BUREAU for ECONOMIC RESEARCH

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A world at the negotiating table: coalitions at home, wars abroad

THE WEEK IN PERSPECTIVE

Katrien Smuts

After the transformative outcomes of last week's local government elections (LGE) in South Africa and the US midterm elections, this week has been somewhat less dramatic – although hardly uneventful. The most significant domestic story was the ongoing coalition negotiations to form governments in numerous hung councils across the country. With many municipalities and seven out of the eight metropolitan councils lacking an outright majority, various parties must negotiate coalitions or other support arrangements to assemble governing majorities. It is tense. Our political analyst Natasha Marrian discusses parties' strategies, tactics and trade-offs below. More concrete deals should only start emerging towards the end of next week.

More broadly, the election again demonstrated the importance of local governance to voters, with poor service delivery and dysfunctional municipalities featuring prominently in the campaign. Domestic markets initially responded positively to the results, with the rand holding firm and the JSE gaining ground. That momentum faded after a hotter-than-expected US CPI print on Tuesday shifted expectations for US interest rates and weighed on emerging-market assets. Just before the data was made public, one of the Federal Reserve's most outspoken officials, Chris Waller, indicated at an event in London that a 50-basis-point rate hike would be considered in early December if core inflation reached 0.3% m-o-m or higher. With core inflation reported precisely at 0.3% m-o-m, a December rate hike now looks increasingly likely, with a larger 50-basis-point move also on the table. With this rate hike largely priced in, emerging-market currencies faced pressure. The rand depreciated by 1.8% w-o-w against the dollar as a result.

In the US, the scale of last week's Democratic victory has become clearer as counting has progressed. Democrats have secured control of both chambers of Congress and, as of Thursday, had flipped eight Senate seats and at least 44 House seats, with a handful of races still outstanding. They also made substantial gains at state level, picking up several governorships previously held by Republicans. The result leaves President Donald Trump facing a very different political landscape during the final two years of his term.

The Democratic Party's sweeping midterm victory had mixed effects across markets. Equities sold off, led by AI stocks, as investors anticipated greater scrutiny of the sector given the Democrats' opposition to the rapid data centre build-out and their support for tighter regulation. Bond markets, by contrast, found support, as a divided government reduces the scope for further unfunded tax cuts. The Democrats are unlikely to reverse the tax cuts implemented by the Trump administration, given the presidential veto, but they will push to extend funding

Weekly Key Indicators		
	Close	w-o-w
R/$	R16.77	1.8%
R/€	R18.56	0.3%
R/£	R22.21	0.0%
$/€	$1.11	-1.4%
Brent crude oil	$94.25	-4.1%
Gold	$3,877	-5.4%
Platinum	$1,522	-0.6%
JSE ALSI	112,895	-0.3%
10y gov. bond	8.64	22bps
FRA (1x4)*	7.33	3bps

*Forward rate agreement

for programmes such as Medicaid and food stamps. If this is done without securing sufficient revenue, it is likely to worsen the country's already precarious fiscal position.

While markets were still recovering from the sell-off that followed the Democrats' election win, another vulnerability in the AI sector was revealed. Nvidia's CEO and co-founder, Jensen Huang, admitted on Sunday to having an extramarital affair with a businesswoman whom US authorities reportedly suspected of spying for China. Later in the week, rumours of another affair, this time with a senior Nvidia employee, came to light, after which he resigned as CEO yesterday. Many consider Huang synonymous with the company's success, and Nvidia's share price fell sharply following his departure.

This situation is particularly concerning given Nvidia's central role in the AI investment boom. The company has provided crucial funding to other leading AI firms, such as OpenAI and Anthropic, and its market-leading microchips are essential for AI development. With the sector becoming increasingly interconnected, any instability at Nvidia can quickly ripple through the broader industry, with serious implications for US and global equity markets, including those in South Africa. Meanwhile, Anthropic is approaching the final stages of its initial public offering, which is anticipated to be one of the largest on record. The offering could value the company at around $1.4 trillion and raise more than $60 billion, somewhat at odds with the current jitters around AI stocks.

On the geopolitical front this week, crucial negotiations took place in Abu Dhabi involving Russia, Ukraine, and the US. The parties met to explore potential resolutions to the nearly five-year-long war between Russia and Ukraine. The talks ended with little trust among the negotiators and an unwillingness to compromise. The Donbas region in Ukraine is a sticking point for both parties. Russia insists on holding control over it, but Ukraine remains deeply reluctant to cede territory permanently, fearing that any settlement on those terms would leave it vulnerable to renewed Russian aggression. By the end of the talks, the only thing the parties agreed on was a prisoner swap.

Elsewhere, discussions aimed at ending the US-Iran war continued, with minimal progress. Both Washington and Tehran remain far apart on several key issues, including sanctions, the Strait of Hormuz and Iran's nuclear programme. Despite the lack of a breakthrough, the continuation of talks has helped to calm oil markets somewhat.

Other oil news centred on OPEC's monthly report, which revealed that oil production by its largest member, Saudi Arabia, bounced back to near-prewar levels in October, indicating that the nation has adapted its export strategies despite previous disruptions. Secondary sources also indicated that the UAE, which is no longer an OPEC member, increased oil production in October compared to prewar levels. Russia's diesel exports also recovered sharply, with much of the additional supply flowing to markets such as Turkey and Brazil. Diesel markets benefitted from the increase in supply.

While supply conditions have improved, many countries are restocking oil inventories after significant drawdowns at the peak of the conflict, keeping demand elevated. There is also still a sizeable geopolitical risk premium in the oil price, and any renewed escalation in the Middle East could push prices higher again. Overall, Brent crude declined by 4.1% w-o-w, closing at $94.25/bbl yesterday. If oil prices remain around current levels, petrol prices could decline in December, although the picture for diesel is less favourable because part of the temporary fuel-price relief will be withdrawn at the start of the month.

WEEK AHEAD: SARB SHOULD BE ABLE TO KEEP RATE ON HOLD EVEN AS OCTOBER CPI IS SET TO SURGE

Next week, one of the key domestic events is the South African Reserve Bank's (SARB) final Monetary Policy Committee (MPC) meeting for the year. The committee will meet on Wednesday and Thursday to discuss the policy rate decision, with the final announcement expected on Thursday afternoon. We expect the Committee to keep rates unchanged at the meeting. October's CPI inflation report, scheduled for release on Wednesday, is likely to remain elevated – the BER expects headline inflation to rise to 5.1% y-o-y. Even so, the SARB may revise its inflation outlook lower further out, reflecting the temporary fuel levy relief, the sharp decline in oil prices and the stronger rand. Considering the forward-looking nature of monetary policy, the MPC can afford to wait for clearer evidence on whether the oil price shock is feeding into broader prices and inflation expectations – but another hike cannot be ruled out. The October print itself will still capture the impact of exceptionally high fuel prices during the month. Additionally, other domestic data on retail and wholesale trade for September will be released, offering insights into the Gross Domestic Product (GDP) trends for the third quarter.

On the international front, UK consumer inflation will provide policymakers with insight into price pressures in October. UK inflation has remained high relative to many other advanced economies, and the Bank of England only resumed tightening this month, raising Bank Rate by 25bps to 4%. .Another high inflation report next week may prompt a further rate increase at the BoE's next monetary policy meeting in December.

China's industrial production and retail sales data will also be published next week. While both indices showed growth in September, industrial production outpaced retail sales growth. This highlights an ongoing feature of the Chinese economy: domestic demand has been weak relative to external demand, underscoring the disparity between Chinese retailers and producers. In the US, industrial production and retail sales data will also be released next week. Here, the trend has been the opposite of China, with US retail sales outpacing industrial production. US consumer spending has been very robust throughout the year despite elevated fuel prices. Next week will help us assess whether this trend continues into the fourth quarter.

Date	Event	Latest
Monday (16 Nov)	CN: Industrial Production, Retail Sales, Unemployment Rate (Oct)	5.5% y-o-y; 1.1% y-o-y; 5.2%
Tuesday (17 Nov)	US: Retail Sales, Industrial Production (Oct)	6.3% y-o-y; 2.2% y-o-y
Tuesday (17 Nov)	EZ, DE: ZEW Economic Sentiment Index (Nov)	18.5; 28.1
Wednesday (18 Nov)	UK: Consumer Inflation (Oct)	3.5% y-o-y; 0.4% m-o-m
Wednesday (18 Nov)	SA: Consumer Inflation (Oct)	4.5% y-o-y; 0.4% m-o-m
Wednesday (18 Nov)	SA: Retail Sales (Sep)	3.3% y-o-y; -0.3% m-o-m
Thursday (19 Nov)	SA: SARB Interest Rate Decision	7.25%
Thursday (19 Nov)	SA: Wholesale Trade Sales (Sep)	-0.9% y-o-y; 1.2% m-o-m
Friday (20 Nov)	EZ: Consumer Confidence (flash, Nov)	-17.9

SA POLITICAL UPDATE

Natasha Marrian

COALITION NEGOTIATIONS: STRATEGY, TACTICS AND TRADE-OFFS

Parties across the political spectrum are in the midst of crucial negotiations to form governments across hung councils across the country. It is a sensitive time. Political negotiations, by their nature, are not confined to the room in which they take place – parties are spending considerable effort trying to sway public opinion and influence negotiations through media leaks and public

pronouncements. It is classic political strategy and tactics: all sides exploring their options and flexing their muscles before the real bargaining begins. Real deals should begin emerging only toward the end of next week.

There have already been attempts to influence public and ANC sentiment, with reports on the future of President Cyril Ramaphosa and his views on the DA and its continued participation in the government of national unity (GNU) marking stark examples.

There are clear outside blocks seeking to influence the ANC regarding its coalition choices. As such, the MK Party, EFF and SA Communist Party held a meeting of the "left" in Boksburg, at the same venue where the ANC's national executive committee met that day to map out its coalition strategy. The MKP and EFF are effectively out in the cold without the ANC, given their respective election performances.

The anti-DA narrative was planted strongly over the weekend – with leaks confirming questions among senior ANC leaders about the value of the DA's inclusion in the government of national unity. It was planted in anticipation of the ANC NEC currently taking place, to thwart the possibility of the ANC being opened to a reflexive extension of the GNU to local government level, which excludes both MKP and the EFF. For the ANC, these are the internal power plays, influenced by the external.

ANC splinters MKP, EFF and SACP all need the ANC to obtain access to state power and positions. An ANC favouring a GNU-type set-up that excludes both the EFF and MKP marks a serious setback for this grouping, whose members rely on access to state power for considerable benefits – and, by extension, continued support for these parties.

MKP insiders concede that languishing on the opposition benches in KwaZulu-Natal (KZN), despite being the largest party, has been a severe setback and has demobilised its ground forces. Access to state power is essential for the party to sustain its support. For the EFF as well, it is essential that the ANC once again include it in its local government arrangements, as it did in 2021.

There are subtleties at play across the aisle, too. The DA's declared "red lines" on coalition agreements have included a hard exclusion of Zuma's MK Party and the EFF. Yet this shifted this week. Both the MKP and EFF confirmed that the DA had reached out to them.

This may seem like an odd move for the DA, given its stance, but it is strategic in the messaging it conveys to both KZN voters and MKP's opponents. To KZN's traditional, conservative isiZulu voters, it displays a respect and necessary recognition of the influence of Zuma's party in the province and for the ANC, it is a pressure point being exerted by the DA, reminding the erstwhile majority party that it holds considerable sway in a crucial province in which the ANC is on the back foot.

It is the first sign of new leader Hill-Lewis' pragmatism and leadership prowess at play in the DA's approach to the coalition discussions. However, it is unlikely that the DA will work with the EFF.

It has historically partnered with the EFF in the Gauteng metros, and its lived experience buttresses its hardline stance against the EFF. The EFF's support declined dramatically in the 2026 election – despite by-elections indicating that its support was relatively stable. This is an indictment on the party from voters – given that it entered government in coalition arrangements for the first time after the last local election.

Voters in Gauteng have delivered their verdict on the ANC/EFF anchored tie-up in place in Gauteng since the 2021 local election. It is not a positive one.

ALL EYES ON THE ANC AS ITS TOP BRASS GATHER IN BOKSBURG

The ANC has had a punishing week, still reeling from its poor showing in the 4 November local election. Its national executive committee (NEC) is meeting to discuss its approach to coalitions going forward. The BER understands that a supply and confidence arrangement with the DA in four metros: Johannesburg, Tshwane, Mangaung and Buffalo City remains on the cards. Ad hoc arrangements would follow for the remaining hung metros. This would satisfy both the need for stability in the metros and the ANC's need to satisfy its leftist constituencies in the SACP, MKP and EFF.

The NEC meeting, which ran late into Thursday night, is set to emerge with the ANC's position on its approach to coalition negotiations. The ANC is facing a stark choice – its breakaway parties (destructive as they may be) and allies (the SACP) versus the centrist DA. Another popular alternative among moderate ANC leaders is for the ANC to remain in the opposition benches. The BER will provide insight into the ANC's position after the crucial extended special NEC meeting which kicked off on Thursday.

DOMESTIC DATA

Nadia Matulich

QLFS PUTS UNEMPLOYMENT AT 33.7%

The official unemployment rate was little changed at 33.7% in Q3, from 33.6% in Q2 as the increase in jobs was virtually cancelled out by an increase in those looking for work. Employment increased by a welcome 101k q-o-q to 16.84m, underpinned by a 268k increase in formal employment. However, informal employment fell by 98k, while employment in private households declined by 68k. The annual picture remained weak: formal employment increased by 357k, but informal employment fell by 485k and household employment by 87k, leaving total employment 215k below its level a year earlier. As has been the case throughout the year, the figures remain volatile. Changes to definitions introduced late last year also warrant caution when interpreting the movements.

A broader measure of labour underutilisation (LU3), which includes the potential labour force, stood at 44%. Among those aged 15–24, LU3 increased by 0.3%pts to 72.7%, while the rate for those aged 25–34 was unchanged at 51.1%.

By industry, finance recorded the largest employment gain, adding 111k jobs q-o-q. Employment increased in seven industries, with other sizeable gains in manufacturing (33k), mining (31k) and community and social services (20k). Private households recorded the largest decline (68k), followed by agriculture (34k) and construction (8k).



While the increase in employment is welcome, employment typically ticks up in Q3 and overall labour market conditions remain poor. With economic growth still subdued, a sustained improvement in the labour market is likely to be gradual.

MANUFACTURING TO ADD TO Q3 GDP, MINING TO BE A DRAG

Manufacturing production was unchanged m-o-m in September, following a 3% contraction in August and a 2.1% expansion in July. Output was 3.5% lower than in September 2025. The biggest drag came from transport equipment (-15%, subtracting 1.1%pts) as well as wood and paper products (-11.2%, -1.1%pts).

Important for GDP, seasonally adjusted manufacturing production increased by 0.9% q-o-q in Q3, with five of the ten divisions recording growth. Food and beverages provided the largest boost, expanding by 4.9% (+1.2%pts).

Mining production fell by 10.7% y-o-y in September. The biggest drags were iron ore, (-23.7%, -3.4%pts; coal (−13.4%; −3.3%pts); platinum group metals (−9.9%; −2.9%pts); and diamonds (−63.1%; −1.1%pts). On a seasonally adjusted monthly basis, mining production rebounded by 2.8%, but this was not enough to offset contractions of 2.1% in July and 4.8% in August, which means the sector is set to weigh on quarterly GDP growth in Q3.

INTERNATIONAL DATA

Kelobogile Mabitsi

STICKY CORE INFLATION AND FAST JOB GROWTH FUEL FED RATE HIKE EXPECTATIONS

Monthly consumer inflation eased from 0.6% in September to 0.4% in October, slightly exceeding expectations of 0.3%. Importantly, the Bureau of Labor Statistics did not publish an annual inflation rate due to missing data caused by a federal government shutdown last October. Shelter costs, which picked up by 0.3% m-o-m, accounted for over 30% of the increase in the headline. Additionally, food prices rose by 0.5% m-o-m, as food at home and food away from home grew by 0.4% and 0.5%, respectively. Energy inflation decelerated to 0.7%, following a 5.2% print in September, supported by disinflation in gasoline and fuel oil. In contrast, prices fell for used cars and trucks, and communication. Meanwhile, core prices increased by 0.3% m-o-m for the third consecutive month, signalling that underlying price pressures remain sticky.

Notably, nonfarm payrolls exceeded expectations of 59 000, rising to 165 000 in October, following an upwardly revised 60 000 in September. Consequently, the US unemployment rate ticked down by 0.1 percentage point to 4.1%. The backdrop of a resilient labour market and persistent consumer inflation has strengthened expectations of further monetary policy tightening.

CHINA'S CONSUMER INFLATION REMAINS SUBDUED DESPITE ELEVATED ENERGY PRICES

Annual consumer inflation edged down from 0.9% in September to 0.7% in October. The main drag came from continued deflation in the food, tobacco, liquor and dining out category (-1.6%), subtracting 0.5% pts, as prices fell sharply for fresh vegetables (-16.9%) and pork (-8.6%). Conversely, prices rose sharply for transportation energy (20.2%) and communication facilities (16.1%). Overall, services and consumer goods inflation softened to 0.7% and 0.8%, respectively. Monthly, consumer inflation was unchanged at 0% in October. In the near term, headline inflation is likely to remain moderate as downside risks linger.

Meanwhile, factory-gate prices accelerated to a four-year high, rising by 5.7% in October, up from 5% in September. Energy-intensive industries have experienced the greatest cost pressures due to the Middle East conflict.

UK'S ECONOMY RECORDS STRONG GROWTH IN Q3

The UK economy expanded by 1.9% y-o-y in Q3, up from 1.4% in Q2 and as expected. Quarterly, GDP grew by 0.7%, after rising by 0.5% in Q2. By sector, services and production rose by 0.9% and 0.1%, respectively. However, the construction sector fell by 0.7%, with new work in private housing falling by 4.7%. Going forward, economic growth is likely to slow in Q4, as financial conditions tighten and inflation remains elevated.

FORECAST UPDATE

We have made no changes to our macroeconomic forecasts this week.

The near-term inflation outlook remains dominated by fuel. We expect October headline CPI inflation to rise to around 5.1% y-o-y, reflecting the sharp increase in fuel prices during the month. Beyond October, however, the picture has improved somewhat. The temporary fuel levy relief, a stronger rand and the recent fall in international oil prices should all help to temper inflation over the coming months. There is therefore some downside risk to our near-term oil-price assumption, although this is a quarterly average and the very high oil prices seen at the start of the quarter will continue to weigh heavily on the Q4 outcome.

Against this backdrop, we continue to expect the SARB to keep the policy rate unchanged at next week's MPC meeting. While the October inflation print will be elevated, monetary policy is forward-looking and the Committee can afford to wait for clearer evidence on whether the oil-price shock is feeding into broader price pressures and inflation expectations.

On activity, the latest high-frequency indicators point to a slight upside to our real GDP growth estimate of 0.2% q-o-q in Q3. The picture is mixed rather than particularly strong, with some sectors showing resilience while others remain under pressure. Next week's September retail sales data will be an important final test of that view ahead of the Q3 GDP release.

	Actual		Forecast		Next release/meeting	
	2025	2026Q3	2026Q4	2026		
Brent crude oil ($, spot, avg.)	68.83	91.37	103	92.3	n/a	
ZAR/USD (avg.)	17.88	16.28	16.50	16.40	n/a	
Policy interest rate (%, end of period)	7.25	7.25	7.25	7.25	19-Nov-2026	
Headline CPI (y-o-y % change)	3.2	4.4	5.2	4.3	18-Nov-26	Oct
FNAB inflation (y-o-y % change)	4.1	1.0	1.9	2.2	18-Nov-26	Oct
Headline PPI (y-o-y % change)	1.5	5.6	7.7	5.5	26-Nov-26	Oct
	2025	2026Q2	2026Q3	2026		
Real GDP growth (seasonally adjusted)						
(y-o-y % change)	0.9	0.9	0.8	1.1	1-Dec-26	2026Q3
(q-o-q % change)		-0.2	0.2			

Source: BER, Stats SA, SARB and LSEG.
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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