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Markets look through geopolitical noise as oil risks recede

THE WEEK IN PERSPECTIVE

Tracey-Lee Solomon

This week, wars continued, negotiations remained messy, and politics remained uncertain. Yet markets increasingly looked through the geopolitical noise, focusing instead on recovering oil supply and easing inflation risks.

After a few skirmishes between the US and Iran last week, American and Omani negotiators reported progress towards a peace deal during indirect talks. However, Iran's parliamentary speaker said that direct talks with America would not include discussions of a final deal until the terms of the memorandum of understanding (MoU) were fully met and that Iran was "prepared for war" if "dialogue is not implemented". The hostilities between Israel and Lebanon are likely one of those terms. The two countries signed a deal aimed at bringing peace between them. The accord commits the Lebanese government to disarm Hezbollah in exchange for Israel's gradual withdrawal from the territory it occupies in south Lebanon. However, the Lebanese government's ability to disarm Hezbollah is extremely limited, making the deal's success unlikely.

In addition to the Israel-Hezbollah hostilities, the fate of the Strait remains disputed. As part of the MoU, Iran promised not to charge a fee during the 60-day ceasefire, but has made clear that they intend to manage future passage through the Strait of Hormuz with Oman. This is at odds with what the US wants. However, for markets, the significance lies less in the negotiations themselves than in what they mean for oil flows through the Strait of Hormuz.

The oil price fell further this week to $71 per barrel (bbl). Markets increasingly looked through political headlines and instead turned their attention to the pace of physical oil flows' recovery. Oil exports have resumed much more quickly than expected, with flows already up to 10 million barrels per day (the UAE's oil exports are increasing to pre-war levels). Importantly, increased production elsewhere means exports through the Strait don't actually have to return to pre-war levels. US bank Morgan Stanley warned that flows through the waterway need only recover to about 65% of the pre-conflict level for a glut to form, in line with reports from the International Energy Agency (IEA). The quicker-than-expected recovery in oil supply has reinforced the view that the worst-case supply shock has been avoided.

While global financial markets generally reflected improved confidence that the worst of the oil shock had passed, the picture was less uniform. Global equity markets continued to make gains, while the US dollar weakened modestly against most major currencies. South African financial markets were more subdued, with the JSE All Share Index declining slightly and the 10-year government bond yield edging higher. Despite the softer performance of local equities, the rand appreciated 1.4% against the US dollar during the week, while also strengthening against the euro (0.8%) and pound (0.2%), supported by improving global risk sentiment and lower oil prices. Meanwhile, gold and platinum prices advanced.

Weekly Key Indicators		
	Close	w-o-w
R/$	R16.25	-1.4%
R/€	R18.59	-0.8%
R/£	R21.73	-0.2%
$/€	$1.14	0.6%
Brent crude oil	$71.72	-4.8%
Gold	$4 127	3.0%
Platinum	$1 618	0.6%
JSE ALSI	110 449	-0.4%
10y gov. bond	8.41	4bps
FRA (1x4)*	7.20	7bps

*Forward rate agreement

Falling oil prices have eased immediate inflation concerns, allowing several central banks to adopt a more optimistic tone. However, policymakers remain reluctant to declare victory over inflation, warning that earlier energy price increases may still feed through to broader prices. For the first time since April, traders are no longer fully pricing in another interest rate hike for 2026. The BOE Governor's emphasis on the weak UK economy this week also struck a dovish tone. Meanwhile, the US Federal Reserve Chairman Kevin Warsh refused to provide any forward guidance, noting only that he will stick to the Fed's 2% inflation target.

While most major central banks will likely be in wait-and-see mode, the Bank of Japan (BoJ) does not have the luxury of waiting. Until recently, economists generally expected the central bank to hike rates about every 6 months, which would put the next move in December. But markets are now bringing rate hikes forward as the Yen trades at decade lows. The yen reached 162 yen/$, the lowest since 1986, and traders are focusing on Japan's interest rate gap with the US as a reason to keep selling the currency. The BOJ Finance Minister Satsuki Katayama has expressed her willingness to intervene when necessary.

Domestically, economic data painted a mixed picture. The Absa PMI showed manufacturing activity contracted further in June, while Naamsa vehicle sales indicated that household demand remained relatively resilient. Perhaps the most important release came from the BER's inflation expectations survey, which showed a sharp increase in inflation expectations during the second quarter. However, the survey was conducted before the recent collapse in oil prices, meaning expectations may already have shifted lower. We take a look at what the latest data suggests for the SARB in our forecast update.

WEEK AHEAD: SA FACTORY DATA MAIN FOCUS IN A QUIET WEEK

The domestic calendar is relatively light next week, with manufacturing production likely to attract the most attention. The May data will provide one of the first hard indicators of how businesses responded to the recent oil-price shock and heightened geopolitical uncertainty. Survey evidence suggests that some firms may have accelerated purchases and inventory building earlier in the year in anticipation of higher costs and potential supply disruptions. If so, part of that demand may have been pulled forward from May and June, raising the possibility of a weaker manufacturing outcome. The release will therefore offer an important test of whether the economy experienced a temporary confidence shock or whether higher costs and uncertainty translated into a more meaningful slowdown in activity.

Internationally, attention will focus on China, where inflation and producer price data will provide an important gauge of domestic demand and pricing pressures. China's economy has struggled to generate sustained inflation despite repeated policy support measures, and markets will be watching closely for signs that the recent improvement in global sentiment is feeding through to economic activity. In the US, the ISM services PMI will offer a timely update on the health of the world's largest economy following the Federal Reserve's hawkish June meeting. Meanwhile, Eurozone retail sales and producer price data will provide further insight into the balance between growth and inflation after the ECB's recent shift towards a more cautious policy stance.

Date	Event	Latest
Monday (06 Jul)	EZ: Retail Sales (May)	1% y-o-y; -0.4% m-o-m
Monday (06 Jul)	EZ: PPI (May)	4.9% y-o-y; 0.6% m-o-m
Monday (06 Jul)	US: ISM Services PMI (Jun)	54.5
Tuesday (07 Jul)	SA: Foreign Exchange Reserves (May)	$76.58B
Thursday (09 Jul)	CN: Consumer Inflation, PPI (Jun)	1.2% y-o-y; 3.9% y-o-y
Thursday (09 Jul)	SA: Manufacturing Production (May)	-2.9% y-o-y; -2.7% m-o-m

SA POLITICAL UPDATE

Natasha Marrian

ANTI-MIGRANT PROTESTS SET TO CONTINUE

The June 30 deadline set by anti-migrant groups this week was contained by a multi-pronged approach from President Cyril Ramaphosa’s administration. As ministers in a task team set up to prepare for the deadline put in place security and deportation arrangements, Ramaphosa personally met key figures who played a role in maintaining order during the mass protests which unfolded across the country – from the isiZulu King Misuzulu kaZwelithini to key leaders linked to anti-immigrant groupings; Ngizwe Mchunu and Nkosikhona Ndabandaba on the eve of the protests. The intervention on a political level, coupled with a well-laid security plan which included police, private security and the army, ensured that the day passed with only isolated instances of violence and looting.

March and March leader Jacinta Ngobese-Zuma told thousands gathered for the protests in KwaZulu-Natal that the anti-immigrant grouping would continue its protest against undocumented migrants every Thursday, until the election. While Ramaphosa’s administration has committed to implementing the five-point plan he outlined in his June 7 address to the nation to intensify state efforts to deal with undocumented foreigners, Police Minister Firoz Cachalia stated clearly that the government was viewing the protests as politically motivated, given the vow by Ngobese-Zuma to sustain the protest momentum until the election. The state is set to remain on high alert in the coming months as preparations for the polls hit high gear and party campaigns begin in earnest from August.

In a post-mortem of the protests, ANC secretary general Fikile Mbalula said it was clear that former president Jacob Zuma's MK Party were intricately entwined in the anti-immigrant movement across the country, describing the party as "agent provocateur" on the migration question. His remarks followed reports from the international press on Monday detailing a visit by MK Party leader Jacob Zuma to an ashram or Hindu temple in India with his friend, Ajay Gupta, a key member of the family at the centre of the state capture allegations probed by the Zondo Commission of Inquiry. The visit has riled the Ramaphosa administration, as SA's most senior diplomat in India, High Commissioner Anil Sooklal, accompanied Zuma. International Relations Minister Ronald Lamola has written to Sooklal, asking him to explain himself. Meanwhile, Zuma told worshippers at the temple that he would "retake the country" and win the upcoming election. The visit has sparked dissent within the MK Party, with key Zuma allies blaming Gupta ally Mzwanele Manyi, who is also the chief executive of the Jacob Zuma Foundation, for arranging it.

The formalisation and continuation of the anti-migrant movement and protests are set to maintain pressure on the Ramaphosa administration and ensure that it manages both administrative processes. The government will need to manage both the security response and the political challenge of containing parties such as MK, which are seeking to capitalise on growing frustration over undocumented migration in poorer communities.

HILL-LEWIS ASSERTS CONTROL OVER DA, AFTER RAMAPHOSA CONFIRMS RESHUFFLE

DA leader Geordin Hill-Lewis delivered his vision for the party and SA at a briefing in Sandton on Thursday – a rousing address tailored to convey his central message: that the DA is actively mulling over an SA beyond the ANC, and that its vision is for a citizen-centric, rather than a party-centric, state. This follows President Cyril Ramaphosa's acceding to his Cabinet reshuffle proposal, which was confirmed in a statement late on Tuesday. Hill-Lewis is in the early days of his leadership of the party and has already faced a brutal backlash to his move to reshuffle the party's ministers inside the government of national unity (GNU). The move to demote party leader John Steenhuisen from his post as agriculture minister to the trade and industry portfolio as a deputy minister has riled Steenhuisen and his allies.

Steenhuisen went public this week, arguing in a News24 interview that Hill-Lewis had fed "his head to the hyenas". It was a colourful interview, laden with bitterness and a deep sense of "betrayal". He is the second senior leader to do so since the DA entered the GNU – the first was Dion George, who launched an attack on Steenhuisen, accusing him of misusing the party credit card, allegations he was later cleared of when Steenhuisen axed him from the post of Minister of Environmental Affairs. While insiders sought to downplay the extent of Steenhuisen's influence in the party and the backlash after his axing, this dynamic is worth considering as the coming week unfolds.

Hill-Lewis opted not to get involved in the party's election for a Parliamentary leader – a role usually held by the party leader - but he is set to remain in Cape Town as its mayoral candidate in the November 4 election. The race was won by chief whip and MP George Michalakis. He contested MP's Kevin Mileham and Andrew Whitfield for the post. The make-up of the Parliamentary caucus is significant – 60% of them are new. Michalakis was seen as Steenhuisen's candidate for the post, and he won against the two challengers by a landslide.

This implies that Steenhuisen retains influence over the DA, particularly in its powerful Parliamentary caucus. Hill-Lewis faces a key challenge now in winning over that caucus.

However, Steenhuisen could be weakened in the coming week. The party's highest decision-making body, the federal executive committee, meets on Wednesday, when Steenhuisen's tell-all interview is set to be raised. Insiders say the comments he made are serious and, at worst, could lead to his membership being revoked; however, a lighter sanction may be considered given the timing – there are just 124 days left to the key election.

We will be sharing a more detailed note on dynamics in the DA in the coming weeks.

DOMESTIC DATA

Nomvelo Moima

OIL PRICE SHOCK LIFTS INFLATION EXPECTATIONS IN Q2

Reflecting higher domestic fuel prices during the second-quarter survey period (before the signing of the US-Iran memorandum of understanding), all three professional groups surveyed revised their inflation expectations upward across the forecast horizon, with the largest revisions in the current year. Average inflation expectations for 2026 rose to 4.4% in 2026Q2, up from a record low of 3.6% in 26Q1. Notably, trade unions revised their five-year forecast from 3.7% to 4.7%, the highest among the three professional groups. Meanwhile, analysts were the only group that expected inflation to ease faster toward the SARB's 3% target, with inflation averaging 3.5%. Household inflation expectations rose from 5.4% to 6.0% over 12 months and from 8.4% to 9.1% over five years. For the full report, click **here**.

ABSA PMI SLIPS IN JUNE WHILE DEMAND FOR NEW VEHICLES REMAINS RESILIENT

After three consecutive months of expansion, the Absa Manufacturing PMI fell below the 50-point neutral to 47.3 from 50.8 in June. The survey followed the US-Iran deal to end hostilities in the Middle East, which saw a reduction in Brent crude prices. The subsequent fall in domestic fuel prices in June and July is reflected in the PMI's purchasing price index, which fell sharply to 71.3 in June, indicating peak price pressures in April and May (85.6 and 84.8, respectively). Interestingly, after front-loaded orders in March and April lifted demand, expectations for lower prices in the coming months reversed the trend in June. Supporting this is a decline in inventory levels and a drop in the sales orders index, which fell despite a slight improvement in business activity. For the full report, click **here**.

According to naamsa, despite less supportive macroeconomic conditions over the last four months, total domestic vehicle sales continued to expand in June, up by 15.3% y-o-y, marking the best June sales performance since 2007. New passenger vehicle sales grew by 18.1% y-o-y in June, following a 16.1% y-o-y rise in the prior month. Conversely, vehicle export sales continued to struggle, declining by 6.9% y-o-y in June, after a 4.8% contraction in May. This suggests that domestic demand remains considerably more resilient than external demand.

FORMAL SECTOR EMPLOYMENT CONTRACTS DURING 2026Q1

As foreshadowed by the weak QLFS print, the latest Quarterly Employment Statistics (QES) release from Stats SA, which focuses on formal non-agricultural employment, showed a decline of 80 000 jobs (0.8% q-o-q), reducing total employment to 10.468m in 2026Q1. Job losses occurred mainly in trade and community services, which shed 40 000 and 53 000 jobs respectively, followed by transport and electricity, which declined marginally. In contrast, employment increased slightly in mining, manufacturing, construction, and business services. Earnings decreased by 4% from December to March, with gains in mining and business services only. Despite recent earnings weakness, annual earnings are still up 5.2%, about 2% above inflation.

SA TRADE BALANCE FLIPS TO A DEFICIT IN MAY

SARS trade data showed that a 5.7% m-o-m decline in exports and a 3.1% m-o-m increase in imports resulted in a trade deficit of R1.8bn in May, the first in 15 months. The shift is mainly attributable to lower exports of precious metals and of vehicle and transport equipment, the latter of which is also reflected in the naamsa data. Meanwhile, a surge in the oil import bill and increased purchases of vehicles and transport equipment drove the rise in import flows.

Finally, SARB data showed that private sector credit extension slowed to a below-consensus 8.6% y-o-y in May, easing from 9.2% in April

INTERNATIONAL DATA

Katrien Smuts

US NON-FARM PAYROLL DATA DISAPPOINTS

The US economy added 57 000 new jobs in June, far below the expected 115 000. Most of the job additions were in professional and business services, social assistance and healthcare. Surprisingly, the leisure and hospitality sector lost jobs. Meanwhile, the unemployment rate declined by 0.1%pts to 4.2%. The decline in labour force participation is likely to blame. As a result, the decline in the unemployment rate likely overstated the underlying strength of the labour market.

US MANUFACTURING PMI

The ISM Manufacturing PMI remained in expansionary territory in June, although it eased slightly to 53.3 from 54.0 in May. This marks the 20th consecutive month of expansion in the manufacturing sector. Both production and new orders continue to grow, although they slowed from their May levels. New export orders fell into contraction territory, reflecting ongoing, and even renewed, uncertainties related to tariffs. On a positive note, the price index decreased to 73, down from 82.1 in May.

JUNE PMIs PROVE RESILIENT IN CHINA

The official NBS Manufacturing PMI rose to 50.3 in June, up from 50 the previous month. This increase is largely driven by the ongoing AI boom, which is enhancing high-tech manufacturing output. Key indicators such as new orders, new foreign orders, and purchasing volumes all improved, returning to growth territory. Additionally, the production index moved further into expansion territory. On the pricing front, input prices eased slightly from the recent highs recorded from March to May. However, the employment index remained in contraction.

On the other hand, the RatingDog China Manufacturing PMI declined slightly to a three-month low of 51.7 in June, down from 51.8 in May, though it remained in expansionary territory and above the long-run average. Despite the decline, there was strong production growth, an increase in new orders and, unlike the NBS manufacturing PMI, a higher employment index. The rate of job creation was the strongest in almost three years.

FLASH EUROZONE INFLATION SHOWS SIGNS OF EASING

Eurozone consumer inflation declined to 2.8% y-o-y in June, from 3.2% the previous month. While energy price inflation (up 8.7% y-o-y) remained the main contributor to headline inflation, it is already showing signs of easing. This was as Brent Crude oil prices averaged $84.5/bbl in June, down 18.6% from $103.8 in May. Core inflation is estimated to have also eased to 2.4% y-o-y from 2.6% in May.

FORECAST UPDATE

We have revised our Brent crude oil forecast downward to reflect the much faster-than-expected normalisation in oil markets. Traffic through the Strait of Hormuz has recovered more quickly than anticipated, while stronger supply elsewhere has erased much of the geopolitical premium that was priced in throughout the war. As a result, the inflationary impulse from higher oil prices is likely to prove smaller than we previously expected.

While higher inflation expectations have led some to anticipate a repo rate hike, a closer reading of the latest survey warrants a more cautious interpretation. Wage expectations remained virtually unchanged despite the rise in inflation expectations, suggesting little evidence that higher inflation expectations are feeding into wage-setting behaviour. In addition, PMI purchasing prices continue to ease. Coupled with the faster-than-expected normalisation in oil prices, there is scope for the SARB to lower its inflation forecasts, making it difficult to justify a rate hike amid a softer inflation outlook. That said, the risk of a hike cannot be ruled out if the MPC places greater weight on inflation expectations or the inflationary implications of a potential Super El Niño event.

	Actual		Forecast		Next release/meeting	
	2025	**2026Q2**	**2026Q3**	**2026**		
Brent crude oil ($, spot, avg.)	68.83	97.05	75.00	80.21	n/a	
ZAR/USD (avg.)	17.88	16.47	16.48	16.46	n/a	
Prime interest rate (%, end of period)	11.25	10.25	10.50	10.50	23-Jul-2026	
	2025	**2026Q1**	**2026Q2**	**2026**		
Headline CPI (y-o-y % change)	3.2	3.3	4.5	3.9	22-Jul-26	Jun
FNAB inflation (y-o-y % change)	4.1	3.9	2.8	3.7	22-Jul-26	Jun
Headline PPI (y-o-y % change)	1.5	2.0	6.7	4.5	30-Jul-26	Jun
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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