

# SA Economics



SA Bond note: little strength in SA bonds likely for 2025

Thursday 9 January 2025

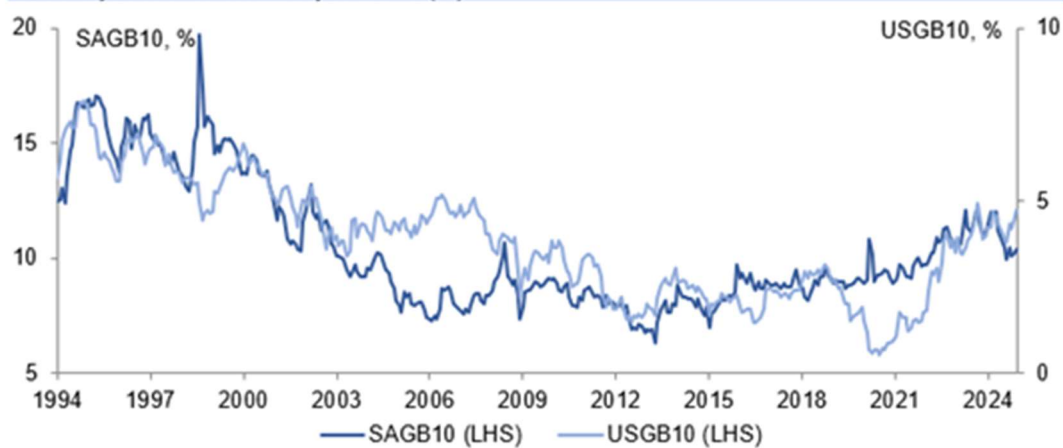


### SA 10-year bond



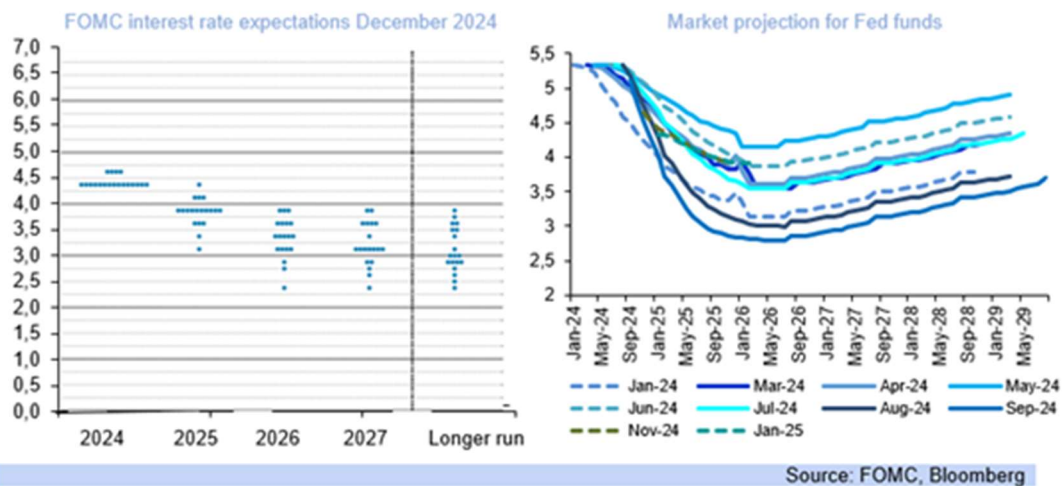
Source: Iress

### SA 10-year bond vs US 10-year bond (%)



Source: Iress

## US interest rate projections – December 2024



- South Africa’s ten-year benchmark government bond yield has weakened to 10.35%, after approaching 10.00% in the first half of December ahead of the US FOMC meeting, but then backtracked as the US signalled fewer interest rate cuts in 2025.
- The contents of the minutes of the Federal Open Market Committee (FOMC) meeting for 17th to 18th December, released last night saw the rand slightly weaker as the US dollar strengthened, as markets continued to see fewer cuts for 2025.
- The minutes noted in particular “(r)egarding international developments ... market participants expected central banks in nearly all advanced foreign economies (AFEs) to continue to reduce their policy rates in 2025 ... (i)n contrast to the U.S.”
- The minutes noted that “this widening between U.S. and foreign interest rates appeared to be a major contributor to the increase in the trade-weighted U.S. dollar index observed over the intermeeting period.”
- The US ten-year bond yield, at 4.70%, is well above the 4.14% reached prior to December’s FOMC meeting, as market expectations adjusted on US rate cuts, with only one -25bp cut in the Fed funds rate expected this year, versus three previously.

- Further supportive of fewer rate cuts, and so a higher US treasury yield than previously expected was “that real gross domestic product (GDP) had continued to expand at a solid pace in 2024, ... the unemployment rate remained low”.
- “The market-implied path of the federal funds rate over the next year edged higher, since the U.S. election, as investors assessed the implications of incoming inflation data and potential economic policy changes for the near-term economic outlook”.
- “Communications by Federal Reserve officials contributed to investors’ perceptions of a slower timeline for policy rate reductions. Measures of near-term inflation compensation moved up”.
- South Africa’s bond yields are not expected to fall further, having already been lowered by easing inflation and interest rates domestically, and prior expectations of lower US rates and rand strength, which in turn contributes to lower inflation.

Please scroll down to the second section below

Extreme up case Forecasts	2023	2024	2025	2026	2027	2028	2029
SA rand bond (year-end: %)	11.90	10.90	9.30	9.10	8.70	8.40	8.20
SA rand bond (average: %)	11.63	11.28	9.88	9.23	8.90	8.55	8.28

Up case Forecasts	2023	2024	2025	2026	2027	2028	2029
SA rand bond (year-end: %)	11.90	10.90	10.20	9.60	9.40	9.20	9.00
SA rand bond (average: %)	11.63	11.28	10.40	9.78	9.45	9.28	9.10

Expected case Forecasts	2023	2024	2025	2026	2027	2028	2029
SA rand bond (year-end: %)	11.90	10.90	10.70	10.50	10.30	10.10	10.00
SA rand bond (average: %)	11.63	11.28	10.78	10.58	10.43	10.23	10.05

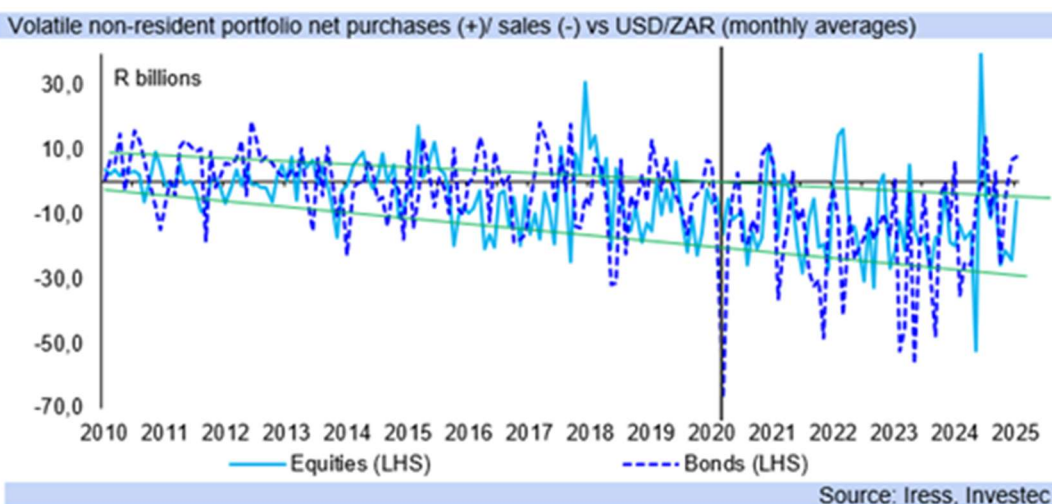
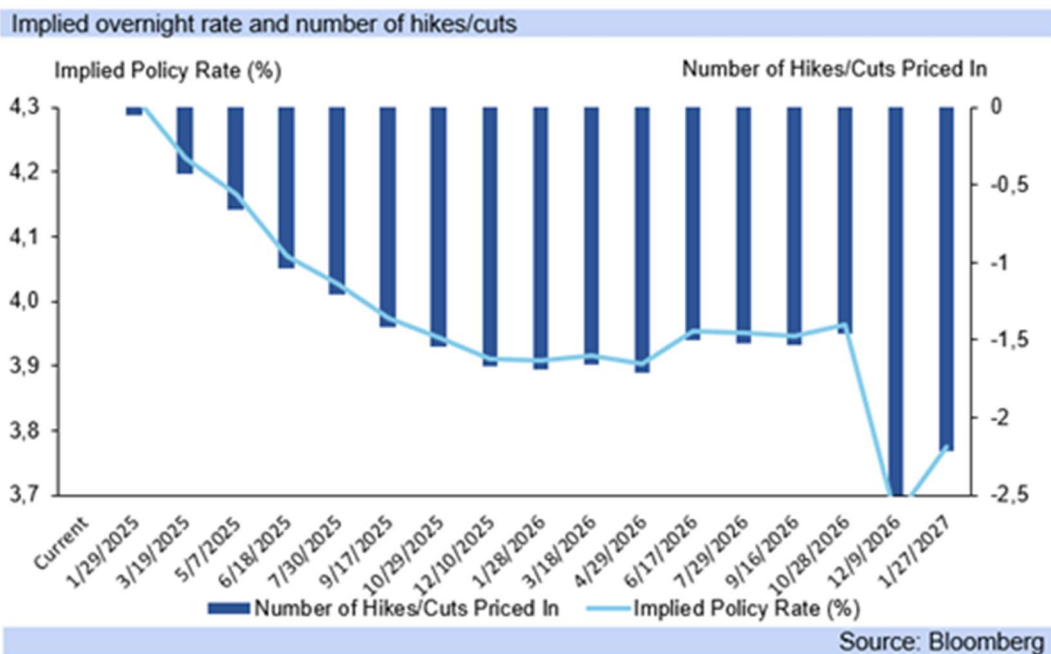
Lite down case Forecasts	2023	2024	2025	2026	2027	2028	2029
SA rand bond (year-end: %)	11.90	10.90	11.60	11.40	11.30	11.20	11.00
SA rand bond (average: %)	11.63	11.28	11.73	11.45	11.38	11.28	11.05

Severe down case Forecasts	2023	2024	2025	2026	2027	2028	2029
SA rand bond (year-end: %)	11.90	10.90	12.90	12.50	12.40	12.40	12.20
SA rand bond (average: %)	11.63	11.28	12.60	12.68	12.50	12.40	12.30

Source: All forecast yields are of bonds traded on the stock exchange - Gov. bonds - Nominal yields: 10 years and over (Unit: % (Monthly average bond yield); Source: SARB QB (S-31))

Fed Fund Futures implied rates – 8 January 2025					
Meeting	#Hikes/Cuts	% Hike/Cut	Implied Rate $\Delta$	Implied Rate	A.R.M
01/29/2025	-0.048	-4.8%	-0.012	4.318	0.250
03/19/2025	-0.429	-38.1%	-0.107	4.222	0.250
05/07/2025	-0.655	-22.6%	-0.164	4.166	0.250
06/18/2025	-1.040	-38.6%	-0.260	4.069	0.250
07/30/2025	-1.208	-16.8%	-0.302	4.028	0.250
09/17/2025	-1.418	-21.0%	-0.354	3.975	0.250
10/29/2025	-1.548	-13.0%	-0.387	3.943	0.250
12/10/2025	-1.672	-12.4%	-0.418	3.912	0.250
01/28/2026	-1.688	-1.6%	-0.422	3.908	0.250
03/18/2026	-1.659	+2.9%	-0.415	3.915	0.250
04/29/2026	-1.708	4.9%	-0.427	3.903	0.250
06/17/2026	-1.506	+20.2%	-0.376	3.953	0.250
07/29/2026	-1.518	-1.2%	-0.380	3.950	0.250
09/16/2026	-1.532	-1.4%	-0.383	3.946	0.250
10/28/2026	-1.458	7.4%	-0.365	3.965	0.250
12/09/2026	-2.655	-119.6%	-0.664	3.666	0.250
01/27/2027	-2.218	+43.6%	-0.555	3.775	0.250

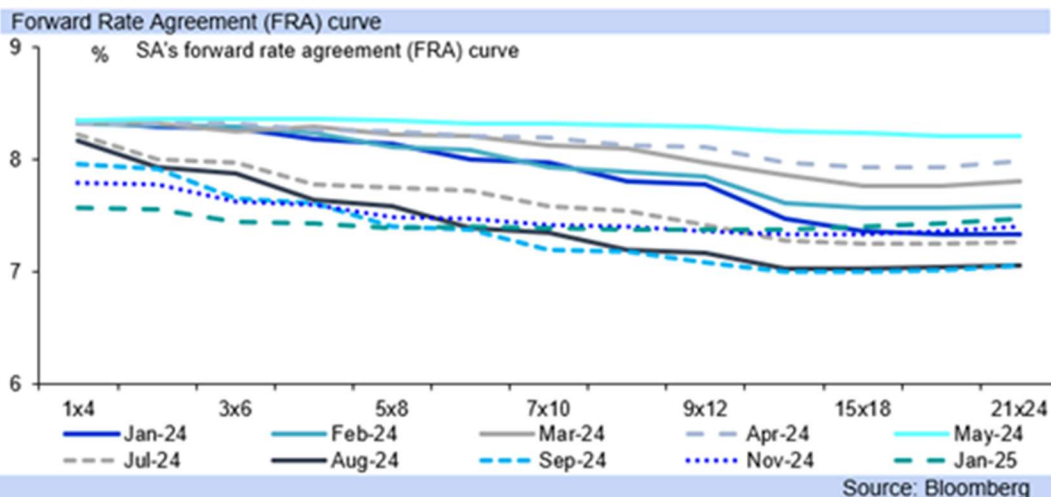
Source: Bloomberg



- Financial markets currently expect a -25bp cut in the US fed funds rate only by June this year with a 100% certainty, but then do not see any further easing in US interest rates this year, with a further -25bp cut by the end of next year only.
- The FOMC minutes of last night “highlighted the difficulty of selecting and assessing the importance of such factors for the baseline projection and

featured a number of alternative scenarios given (notable levels of) uncertainty”.

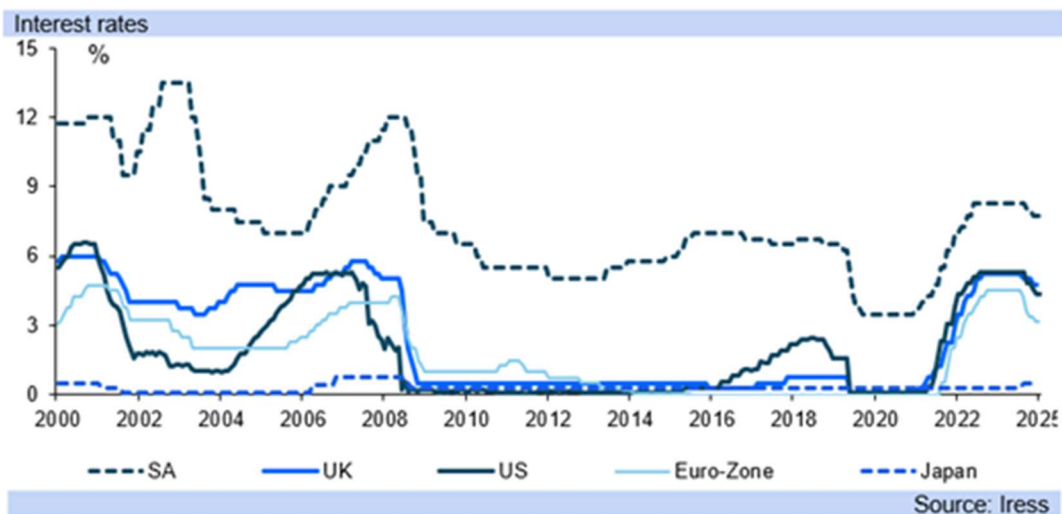
- The FOMC unpacked this uncertainty as including “specifics about the scope and timing of potential changes to trade, immigration, fiscal, and regulatory policies and their potential effects on the economy”.
- Volatility in financial markets is likely to continue as a result, with the US dollar experiencing strength on the incoming Trump administration, higher expected US interest rate trajectory and higher inflation path than previously expected.
- “In the staff’s baseline projection, the inflation forecast for 2024 was slightly higher than the one prepared for the previous meeting, reflecting upside surprises in some recent data.”
- “(A)lthough inflation had eased substantially from its peak in 2022, it remained somewhat elevated ... the overall pace of disinflation had slowed over 2024 and that some recent monthly price readings had been higher than anticipated.”
- The rand weakened to R18.99/USD today on US strength dollar in reaction to the minutes, from R18.68/USD yesterday, with the domestic currency seeing little movement in comparison against the other major crosses.
- With the next FOMC meeting decision on the 29<sup>th</sup> of this month, but not expected to see a cut to interest rates, and South Africa’s MPC meeting the day before on the 30<sup>th</sup>, the MPC may choose to put through a further -25bp cut in the repo rate.
- This could result in further rand weakness, as the differential between US interest rates and SA interest rates narrows. For this reason, the SARB may choose against further easing in SA’s interest rates until the Fed cuts again, limiting bond strength.



**Forecasts South Africa interest rates**

Period end rate %	Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	Q3.25	Q4.25
Repo Rate	8.25	8.25	8.00	7.75	7.50	7.50	7.25	7.00
Prime Overdraft Rate	11.75	11.75	11.50	11.25	11.00	11.00	10.75	10.50

Source: Iress, Investec





Key official interest rates (% , end quarter)

	US Fed funds	Eurozone refi rate	Eurozone deposit rate	UK Bank rate	Australia cash rate
Current	4.50-4.75	3.40	3.25	4.75	4.35
Q1.24	5.25-5.50	4.50	4.00	5.25	4.35
Q2.24	5.25-5.50	4.25	3.75	5.25	4.35
Q3.24	4.75-5.00	3.65	3.50	5.00	4.35
Q4.24	4.25-4.50	3.15	3.00	4.75	4.35
Q1.25	4.00-4.25	2.65	2.50	4.50	4.35
Q2.25	4.00-4.25	2.15	2.00	4.25	4.10
Q3.25	4.00-4.25	1.90	1.75	4.00	3.85
Q4.25	4.00-4.25	1.65	1.50	3.75	3.85

Source: Macrobond, Investec UK