SARB March MPC Review

TreasuryONE
Optimising Your Cash Flows

etm ANALYTICS

Outcome

Rates Unchanged

Repo Rate: 6.75%

Vote Split: 5-0

Summary

The SARB matched consensus expectations and kept interest rates unchanged at its March MPC meeting, with the vote unanimous.

The tone was more hawkish than the previous meeting, mainly because the Middle East conflict has raised upside inflation risks and delayed the easing cycle.

For markets, the key takeaway is that rate cuts are being pushed back, and the risk distribution now includes the possibility of hikes if the oil shock persists.

Dashboard

		Sept-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26
Economics	Consumer Inflation	2,7	2,9	2,5	2,7	2,2	0,8
	Credit Growth	3,1	6,1	7,3	7,3	5,8	5,8
	SARB's Leading Indicator	6,4	7,1	7,1	6,9	6,9	6,8
	ABSA PMI	4,9	4,1	0,0	0,0	3,7	2,5
Market	SA-US Yield Spread	0,2	0,0	0,0	0,0	0,0	0,0
	SA 5y Breakeven Rate	1,0	1,0	0,5	0,3	0,0	0,2
	SA 10y Breakeven Rate	0,2	0,0	0,0	0,0	0,0	0,0
ETM	ZAR Sentiment Indicator	5,0	5,0	6,2	6,7	6,3	7,6
	Inflation Risk Indicator	4,9	6,1	6,4	6,8	6,9	6,8

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

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

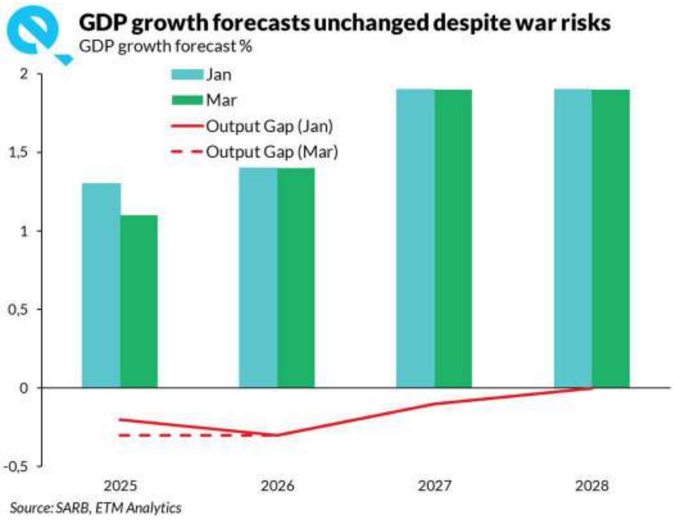
The SARB delivered a unanimous hold at 6.75%, but the March MPC statement carried a distinctly more hawkish tone as the Middle East oil shock shifted risks toward higher inflation and delayed the easing cycle. While the SARB's baseline still sees inflation returning to 3%, the QPM now pushes rate cuts into the second half of 2026 and explicitly incorporates scenarios that would require renewed tightening if energy prices remain elevated or the rand weakens materially.

Looking at our dashboard above, we see that it has once again turned less supportive of monetary policy easing, primarily due to risks of a weaker ZAR and higher inflation. Even before the war had begun, ETM's ZAR Sentiment Indicator had started deteriorating. The message at the time was clear. The ZAR had appreciated aggressively, and at some point, that trading action would become too one-sided to remain sustainable. It appears this point was reached before the war began, leaving the ZAR vulnerable to a selloff. We maintain that the ZAR's fundamentals remain strong, but the risk of near-term volatility remains elevated, which will keep the SARB cautious going forward.

Interestingly, the SARB complemented its baseline forecast with two adverse scenarios centred on the potential persistence of the Middle East conflict and higher oil prices. In the first scenario, where the war lasts a few months, oil near US$100, and the rand about 5% weaker, inflation rises above 4%, and the SARB would likely need one additional rate hike this year before inflation gradually returns to target around 2027.

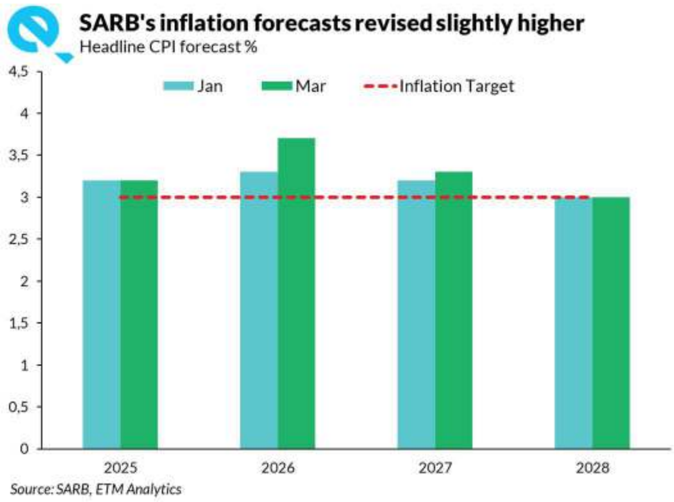
In the more severe scenario, with the conflict lasting over a year, oil remaining above US$100 and the rand weakening roughly 10%, inflation would exceed 5% and require several rate hikes, with the policy rate potentially approaching levels seen in the previous tightening cycle. In both cases, growth weakens initially due to higher costs and uncertainty, but the key message is that the SARB stands ready to tighten policy if second-round inflation pressures emerge.

Analysis



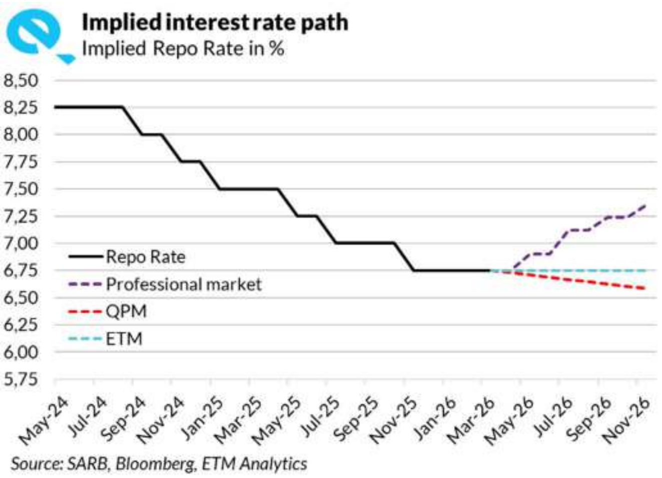
The SARB's GDP outlook was largely unchanged in level terms but the balance of risks has clearly shifted to the downside. The Bank notes that growth reached about 1.1% in 2025, slightly better than recent years, and still expects activity to gradually rise toward roughly 2% over the medium term, supported by improving confidence and investment trends. However, revisions to past GDP data lowered the starting point for the economy, while the Middle East conflict introduces new headwinds through higher energy costs, weaker global demand and tighter financial conditions.

In the near term, the growth profile remains modest, with quarterly momentum expected to stay subdued, and the key implication for policy is that while growth remains weak, it is not weak enough to prevent the SARB from maintaining a restrictive stance if inflation risks intensify.



The SARB's inflation forecasts reflect a temporary but meaningful near-term shift higher, driven primarily by the surge in global energy prices following the Middle East conflict. Headline inflation, currently around 3.0%, is expected to rise toward about 4% in the coming months, peaking near 4.3%, largely due to a sharp increase in fuel inflation before gradually easing as the oil shock unwinds. Importantly, the SARB still expects inflation to return to around 3% late next year, consistent with the new target framework, but it now assesses risks as skewed to the upside, particularly if higher energy costs trigger second-round effects through wages, administered prices, or a weaker currency.

The policy implication is that the SARB is willing to look through the initial supply shock, but the shift in the risk balance and the rise in market-based inflation expectations mean the SARB is likely to maintain a restrictive policy stance for longer and delay easing, with tightening still a possibility if inflation pressures broaden.



The high level of uncertainty is showcased in the discrepancy in what the SARB's QPM model predicts, versus our estimates and the market's positioning. While the QPM sees rate cuts still materialising in the latter half of this year, the FRA market has at least two rate hikes priced in before the end of the year. Of course, market pricing can shift quickly, and any signs of oil price stabilisation and a recovery in the ZAR will see rate hike risk priced out fairly quickly.

The opposite also holds true. If the ZAR remains on the defensive and the oil price remains buoyant, investors will position for the SARB to respond and quell second-round inflationary pressures. For now, the SARB is content to hold and wait to gauge the impact of the events and see how long this market shock will last.

The ETM view of a stable outlook for rates assumes that the war does not drag on and is brought to an end in the coming weeks.

Published by ETM Analytics (Pty) Ltd

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