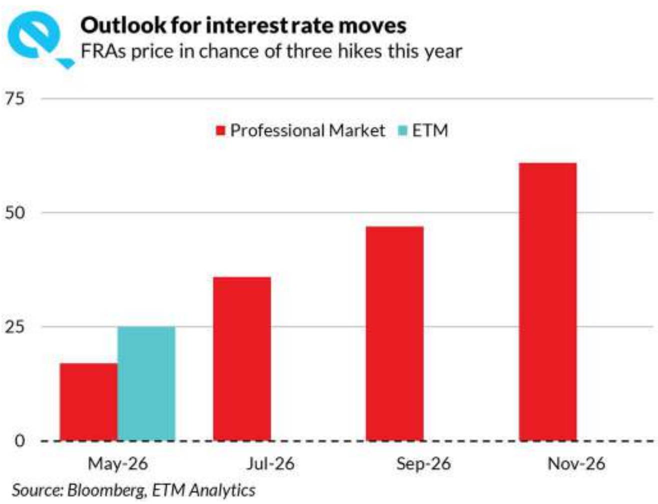
Summary of macroeconomic research views:

- **Inflation:** Headline consumer inflation slowed by more than expected from 3.5% y/y in January to 3.0% y/y in February, the lowest since June 2025 and in line with the SARB's new inflation target. Core inflation (excluding food and energy) decelerated to 3.0% y/y from 3.4% y/y in January. Disappointingly, elevated oil prices linked to the Middle East war are expected to feed into a surge in inflation from April, compounded with ZAR depreciation. CPI is expected to move above 4.0% in the coming months.
- **Repo rate:** The SARB held rates steady, choosing to wait for clearer signs on whether the Iran war will be short-lived or prolonged. The inflationary and market impacts will largely depend on the duration, with a quick resolution likely leading to only temporary price pressures and limited financial disruption.
- **Government Finances:** The year-to-date budget deficit stood at -R285.3bn compared to -R323.6bn in the 2024/25 fiscal year, pointing to an improved fiscal position. Recent external developments have partly unwound these gains, with bond yields moving higher and precious metal prices easing. Furthermore, the April reduction in the fuel levy will negatively impact government revenue. The overall impact of the conflict on the domestic fiscal outlook will ultimately hinge on how prolonged the war becomes.
- **GDP Growth:** Q4 GDP growth rose marginally to 0.4% from 0.3% in Q3. On an annual basis, the economy grew by 1.1% in 2025, up from 0.5% in 2024. Some structural gains in the economy, particularly in energy and transport and logistics, likely supported this modest improvement. However, meaningful progress toward large-scale job creation will require addressing a range of other binding constraints on economic activity with urgency.
- **Currency:** After strengthening against the USD over the past six months, the ZAR weakened over the course of March in a broad-based decline for emerging market currencies following the outbreak of war in the Middle East and a resultant increase in risk aversion. The ZAR lost 5.9% against the USD, 4.1% against the GBP, and 3.8% against the EUR, making it the worst-performing emerging-market currency. While buoyed gold prices provided support for SA's terms of trade early in the month, this support faded as gold prices fell while oil prices increased. Direction going forward will depend largely on developments in the Middle East.
- **Offshore conditions:** The escalation of the Middle East conflict drove oil prices higher, lifting inflation expectations and pushing global yields higher. Central banks grew more cautious, with expectations of delayed easing supporting higher yields in developed markets. The US dollar strengthened broadly on safe-haven demand and higher rate expectations. Other commodities also experienced significant pressure, particularly fertilisers and industrial metals, amplifying concerns about inflation risks. Overall, markets traded in a risk-off environment marked by higher volatility and stronger USD demand.

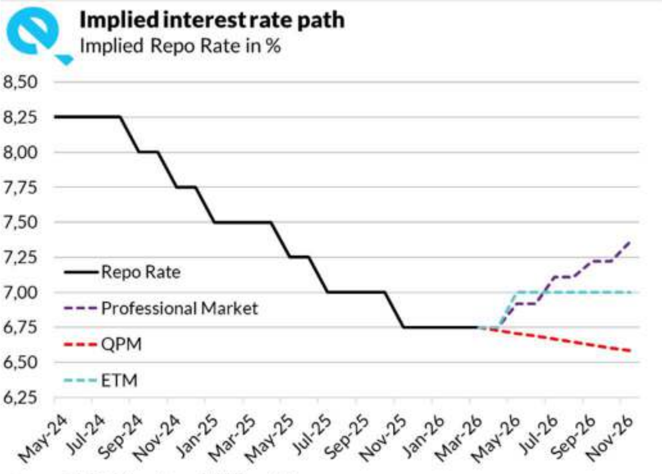
Interest rate indicators:



Last month's MPC meeting confirmed that, in line with key global central bank policies, the SARB's interest rate outlook has shifted. While the SARB did keep the repo rate unchanged at 6.75% at the meeting, as widely expected, Governor Kganyago was clear that a persistent oil shock resulting from the Iran war would lead to second-round inflation, warranting interest rate increases.

For now, the Bank remains moderately restrictive, keeping its GDP growth outlook unchanged and forecasting only slightly higher average inflation for 2026. Still, higher interest rates are likely to follow in May (a 25bp hike), at which point the Bank's inflation and growth forecasts are likely to be adjusted to better account for the impact of the war. Beyond that meeting, the interest rate path still remains uncertain and largely dependent on the duration of the Iran War.

Markets are currently fully pricing in two 25bp rate hikes for 2026, one likely by the July MPC meeting, followed by another at the September meeting. They are also pricing in a high likelihood of a third 25bp hike towards the end of the year.



Source: SARB, Bloomberg, ETM Analytics

From our perspective, we expect policymakers to hike rates at the May meeting. If the war continues until mid-year, another rate hike in July would be warranted, but it would likely mark the end of rate increases. However, if the war continues into the end of the year, further monetary tightening (i.e., a third rate hike) will likely be required to dampen second-round inflationary effects.

In such a scenario, it would be plausible to see a larger interest rate move, with the SARB considering a 50bp hike at some point.

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