BER BUREAU for ECONOMIC RESEARCH

WEEKLY REVIEW | NUMBER 26 | 17 JULY 2026

# The Strait blockade is back. The SARB is next.

## THE WEEK IN PERSPECTIVE

Lisette IJssel de Schepper

It was **forecast week** at the BER, which meant the world had precisely two days to prove our assumptions wrong. Somehow, it rarely disappoints. Last year, one of our forecasting meetings was interrupted by the "Liberation Day" tariff announcements. This time, it was the Middle East.

US President Donald Trump escalated tensions by reinstating the blockade in the Strait of Hormuz, once again targeting Iranian oil exports. While a US proposal to impose a 20% levy on vessels transiting the Strait was quickly abandoned, it followed Iran's suggested security fee and underscored a growing willingness on both sides to raise the cost of passage through one of the world's most important energy chokepoints. Markets responded swiftly, pushing Brent crude back towards $85 per barrel. For SA, however, the more immediate concern lies not in crude oil itself, but in refined fuel products. Petrol and diesel prices have risen considerably faster than Brent in recent days, rapidly eroding the sizeable over-recoveries that had pointed to another meaningful fuel price cut in August. If current market conditions persist diesel prices could increase instead, once again placing pressure on inflation and transport costs.

| Weekly Key Indicators | | |
|---|---|---|
| | Close | w-o-w |
| R/$ | R16.42 | 0.6% |
| R/€ | R18.79 | 0.7% |
| R/£ | R22.15 | 1.3% |
| $/€ | $1.14 | 0.1% |
| Brent crude oil | $84.41 | 10.6% |
| Gold | $3 993 | -3.2% |
| Platinum | $1 648 | 1.8% |
| JSE ALSI | 110 003 | 0.7% |
| 10y gov. bond | 8.59 | 8bps |
| FRA (1x4)* | 7.19 | -3bps |

*Forward rate agreement

Whether this proves to be another temporary spike or something more persistent remains difficult to judge. During the previous blockade, the US was able to offset much of the disruption by significantly increasing its own crude exports. This time, however, US inventories are considerably lower, potentially making it more difficult to sustain prolonged restrictions on Iranian oil without more severe upward pressure on global energy prices. For now, however, global oil supply outside Iran remains relatively strong, suggesting the market is better equipped to absorb supply disruptions than it was earlier this year. The Brent crude price is up almost 18% since the start of the month, but 30% below its late March peak.

Away from the Middle East, the week's economic data offered some reassurance. In the US, June inflation surprised on the downside, prompting markets to scale back expectations of a near-term Federal Reserve rate hike. The softer reading suggests that underlying inflationary pressures remain contained. However, much of the improvement reflected lower energy prices in June. With the temporary ceasefire now over, persistently higher oil prices would once again pose upside risks to inflation. Meanwhile, China's second-quarter GDP growth disappointed expectations, reinforcing concerns that the recovery remains uneven and continues to rely heavily on manufacturing and exports, with domestic demand still struggling to gain meaningful traction. Taken together, the data suggest that while geopolitical risks have intensified again, the broader global growth and inflation backdrop has not materially deteriorated.

Global technology shares also came under pressure this week as investors questioned the lofty valuations of some AI-related companies. Semiconductor stocks led the decline as traders unwound some of the leveraged positions built up during the recent rally.

At home, the Public Investment Corporation (PIC) has become the latest political battleground, dominating headlines despite the Madlanga Commission continuing to produce politically explosive testimony. Given the PIC's central role in SA's capital markets and pension system, the governance dispute carries implications well beyond the institution itself. More in the politics update below.

## WEEK AHEAD: CLOSE CALL FOR THE SARB

The most anticipated event on the local economic calendar will be the SA Reserve Bank's (SARB) interest rate decision on Thursday. Following the May 4-2 split vote in favour of a hike, next week's decision is likely to be another close call, but we expect the balance to shift towards a hawkish hold. The BER's Inflation Expectations Survey for Q2 showed a broad-based, and arguably larger-than-expected, increase in inflation expectations. However, the survey also captured sentiment at the height of the recent oil shock, when fuel prices were rising sharply and a de-escalation in the Middle East appeared unlikely. While this week's renewed tensions remind us that geopolitical risks remain elevated, recent months have also demonstrated that oil prices can retreat quickly when supply responds, making the balance of risks more two-sided than during the height of the conflict. Against that backdrop, the SARB is likely to revise down its rand exchange rate and Brent crude oil assumptions, resulting in a more benign near-term inflation profile.

That said, central banking is ultimately about managing risks over the medium term. Even for policymakers looking 18 to 24 months ahead, a week can be a very long time when geopolitical tensions are evolving this rapidly. Should oil prices move materially higher again or the conflict escalate further before Thursday's meeting, it would be difficult to fault policymakers for becoming more cautious.

However, while the threat of a Super El Niño poses an upside risk to the medium-term inflation outlook, it would be difficult to justify a July rate hike on that risk alone. Our analysis shows that there are enough supporting factors to see SA through an El Niño event, even if severe, for at least a year without it derailing the current inflation profile. More serious implications arise when it continues beyond a year, and at this stage, there is not enough information to make that a baseline assumption. The MPC will also continue to monitor sticky services inflation closely, but with domestic demand remaining subdued, we do not expect underlying inflation pressures to become sufficiently broad-based to warrant another immediate increase in interest rates.

Wednesday's CPI release will therefore assume added significance. In normal circumstances, a single inflation print is unlikely to sway the MPC, but given how finely balanced this meeting appears to be, a meaningful upside or downside surprise could prove more influential than usual. We expect headline inflation to edge up from 4.5% in May to 4.6% in June. Thereafter, inflation should moderate through the remainder of 2026, unless oil prices once again surprise materially to the downside, although we do not expect headline inflation to reach the SARB's target until 2027. Retail sales and wholesale trade data will meanwhile provide further insight into domestic demand during the height of the recent fuel price shock. With mining and manufacturing production both disappointing in May, the tertiary sector is once again left to carry the growth story in Q2.

Internationally, attention will centre on the European Central Bank's (ECB) policy meeting and a fresh round of business surveys. Following June's rate hike, the ECB is expected to leave interest rates unchanged, although renewed energy price pressures mean markets will pay close attention to President Christine Lagarde's assessment of the inflation outlook and whether further tightening remains on the table. Flash PMI surveys across the US, euro area and the UK will meanwhile provide an early indication of how businesses responded to the latest bout of volatility in energy markets. Particular attention will be paid to business expectations, input costs and pricing behaviour to assess whether firms are once again becoming more cautious or whether activity has proved more resilient than markets feared.

| Date | Event | Latest |
|---|---|---|
| Tuesday (21 Jul) | EZ, DE: ZEW Economic Sentiment Index (Jul) | 9.5; 10.5 |
| Wednesday (22 Jul) | UK: Consumer Inflation (Jun) | 2.8% y-o-y; 0.2% m-o-m |
| Wednesday (22 Jul) | SA: Consumer Inflation (Jun) | 4.5% y-o-y; 0.7% m-o-m |
| Wednesday (22 Jul) | SA: Retail Sales (May) | 1.3% y-o-y; 0.9% m-o-m |
| Thursday (23 Jul) | EZ: ECB Interest Rate Decision | 2.40% |
| Thursday (23 Jul) | SA: Wholesale Trade Sales (May) | 3.3% y-o-y; -2.4% m-o-m |
| Thursday (23 Jul) | SA: SARB Interest Rate Decision | 7% |
| Thursday (23 Jul) | EZ: Consumer Confidence (flash, Jul) | -17.7 |
| Friday (24 Jul) | UK: Gfk Consumer Confidence (Jul) | -23 |
| Friday (24 Jul) | UK: Retail Sales (Jun) | 3.2% y-o-y; 1.2% m-o-m |
| Friday (24 Jul) | DE: GfK Consumer Confidence (Aug) | -29.2 |
| Friday (24 Jul) | US, EZ, UK: S&P Global Composite PMI (flash, Jul) | 51.9; 50; 49.3 |

## SA POLITICAL UPDATE

Natasha Marrian

### PIC GOVERNANCE UNDER THE MICROSCOPE, AGAIN

The boardroom battle at the Public Investment Corporation (PIC) looks set to deepen after non-executive directors Thabo Nkosi and Nosiphiwo Balfour resigned this week, following the suspension of CEO Patrick Dlamini. The BER understands that a dissolution of the board is under consideration amid serious reputational risks to Africa's largest asset manager, with Dlamini's suspension the latest catalyst.

The PIC manages R3.6 trillion in government pension and social insurance funds and is the single largest investor on the JSE. It also oversees a large property and unlisted investment portfolio. Given its central role in SA's financial system, prolonged governance instability has implications well beyond the institution itself.

The governance crisis has also exposed growing divisions between Finance Minister Enoch Godongwana and his deputy, David Masondo, who chairs the PIC board. These developments have prompted an investigation by the Financial Sector Conduct Authority, which announced on Wednesday that it will probe the matter under Section 135 of the Financial Sector Regulation Act.

Two competing narratives have emerged.

Stepping back from the allegations and counter-allegations, the concerns the FSCA raised internally last year over the board's overhaul appear to have merit. The board is said to be inexperienced and split into competing factions, with insiders also describing a deeply acrimonious relationship between the chair and the chief executive, who has held the post for just over a year. With Godongwana and Masondo on opposing sides, the stakes are high as the PIC's shareholder representative responds to the current impasse.

The first narrative is that Dlamini's efforts to tighten governance and scrutinise contentious investment decisions have threatened vested interests within and outside the PIC. Central to this is the Lanseria/Acapulco settlement, where a PwC investigation reportedly raised serious concerns about the award's processing. Supporters of Dlamini argue that the whistleblower allegations formed part of a broader campaign to remove him, while the board maintains that the allegations require investigation during his precautionary suspension.

The alternative narrative alleges that Godongwana has effectively established a "shadow board", undermining both the chairman and other directors. A second whistleblower report has since emerged containing allegations against Masondo.

The broader pattern is uncomfortably familiar. During the state capture era, whistleblower reports and attempts to discredit senior PIC officials became a recurring feature of governance battles. In 2019, the entire board resigned collectively following a string of whistleblower complaints against multiple directors, citing a "concerted effort to discredit" them. Then-Finance Minister Tito Mboweni accepted their resignations but asked them to stay on until an interim structure could be appointed. That episode coincided with the Mpati Commission, which investigated deep-seated corruption, administrative malpractice, and questionable investment deals at the state-owned asset manager.

A key Mpati Commission recommendation - that the PIC have an independent board chair - was abandoned at the last minute due to political intervention from the ANC and organised labour. Yet the current standoff between the board, the CEO, the minister, and the chairman underscores exactly why that recommendation deserves revisiting: it remains central to shielding the asset manager from political interference.

The governance concerns extend well beyond the current boardroom dispute. Five of the PIC's six most senior executive positions are currently filled in an acting capacity, with only the chief technology officer permanently appointed,  while several key investment divisions also lack permanent leadership. Similar institutional instability characterised the organisation during the first wave of state capture, raising concerns that the PIC may once again become vulnerable to political interference.

## DOMESTIC DATA

Nkosinathi Nonkonyana

### SHARP DECLINE IN MINING OUTPUT MEANS SECTOR IS A LIKELY DRAG ON Q2 GDP

Mining production fell by 5.4% y-o-y in May, following an 8% rise in April. This was well below market expectations (+1.5% y-o-y) and follows five months of growth. Iron ore declined by 12.7%, marking the largest contribution to the contraction (-2.1% pts), followed by a 6.1% drop in coal (-1.5% pts) and a 4.4% decrease in the platinum group metals (-1.2% pts). Monthly production dropped by 5.2% in May, following a 3.1% expansion in April. Like manufacturing (released last week), we would need to see a significant month-on-month gain for the sector in June to prevent a quarterly contraction. This does not bode well for Q2 GDP.

Meanwhile, mineral sales climbed by 13.9% y-o-y in May, slowing down from 30.6% registered in April. Platinum group metal sales rose by 70.5% (13.2% pts), followed by a 7.1% rise in gold (2% pts) and 8.5% in coal (1.8% pts). However, iron ore was the largest drag on sales, contracting 37.1% (-3.5% pts).

## INTERNATIONAL DATA

Nomvelo Moima

### US CONSUMER AND PRODUCER INFLATION EASE ON LOWER FUEL COSTS

In the US, headline consumer inflation surprised to the downside, rising by 3.5% y-o-y, slower than May's reading of 4.1% y-o-y and consensus of 3.8%. This marks the first deceleration in CPI in five months, driven by declining global oil prices during the month. In line with this development, much of the deceleration in the headline inflation was led by the energy index, with gasoline prices increasing at a considerably slower 26.7% y-o-y in June, down from a 40.5% rise in May. On a monthly basis, CPI registered its largest decline since April 2020, dropping by 0.4% m-o-m in June and reversing a 0.5% rise in the prior month. This comes as energy prices declined by 5.7% m-o-m, offsetting a 0.2% m-o-m rise in food prices. Excluding food and energy, annual core CPI also slowed, edging down from 2.9% to 2.6%.

Also released this week was the US producer price inflation print, which also cooled more than consensus expectations over the same period. Headline PPI increased by 5.5% y-o-y in June, after a downwardly adjusted 6% rise in the prior month. Month-on-month, factory gate inflation declined by 0.3%, down from a downwardly adjusted 0.6% increase the prior month, owing to a 1.4% m-o-m decline in goods prices, led by a 12% drop in gasoline prices.

Signs of cooling price pressures across both releases have given the US Fed a little more headroom to keep interest rates on hold, shifting market expectations of US Fed rate hikes further into the year and reducing bets on a rate hike at their July meeting.

### CHINA'S GDP GROWTH SLOWS TO A MORE THAN THREE-YEAR LOW IN 2026Q2

Another surprise came from a slower-than-expected growth in China during the second quarter. Following a strong start to the year, the Chinese economy undershot Beijing's 4.5%-5% growth target, expanding by 4.3% y-o-y in 2026Q2, after growing by 5% y-o-y in 2026Q1. The slowdown was driven by the persistent imbalance between weak domestic demand and robust industrial productivity and exports. Indeed, household consumption remained subdued; however, the primary drag on growth in the second quarter was a steeper decline in fixed investment to -5.7% y-o-y in June, down from -4% in the prior month.

The usual monthly data echoed the GDP print. Retail sales managed to stage a rebound from a 0.6% y-o-y contraction in May, gaining 1% y-o-y in June. This was the first expansion in two months, which hardly points to a substantial pickup in domestic consumption, while fixed-asset investment was down 5.7% y-o-y in the first half of the year. Conversely, industrial production outpaced expectations, accelerating for a second consecutive month to grow by 5.3% y-o-y, up from 4.5% in the prior month. This was largely led by increased manufacturing production, which continues to highlight the economy's overreliance on external demand despite policymakers' stated plans to rebalance the economy.

### EZ INDUSTRIAL PRODUCTION DISAPPOINTS, WHILE THE SERVICES SECTOR SUPPORTS UK GDP

After three straight months of positive industrial output, Eurostat reported that industrial activity in the region contracted by 0.2% m-o-m in May, disappointing expectations of a 0.2% rise. On an annual basis, factory output dropped by 1.2%, following a 0.4% gain in the prior month.

On the other hand, UK real GDP recorded a 0.1% m-o-m in May, completely reversing a 0.1% contraction in April. Growth was entirely due to higher economic activity in the service sector (up 0.3% in May, from -0.1% in April), offsetting contractions in the production (-0.5% in May, from +0.2%) and construction (-0.8% in May, from -0.1%) sectors.

## FORECAST UPDATE

We have begun updating the BER's quarterly macroeconomic forecast, with the full publication due later this month. Following this week's renewed tensions in the Middle East, we have made a modest upward adjustment to our Q3 Brent crude oil forecast, resulting in a slightly higher full-year average. However, our discussions this week also reinforced that oil price risks have become more balanced than they were three months ago. While geopolitical tensions remain capable of triggering renewed price spikes, stronger global supply and softer demand also mean prices can retreat almost as quickly as they rise. For now, we remain comfortable with our broader inflation and interest rate outlook, although the forecasts below will be updated once the quarterly forecasting process is complete.

| | Actual | | Forecast | | Next release/meeting | |
|---|---|---|---|---|---|---|
| | 2025 | 2026Q2 | 2026Q3 | 2026 | | |
| **Brent crude oil** ($, spot, avg.) | 68.83 | 97.05 | 78.13 | 81.87 | n/a | |
| **ZAR/USD** (avg.) | 17.88 | 16.47 | 16.48 | 16.46 | n/a | |
| **Prime interest rate** (%, end of period) | 11.25 | 10.50 | 10.50 | 10.50 | 23-Jul-2026 | |
| | **2025** | **2026Q1** | **2026Q2** | **2026** | | |
| **Headline CPI** (y-o-y % change) | 3.2 | 3.3 | 4.4 | 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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