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Policy, power, and pressure in a Trump-triggered world

THE WEEK IN PERSPECTIVE

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The week started with a bang after US Federal Reserve (Fed) Chair Jerome Powell responded to the news that the Fed had been subpoenaed in a video address on Sunday evening. The action was supposedly tied to the $2.5 billion renovation of the Fed's building, but Powell explicitly linked it to the authorities' dislike of how they are setting interest rates. Critics argue that the administration is weaponising the criminal justice system to influence monetary policy. Many global central bankers have expressed their support for Powell, with even some Republican party members suggesting that the attacks on the Fed have gone too far.

While there are multiple angles to consider, central bank independence is in many countries seen as sacrosanct, including in SA. Although the government often has to agree with what the central bank needs to get right (in SA, the 3% inflation target), the central bank is left to decide how to achieve this goal. Political meddling in monetary policy and fiscal dominance (where the government 'forces' the central bank to cheaply finance the government by keeping rates lower than they should) poses significant risks to policy credibility and financial stability. The dollar weakened slightly after news broke but clawed back losses later in the week.

Trump is set to announce Powell's successor in the coming weeks – markets will be keen to see who he (it will most likely be a man) will pick as this will signal the impact Trump may have on the course of future monetary policy decisions. The court case to oust Fed board member Lisa Cook is set to begin next week. The courts have ruled that she can remain in her role as the proceedings continue, but it is far from certain that they will rule in her favour regarding the mortgage fraud accusation.

The main geopolitical focus was on Iran. Iran has witnessed weeks of widespread protests, initially sparked by economic grievances but evolving into broader anti-regime demonstrations. Many expect the government to fall, but it continues to cling to power with thousands of protesters reportedly killed already. Trump has warned of strong action should the government kill protesters and has urged protesters to take over institutions, but later suggested strikes were not imminent amid "good signs". Indeed, the Financial Times states that intense diplomatic efforts have helped de-escalate the tension. Oil prices retreated following that news after a six-day streak of gains.

Trump continues to talk a strong game about Greenland, saying the US “has to have” it - either through purchase or military action. Denmark’s EU and NATO allies have begun deploying troops to Greenland – small moves, but symbolic. The US is also a NATO member, which makes its continued talk of possible military action even more unusual. According to Denmark, this week’s talks between the country and the US were constructive, but “fundamental disagreement” remained.

Trump had a busy week, he also met with Venezuela’s opposition leader. Furthermore, on Gaza, he said that phase two of its 20-point peace plan between Hamas and Israel had begun. He, in turn, threatened military action on its own soil following continued unease in Minnesota after the ICE shooting.

On the trade front, Trump announced that he would implement a 25% tariff on countries “doing business” with Iran, without clarifying what “doing business” meant. Goods trade with Iran is already heavily sanctioned. While SA’s direct trade ties with Iran are limited, the country maintains close links with Iran - this week’s military exercise is just one example. Conflicting reports indicate that Iran was relegated to observer status in the drills – but this could not be confirmed. Participation would go against International Relations Minister Ronald Lamola's attempt to entrench SA’s stated “non-aligned stance”, which the US embassy in South Africa openly disputed in a **pointed social media post**. *Premium Insights clients can find a more detailed discussion of SA’s geopolitical positioning and political risks ahead of the 2026 election* ***here****.*

As with many of Trump’s threats, there is little official detail, and it remains unclear whether the 25% tariff would be applied in addition to existing tariffs. If implemented, it could affect the current trade truce with China, which trades with Iran.

The US House of Representatives voted to extend the African Growth and Opportunity Act (AGOA) by three years. There is no specific mention of SA, but the extension still requires approval by the Senate and signature into law by President Trump, and amendments remain possible. Even if approved in its current form, it is likely that existing reciprocal trade tariffs would supersede the free-trade benefits, as they did from April to September last year. Of course, the Supreme Court may well decide that these tariffs are not legal, with a decision expected soon.

Pushing back against the US’s recent turn toward protectionism, much of the rest of the world has moved to deepen trade ties. This week, the EU-Mercosur free trade agreement has reached political approval, although it still requires ratification before it can take effect. If implemented, it would create one of the world’s largest free trade areas, covering more than 700 million people. The deal faced opposition from several EU member states, most notably France and Poland, which warned that increased agricultural imports could undermine domestic farmers. Safeguards and concessions were included to address these concerns, but they were not sufficient to win over all opponents. Still, the agreement was advanced by majority vote among EU members.

Finally, two nuggets worth noting are that the SA Reserve Bank (SARB) announced it is reviewing the prime lending rate, which, since 2001, has been set at 350 bps (= 3.5%pts) above the policy rate. The review will likely take some time to complete and may not result in changes, though a possible narrower spread between the two rates could be a windfall for borrowers. Furthermore, the EU decided to remove SA, and five other African countries, from its list of high-risk jurisdictions. This follows the removal from the FATF grey list late last year.

Weekly Key Indicators		
	Close	w-o-w
R/$	R16.35	-1.0%
R/€	R18.97	-1.6%
R/£	R21.86	-1.5%
$/€	$1.16	-0.6%
Brent crude oil	$64.43	3.9%
Gold	$4 622	3.9%
Platinum	$2 386	7.6%
JSE ALSI	120 870	3.3%
10y gov. bond	8.29	-8bps
FRA (1x4)*	6.66	3bps
*Forward rate agreement		

In commodity markets, metals stood out as the outperformers in the first part of the week. The silver price continued its rally and rose past $90/oz for the first time ever, while copper and tin also hit record highs. Prices tumbled lower when the US confirmed it would not implement tariffs on imports of critical minerals. While bond markets remain remarkably calm despite all the geopolitical instability, the gold price does reflect the concern and rose by almost 4% this week – breaking above $4 600/oz.

The rand strengthened across the board, even gaining about 1% against a somewhat stronger dollar. Ten-year government bond yields dipped lower.

WEEK AHEAD: SLEW OF STATS SA DATA; PREFERRED PRICE MEASURE FOR THE US FED

After a data lull last week, Stats SA will be busy in the coming week starting with mining production data for November on Tuesday. Mining output has been on a positive streak since May, booking a sizeable 5.8% gain in October. A further monthly increase would bode well for sustained overall GDP growth momentum.

The November domestic trade data, also due later in the week, will further colour in the GDP growth picture for Q4. The BER’s Retail Survey showed that while sales growth likely slowed, it retained positive momentum in the final quarter of the year. However, as Black Friday sales and the resulting increase in volumes become more embedded in the base, monthly gains are likely to be smaller than in past Novembers.

Stats SA will also publish the final consumer inflation figure for 2025 on Wednesday. We expect full-year inflation to come in at 3.2%, down from 4.4% in 2024.

On the international calendar, China will release a slew of data early on Monday morning, including Q4 GDP. The print will confirm whether the country achieved its “about 5%” growth target, which we expect to be within reach.

Thursday brings important US price data, with the Fed’s preferred inflation measure released about a week before its late-January interest rate decision. For now, rates are expected to be kept on hold, but this week’s softer core CPI print suggests that core PCE may also surprise on the downside and tilt expectations closer to a cut.

The Bank of Japan is expected to maintain its policy rate, although a hike remains possible in the second quarter.

Date	Event	Latest
Monday (19 Jan)	CN: GDP Growth Rate (Q4);	4.8% y-o-y
Monday (19 Jan)	EZ: Consumer inflation (Dec)	2.1% y-o-y
Tuesday (20 Jan)	DE, EZ: ZEW Economic Sentiment Index (Jan)	45.8; 33.7
Tuesday (20 Jan)	SA: Mining Production (Nov)	2.1% m-o-m, 5.8% y-o-y
Wednesday (21 Jan)	UK, SA: Consumer inflation (Dec)	3.2% y-o-y, 3.5% y-o-y
Wednesday (21 Jan)	SA: Retail sales (Nov)	2.9% y-o-y
Thursday (22 Jan)	US: Core PCE price Index (Oct, Nov);	0.2% m-o-m
Friday (23 Jan)	JP: BoJ interest rate decision	0.75%
Friday (23 Jan)	UK: Retail Sales (Dec)	-0.1% m-o-m
Friday (23 Jan)	EZ, UK, US: Composite PMI (flash, Jan)	51.5; 51.4; 52.7

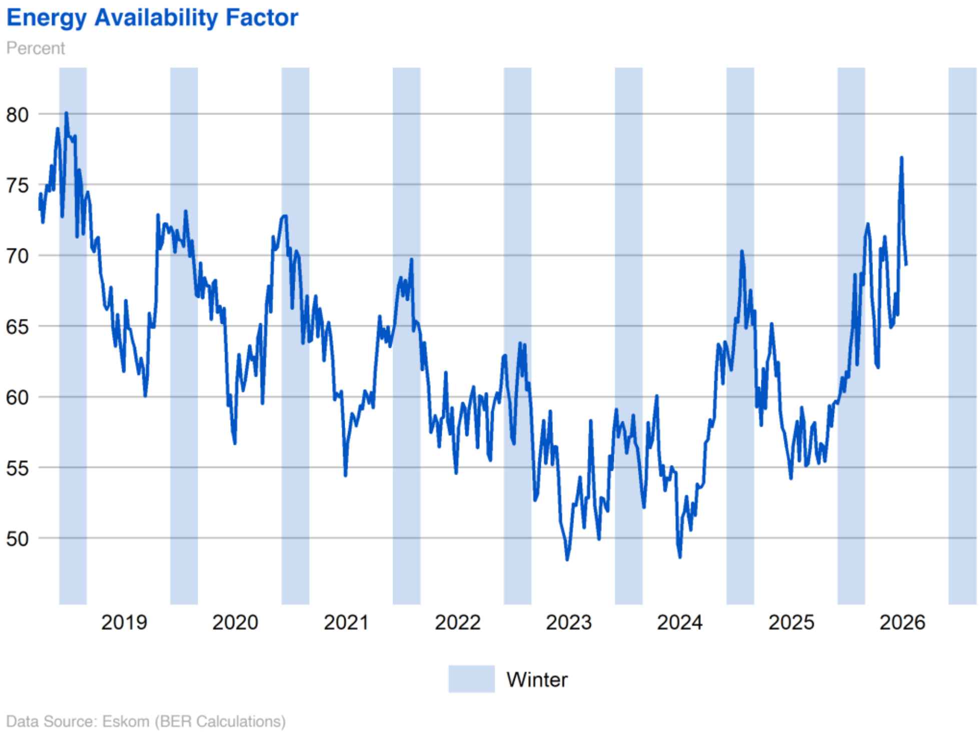
DOMESTIC DATA

Katrien Smuts

ELECTRICITY PRODUCTION DECLINES

Electricity production declined by 7% y-o-y in November 2025. On a year-to-date (YTD) basis, production fell by 1.5% compared to the same period in the previous year. Negative for GDP growth dynamics, the monthly declines in October and November suggest that power production is expected to decline in the fourth quarter compared to the third. Electricity consumption followed a similar pattern. Usage was down by 7.4% y-o-y in November 2025, and for the year thus far, consumption is 3.9% lower than during the same period in 2024.

Separately, Eskom's Energy Availability Factor (EAF) has experienced a strong start to the year and, despite a dip in the most recent data, remains about 15%pts better than this time last year.



INTERNATIONAL DATA

Katrien Smuts

US CPI INFLATION SLOWS, BUT TARIFF PASS-THROUGH STILL A RISK

The US Bureau of Labor Statistics (BLS) released its latest CPI data on Tuesday. Headline CPI rose by 0.3% m-o-m, translating to 2.7% y-o-y in December. Food inflation accelerated, while energy commodity prices declined by 3.0% y-o-y, offering some relief. However, energy services inflation remained elevated, with notable price increases in electricity and piped gas.

Core CPI inflation came in softer than expected, rising by 0.24% m-o-m, and by 2.6% y-o-y. This is a marked decline from the 3.1% recorded in August and the 3.2% print in December 2024. Core goods inflation was particularly subdued, following a similarly soft November. Notably, November's data collection was delayed due to the government shutdown, and when it was resumed, it may have captured the period of deep discounting during the Black Friday sales. Over the past two months, core goods prices remained essentially flat, rising by just 0.03% on average, which is well below the 0.24% average increase in the three months preceding the shutdown.

Despite the ongoing moderation in inflation, the Fed is expected to keep rates unchanged at its next meeting. Firms typically adjust pricing in January, and tariff-related inflationary pressures are still expected to feed into early 2026 prints. Meanwhile, a modest improvement in the labour market gives the Fed additional reason to pause on rate cuts, for now.

US RETAIL SALES REBOUND IN NOVEMBER

Retail sales in the US rebounded in November, rising by 0.6% m-o-m, according to the latest data from the US Census Bureau. This marks the strongest monthly gain since July 2025, following a marginal 0.1% decline in October. The improvement was driven largely by a recovery in auto sales and seasonal holiday-related spending.

CHINA TRADE SURPLUS HITS RECORD IN 2025 DESPITE US WEAKNESS

China's trade surplus reached a record $1.19 trillion in 2025. In December alone, the surplus hit $114.1 billion, with exports rising 6.6% y-o-y in the last month of the year. Meanwhile, imports grew by 5.7% y-o-y in December, also stronger than expected. Last year's export strength was concentrated in non-US markets such as the EU and Southeast Asia. In contrast, exports to the US for 2025 as a whole fell 20%, reflecting the impact of US tariffs and the rerouting of trade.

GERMAN ECONOMY GROWS MEAGERLY IN 2025

Preliminary estimates suggest that the German economy expanded by a modest 0.2% in 2025, marking an improvement from the 0.5% contraction recorded in 2024. While still weak by historical standards, the marginal uptick reflects stronger household and government consumption, which helped offset continued weakness in the external sector. Export performance remained under pressure last year, constrained by a combination of higher US tariffs, a stronger euro, and increasing competition from China.

FORECAST UPDATE

We will begin our quarterly forecast update process next week; however, we have made some interim adjustments to the forecasts below. We have left our GDP forecast unchanged for now and will take guidance from our high-frequency tracker following next week's batch of Stats SA data.

We have revised the rand exchange rate slightly stronger, following a better-than-expected performance in 2025Q4. This, together with a somewhat lower oil price (although ongoing geopolitical instability presents significant upside risk), supports a lower consumer inflation outlook. We now expect inflation to average 3.2% in 2025 (with one month's data still outstanding) and 3.3% in 2026.

Following this modest downward revision to our inflation forecast, a significantly stronger rand exchange rate (the SARB projected R17.25/$ for 2026 Q1 at the time of its November interest rate decision), and a notable decline in inflation expectations as surveyed by the BER, we now expect the SARB to cut rates by a further 25bps in January, rather than waiting until March. We continue to expect a cumulative 100bps of rate cuts, although we see the risk of only three cuts over the next year as higher than the probability of five.

	Actual		Forecast			Next release/meeting	
	2025	2025Q4	2026Q1	2026			
Brent crude oil ($, spot, avg.)	68	64.24	61.46	62		n/a	
ZAR/USD (avg)	17.87	17.19	16.64	16.58		n/a	
Prime interest rate (%, end of period)	11.25	10.25	10	9.25		26-Jan-26	
	2024	**2025Q3**	**2025Q4**	**2025**	**2026**		
Headline CPI (y-o-y % change)	4.4	3.4	3.7	3.2	3.3	21-Jan-26	Dec
FNAB inflation (y-o-y % change)	4.4	5.1	4.6	4.2	4.4	21-Jan-26	Dec
Headline PPI (y-o-y % change)	3.1	1.9	3	1.5	2.3	29-Jan-26	Dec
	2025	**2025Q3**	**2025Q4**	**2025**	**2026**		
Real GDP growth (seasonally adjusted)						10-Mar-26	2025Q4
(y-o-y % change)	0.6	2.1	1.6	1.3	1.5		
(q-o-q % change)	n/a	0.5	0.4	n/a	n/a		

Source: BER, Stats SA, Refinitv, SARB
Note: Changes from the previous week are indicated in orange. 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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