BUREAU for ECONOMIC RESEARCH

WEEKLY REVIEW | NUMBER 19 |29 MAY 2026

SARB moves early as hopes for a US-Iran deal build

THE WEEK IN PERSPECTIVE

Tracey-Lee Solomon

The main domestic event this week was the SA Reserve Bank's (SARB's) expected 25-bps rate hike, bringing the policy rate to 7% and the prime rate to 10.5%. Notably, four members supported the increase, while two preferred to keep rates unchanged. The SARB is among the first central banks to tighten policy in response to the oil price shock. While many global central banks have adopted a more hawkish tone, few have acted so far. Governor Lesetja Kganyago warned that other central banks may eventually be forced to tighten later this year as inflationary pressures broaden.

When discussing inflation, the SARB highlighted not only higher fuel prices, but also rising services inflation, particularly in insurance and financial services, and cautioned that higher diesel and fertiliser costs could renew food inflation pressure through the agricultural supply chain. Importantly, the SARB stressed that policymakers cannot wait for second-round inflation effects to become fully visible before acting. In line with this stance, the Bank reaffirmed its commitment to the 3% inflation target and made clear that no change to the target is being considered. **For more, see our 'The Strait of Higher Rates' client comment.**

Positively, Moody's Ratings revised SA's credit outlook to positive from stable last Friday, citing an improving fiscal position and ongoing reform efforts, while affirming the country's Ba2 rating, two notches below investment grade. Moody's noted that although the fiscal improvement remains at an early stage, sustained progress could place debt and debt-service costs on a clearer downward path. The outlook revision brings SA closer to a potential credit-rating upgrade and reinforces confidence in the government's fiscal consolidation efforts despite inflationary pressures, weak growth and a high debt burden.

On a more sombre note, Ebola continued to spread rapidly in the Democratic Republic of the Congo (DRC), with cases also reported in Uganda. More than 900 cases and 220 deaths have been recorded. The current outbreak is caused by the Bundibugyo strain, for which there is currently no vaccine. The rapid spread has been driven by domestic challenges, including shortages of basic supplies and a slow public health response, as well as external pressures, such as reduced World Health Organisation (WHO) funding from developed nations, including the US.

Moving to the Middle East, the Brent crude oil price fell by more than 5% this week on hopes that the US and Iran could reach a deal to extend the current ceasefire. Although intermittent strikes from both sides threaten negotiations, neither party has walked away from talks, raising expectations that a temporary agreement can be reached. Such an agreement would likely allow time for more detailed negotiations, particularly around Iran's enriched uranium programme.

Key sticking points remain, but developments this morning suggest that parties are moving closer together. Iran is demanding the lifting of sanctions, an end to the US naval blockade and the release of frozen assets. Tehran has pledged to fully reopen the passage within a month if its demands are met. The US has rejected the lifting of sanctions without more serious concessions from Iran. Iran also wants oversight of the Strait of Hormuz in partnership with Oman.

According to Axios, a draft agreement has been reached, with other reports stating that this is now under consideration by Iranian officials. At home, US President Donald Trump is under growing political pressure to end the conflict as rising fuel prices and inflation weigh on consumers ahead of the mid-term elections. Just this week, the Bureau for Economic Analysis reported that PCE inflation, the US Federal Reserve's (Fed's) preferred inflation measure, rose to 3.8% y-o-y in April. This complicates Trump's push for lower interest rates. Markets are increasingly pricing in the risk of rate hikes rather than cuts, with Fed officials warning that persistently high inflation risks de-anchoring expectations.

Iran appears increasingly eager for a deal with reduced oil exports, weighing on revenue. This week, Iran began restoring internet access after an 88-day digital blackout that cost its economy an estimated $30m-$40m each day.

Broader regional tensions nevertheless remain elevated. Israel intensified attacks on Lebanon this week despite the existing ceasefire with Hizbullah, complicating wider diplomatic efforts in the region.

Trump has also reportedly pushed for some Gulf states to join the Abraham Accords and formally recognise Israel. However, analysts believe this is unlikely given Israel's ongoing actions in Gaza and Lebanon. Whether this remains a firm US condition for a broader deal is still unclear.

Some easing in Strait of Hormuz traffic has also helped calm markets. Shipping data showed two supertankers and an LNG carrier successfully exited the Strait earlier this week. However, traffic volumes remain far below pre-conflict levels, when the Strait typically handled roughly 125 to 140 daily passages.

Even so, lower oil prices are welcome news. The latest Central Energy Fund (CEF) data points to a roughly R2.80/litre decline in diesel prices next month, while petrol prices are expected to rise by around R1.20/litre following changes to fuel levy relief measures.

While attention has been on the war in the Middle East, Russia's war in Ukraine continues to escalate. Moscow warned foreigners to leave Kyiv ahead of planned strikes on defence facilities, while President Vladimir Putin signed legislation allowing the Russian military to intervene abroad to protect Russian citizens. Ukrainian President Volodymyr Zelensky has appealed to the US for additional Patriot missile systems, warning that weapons deliveries are no longer keeping pace with the growing threat from Russia as America diverts weapons to the war in Iran.

Weekly Key Indicators		
	Close	w-o-w
R/$	R16.28	-1.6%
R/€	R18.96	-1.1%
R/£	R21.86	-1.4%
$/€	$1.16	0.5%
Brent crude oil	$97.12	-5.4%
Gold	$4 471	-0.9%
Platinum	$1 904	-1.1%
JSE ALSI	115 096	0.9%
10y gov. bond	8.46	-31bps
FRA (1x4)*	7.03	3bps

*Forward rate agreement

The prospect of an Iran deal supported markets this week, with the US stock market reaching another record high. The rally was not confined to the US, with European and Asian markets also gaining. Locally, the JSE Alsi rose almost 1% w-o-w, highlighting how quickly investors can shift into risk-on positions when Middle East tensions appear to ease, even if a lasting resolution is not yet certain.

Moody's positive outlook revision likely provided some support to the rand, reflected in the strong opening on Monday, with the rate hike providing a further boost. Improved sentiment was echoed in the bond market, where South Africa's 10-year government bond yield fell by 31 bps over the week.

Finally, precious metals declined for a second consecutive week, with gold down 0.9% w-o-w and platinum falling 1.1%.

WEEK AHEAD: SA SENTIMENT DATA TO SHOW WHETHER OIL SHOCK IS STARTING TO BITE

Following the SARB's hawkish 25-bps rate hike this week, attention will increasingly shift toward whether the latest oil-price shock and tighter financial conditions are beginning to weigh more visibly on local economic activity and sentiment indicators. The Absa Manufacturing PMI and S&P Global PMI will provide another indication of how businesses are responding to higher fuel costs, elevated uncertainty and weaker consumer demand conditions. The RMB/BER Business Confidence Index (BCI), due to be released at the BER conference on Tuesday, will also be closely watched, as confidence has slowly but surely ticked up in recent quarters. Markets will also monitor S&P Global Ratings' review of SA later today. While a full ratings upgrade is possible given the positive outlook assigned late last year, the agency is widely expected to affirm its BB rating and maintain its positive outlook for now. Investors will nevertheless be looking for further confirmation that the momentum of fiscal consolidation and reform remains sufficient to support a gradual improvement in SA's credit profile.

Globally, inflation and labour market data will remain in focus as markets continue to reassess the likelihood of further policy tightening by major central banks. Flash Eurozone inflation data on Tuesday will provide an important indication of whether recent energy-market disruptions are beginning to feed more meaningfully into broader price pressures across Europe. In the US, Friday's nonfarm payrolls report and unemployment rate will be watched closely for signs that the labour market remains resilient despite tighter financial conditions and growing concern around persistently elevated inflation. Stronger-than-expected data could further reinforce the recent shift in market pricing away from rate cuts and toward the possibility of additional policy tightening later this year.

Date	Event	Latest
Monday (1 Jun)	CN: RatingDog Manufacturing PMI (May)	52.2
Monday (1 Jun)	SA: Absa Manufacturing PMI (May)	52.6
Monday (1 Jun)	SA: Total New Vehicle Sales	47.98K Units
Monday (1 Jun)	US: ISM Manufacturing PMI (May)	52.7
Tuesday (2 Jun)	EZ: Consumer Inflation Rate (flash, May)	3% y-o-y, 1% m-o-m
Tuesday (2 Jun)	SA: RMB/BER Business Confidence Index (Q2)	47
Wednesday (3 Jun)	SA: S&P Global PMI (May)	51.6
Wednesday (3 Jun)	CN: RatingDog Composite PMI (May)	53.1
Wednesday (3 Jun)	EZ: PPI (Apr)	2.1% y-o-y; 3.4% m-o-m
Wednesday (3 Jun)	US: ISM Services PMI (May)	53.6
Thursday (4 Jun)	EZ: Retail Sales (Apr)	1.2% y-o-y; -0.1% m-o-m
Friday (5 Jun)	US: Unemployment Rate, Nonfarm Payrolls (May)	4.3%; 115K
Friday (5 Jun)	SA: Foreign Exchange Reserves (May)	$77.09B

SA POLITICAL UPDATE

Natasha Marrian

ELECTIONS SEASON 2026 OFFICIALLY KICKS OFF

The Electoral Commission of SA (IEC) officially launched the 2026 local government election campaign this week, announcing the main registration weekend (20-21 June). This marks a key milestone in the run-up to the 4 November local government election. While voter registration is relatively high, voter turnout has been declining rapidly over the years, reaching its lowest level in a local election in 2021. The 2026 election will illustrate whether the low turnout recorded in 2021 was due to COVID-19-related lockdowns or part of a trend, also evident at the national level, of voters simply opting out of the electoral process.

Factors set to influence LGE 2026 and its outcomes:

- Election management: The IEC is facing a legal challenge over its running of the 2024 National Election from the MK Party. The matter is set to be heard in court next month. The MK Party has alleged that the election was rigged but has provided no evidence in court documents, which has been stalled at MK's behest on several occasions. The EFF began a campaign this week that also cast aspersions on the IEC's conduct of the election, again with no proof of wrongdoing. The IEC met the party on Thursday in a bid to curb what it described as a rising tide of disinformation against it. The credibility of the IEC, both real and perceived, is crucial for public confidence in the electoral process and may also shape voter turnout and behaviour. KwaZulu-Natal has emerged as a particular focus given growing scepticism around democratic institutions and electoral processes in the province.

- Coalitions Bill: Legislation aimed at stabilising coalitions will be tabled at the next Cabinet meeting, and Cooperative Governance and Traditional Affairs Minister Velinkosi Hlabisa is confident it will be passed before the upcoming election. However, there are key differences between the ANC and the DA on a crucial aspect of the bill. The legislation, an amendment to the Municipal Systems Act, makes provision for binding public election agreements, electoral thresholds, limits on the number of motions of no confidence and the reasons behind them, and changes to the system of governance in hung councils. The BER understands that senior ANC leaders are pushing for a 2% threshold, implying that any party which does not meet the threshold in terms of electoral support should not be represented in council. The initial iteration of the bill proposed a 1% threshold.

The key difference between the ANC and the DA is over executive committee systems versus executive mayoral systems of governance. The ANC is set to push for all hung councils to be converted into an executive committee system, which the DA argues neutralises the authority of the party which emerges with the largest share of the vote. The committee system sees the municipality run by an executive committee, with positions divided proportionally to each party's vote share. In contrast, in a mayoral system, the party holding the mayoral seat determines the composition of the executive that runs the council. The matter will be debated in Cabinet, but could also be referred to the GNU clearing house if the parties fail to reach an agreement.

PRESIDENT CYRIL RAMAPHOSA FILES CHALLENGE TO NGOBO REPORT

Parliament’s impeachment process against President Cyril Ramaphosa is set to stall after he filed papers launching his legal challenge to the panel report, chaired by former chief justice Sandile Ngcobo, which forms the basis of the impeachment process. The 31-member impeachment committee will hold its first meeting on Monday. Speaker Thoko Didiza is obtaining legal advice on whether the committee can go ahead, despite the legal challenge to the panel report by Ramaphosa.

In his court papers, Ramaphosa argued that the impeachment process should be halted pending the outcome of the review and indicated that he would seek an interdict should Parliament proceed.This raises the prospect of a prolonged legal and political process before the committee can meaningfully begin its work.

Ramaphosa presents a strong argument against the panel’s findings, arguing that the Ngcobo panel relied on “hearsay” from former spy boss Arthur Fraser in reaching its conclusion that there was “prima facie evidence” of wrongdoing on his part over the 2020 sale of buffalo and the subsequent theft of US currency arising from the sale at his private Phala Phala Farm. He further argued that the panel misconstrued its mandate and failed to establish sufficient evidence to support its findings.

The EFF, MK Party and ATM continue to push for the impeachment process to proceed despite the review application. The DA, meanwhile, has indicated that while it respects Ramaphosa’s right to challenge the report, Parliament should continue with the committee process in the interim. It remained unclear by late on Thursday whether the ANC’s key GNU partner would support delaying the process pending the outcome of the review. Should the process continue, it is likely that Ramaphosa would approach the courts for an interdict, pending the outcome of the review.

DOMESTIC DATA

Nkosinathi Nonkonyana

RECORD JUMP IN MONTHLY PPI IN APRIL REFLECTS WAR PREMIUM

Producer price inflation (PPI) for final manufactured goods accelerated to a two-year high of 4.8% y-o-y in April, up from 2.3% in March. The rise in PPI was mainly driven by higher prices for petroleum-related products, chemicals, rubber and plastics (11.8%, 2.5% pts), as well as food, beverages and tobacco products (1.9%, 0.6% pts).

On a monthly basis, PPI rose by 3% in April, the largest monthly increase on record (data since 2012), followed by 2.5% in March 2022, which was due to the Russia-Ukraine war. The largest positive contribution came from coke, petroleum, chemical, rubber and plastic products, which increased by 12.8% and contributed 2.7% pts. Notably, diesel, a key input cost for many producers, rose 39.4% m-o-m, reflecting the impact of global supply constraints on domestic manufacturers.

MARCH LEADING INDICATOR AND VEHICLE SALES DATA TELL A POSITIVE STORY FOR Q1

The annual composite leading business cycle indicator rose by 7.5% in March, following a 6.3% increase in February. Monthly, the indicator increased by 2.4%, marking the strongest growth since May 2021. Improvements in six of the seven available component time series exceeded the decrease observed in the seventh.

Meanwhile, motor trade sales increased by 14.7% y-o-y in March, up from 5.6% in February. The biggest support came from higher sales of new vehicles (23.4%, 6.3% pts), used vehicles (19.1%, 3.7% pts) and fuel (9.5%, 2.4% pts). **For more on how vehicle imports are transforming the motor trade landscape, click here for a publicly available Research Note about the industry.**

Monthly sales rose by 3.9%, marking the highest print since February 2023. Income from fuel sales increased 9% m-o-m, driven by a spike in demand for fuel ahead of the massive jump in fuel prices on 1st of April. Despite the current trade sales momentum, new vehicles decreased by 1% over the month and were the only drag on monthly growth.

The solid improvement in the SARB's leading indicator, along with strong vehicle sales data, suggests that economic momentum improved in the first quarter, ahead of the fallout from the escalation in Iran.

INTERNATIONAL DATA

Nadia Matulich

US CONSUMER SENTIMENT REACHES RECORD LOWS AS INFLATION PICKS UP

This week was marked by a slew of sentiment indicator releases. Starting in the US, the University of Michigan Survey of Consumers and the Conference Board Consumer Confidence Index were both released. The former hit a record low of 44.8 in May 2026, down from 49.8 in April. This represents a 10% month-on-month decline and a 14.2% year-on-year decline. The May reading is the lowest in the index's history, dating back to the

1950s, and is just below the previous historical trough in June 2022. Expectations were also very weak, at 44.1, the lowest since 1979.

May's decline was primarily driven by a deterioration in consumers' cost-of-living perceptions, with high prices cited as the biggest concern. Notably, sentiment declined among both Republicans and independents, reaching the lowest level of the current presidential administration. Sentiment among Democrats was unchanged from April. Inflation expectations remain high, including over the longer term. Year-ahead inflation expectations rose to 4.8% in May, from 4.7% in April and well above the 3.4% recorded in February, before the start of the Iran conflict.

Respondents to the Conference Board survey were not quite as depressed as those in the University of Michigan survey. Consumer confidence declined by 0.7 points to 93.1 in May. The present situation index fell by 3.2 points to 121.2, while six-month-ahead expectations rose by 1 point to 74.4. The primary concern weighing on confidence appears to be the inflationary impact of the Middle East war. Notably, 66.5% of consumers said that they were cutting back on spending and delaying purchases of big-ticket items.

The second estimate of US GDP growth for Q1 came in at 1.6%, down from the advance release's 2.0%. The main revisions were to consumer spending and investment. Consumer spending rose by 1.4%, investment by 7.0%, government consumption by 4.4%, exports by 13.1% and imports by 21.1%.

Important for monetary policy, the Personal Consumption Expenditures (PCE) price index also ticked up, rising by 0.4% month on month and 3.8% year on year. Excluding food and energy prices, which are more volatile, core PCE inflation rose by 0.2% month on month and 3.3% year on year.

EUROPE SEES HIGHER SENTIMENT

In the UK, the GfK consumer confidence index improved marginally from -25 to -23 in May, beating market expectations of -28. The personal financial situation index and the general economic situation index both improved, and expectations for both measures strengthened. However, consumers remain less likely to purchase major items, while the savings index fell by 10 points as households continue to use savings to pay for day-to-day expenses.

In Germany, the Ifo Business Climate Index rose by 0.4 points in May, supported by improved current business conditions and slightly less pessimistic expectations for the coming months. The improvement was broad-based, with better current conditions in manufacturing, services and trade. Sentiment in construction was slightly weaker.

In the EU and the Eurozone more generally, the European Commission's Economic Sentiment Indicator was broadly unchanged from April. The indicator rose by 0.3 points in both the EU and euro area, to 93.7 and 93.5, respectively.

FORECAST UPDATE

The SARB's latest decision and communication reinforce our view that the domestic monetary policy cycle has shifted decisively into a more cautious "higher-for-longer" phase.

Prior to the escalation in Middle East tensions, both market pricing and our own forecasts anticipated a continuation of the easing cycle through 2026 as inflation moderated and domestic demand remained relatively subdued. However, the oil-price shock, elevated geopolitical uncertainty, and growing concern about second-round inflation effects have materially altered the policy outlook. Following the SARB's precautionary 25bps hike in May, our baseline now assumes that the start of the easing cycle is postponed to 2027Q1.

Importantly, the SARB's focus appears to extend beyond the direct impact of higher fuel prices. The Bank has become increasingly concerned about stickier core inflation, firmer services inflation and the risk that higher fuel and food costs begin feeding into inflation expectations and wage-setting behaviour more broadly. While we still view a prolonged hiking cycle as unlikely under our baseline assumptions, the balance of risks has shifted meaningfully to the upside. A further 25bps hike at the July MPC meeting can no longer be ruled out, particularly if geopolitical tensions remain elevated, oil prices stay higher for longer, the rand weakens materially, or evidence of inflation expectations becoming less well anchored emerges.

	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
	2025	**2025Q4**	**2026Q1**	**2026**		
Real GDP growth (seasonally adjusted)					9-Jun-26	2026Q1
(y-o-y % change)	1.1			1.3		
(q-o-q % change)		0.4	0.3			

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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