Markets navigate simultaneous escalation and negotiation

THE WEEK IN PERSPECTIVE

Lisette IJssel de Schepper

Markets spent much of the past week attempting to price the difference between a war and a messy peace. While negotiations between the US and Iran appear to be gaining momentum, recent developments suggest that any agreement is likely to resemble a fragile and imperfect truce rather than a comprehensive settlement. Over the past week, Iran and Israel exchanged fresh attacks, Hezbollah rejected efforts to broaden regional ceasefires, and the US launched further strikes against Iranian targets even as diplomatic channels remained open. The result is an increasingly unusual situation in which military escalation and peace negotiations are occurring simultaneously. On balance, though, we are probably closer to a deal than we have been for some time, but the risk of a major escalation remains very real. Earlier on Thursday, President Donald Trump renewed threats against Iran's Kharg Island - the country's main oil export terminal - underscoring how quickly tensions could flare up again. Yet only hours later, he declared that he had "ended the war" and that a "great settlement" had been reached with Iran. The apparent contradiction captures the current moment well: diplomacy is advancing, but the path to a durable peace remains highly uncertain.

This contradiction helps explain the behaviour of financial markets. Oil prices have retreated from their recent peaks as investors become more optimistic that a broader regional escalation can be avoided. Yet markets remain reluctant to meaningfully price out the geopolitical risk premium. Until a formal agreement is reached and normality returns to energy markets, the risk of renewed disruption will continue to hang over the global outlook. Brent crude was trading just below $90/barrel this morning.

The challenge for policymakers is that inflationary pressures do not disappear as quickly as geopolitical risks. This week, the European Central Bank (ECB) raised interest rates by 25bps, citing concerns that higher energy costs could become embedded in broader inflation dynamics. In the US, annual inflation accelerated to 4.2% in May, its highest level in three years. Trump was unconcerned, declaring that he "loves the inflation" and predicting that price pressures would "come down like a rock" once the Iran conflict is resolved. Markets were less convinced. The debate in financial markets has shifted noticeably since the start of the year, with investors no longer asking how quickly the US Federal Reserve will cut rates, but whether inflation could ultimately force policymakers to tighten further. The timing is awkward for Kevin Warsh, who chairs his first Fed meeting next week amid the growing uncertainty over the inflationary consequences of both conflict in the Middle East and the Trump administration's trade agenda. The job market remains remarkably resilient.

Weekly Key Indicators		
	Close	w-o-w
R/$	R16.51	1.5%
R/€	R19.02	0.5%
R/£	R22.01	0.6%
$/€	$1.15	-1.0%
Brent crude oil	$91.82	-3.6%
Gold	$4 083	-8.7%
Platinum	$1 668	-12.1%
JSE ALSI	110 253	-2.0%
10y gov. bond	8.61	5bps
FRA (1x4)*	7.03	0

*Forward rate agreement

Nonfarm payrolls increased by 172 000 in May, more than double market expectations, while the unemployment rate held steady at 4.3%. Combined with higher inflation, the data leave the Fed with little urgency to cut rates and may strengthen the case for maintaining a higher-for-longer stance.

Yet not all market signals point to caution. SpaceX this week completed the largest IPO in history, raising $75bn and achieving a valuation approaching $1.8 trillion. The offering was reportedly more than four times oversubscribed, underscoring the extent to which investor enthusiasm for technology and innovation remains intact despite elevated inflation, geopolitical tensions and growing uncertainty around the interest-rate outlook.

At home, this week's GDP data showed that the local economy expanded by a better-than-expected 0.5% q-o-q in the first quarter, suggesting that SA entered the current period of uncertainty from a firmer position than previously thought. However, the details were less encouraging – **for more, read our client comment here**. Domestic demand contracted for the first time since 2024Q1, while weak investment spending and a sizeable inventory drawdown suggest that underlying momentum was already fading before the recent escalation in geopolitical tensions and fuel-price shock.

The increasingly uncertain global backdrop also comes at a delicate moment domestically. Anti-immigration protests continue to gain momentum, with the group March and March maintaining its 30 June deadline for undocumented foreign nationals to leave SA. The issue has moved firmly onto the political agenda, prompting a rare Sunday evening address to the nation by President Cyril Ramaphosa and forcing the ANC to adapt its long-standing approach to the immigration question. While Natasha Marrian unpacks these developments in more detail below, the episode serves as a reminder that SA faces a growing list of domestic challenges even as policymakers grapple with an increasingly uncertain global environment.

Not all the week's scorecards disappointed. **Impumelelo's latest reform tracker** points to continued, if uneven, progress on the government's structural reform agenda. While these gains are unlikely to offset near-term global headwinds, they do suggest that the economy is better placed to weather external shocks than it was a few years ago. Also positive - although backwards-looking - was the big current account surplus (2.4% of GDP) posted in Q1.

WEEK AHEAD: OIL SHOCK SET TO PUSH CPI ABOVE 5%

SA's May inflation data will be the key domestic release next week. We expect headline CPI inflation to accelerate sharply from 4.0% y-o-y in April to 5.2% in May as the full impact of higher fuel prices begins to filter through the economy. While the increase will initially be driven by transport costs, policymakers will be watching closely for signs that higher fuel prices are feeding into broader inflation pressures. Retail and wholesale trade sales data for April will also provide an early indication of whether consumers adjusted their spending behaviour after the fuel price shock.

Globally, central banks will remain firmly in focus. In the US, retail sales data on Wednesday and the Federal Reserve's latest interest rate decision will be watched closely. While the Fed is expected to leave rates unchanged, markets will scrutinise its communication for clues about the likelihood of further tightening should inflation remain stubbornly elevated. In the UK, the Bank of England is widely expected to leave rates unchanged at 3.75% on Thursday. However, investors will be watching closely for any shift in tone following the recent rise in energy prices and inflation expectations. While a rate hike this month would come as a surprise, markets are increasingly alert to the possibility that further tightening may ultimately be required if inflation pressures persist.

Chinese industrial production, retail sales and labour market data will meanwhile provide an important gauge of global growth momentum. Eurozone sentiment indicators due on Tuesday will be watched for signs that confidence is beginning to stabilise. The previous survey showed a marked decline in expectations as higher oil prices and geopolitical uncertainty weighed on the outlook. With markets now increasingly hopeful that the US and Iran may reach an agreement, June's readings will provide an early indication of whether sentiment is recovering alongside financial markets.

Date	Event	Latest
Tuesday (16 Jun)	CN: Industrial Production, Retail Sales, Unemployment Rate (May)	4.1% y-o-y; 0.2% y-o-y; 5.2%
Tuesday (16 Jun)	EZ, DE: ZEW Economic Sentiment Index (Jun)	-9.1; -10.2
Wednesday (17 Jun)	UK: Consumer Inflation (May)	2.8% y-o-y; 0.7% m-o-m
Wednesday (17 Jun)	SA: Consumer inflation (May)	4% y-o-y; 1.1% m-o-m
Wednesday (17 Jun)	SA: Retail Sales (Apr)	2.6% y-o-y; 0.1% m-o-m
Wednesday (17 Jun)	US: Retail Sales (May)	4.9% y-o-y; 0.5% m-o-m
Wednesday (17 Jun)	US: Fed Interest Rate Decision	3.75%
Thursday (18 Jun)	SA: Wholesale Trade Sales (Apr)	8.3% y-o-y; 5.5% m-o-m
Thursday (18 Jun)	UK: BoE Interest Rate Decision	3.75%

SA POLITICAL UPDATE

Natasha Marrian

ANC APPEASEMENT AS ANTI-IMMIGRANT PROTESTS GROW

President Cyril Ramaphosa's address to the nation on Sunday, amid growing anti-foreigner sentiment, marked a shift from the ANC's historic denialism and hostility towards anti-immigrant activists to a strategy of appeasement. Still, it did little to quell the growing anti-immigrant movement, which is spreading across the country - from KwaZulu-Natal to Gauteng’s East Rand, Mpumalanga, Limpopo and the Western Cape.

The shift has been gradual. In recent years, the ANC moved from emphasising Pan-African solidarity and condemning "vigilantism" to this week's announcement of a crackdown on companies employing undocumented foreign nationals.

The ANC is no longer dismissing calls for stricter action against illegal immigration. However, the party appears to have lost control of the narrative, with anti-immigration groupings increasingly dominating the public debate. Opposition parties, including former president Jacob Zuma's MK Party, ActionSA and the Patriotic Alliance, have sought to capitalise on the issue ahead of November's local government election.

ANTI-IMMIGRANT MOVEMENT STICKS TO JUNE 30 DEADLINE

Despite Ramaphosa's assurances that the government is stepping up efforts to tackle illegal immigration, anti-immigration groups insist the 30 June deadline remains in place. Government's response spans several departments, including Home Affairs, Labour, Police and International Relations. The Border Management Authority, launched in 2023, remains central to these efforts, although it continues to face capacity and corruption challenges.

The labour department is broadening its capacity to inspect businesses, with a key legislative amendment on the cards to increase fines for companies employing undocumented foreign nationals to R100 000 per worker discovered during a labour inspection. Ramaphosa said the labour department would add 10 000 labour inspectors to the existing complement.

The approaching deadline remains a key security concern. Authorities are closely monitoring the situation, with high-level meetings underway across the security cluster. The movement itself remains fragmented, consisting of several organisations, most notably Operation Dudula and March and March. While protests in Ekurhuleni and eThekwini this week passed without major incident, the government remains on high alert.

The current mobilisation differs significantly from the spontaneous xenophobic violence seen in 2008. Rather than erupting suddenly, the movement has developed over months and is increasingly organised around identifiable groups and leaders. Authorities have thus far avoided major confrontations, while police and public-order units are preparing for increased deployments around the 30 June deadline.

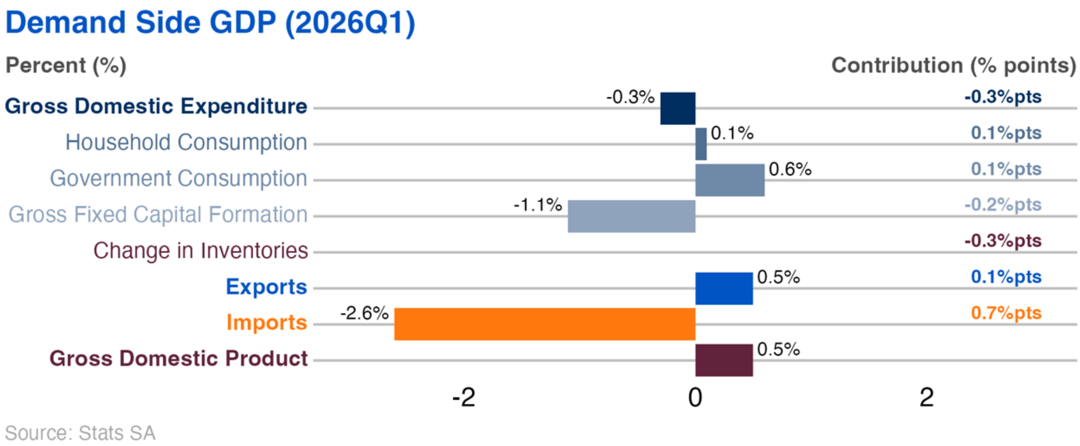
The heightened risk of protests linked to the anti-immigration movement adds to pressure on the state in the run-up to November's local government election. Historically, election periods have coincided with an increase in service-delivery protests and broader social unrest. With voter turnout already at record lows, the government's handling of the issue could influence both voter turnout and electoral outcomes, particularly for the ANC.

DOMESTIC DATA

Katrien Smuts

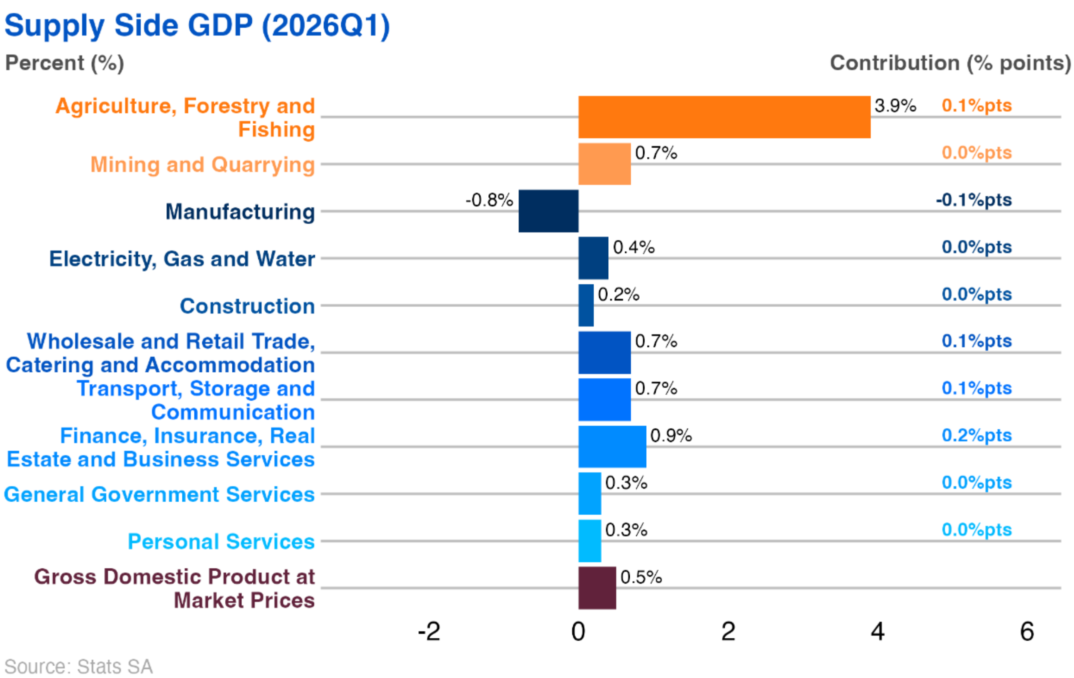
Q1 GDP GROWTH BEATS EXPECTATIONS, BUT THE DETAILS DISAPPOINT

The SA economy registered its sixth consecutive quarter of quarterly growth, booking a better-than-expected 0.5% expansion in Q1. Annually, real GDP growth registered 2.1%. This follows an (unrevised) 0.4% expansion in 2025Q4. However, while the headline GDP outcome was encouraging, the composition of growth was less so.



On the expenditure side, consumer spending decelerated markedly, although, given the sheer size of consumer spending in the economy (64% of GDP), the 0.1% q-o-q expansion still added 0.1% pts, the slowest since 2024Q1, though the 3.4% annual print was largely in line with our forecasted 3.5% expansion. More concerning was gross fixed capital formation, which contracted by 0.1% q-o-q after two quarters of growth, with private-sector capex almost fully erasing the gains booked in 2025. The main support for GDP growth came from the external sector rather than domestic demand: exports edged up by 0.5% q-o-q, while imports contracted sharply by 2.6%. The composition of growth, therefore, reinforces the view that underlying momentum is less impressive than the headline figure suggests.

Higher exports and lower imports also led to the current account surplus widening to 2.4% of GDP in 2026Q1, up from 0.6% in Q4, and the largest since 2022.



From the production side, the agriculture sector posted strong gains, while the finance sector, the largest sector of the economy at 21%, contributed the most. The manufacturing sector was the only drag, a decline already foreshadowed by the monthly production data. The quarter again highlighted the widening divergence between the service economy and the goods-producing sectors. While nine of ten sectors expanded, the secondary sector remains a persistent constraint on growth.

MIXED START TO Q2 AS MINING PICKS UP, BUT MANUFACTURING DECLINES

Mining production increased by 8.2% y-o-y in April, with the largest contributors being PGMs (up 36.5% y-o-y), manganese ore (up 19% y-o-y), and chromium ore (up 17.5% y-o-y). Coal production, meanwhile, contracted on an annual basis (down -5.8% y-o-y). Positive for Q2 GDP, output rose by 3.3% m-o-m. Mining production is up by 6.1% so far this year, likely aided by sustained higher commodity prices. It is no surprise then that mineral sales at current prices also saw robust annual growth of 30.3% in April.

On the other hand, manufacturing production decreased by 2.9% y-o-y. The largest detractors were basic iron and steel, non-ferrous metal products, metal products and machinery (-6%, subtracting 1.4 %pts), wood and wood products, paper, publishing and printing (-10% y-o-y, subtracting 1 %pt), and motor vehicles, parts and accessories (-11% y-o-y, subtracting -0.9 %pts). Unlike mining, the factory sector had a tough start to Q2, with production decreasing by 2.7% m-o-m after 1.2% m-o-m growth in March.

INTERNATIONAL DATA

Nomvelo Moima

ECB RAISES INTEREST RATES BY 25 BPS, AS WIDELY ANTICIPATED

On Thursday, the ECB raised its policy deposit rate by 25bps, from 2.15% to 2.4%, marking its first rate hike in nearly three years. This makes the ECB the first developed-economy central bank to move in response to elevated energy prices amid the ongoing Iran conflict, reaffirming its commitment to keeping inflation anchored at its 2% target. ECB president Christine Lagarde noted that, as the outlook remains uncertain, the decision to hike is supported by a range of scenarios that map out how the energy shock might evolve and the subsequent impact on the EZ medium-term outlook. However, she emphasised that the bank has not yet committed to an interest rate path, as this depends on the duration of the energy shock and the potential extent of its second-round effects.

Indeed, baseline staff macroeconomic projections presented upward revisions to headline inflation in 2026 and 2027, reflecting a higher path for energy prices and the spillovers into food and services inflation. Meanwhile, growth expectations were downwardly adjusted to reflect a reduction in purchasing power and confidence.

US CONSUMER INFLATION HEATS UP FURTHER IN MAY

Across the Atlantic, price gauges continued their ascent as energy prices quickened for a third consecutive month. Annual headline consumer inflation accelerated to 4.2% in May, up from 3.8% in April. On a monthly basis, headline CPI rose by 0.5%, a touch lower than April's 0.6%. Still, a 3.9% m-o-m rise in the price of energy-related goods contributed to more than 60% of the rise in the monthly CPI. Core inflation, which excludes volatile food and energy prices, reached 2.9% y-o-y in May, its highest level since September 2025.

Factory gate inflation (PPI) rose by an above consensus 1.1% y-o-y in May, unchanged from a downwardly revised 1.1% rise in the prior month. The upside surprise was mainly led by a faster pace of price growth in goods (up 2.8% in May, from 1.9% in April). According to the Bureau of Labour Statistics, this marks the largest increase on record for the final demand good index (series begins in 2009), with over half of the rise attributed to a 23.4% m-o-m acceleration in gasoline prices.

CHINA FACTORY GATE PRICES EDGE HIGHER, BUT CPI SURPRISES SLIGHTLY TO THE DOWNSIDE

In China, prices in the economy are showing some sustained but uneven recovery from deflationary pressures. Consumer inflation held steady at a below consensus 1.2% y-o-y in May, as firmer transport price increases driven by elevated energy costs were offset by a deceleration in food prices, owing to persistently weak pork prices. On the other hand, producer price inflation jumped from 2.8% y-o-y in April to 3.9% y-o-y in May. This marked the fastest pace of price growth in nearly four years, driven by a rise in raw material costs and energy prices, aided further by Beijing’s effort to curb overcapacity in the production sector. Higher production material costs, particularly in mining and raw materials, drove the acceleration in factory gate prices, even as consumer goods prices remained mildly deflationary.

FORECAST UPDATE

We have not made any changes to our baseline forecast this week. While first-quarter GDP growth surprised on the upside, expanding by 0.5% q-o-q compared to our forecast of 0.3%, the composition of growth was less encouraging. The stronger starting point for 2026 does provide some support for the full-year outlook. As highlighted in our **GDP commentary**, even with no growth over the remainder of the year, annual GDP growth would still be around 1.1%. However, the available evidence points to a loss of momentum in the second quarter as higher fuel prices, elevated uncertainty and weaker business confidence begin to weigh on domestic demand.

As such, we continue to forecast GDP growth of 1.3% in 2026. We also maintain our view that the SARB is likely to remain cautious. Next week's inflation release is expected to show a sharp acceleration in headline CPI, largely reflecting the fuel-price shock. While this should not be interpreted as evidence of broad-based inflation pressures, policymakers will continue to watch closely for signs that higher fuel costs are feeding into inflation expectations, wage-setting behaviour and services inflation more generally.

	Actual		Forecast		Next release/meeting	
	2025	2026Q1	2026Q2	2026		
Brent crude oil ($, spot, avg.)	68.83	73.83	98.3	82.8	n/a	
ZAR/USD (avg.)	17.88	16.36	16.44	16.46	n/a	
Prime interest rate (%, end of period)	11.25	10.25	10.50	10.50	23-Jul-2026	
Headline CPI (y-o-y % change)	3.2	3.3	4.9	4.2	17-Jun-26	May
FNAB inflation (y-o-y % change)	4.1	3.9	3.4	3.8	17-Jun-26	May
Headline PPI (y-o-y % change)	1.5	2.0	7.8	5.4	25-Jun-26	May
Real GDP growth (seasonally adjusted)						
(y-o-y % change)	1.1			1.3	8-Sep-26	2026Q2
(q-o-q % change)		0.5	0.2			

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.

Premium Insights Clients can access more complete summaries of our forecast (updated each quarter) ***here***.

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

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