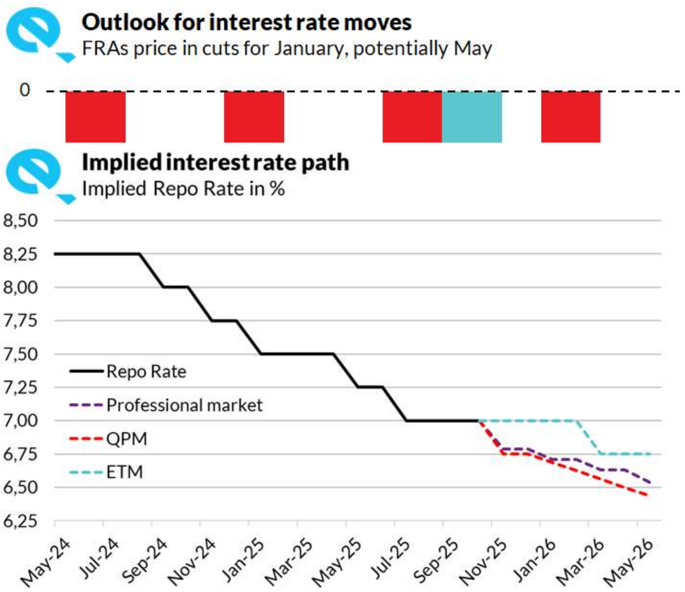
ZAR Service: FX positioning
October 2025

Summary of macroeconomic research views:

- **Inflation:** Headline CPI slowed unexpectedly to +3.3% y/y in August from +3.5% y/y in July. Core CPI (excluding food and energy) edged upwards to +3.1% y/y from +3.0% y/y in July. A lower CPI reading for August is surprising, but welcome, as ongoing low inflation will continue to support broader economic activity, mainly through resilient consumer spending.
- **Repo rate:** Despite the decline in CPI, the SARB opted to keep the interest rate unchanged as it steers market expectations towards its preferred 3% inflation target. This suggests rates are likely to stay higher for longer, with any potential cuts this year expected to be limited compared with previous low-inflation cycles.
- **Government Finances:** On a year-to-date perspective, the budget deficit stood at -R215.2 bn in August, improving from the -R251.6 bn deficit recorded over the same period in the 2024/25 fiscal year. The delay of the 2025/26 Budget legislation limited government expenditure until its eventual passage, temporarily supporting year-to-date budget readings compared to last year. However, this improvement is temporary unless concerted efforts are made to rein in spending and boost revenue.
- **GDP Growth:** SA's economy grew by +0.8% q/q in Q2, up from a marginal +0.1% q/q in Q1. On a y/y basis, slower growth of +0.6% was reported in Q2 from +0.8% in Q1. A temporary rebound in industrial production drove the uptick in quarterly GDP. Overall growth in 2025 is still likely to remain below +1.0% and the ongoing decline in investment further underscores the economy's stagnation. Without stronger investment, prospects for sustained growth remain limited.
- **Currency:** September marked another favourable month for the ZAR, which gained 2.3% of its value against the USD, making it the third-best-performing emerging market currency. The ZAR also appreciated against other advanced economies' currencies, including the EUR (1.7%) and the GBP (2.6%). Global risk aversion, as measured by the VIX, remained relatively low through September and supported emerging market currencies such as the ZAR.
- **Offshore conditions:** Speculators have recently been increasing bearish bets on the USD as global investors hedge currency risk while still pouring into US stocks and Treasuries. The move, driven by tariff concerns, Fed independence concerns and cheaper hedging costs from rate cuts, is keeping the dollar weak and could extend pressure into 2026 despite strong US asset inflows. Finally, weighing on the USD recently has been the US government shutdown, which suspends economic data releases and federal operations, whilst Trump escalates political confrontation through selective spending cuts. Investors continued to find refuge in safe-haven assets, most notably, gold, which reached new all-time highs.

Interest rate indicators:



Source: SARB, Bloomberg, ETM Analytics

The recent appreciation of the ZAR and the drop in SAGB yields have led to a notable shift in interest rate expectations amongst market participants. The FRA curve has shifted lower, and we now see that the market is pricing in a greater chance of more rate cuts within the next six to nine months.

FRAs that cover the November MPC meeting reflect more than 20bp worth of rate cut risk priced in, while coverage of the January meeting factors in a full 25bp reduction. By the May meeting, market implied rates reflect 46bp of rate cut risk. Sentiment is increasingly aligning with two cuts over the coming year. This broadly aligns with the SARB's Quarterly Projection Model (QPM).

ETM believes that a January rate cut remains possible, but that a March reduction is more likely, potentially followed by September. Of course, this will depend largely on the inflation data released over the coming months and any developments regarding the shift in the SARB's inflation target. The 3% inflation preference is likely to be confirmed as the target in the coming months, and that will see inflation expectations steadily decline.

Meanwhile, our inflation risk indicator continues to indicate a very low risk of a sharp increase in inflation. While administered price increases remain the key topside risk, ZAR strength and softening global oil prices, coupled with weak credit demand locally, all suggest that overall inflation pressures should remain contained.Finally, while the broader global theme of monetary policy easing is losing some momentum, the US is beginning to catch up, with the Fed cutting rates last month and expectations for further reductions rising. According to Fed Funds Futures, the market expects at least four 25bp rate cuts by the end of 2026. If this materialises, it will allow the SARB to cut further without eroding South Africa's attractive interest rate differential with the US.

Analyst(s):

Laura Campbell

Lloyd Miller

Danny Greeff

Cameron Goate

Get in touch with us!

research@etmanalytics.com