliminating government corruption and inefficiencies.



The previous MPC meeting brought a major surprise in the SARB's CPI revisions and the acknowledgement that it is looking to anchor inflation and inflation expectations at 3% rather than the midpoint of the target range at 4.5%. Since that MPC meeting, inflation has ticked higher but remained largely contained, and inflation expectations have lowered significantly. Market expectations, as judged by breakeven rates, are at record lows, while the BER's survey indicates that the average estimate for inflation for 2025 is just 3.8%.

Therefore, it came as a bit of a surprise to see that the SARB raise its inflation expectations for this year and through to the end of 2027. The main factor here is administered prices, with higher fuel and electricity inflation forecasts contributing the most to the higher expected headline figures.



Going forward, focus will remain strongly on upcoming inflation data and any perceived changes to inflation expectations. Although more rate cuts are likely, the SARB will not rush to cut if inflation nudges higher through the months ahead, in order to safeguard its new inflation target, which still needs to be ratified by National Treasury.

As seen in the chart to the left, the market has adjusted its expectations for further rate cuts, now expecting just one more by the March 2026 meeting. ETM's expectations align with this as we see the next cut in early 2026, although we do not rule out a November cut if inflation surprises to the downside.

Published by ETM Analytics (Pty) Ltd

ETM Analytics (Pty) Ltd:
Tel: +27 11 875 8556
Web: www.etmanalytics.com
Physical Address:
Block 5, Killarney
Fourways Golf Park, Roos Street
Fourways, Johannesburg
South Africa, 2055