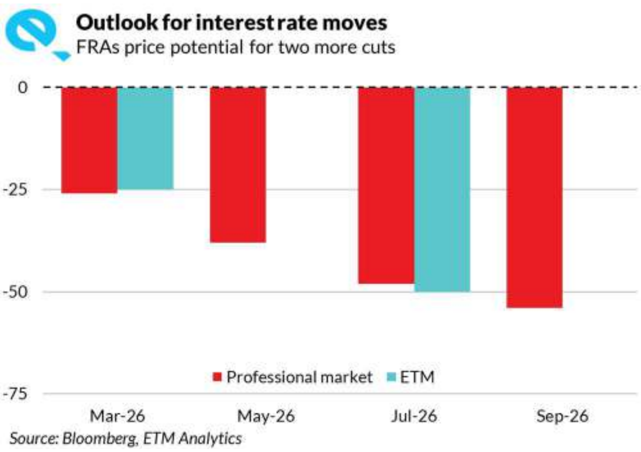
Summary of macroeconomic research views:

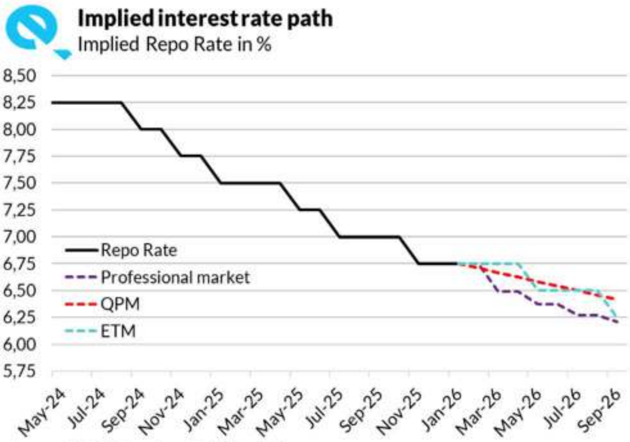
- **Inflation:** Headline consumer inflation increased marginally and in line with consensus estimates to +3.6% y/y in December from +3.5% y/y in November. The economy continues to benefit from a muted inflation environment, underpinned by the rand's strong performance and persistently low oil prices. In the coming months, headline CPI could decline.
- **Repo rate:** The SARB opted to keep the repo rate unchanged at 6.75% last month despite a stronger ZAR and subdued inflation. This decision builds credibility around the SARB's new 3% inflation target.
- **Government Finances:** The year-to-date (Apr-Dec25) borrowing requirement widened to -R374.7bn, compared with -R226.7bn over the same period in 2024/25. The still-elevated gross borrowing requirement underscores the continued weakness in the government's fiscal position, despite ongoing year-to-date primary budget improvements during 2025/26.
- **GDP Growth:** Q/Q seasonally adjusted growth declined slightly from 0.9% in Q2 to 0.5% in Q3. Gross fixed capital formation (GFCF) improved moderately, largely driven by transport. Alongside the improvement in exports, one suspects that the impact of Operation Vulindlela on restructuring the transport sector is beginning to yield fruit. Nonetheless, growth remains fairly pedestrian overall, at around 1%, suggesting that further reforms are necessary to boost the economy.
- **Currency:** The ZAR started off the year on a positive note amid broader emerging market currency strength and the rise in gold and platinum prices to new all-time highs. This was reflected in SA's positive terms of trade. The ZAR appreciated by 2.6% against the greenback in January but has since corrected amid increased market volatility in the early days of February. Its performance against the EUR and GBP was not as impressive at 1.6% and 0.9% respectively. Looking ahead, valuations against the majors are mixed, but sentiment toward the ZAR should remain positive if broader financial market conditions stabilise.
- **Offshore conditions:** The year opened with volatility as markets reacted to Trump's fluid tariff rhetoric. Proposed levies on European goods tied to Trump's Greenland takeover ambitions were later paused, but renewed threats followed after US allies, including Canada and the UK, engaged China on trade. Regarding monetary policy, the Fed ultimately held rates steady, with guidance reinforcing market pricing for a potential July rate cut. Fortunately, concerns over Fed independence faded at the end of the month after Kevin Warsh was named the next Fed Chair, tempering expectations of a sharp dovish pivot.

Interest rate indicators:



The January MPC meeting was characterised by a cautious SARB that kept rates on hold despite a notably stronger ZAR, limited inflation risk, and benign inflation expectations. The bout of ZAR weakness since the meeting justifies the cautious hold, but the SARB will not be able to maintain this stance for long if markets stabilise and the ZAR recovers.

SA's economy is also still a long way from manifesting any major demand-driven inflation. This is clear in the broader expectations for inflation, with market indicators still at their lowest levels in many years, while inflation expectation surveys continue to point to moderating price growth.



Source: SARB, Bloomberg, ETM Analytics

ETM's inflation risk indicator suggests that inflation should stabilise in the coming months, but risks persist from easing credit conditions, sticky food inflation, and high administered price increases. However, ZAR strength, subdued oil prices, and relatively weak domestic demand all suggest that any increase will be contained and kept within the SARB's estimates.

Currently, the market is positioned for at least two more rate cuts over the next few months, with the March meeting looking like it could be the first of the year. However, if markets do not find their footing before then, this will be pushed out to May. Beyond that, September looks likely for the second cut, as this will have provided enough time for inflation expectations to settle down.

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