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US bond buyback amid global yield strain as SA looks to sectors for growth

THE WEEK IN PERSPECTIVE

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The main domestic data release this week was consumer inflation, which slowed slightly more than expected in July. Fuel remained the largest contributor to annual inflation, but food price pressures eased markedly. The softer-than-expected print supported the SARB's decision to leave interest rates unchanged in July. Activity data were mixed: retail sales showed some resilience at the end of the second quarter, while wholesale trade ended the quarter on a weak note. The September MPC decision nevertheless remains finely balanced – as will be many upcoming global monetary policy decisions - particularly with oil prices moving higher again this week and complicating the near-term inflation outlook.

Yesterday, the President launched Phase 3 of the Government-Business Partnership, which places greater emphasis on sector-specific interventions. Mining, agriculture and agriprocessing, and tourism have been identified as priority sectors, alongside continued work on broader constraints to growth and investment.

The sector focus is significant. Much of SA's reform effort in recent years, including through Operation Vulindlela, has concentrated on economy-wide bottlenecks such as electricity, logistics, water and municipal service delivery. These remain critical, but the new phase of the Government-Business Partnership adds a more targeted layer by focusing on sectors where resolving specific constraints could unlock investment, exports and employment relatively quickly.

The three sectors are sensible choices. Mining remains one of SA's key comparative advantages but continues to be held back by regulatory, infrastructure and logistics constraints. **Our note on mining potential can be found here**, while **our detailed analysis of the constraints facing the sector can be read here**. Agriculture and agriprocessing are export-oriented and relatively labour-intensive, while tourism offers considerable scope for employment growth and foreign-exchange earnings. **Our latest tourism data story looks at the role of visa reform in supporting the sector**.

The key question is whether the more sector-focused approach can accelerate implementation without diluting attention from the economy-wide reforms that ultimately determine firms' ability to invest and expand. If it succeeds in combining sector-specific problem-solving with continued progress on electricity, logistics, municipal performance and other cross-cutting constraints, it could strengthen the transmission from structural reform into actual investment and growth.

Global economic data remained mixed this week, pointing to uneven growth and persistent inflation risks across major economies. China's economy lost further momentum at the start of Q3. In contrast, Eurozone sentiment continued to recover as stronger corporate results and exports improved expectations. Meanwhile, UK inflation accelerated to 2.9% in July, largely reflecting higher electricity and gas prices. However, stable core inflation, easing services inflation and signs of a cooling labour market leave the Bank of England's near-term policy outlook finely balanced. In the US, industrial production growth slowed.

Staying in the US, the Federal Reserve (Fed) released the minutes of its July meeting, at which policymakers opted to leave interest rates unchanged. The minutes revealed some divergence among officials, with three policymakers having preferred a 25bp hike at the meeting, while others indicated that tighter policy could still be necessary if inflation remained persistent. Nevertheless, most participants expected inflation to moderate over the rest of the year as the effects of tariffs and earlier energy price increases fade. While energy prices have increased since the last meeting, the July labour data was much weaker than expected. These opposing forces leave the outlook for the Fed's next policy decision on a knife-edge. Another notable takeaway was Fed Chair Kevin Warsh's suggestion to reduce the number of annual policy meetings from eight to six, consistent with his broader push to scale back Fed communication.

The main market-moving development this week was in the bond market, after the US Treasury unexpectedly announced that it would at least double the size of its long-dated bond buybacks, from $2bn to $4bn per operation. Although Treasury regularly conducts buybacks to support market liquidity, the unusually large increase was interpreted as a response to mounting pressure at the long end of the yield curve. Treasury described the move as additional liquidity support, although markets interpreted it as an effort to ease pressure on long-term borrowing costs. This week, yields on 30-year US Treasuries rose to the highest level since 2007. The almost two-decade high in yields coincided with the US government debt exceeding $40 trillion. The 30-year bond yield is important not only for US debt servicing costs but also for US consumers as US mortgage rates are generally tied to the long-term yields. The relief proved short-lived. Long-dated Treasuries sold off again on Thursday, with the 30-year yield rising back to around 5.25%, as investors questioned whether larger buybacks could provide lasting relief from the underlying fiscal, inflation and debt-supply pressures.

The US bond market was not the only one under strain. Government borrowing costs are rising sharply worldwide as investors demand greater compensation for holding longer-dated sovereign debt. Average G7 bond yields reached their highest level since 2008 in mid-August. This week, French borrowing costs reached levels last seen in 2008, UK gilt yields approached 6%, and comparable Japanese yields were near record highs. While some of this is due to idiosyncratic domestic factors, much of the underlying pressure is global. The war in the Middle East has raised concerns that ongoing geopolitical disruptions will lead to persistent inflationary pressures. Meanwhile, government debt in advanced economies continues to climb, with few countries showing a true commitment to curtail spending. The fear is that ageing populations will only worsen the problem. Finally, corporate long-term bond issuance is ticking up, including from AI-related companies, adding to the competition for investor capital.

The SA market was not unscathed this week, with the 10-year bond yield ticking up by 15 basis points (bps) . Still, unlike in many other countries, SA yields are well below where they were at the same time last year.

The US buy-back also impacted the dollar, which lost 1.2% and 0.9% against the euro and pound, respectively, the largest decline in three weeks. The dollar had already been under pressure following a joint US-Japan intervention to support the yen late last month, with Treasury Secretary Scott Bessent subsequently suggesting that the Fed's Foreign and International Monetary Authorities Repo Facility could facilitate further yen purchases if

Weekly Key Indicators

	Close	w-o-w
R/$	R16.12	-0.3%
R/€	R18.83	0.9%
R/£	R21.98	0.7%
$/€	$1.17	1.2%
Brent crude oil	$94.43	8.4%
Gold	$4 535	3.8%
Platinum	$1 810	4.4%
JSE ALSI	116 051	1.7%
10y gov. bond	8.74	15bps
FRA (1x4)*	7.01	0bps

*Forward rate agreement

required. US dollar weakness led to the rand strengthening by 0.3%. However, the rand lost some ground against both the euro and pound.

Oil prices rose steadily this week as peace in the Middle East remained out of reach. Brent crude increased from around $89/bbl to roughly $94/bbl. The rally was initially driven by renewed fighting between Israel and Hezbollah in Lebanon and attacks on vessels in the Strait of Hormuz, with concerns escalating after Iranian media reported that Iran had seized an oil tanker and demanded transit fees from vessels using the key waterway. Prices received further support after US President Trump said there were no ongoing talks with Tehran and announced additional measures to economically isolate Iran. Unlike previous weeks, where rhetoric had not translated into a marked slowdown in Strait of Hormuz traffic, this week there was a notable decline, with some ships making U-turns. Ship-tracking data points to a notable decline in traffic compared to the previous weekend.

In addition to rising oil prices, refinery margins continue to rise. US diesel refining margins hit record highs this week (the previous record was in 2022). As refining capacity has been strained elsewhere, the US has supplied the global market. US diesel exports rose to record highs; however, domestic inventories are at their lowest seasonal level since 1996. Further refining disruptions would likely push refining even higher and add to fuel price pressure. The combination of higher crude prices and unusually elevated refining margins, therefore, represents an additional upside risk to domestic fuel prices, even if Brent itself does not rise materially further. Indeed, the latest data points to a 80-90c/litre increase in the local petrol price and a sizeable R3 surge in the diesel price in early September.

WEEK AHEAD: PAYROLL REVISIONS COULD RESHAPE THE US LABOUR-MARKET PICTURE

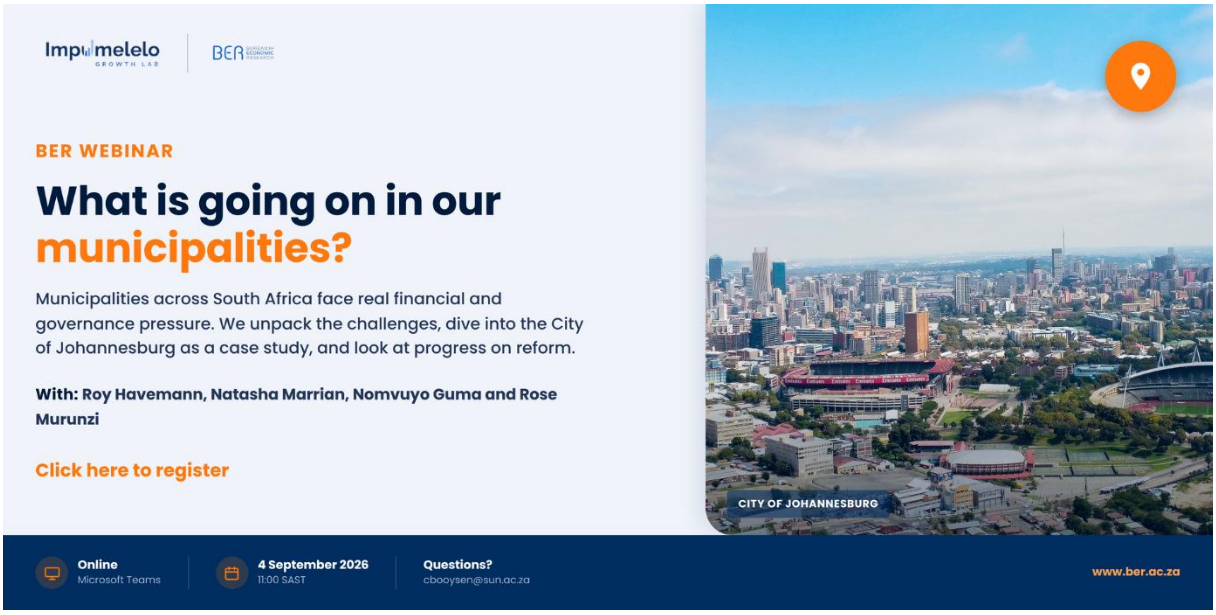
In SA, July producer inflation and June trade data will be the main focus. We expect PPI inflation to slow further, from 7.5% y-o-y in June to around 5.9%, helped by easing energy-price pressures. The leading business cycle indicator, motor trade sales and the July trade balance will provide additional information on the underlying momentum in domestic activity.

In the US, attention will turn to the preliminary annual benchmark revision to non-farm payroll employment. Unlike the normal monthly payroll revisions, which incorporate late survey responses, the annual benchmark compares the survey-based employment estimates with much more comprehensive administrative employment records. It therefore provides an important check on whether the monthly payroll survey has been systematically over- or underestimating job creation. The last two preliminary benchmark revisions were unusually large and negative: employment was revised down by 818 000 in 2024 and by 911 000 in 2025, suggesting that the labour market had created materially fewer jobs than initially estimated. Another sizeable downward revision would reinforce recent signs that US labour-market momentum has been weaker than the headline payroll numbers suggested and could strengthen expectations of a less restrictive Federal Reserve policy stance. The revision is preliminary; however, the final benchmark will be incorporated into the historical payroll series early next year.

US core PCE inflation will also be closely watched for evidence on underlying price pressures. With recent labour-market data softening, a further moderation in core inflation would strengthen the case for a less restrictive policy stance, while a sticky reading would complicate the outlook.

The Jackson Hole Economic Policy Symposium, which runs from 27–29 August, will also be closely watched, particularly for Kevin Warsh’s first address there as Federal Reserve chair. With markets reassessing the US labour market and inflation outlook, his remarks could provide an important signal on how the new Fed leadership is weighing weaker employment growth against still-sticky inflation. Elsewhere, Germany’s Ifo business climate and consumer confidence indicators will provide an updated read on the still-fragile German economy, while preliminary French inflation data will offer another indication of the direction of price pressures in the Eurozone.

Date	Event	Latest
Tuesday (25 Aug)	SA: Leading Business Cycle Indicator (Jun)	-0.3% m-o-m
Tuesday (25 Aug)	DE: Ifo Business Climate (Aug)	86.6
Wednesday (26 Aug)	US: Core PCE Price Index (Jul)	3.3% y-o-y; 0.1% m-o-m
Wednesday (26 Aug)	SA: Motor Trade Sales (Jun)	0% y-o-y; -2.2% m-o-m
Thursday (27 Aug)	DE: GfK Consumer Confidence (Sep)	-29.6
Thursday (27 Aug)	SA: PPI (Jul)	7.5% y-o-y; -0.1% m-o-m
Friday (28 Aug)	FR: Consumer Inflation (Prel, Aug)	2.1% y-o-y; 0.6% m-o-m
Friday (28 Aug)	US: Non-Farm Payroll Annual Revision (Prel)	n/a
Friday (28 Aug)	SA: Balance of Trade (Jul)	R17.75B



Note that our political analyst, Natasha Marrian, is on a well-deserved break this week and will be back with her usual SA political update next week.

DOMESTIC DATA

Nomvelo Moima

HEADLINE CPI EASES FROM JUNE'S TWO-YEAR HIGH IN JULY

According to Stats SA, annual headline consumer price inflation slowed to 4.3% in July, down from 5% in June, while prices rose by 0.2% m-o-m, slower than the prior month’s 0.7% m-o-m increase. Headline CPI came in below the consensus forecast of a decline to 4.5% y-o-y (BER: 4.4% y-o-y), with the downside surprise stemming from lower-than-expected municipal tariff increases, which are surveyed in July. Stats SA says some municipalities have not yet been surveyed, suggesting near-term upside risk when they are incorporated next month. Moderations in fuel prices and softer food inflation were anticipated, and indeed, the pace of price increases slowed for both categories in July; most notably, food inflation declined from 1.6% y-o-y to 0.9% y-o-y, its lowest level in 16 years. This was largely driven by continued disinflation in cereal products and a slower rise in meat prices. At the same time, transport inflation cooled to 8.9% y-o-y in July, mainly due to the fuel index declining from

34.3% y-o-y to 20.8% y-o-y. However, the annual core CPI (excluding food and energy) edged up to 4.2% in July, up from 4.1% in the prior month.

The July print therefore provided welcome headline relief, but the slight rise in core inflation suggests that underlying price pressures remain somewhat sticky.

RETAIL SALES REMAIN RESILIENT, WHILE WHOLESALE TRADE WEAKENS

Stats SA also released domestic trade statistics for June, revealing a persistent divergence in performance across the trade sector. Real retail sales grew by 1.6% y-o-y in June, following a downwardly revised 2.2% y-o-y increase in May. The largest positive contributions to the headline figure came from "all other retailers" (up 7.5% y-o-y) and general dealers (1.8% y-o-y), each adding 0.8 percentage points (%pts). Only two of the seven retail categories recorded annual contractions, namely retailers of textiles, clothing and footwear and retailers of hardware. Meanwhile, sales of household furniture and appliances remained firm (up 8.5% y-o-y, +0.3 %pts), indicating that some consumers have maintained an appetite for discretionary spending despite higher fuel costs. However, on a seasonally adjusted basis (sa), real retail sales contracted by 0.6% m-o-m in June, following a flat reading in the prior month.

In contrast, real wholesale trade sales contracted for a second consecutive month, declining by 6.8% y-o-y in June, compared with a 7.1% y-o-y decline in the prior month. On a monthly basis, real wholesale trade sales (sa) contracted by 3.4% in June, a slight improvement on the sharp 7.4% m-o-m drop in May.

June marked a third consecutive monthly decline in real wholesale trade sales, setting the sector up to detract from second-quarter growth, while retail trade is likely to make a positive contribution.

INTERNATIONAL DATA

Paul Gluckman

CHINA'S GROWTH SUBDUED AS CONSUMPTION AND PRODUCTION MODERATE

Retail sales slowed to 0.6% y-o-y in July, following 1% in June, marking the second consecutive month of annual growth after May's 0.6% contraction. The headline reading continued to be dragged down by automotive sales (-17%) and petroleum and related products (-7.6%), as elevated oil prices remain a headwind to consumption. However, this was partly offset by very strong demand for communication equipment (20.4% y-o-y) and resilient food product sales (5.3% y-o-y). On a monthly basis, retail sales were broadly unchanged.

Similarly, industrial production slowed to 4.5% y-o-y in July from 5.3% y-o-y in June, below expectations. Twenty-five of the 41 major industries recorded annual growth, led by computers and communications equipment (19.1%). Production growth, however, was weighed down by softer manufacturing (5.5% vs 6% in June) and a continued deterioration in the mining sector (-4.2% vs –2.2%). Monthly, industrial production picked up by 0.1%.

Meanwhile, the unemployment rate rose by 0.2% pts to 5.2%, while fixed investment fell by 6.7% y-o-y, its weakest growth since the pandemic. Taken together, the data points to a further loss of momentum at the start of Q3. The broader picture remains one of subdued domestic demand, weaker production momentum, and a worrying slowdown in fixed investment, leaving the near-term growth outlook soft.

EUROZONE ECONOMIC SENTIMENT CONTINUES TO RECOVER

The ZEW indicator, a market sentiment gauge, had fallen to a four-year low of –20.4 in April but gradually improved each month, recovering to 31.4 in August. The recovery persisted, with 37.2% of analysts anticipating conditions to improve over the next six months, while only 5.8% expected a deterioration. Expectations improved across industries, while the current-conditions index rose by 16.2 points to -21.5. Strong corporate results and exports appear to have supported confidence despite the ongoing heatwave.

In Germany, economic expectations rose by 7.9 points to 34.2 from July to August, even though shipping remains constrained by low river levels. Along with strong exports, expectations of support from infrastructure-related fiscal stimulus appear to have lifted sentiment.

US INDUSTRIAL PRODUCTION SLOWS IN JULY

Industrial production slowed to 1.1% y-o-y in July (0.2% m-o-m), from 1.3% (0.1%) in June. While five out of six major market groups rose, led by strong growth in business equipment production (6.6% y-o-y; 0.8% m-o-m), a decline in consumer goods (-1.8% y-o-y; -0.4% m-o-m) weighed on the overall reading.

Meanwhile, manufacturing production rose by 1.2% y-o-y (-0.2% m-o-m) in July, down from 1.5% the month prior. Durable production rose (3.9% y-o-y), propped up by computer and electronic products (9.9% y-o-y), as demand for AI-related inputs surged.

The resilience therefore remains concentrated in business equipment and technology-related production rather than signalling a broad-based acceleration in US industry.

UK INFLATION LIFTED BY ENERGY PRICES

Annual CPI increased from 2.6% in June to 2.9% in July. The largest positive contributor was housing and household services (4.6% in July from 1.2% in June), reflecting higher electricity and gas prices. This was expected given the 13% jump in the UK's energy price cap last month following higher wholesale energy costs. The cap increase also pushed up the monthly CPI to 0.3%.

While higher inflation strengthens the case for a Bank of England (BoE) hike in September, there is still a strong case for a hold. Core inflation, which excludes energy prices, remained unchanged at 2.6% for a third consecutive month. Additionally, while services inflation remains elevated at 3.4%, it softened from 3.6% in June. The combination of higher headline inflation but stable core and softer services inflation, therefore, leaves the near-term policy outlook finely balanced. The rise in headline inflation should also be read alongside signs of a cooling labour market, with employment growth weakening and unemployment remaining elevated. That combination should make the BoE cautious about responding too aggressively to what is, for now, largely an energy-driven increase in headline inflation.

FORECAST UPDATE

We have made a small downward adjustment to our third-quarter inflation forecast following a slightly softer-than-expected July CPI print. Headline inflation came in at 4.3% y-o-y, compared with our expectation of 4.4%, while food and non-alcoholic beverage inflation remained particularly subdued. We now expect headline inflation to average 4.5% in 2026Q3, while our full-year forecast remains unchanged at 4.2%. Our FNAB inflation forecast has also been revised lower, to 1.2% in Q3 and 2.4% for 2026.

There is some upside risk to our near-term oil-price assumption following the renewed rise in Brent crude. For now, however, we have not adjusted our oil-price forecast.

We have made no other changes to our headline forecasts. We continue to expect real GDP growth of 1.3% in 2026 and the policy rate to remain unchanged for the rest of the year before easing gradually in 2027.

	Actual		Forecast		Next release/meeting	
	2025	**2026Q2**	**2026Q3**	**2026**		
Brent crude oil ($, spot, avg.)	68.83	97.05	81.67	83.77	n/a	
ZAR/USD (avg.)	17.88	16.47	16.48	16.46	n/a	
Policy interest rate (%, end of period)	7.25	7.00	7.00	7.00	23-Sep-2026	
Headline CPI (y-o-y % change)	3.2	3.3	4.5	4.2	23-Sep-26	Aug
FNAB inflation (y-o-y % change)	4.1	3.9	1.2	2.4	23-Sep-26	Aug
Headline PPI (y-o-y % change)	1.5	6.7	5.9	5.1	27-Aug-26	Jul
	2025	**2026Q1**	**2026Q2**	**2026**		
Real GDP growth (seasonally adjusted)					8-Sep-26	2026Q2
(y-o-y % change)	1.1	2.0	1.3	1.3		
(q-o-q % change)		0.5	0.1			

Source: BER, Stats SA, Refinitiv, SARB

Note: The table is updated ad hoc and is indicative of our latest view.

FNAB stands for food & non-alcoholic beverages.

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*Please refer to the glossary on the **BER website** for explanations of technical terms.*