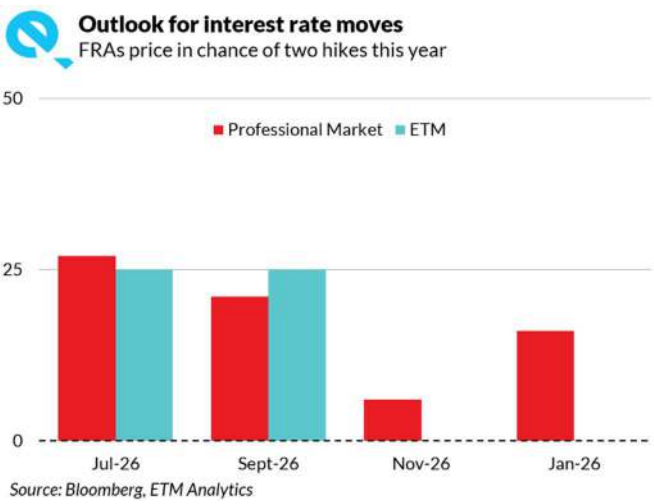
Monthly Interest Rates Dashboard
June 2026

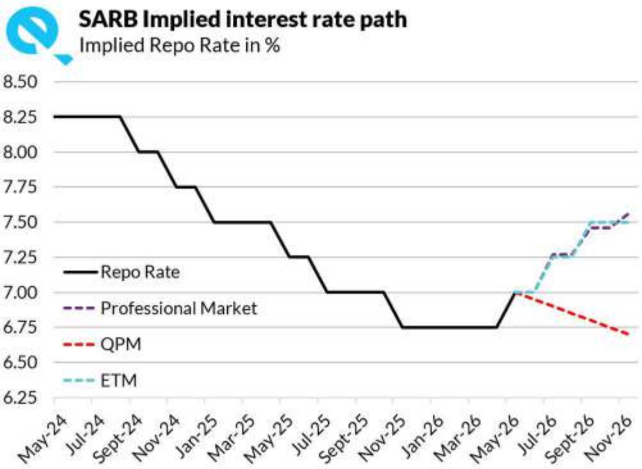
Summary of macroeconomic research views:

- **Inflation:** Headline CPI rose sharply to +4.0% y/y in April, from +3.1% y/y in March, primarily due to a rise in fuel inflation because of the oil price shock from the Iran war. Risks are firmly to the upside. Second-round inflation effects will likely emerge. The scheduled removal of the temporary fuel levy reduction in July will further push prices higher.
- **Repo rate:** The SARB raised interest rates by 25bps, citing rising inflation risks from higher oil prices and second-round inflationary risks. Interest rates are likely to rise further unless the Iran war ends in the coming months.
- **Government Finances:** In line with seasonality at the start of a fiscal year, the budget deficit deteriorated to -R63.6bn in April from -R45.6bn in March. The gross borrowing requirement improved significantly in April to -R84.6bn from -R127.3bn in March, due to smaller redemption payments and Eskom receiving R80.0bn in debt relief in March. SA's fiscal outlook is expected to deteriorate in the 2026/27 fiscal year as the Iran war is likely to weigh on tax revenue and could push up government borrowing costs.
- **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, 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:** The ZAR strengthened against major currencies in May. Against the USD, the ZAR strengthened 2.8%. Its gains against the EUR and GBP were even greater (3.4% and 3.9%, respectively). The SARB hike and signals that the MPC considered a 50bp hike supported the ZAR.
- **Offshore conditions:** Risk sentiment was again dominated by developments in the Middle East. Markets weighed a possible ceasefire amid renewed US-Iran negotiations, easing immediate concerns about a major supply disruption through the Strait of Hormuz. Volatility also moderated, with the VIX trending lower as risk appetite improved, helped by strong May gains in US equities, particularly AI-linked stocks. Oil prices declined over the month, closing at $92/bbl, although this remained high by historical standards and continued to reflect supply concerns and inflation risks. As a result, global bond yields stayed relatively elevated and central banks maintained cautious, data-dependent stances, with markets pricing further rate hikes in advanced economies. The US dollar traded mixed, strengthening during periods of geopolitical tension but weakening as sentiment improved and investors rotated back into higher-yielding and emerging-market assets.

Interest rate indicators:



The FRA curve has moved decisively towards a more hawkish SARB profile in recent months, with markets now fully pricing a 25bp hike in July and assigning a high probability to a follow-up move in September. This broadly aligns with ETM's in-house view, which sees two 25bp hikes delivered at the July and September meetings. Beyond that, market pricing is more tentative, attaching only a small probability to a November hike but a meaningfully higher chance of another move in January, particularly if November passes without action. The shift reflects growing concern that external inflation risks could complicate the SARB's policy path. Oil prices remain the key upside threat, especially given the Iran war premium and South Africa's sensitivity to fuel costs. This matters more under the SARB's new 3% inflation-targeting mandate, which leaves less tolerance for price shocks. At the same time, any reversal pressure on a deeply overvalued ZAR would strengthen the case for pre-emptive tightening, as the SARB may need to defend currency stability to prevent even harsher imported inflation.



Source: SARB, Bloomberg, ETM Analytics

The implied path highlights a widening gap between market pricing and the SARB's model-based baseline. The market and ETM both expect further tightening through the second half of 2026, lifting the repo rate back towards 7.50%, whereas the QPM still slopes lower. That divergence should not be read as the MPC "ignoring" its own forecast. The QPM is a workhorse forecasting tool within a broader suite of models, designed to quantify policy trade-offs rather than mechanically dictate decisions. SARB research describes it as one input into the forecasting process, with judgment and risk assessment layered on top. The model can therefore still show cuts if its baseline assumes contained inflation, weak demand and a stable currency, while markets price the risks around that baseline. Those risks have shifted materially. Higher oil prices linked to the Iran war would feed directly into SA fuel inflation, while any renewed ZAR weakness would add imported inflation pressure. Under a stricter 3% inflation target, the MPC has less room to look through those shocks, making the market's hawkish repricing understandable.

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