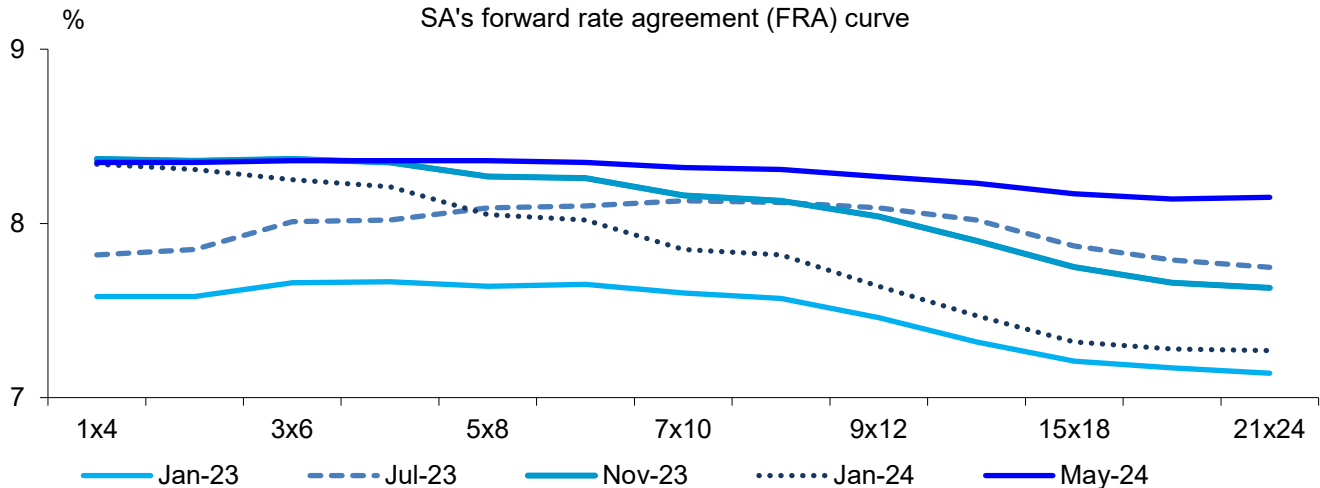




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Figure 1: Forward Rate Agreement (FRA) curve



Source: Bloomberg

South Africa's Reserve Bank (SARB) will next decide on its interest rate stance on 30th May, with the recently published Monetary Policy Review by the SARB on 23rd April giving a clear view of the Central Bank's inflation and interest rate views. The Reserve Bank foresees a slow drop off in its target inflation measure, the CPI inflation rate, over the course of this year, and next, only reaching 4.5% y/y towards the end of 2025. This forecast scuppers any chance of an interest rate cut this year, and makes one likely only towards the end of 2025, if at all. This is because the SARB has said it will not cut SA's interest rates until CPI inflation reaches 4.5% y/y, and then remains around this midpoint of the inflation target. The MPC will consequently not cut its interest rate at its May MPC meeting at the end of the month, or in July or September's either. While a better-than-expected CPI inflation outcome for this year is possible, and we currently have lower forecasts than the SARB on CPI, expecting it to reach 4.5% in Q4.24, and so a quicker cut, risks remain to this view. South Africa's FRA curve has factored out the possibility of interest rate cuts for this year, flattening out after the MPR was digested by markets, while the markets also do not currently see cuts in the repo rate next year either.

The rand, key for the inflation outlook, has strengthened recently however, reaching R18.44/USD, and finding some stability around this level, as political risk of an ANC/EFF coalition nationally is seen to have faded, with the ANC making gains in the polls, and the EFF losing significant ground, reducing the need for a coalition.

Figure 2: Forecasts

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	8.25	8.00	7.25	7.00	6.75	6.75
Prime Overdraft Rate	11.75	11.75	11.75	11,50	10.75	10.50	10.25	10.25

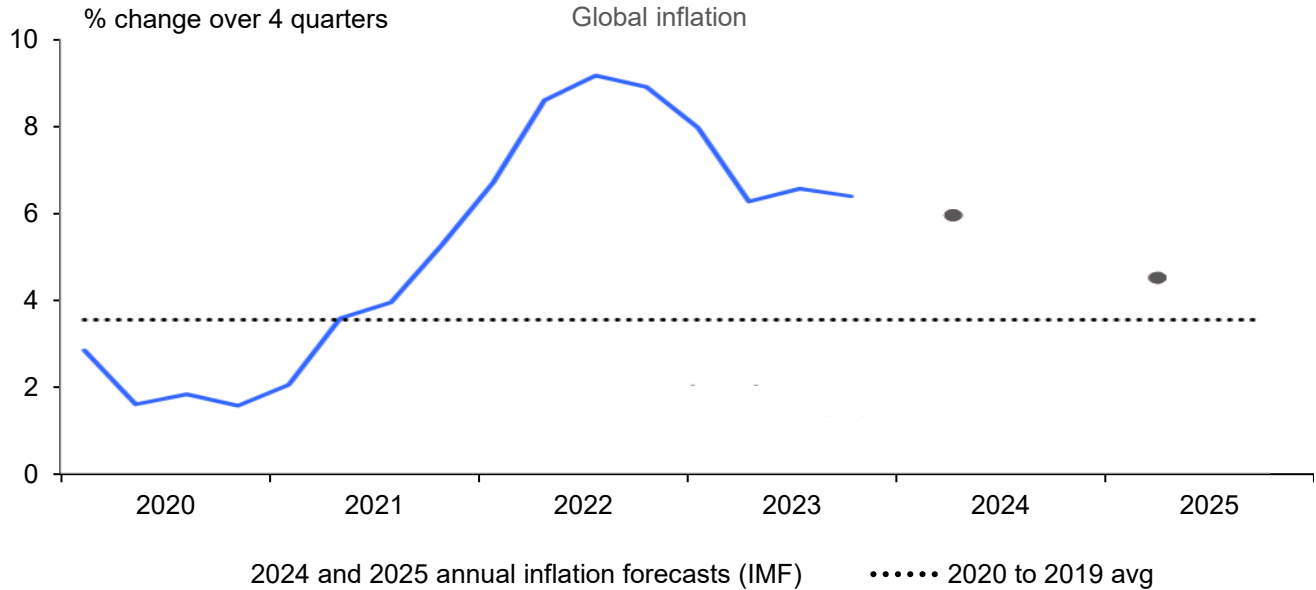
Source: Iress, Investec



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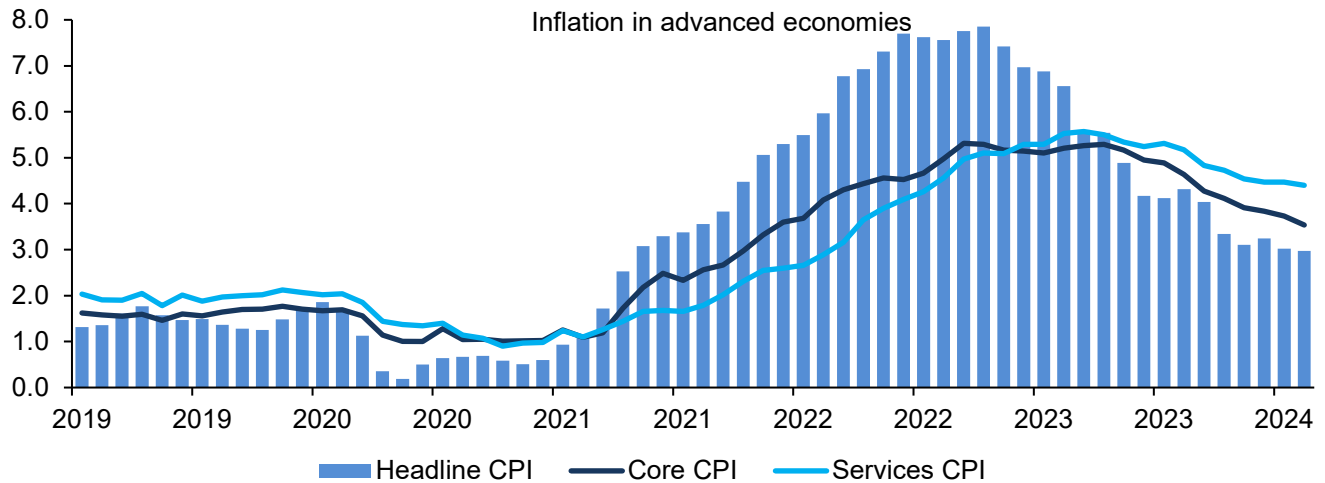
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Figure 3: Despite some moderation, the fight against inflation not over



Source: MPR, April 2024

Figure 4: Inflation inertia from sticky core inflation and services price inflation



Source: MPR, April 2024

Figure 5: Reuters April 2024 forecasts: CPI % y/y

Forecast period	Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	2024	2025	2026
CPI % y/y	5.5	5.5	5.3	4.6	4.8	4.6	5.1	4.6	4.5
Previous survey	5.4	5.2	5.2	4.6	4.8	4.6	5.1	4.6	4.5

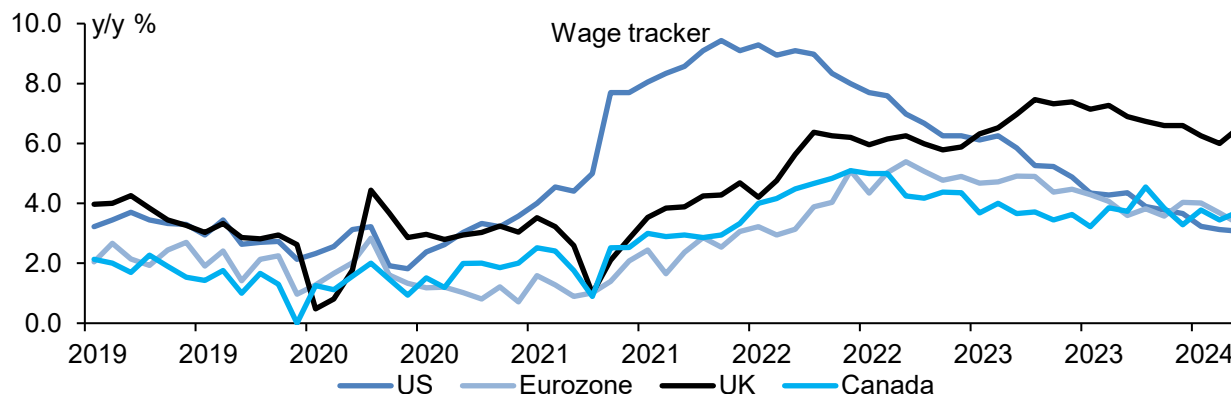
Source: Reuters



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Figure 6: Wage growth remains elevated across advanced economies



Source: MPR, April 2024

Foreigners consequently have been net purchasers of SA's bonds so far this month, providing some support to the rand. The latest Social Research Foundation (SRF) poll, for 8th May, shows the ANC support at 45% on a low turnout (well up from 37.8% mid-April), with the lower turnout continuing to show greater support for the ANC. The ANC's campaigning tends to gather substantial momentum mainly in the month of the election, pushing outcomes stronger. The EFF has remained around 8.0% in this SRF poll, although seeing some mild volatility as is typical for a small party, with similar for MK, although the MK (the third largest party) still polls higher than the EFF. The DA remains the second largest party, with support around 25% in the poll, while the IFP (fifth largest) has fluctuated between 3.5% and 4.0%. The SRF daily poll follows on from the Ipsos poll, while under all the different voter turnout scenarios, the MK party shows more support than the EFF. Both the rand and SA's bond yields would strengthen on an election result showing the ANC gain around or above 45%, and not go into coalition with the EFF, either at the National or provincial level. The ensuing, further reduction of political risk would see the rand move towards R17.00/USD, reducing inflation and petrol prices for consumers, pulling interest rate cuts closer and lowering bond yields, reducing borrowing costs for South Africa.

Figure 7: Reuters April 2024 forecasts: Repo rate % y/y

Forecast period	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	Q3.25	2024	2025	2026
Repo rate % y/y	8.3	8.0	7.8	7.5	7.3	7.0	7.8	7.0	7.0
Previous survey	8.3	7.8	7.5	7.3	7.0	-	7.5	7.0	7.0

Source: Reuters

Figure 8: Inflation forecasts	2023	2024	2025	2026	2027	2028
Consumer Inflation (Av: %)	5.9	4.9	4.4	4.6	4.7	4.6
Producer Inflation (Av: %)	6.8	4.4	5.1	5.1	5.0	5.1
Salary & wage increases (%)	4.8	4.7	5.2	5.5	5.6	5.6

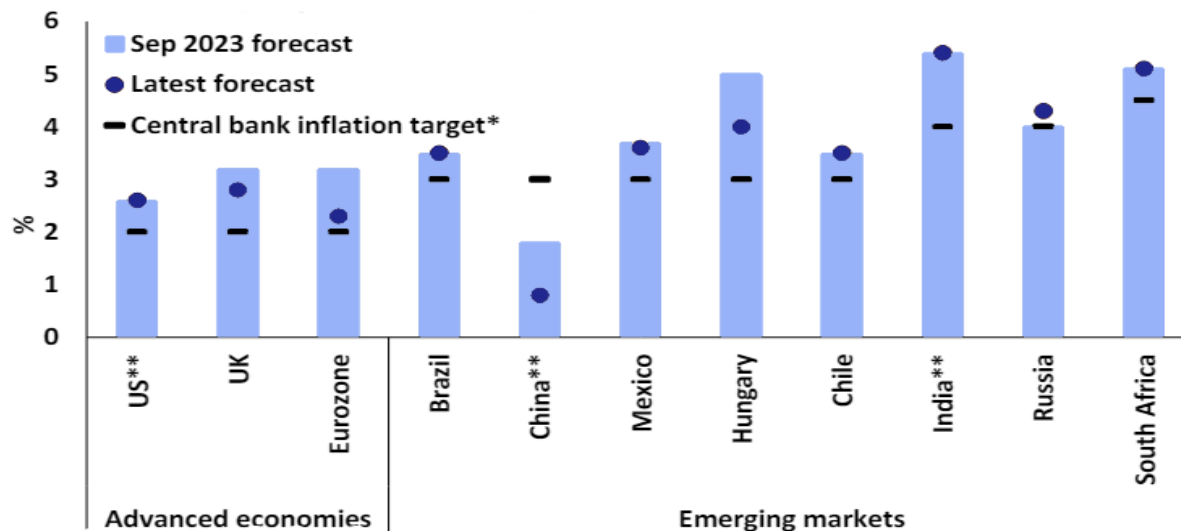
Source: Investec



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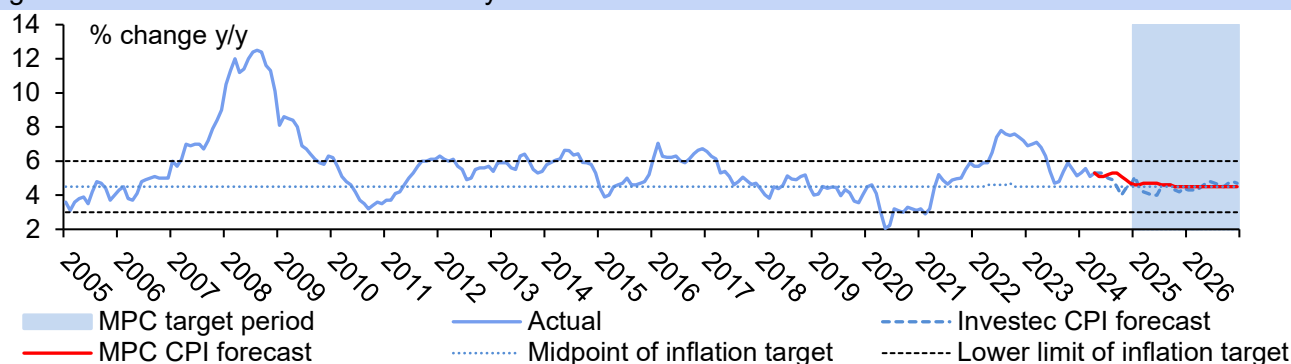
Figure 9: Central bank inflation forecast evolution for 2024



Source: MPR, April 2024

*Midpoint is take for countries with a target range ** Core PCE for USA, Consensus forecasts for China and India

Figure 10: SA Consumer Inflation: history and forecasts



Source: Stats SA, SARB, Investec

Figure 11: Reuters May 2024 Foreign exchange rates poll: USDZAR

	1M	3M	6M	1Y
Release/Effective Date	31 May 2024	31 Jul 2024	31 Oct 2024	30 Apr 2025
Median	19.0000	19.0500	18.7500	18.6150
High	19.1700	20.0000	20.5000	20.5000
Low	18.3900	17.9300	17.5000	17.0000
No. of forecasts	13	18	18	14

Source: Reuters

Figure 12: Reuters May 2024 forecasts: GDP

Forecast period	Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	Q3.25	2024	2025	2026
GDP y/y %	1.1	0.9	1.4	1.6	1.7	1.6	1.6	1.1	1.6	1.8
Previous survey	1.3	1.3	1.6	1.6	0.8	1.4	-	1.1	1.5	1.8

Source: Reuters



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Figure 13: SA Monetary Policy Committee (MPC) meeting dates for 2024

Month	Date	Investec Forecast
May	30 May 2024	8.25
July	18 July 2024	8.25
September	19 September	8.25
November	21 November 2024	8.00

Source: SARB, Investec

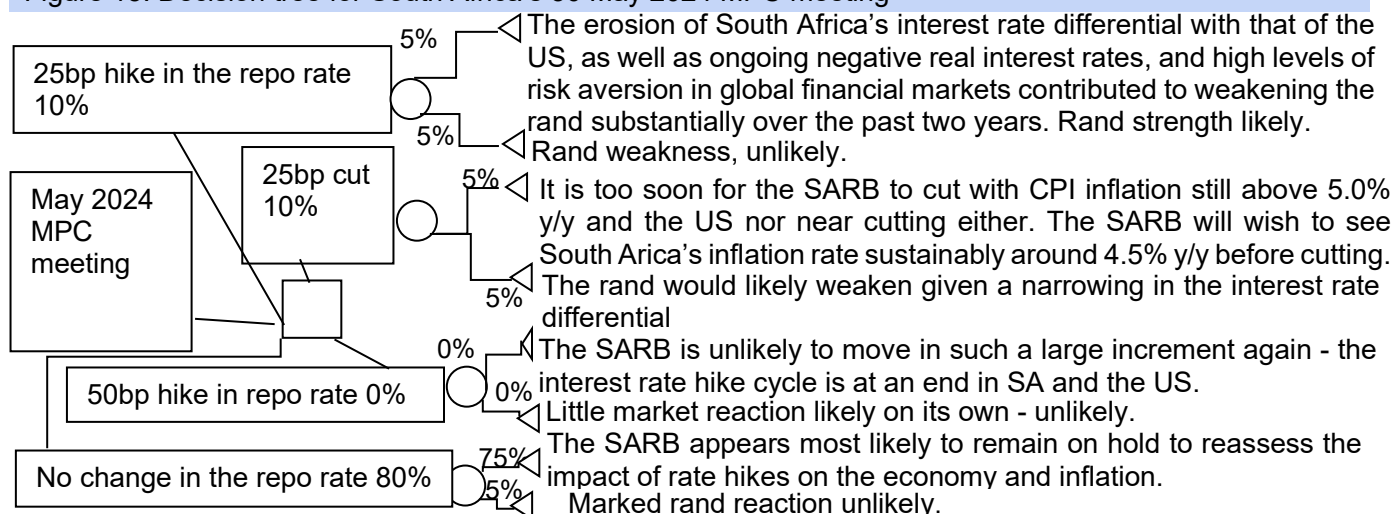
Figure 14: Forecasts	2022	2023	2024	2025	2026	2027	2028
Repo Rate	7.00	8.25	8.00	6.75	6.75	6.75	6.75
Prime Overdraft rate	10.50	11.75	11.50	10.25	10.25	10.25	10.25
SA rand bond	11.64	11.38	10.85	10.60	10.38	10.33	10.20
US Fed funds rate	4.50	5.50	5.00	4.00	3.50	3.50	3.50
UK Bank rate	3.50	5.25	4.50	3.50	3.00	3.00	3.00

Note: forecasts are % year-end. Source: Investec, SARB, IRESS

International oil prices have retreated, after moving above US\$90/bbl for Brent crude, as the start of the US interest rate cutting cycle has been delayed, weakening demand expectations, and indeed a small fuel price cut is now building for next month, with rand strength key. The rand is also important for food prices in SA, with international food prices a driver of domestic food price inflation, given SA is an import-or export-parity price taker. Q2.24 has seen more moderate outcomes in the monthly data.

The stubbornness of inflation, which has not dropped to the targets of either major advanced economies or South Africa as underlying pressures are sticky, has been the key reason for the delay in interest rate cuts.

Figure 15: Decision tree for South Africa's 30 May 2024 MPC meeting



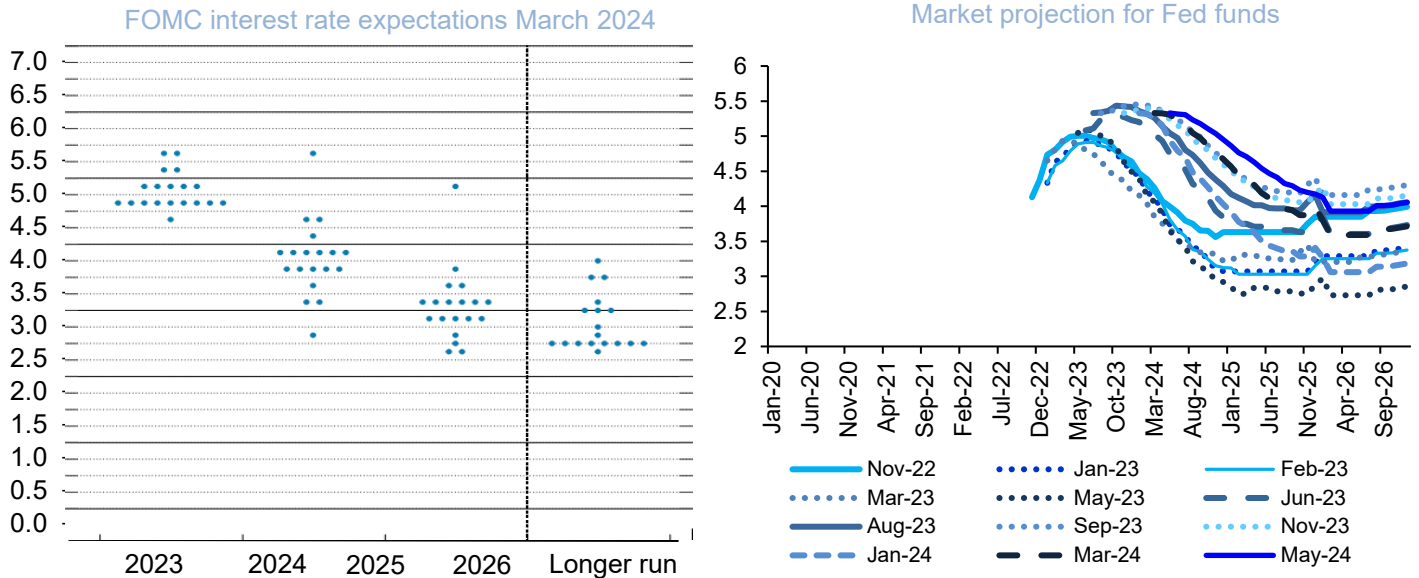
Key: squares are decision nodes; circles are chance nodes and triangles end nodes. Source: Investec



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Figure 16: US interest rate projections



Source: FOMC, Bloomberg

FOMC 2024 Meeting Schedule

- 11-12* June 2024
- 30-31 July 2024
- 17-18* September 2024
- 6-7 November 2024
- 17-18* December 2024

Source: Federal Reserve Bank

*Meeting associated with a summary of Economic Projections

Figure 18: Key official interest rates (% , end quarter)

	US Fed funds	Eurozone refi rate	Eurozone deposit rate	UK Bank rate	Australia cash rate
Current	5.25-5.50	4.50	4.00	5.25	4.35
Q1.24	5.25-5.50	4.50	4.00	5.25	4.35
Q2.24	5.00-5.25	4.25	3.75	5.00	4.35
Q3.24	5.00-5.25	3.65	3.50	4.75	4.10
Q4.24	4.75-5.00	3.40	3.25	4.50	3.85
Q1.25	4.50-4.75	3.15	3.00	4.25	3.60
Q2.25	4.25-4.50	2.90	2.75	4.00	3.35
Q3.25	4.00-4.25	2.65	2.50	3.75	3.25
Q4.25	3.75-4.00	2.40	2.25	3.50	3.50

Source: Macrobond, Investec UK



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Figure 19: Interest rate forecast end rates

Date	Prime forecast	Prime less Inflation	Repo	Repo less Inflation
Jan 2023	10.75	3.9	7.25	0.4
Feb 2023	10.75	3.7	7.25	0.2
Mar 2023	11.25	4.2	7.75	0.7
Apr 2023	11.25	4.4	7.75	0.9
May 2023	11.75	5.4	8.25	1.9
Jun 2023	11.75	6.4	8.25	2.9
Jul 2023	11.75	7.0	8.25	3.5
Aug 2023	11.75	6.9	8.25	3.4
Sep 2023	11.75	6.4	8.25	2.9
Oct 2023	11.75	5.8	8.25	2.3
Nov 2023	11.75	6.2	8.25	2.7
Dec 2023	11.75	6.6	8.25	3.1
Jan 2024	11.75	6.4	8.25	2.9
Feb 2024	11.75	6.2	8.25	2.7
Mar 2024	11.75	6.4	8.25	2.9
Apr 2024	11.75	6.5	8.25	3.0
May 2024	11.75	6.5	8.25	3.0
Jun 2024	11.75	6.5	8.25	3.0
Jul 2024	11.75	6.8	8.25	3.3
Aug 2024	11.75	6.9	8.25	3.4
Sep 2024	11.75	7.2	8.25	3.7
Oct 2024	11.75	7.7	8.25	4.2
Nov 2024	11.50	7.1	8.00	3.6
Dec 2024	11.50	7.0	8.00	3.5
Jan 2025	11.00	5.9	7.50	2.4
Feb 2025	11.00	6.5	7.50	3.0
Mar 2025	10.75	6.5	7.25	3.0
Apr 2025	10.75	6.6	7.25	3.1
May 2025	10.50	6.5	7.00	3.0
Jun 2025	10.50	6.5	7.00	3.0
Jul 2025	10.25	5.7	6.75	2.2
Aug 2025	10.25	5.6	6.75	2.1
Sep 2025	10.25	5.6	6.75	2.1
Oct 2025	10.25	5.9	6.75	2.4
Nov 2025	10.25	6.0	6.75	2.5
Dec 2025	10.25	5.9	6.75	2.4

Source: IRESS, Investec



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Figure 20: Interest rate forecast end rates (continued)

Date	Prime forecast	Prime less Inflation	Repo	Repo less Inflation
Jan 2026	10.25	6.0	6.75	2.5
Feb 2026	10.25	6.0	6.75	2.5
Mar 2026	10.25	6.0	6.75	2.5
Apr 2026	10.25	5.8	6.75	2.3
May 2026	10.25	5.6	6.75	2.1
Jun 2026	10.25	5.5	6.75	2.0
Jul 2026	10.25	5.6	6.75	2.1
Aug 2026	10.25	5.7	6.75	2.2
Sep 2026	10.25	5.8	6.75	2.3
Oct 2026	10.25	5.6	6.75	2.1
Nov 2026	10.25	5.5	6.75	2.0
Dec 2026	10.25	5.6	6.75	2.1
Jan 2027	10.25	5.6	6.75	2.1
Feb 2027	10.25	5.5	6.75	2.0
Mar 2027	10.25	5.3	6.75	1.8
Apr 2027	10.25	5.5	6.75	2.0
May 2027	10.25	5.6	6.75	2.1
Jun 2027	10.25	5.6	6.75	2.1
Jul 2027	10.25	5.9	6.75	2.4
Aug 2027	10.25	5.7	6.75	2.2
Sep 2027	10.25	5.6	6.75	2.1
Oct 2027	10.25	5.6	6.75	2.1
Nov 2027	10.25	5.8	6.75	2.3
Dec 2027	10.25	5.8	6.75	2.3
Jan 2028	10.25	5.9	6.75	2.4
Feb 2028	10.25	5.9	6.75	2.4
Mar 2028	10.25	5.9	6.75	2.4
Apr 2028	10.25	5.8	6.75	2.3
May 2028	10.25	5.7	6.75	2.2
Jun 2028	10.25	5.7	6.75	2.2
Jul 2028	10.25	5.3	6.75	1.8
Aug 2028	10.25	5.6	6.75	2.1
Sep 2028	10.25	5.7	6.75	2.2
Oct 2028	10.25	5.7	6.75	2.2
Nov 2028	10.25	5.7	6.75	2.2
Dec 2028	10.25	5.7	6.75	2.2

Source: IRESS, Investec



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Figure 21: CPI forecast averages

Date	Index Base 2016	Annual y/y	Monthly m/m	Quarterly y/y	Calendar year y/y	
Jan 2023	107.1	6.9	-0.1			
Feb 2023	107.9	7.0	0.7			
Mar 2023	109.0	7.1	1.0	7.0		
Apr 2023	109.4	6.8	0.4			
May 2023	109.6	6.3	0.2			
Jun 2023	109.8	5.4	0.2	6.2		
Jul 2023	110.8	4.7	0.9			
Aug 2023	111.1	4.8	0.3			
Sep 2023	111.8	5.4	0.6	5.0		
Oct 2023	112.8	5.9	0.9			
Nov 2023	112.7	5.5	-0.1			
Dec 2023	112.7	5.1	0.0	5.5	2023	5.9
Jan 2024	112.8	5.3	0.1			
Feb 2024	113.9	5.6	1.0			
Mar 2024	114.8	5.3	1.0	5.4		
Apr 2024	115.1	5.3	0.3			
May 2024	115.4	5.3	0.2			
Jun 2024	115.6	5.3	0.2	5.3		
Jul 2024	116.3	5.0	0.6			
Aug 2024	116.5	4.9	0.2			
Sep 2024	116.9	4.5	0.3	4.8		
Oct 2024	117.3	4.0	0.4			
Nov 2024	117.7	4.4	0.3			
Dec 2024	117.8	4.5	0.1	4.3	2024	4.9
Jan 2025	118.6	5.1	0.7			
Feb 2025	119.1	4.5	0.4			
Mar 2025	119.7	4.2	0.5	4.6		
Apr 2025	119.9	4.1	0.2			
May 2025	120.0	4.0	0.1			
Jun 2025	120.3	4.0	0.2	4.1		
Jul 2025	121.6	4.5	1.1			
Aug 2025	121.9	4.6	0.3			
Sep 2025	122.3	4.6	0.3	4.6		
Oct 2025	122.4	4.3	0.1			
Nov 2025	122.7	4.2	0.2			
Dec 2025	122.9	4.4	0.2	4.3	2025	4.4

Source: Stats SA, Investec



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Figure 22: CPI forecast averages (continued)

Date	Index Base 2016	Annual y/y	Monthly m/m	Quarterly y/y	Calendar year y/y	
Jan 2026	123.7	4.3	0.6			
Feb 2026	124.2	4.3	0.4			
Mar 2026	124.8	4.3	0.5	4.3		
Apr 2026	125.3	4.5	0.4			
May 2026	125.7	4.7	0.3			
Jun 2026	126.0	4.8	0.3	4.7		
Jul 2026	127.3	4.7	1.0			
Aug 2026	127.5	4.6	0.2			
Sep 2026	127.8	4.5	0.2	4.6		
Oct 2026	128.2	4.7	0.3			
Nov 2026	128.6	4.8	0.3			
Dec 2026	128.7	4.7	0.1	4.7	2026	4.6
Jan 2027	129.5	4.7	0.6			
Feb 2027	130.1	4.8	0.5			
Mar 2027	130.9	4.9	0.6	4.8		
Apr 2027	131.3	4.8	0.3			
May 2027	131.6	4.7	0.2			
Jun 2027	131.9	4.7	0.3	4.7		
Jul 2027	132.9	4.4	0.7			
Aug 2027	133.4	4.6	0.4			
Sep 2027	133.8	4.7	0.3	4.6		
Oct 2027	134.2	4.7	0.3			
Nov 2027	134.3	4.5	0.1			
Dec 2027	134.5	4.5	0.1	4.6	2027	4.7
Jan 2028	135.1	4.4	0.5			
Feb 2028	135.8	4.4	0.5			
Mar 2028	136.6	4.4	0.6	4.4		
Apr 2028	137.2	4.5	0.4			
May 2028	137.6	4.6	0.3			
Jun 2028	138.0	4.6	0.3	4.6		
Jul 2028	139.4	4.9	1.0			
Aug 2028	139.7	4.7	0.2			
Sep 2028	139.9	4.6	0.2	4.7		
Oct 2028	140.4	4.6	0.3			
Nov 2028	140.5	4.6	0.1			
Dec 2028	140.6	4.6	0.1	4.6	2028	4.6

Source: Stats SA, Investec



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Figure 23: Economic Scenarios:

		Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	Q3.25	Q4.25	
Extreme	USD/Rand (average)	18.87	17.10	16.50	15.50	15.00	14.60	14.50	14.40	
	Repo rate (end rate)	8.25	7.75	7.50	7.00	6.50	6.25	6.00	5.50	
Up case 1%	<p>SA economic growth rises to 3–5%, then 5-7%. Good governance, growth-creating reforms (structural constraints eradicated), strong property rights, no nationalisation or expropriation without compensation. High business confidence and fixed investment growth, substantial FDI, fiscal consolidation drives debt to low ratios of 2000s. Very subdued domestic inflation on extreme rand strength, very favourable weather conditions. Very short grey listing. Strong global growth, risk-on, commodity boom. Rapid upgrades of credit ratings. Strong transition away from fossil fuel usage, a quick transition to renewable energy, very comprehensive measures to alleviate climate change impact on economy. The Russian/Ukraine war ends quickly.</p>									
Up case 2%	USD/Rand (average)	18.87	17.50	17.20	17.00	16.90	16.80	16.70	16.50	
	Repo rate (end rate)	8.25	8.00	7.75	7.50	7.00	6.75	6.50	6.00	
<p>Economic growth lifts to around 4%, rising confidence and investment levels, structural constraints eroded, global growth strong, global financial markets risk-on. No nationalisation or expropriation without compensation. Low domestic inflation on favourable weather and global conditions, rand strength, lower state-controlled price inflation on increased private privatisation. Positive outlooks on credit ratings turn into upgrades on substantial fiscal consolidation, debt projections fall substantially. Grey listed for less than eighteen months. Substantial transition to renewable energy away from fossil fuel usage, comprehensive measures to alleviate climate change impact on economy. The Russian/Ukraine war ends.</p>										
Base case 45%	USD/Rand (average)	18.87	18.70	18.40	18.20	18.00	18.30	18.40	18.20	
	Repo rate (end rate)	8.25	8.25	8.25	8.00	7.25	7.00	6.75	6.75	
<p>Economic growth modest but lifts towards 2.0% y/y over five years on sufficient domestic policy support measures (but still limited somewhat by load shedding, freight constraints), global financial market risk sentiment is neutral to positive. South Africa in the BB credit rating category bracket as fiscal consolidation (debt to GDP stabilisation) occurs leading to some positive outlooks. The rand stabilises and strengthens somewhat, inflation is impacted by the course of weather patterns via food price inflation. Little expropriation without compensation occurs and has no negative effect on economy, no nationalisation. A modest transition to renewable energy and slow move away from fossil fuel usage occurs and measures to alleviate the impact of climate change on the economy are modestly implemented. The Russian/Ukraine war persists and does not exacerbate, nor do middle East Tensions. The grey listing is temporary.</p>										
Lite (domestic) Down case 43%	USD/Rand (average)	18.87	19.80	19.70	19.50	19.30	19.40	19.50	19.60	
	Repo rate (end rate)	8.25	8.50	8.75	9.50	9.50	9.50	9.50	9.25	
<p>The international environment (incl. risk sentiment) is that of the base case. South Africa fails to see government debt projections stabilise, falls into single B (local and foreign currency) credit ratings from all three agencies. Recession occurs. Business confidence depressed, substantial load shedding, marked freight constraints, weak investment growth, civil and political unrest. High inflation on unfavourable weather conditions, marked rand weakness. Little transition to renewable energy or measures to alleviate the impact of climate change. Very limited expropriation of private sector property without compensation, with a slight negative impact on the economy. Substantial fiscal consolidation ultimately occurs, preventing ratings falling into the C grades. The greylisting is lengthy.</p>										
Severe down case 9%	USD/Rand (average)	18.87	20.50	21.40	21.50	21.70	21.70	21.90	22.00	
	Repo rate (end rate)	8.25	9.00	9.75	11.00	11.50	11.50	11.00	10.75	
<p>Lengthy global recession, global financial crisis - insufficient monetary and other support domestically and internationally. Very high inflation on very adverse weather conditions, severe rand weakness. SA rated single B from all three key agencies, downgraded into CCC grade, increased risk of default. Government borrows from increasingly wider sources, sinks deeper into a debt trap, widespread, severe services load shedding, severe civil and political unrest. Failure to transition to renewable energy and measures to alleviate the impact of climate change on the economy. Limited expropriation of private property without compensation with a noticeable negative economic impact. SA is blacklisted. The Russian/Ukraine war widens into neighbouring (NATO) countries, Middle East tensions worsen.</p>										

Note: Event risk begins Q2 24. Source: Investec

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MPC preview: repo rate to remain on hold for May

Friday 10 May 2024



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