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Treasury draws a line while the Middle East blurs another

THE WEEK IN PERSPECTIVE

Tracey-Lee Solomon

Just as markets were beginning to believe the worst of the Middle East conflict was behind them, renewed hostilities served as a reminder that geopolitics rarely follows a straight line. The domestic data calendar was light this week, with manufacturing output the only notable economic release. Unfortunately, the figures suggest the sector remains on course for another disappointing quarter. Of more interest was the National Treasury's decision to withhold July's equitable share transfers from 69 municipalities. We unpack the rationale behind the move and its implications in our **political update**.

The main development this week was a renewed escalation in the Middle East. After a relatively calm couple of weeks, US President Donald Trump said the US-Iran ceasefire collapsed, which reminded markets that the conflict remains highly unpredictable. Although the truce had been plagued by minor violations, tensions intensified sharply this week after Iran targeted vessels near the Omani side of the Strait of Hormuz. While no casualties were reported, the attacks prompted at least four oil and gas tankers to abandon their transit through the Strait.

Washington responded swiftly, launching strikes on around 90 Iranian military targets and ending its sanctions waiver on Iranian crude exports. Iran retaliated with attacks on US military bases in Kuwait, Bahrain and Qatar, while President Trump threatened to seize Kharg Island, critical to Iran's oil exports, and reinstate the blockade of the Strait of Hormuz. More positively, the US confirmed yesterday that technical talks between the two countries were still continuing.

The renewed conflict disrupted shipping through the Strait, with tanker traffic slowing sharply by Thursday morning. Brent crude briefly approached $80/bbl, up from around $71/bbl at the start of the week. Even so, the relatively modest increase suggests markets still view a repeat of the severe disruption seen before the US-Iran Memorandum of Understanding (MoU) as a risk rather than the most likely outcome.

Beyond the conflict in the Middle East, developments in refined fuel markets also deserve attention. China lifted its export restrictions on petroleum products, increasing the prospect of additional supply, while Russia suspended petroleum product exports until further notice amid domestic fuel shortages. Although the Russian move will tighten global supply, its impact is likely to be limited given that exports had already fallen sharply last month. These developments are particularly relevant for SA because our fuel prices are driven more by international refined fuel prices rather than by crude oil prices alone. For SA, shifts in product supply from major exporters such as China and Russia can be just as important as movements in Brent crude.

Elsewhere, the US Federal Reserve (Fed) minutes revealed a divided committee. While many policymakers expected inflation to return to target over time, several argued that interest rates may still need to rise. Inflation concerns had broadened beyond energy prices to more persistent underlying pressures, including those associated with rapid investment in artificial intelligence. However, the shorter-than-usual minutes offered few new policy signals and had little impact on markets.

Meanwhile, the IMF raised its global inflation forecast by 0.3%pt to reflect higher fuel prices, while trimming its global growth forecast by 0.1% pts. Its baseline assumes the Strait of Hormuz gradually reopens from mid-July, with shipping returning to normal by March 2027. Even so, the IMF expects the economic impact of the conflict to be partly offset by strategic oil reserve releases, stronger non-Gulf production, improving energy efficiency and the private sector's ability to reroute supply chains.

Weekly Key Indicators		
	Close	w-o-w
R/$	R16.33	0.5%
R/€	R18.67	0.4%
R/£	R21.87	0.7%
$/€	$1.14	-0.1%
Brent crude oil	$78.57	9.4%
Gold	$4 125	0.0%
Platinum	$1 619	0.1%
JSE ALSI	109 488	-0.9%
10y gov. bond	8.51	11bps
FRA (1x4)*	7.22	22bps

*Forward rate agreement

Renewed tensions in the Middle East reverberated across financial markets this week. On Wednesday, higher oil prices fuelled expectations that central banks may need to keep interest rates higher for longer, weighing on precious metals (non-interest-bearing assets). However, by Thursday afternoon, they had reversed these losses. As a result, gold was unchanged week-on-week, while platinum rose slightly.

The breakdown of the ceasefire supported the US dollar, leaving the rand 0.5% weaker against the greenback. Even so, the local currency remains well below its wartime lows of above R17/$. The rand also lost 0.4% against the euro and 0.7% against the pound, reflecting SA's vulnerability as an oil importer and softer global risk sentiment.

The shift in sentiment extended to local bond and equity markets. South Africa's 10-year government bond yield climbed to its highest level since the signing of the US-Iran MoU, while weaker risk appetite weighed on equities globally. Major European and Asian indices ended the week lower, with the JSE ALSI also declining by about 1%.

WEEK AHEAD: INFLATION AND GROWTH BACK IN FOCUS

After several weeks dominated by geopolitics and oil prices, attention is likely to shift back to the underlying health of the global economy. While the sharp decline in oil prices has materially improved the medium-term inflation outlook, next week's data is unlikely to capture the full benefit. Instead, markets will look for signs that underlying inflationary pressures are easing without a significant deterioration in economic activity.

US inflation will be the key release. Following the Federal Reserve's recent hawkish hold under Chair Kevin Warsh, investors will focus less on headline inflation, which remains influenced by recent energy price volatility, and more on whether core price pressures, particularly in services, are showing meaningful signs of moderation. Producer price inflation will also be closely watched for evidence that firms' cost pressures are easing, while retail sales will indicate whether the US consumer remains resilient despite tighter financial conditions. Finally, the preliminary University of Michigan survey will be scrutinised not only for changes in consumer confidence but also for its inflation expectations measures, which the Federal Reserve continues to monitor closely for signs that longer-term inflation expectations remain well anchored.

China's second-quarter GDP is expected to show growth broadly in line with Beijing's 5% target. However, investors are likely to look beyond the headline figure. Recent policy support appears to have stabilised activity, but questions remain over the strength of domestic demand. June's retail sales, industrial production and unemployment figures will therefore be closely scrutinised for evidence that the recovery is broadening beyond manufacturing and exports.

Domestically, the calendar is relatively light. Mining production for May will provide another indication of how the sector performed amid heightened global uncertainty and elevated commodity price volatility. Although mining has benefitted from firm precious metal prices, the release will also be watched for signs that operational constraints and softer external demand continue to weigh on output.

Date	Event	Latest
Tuesday (14 Jul)	SA: Mining Production (May)	8.2% y-o-y; 3.3% m-o-m
Tuesday (14 Jul)	US: Consumer Inflation (Jun)	4.2% y-o-y; 0.5% m-o-m
Wednesday (15 Jul)	CN: GDP Growth Rate (Q2)	5% y-o-y
Wednesday (15 Jul)	CN: Retail Sales, Industrial Production, Unemployment (Jun)	-0.6% y-o-y; 4.5% y-o-y; 5.1%
Wednesday (15 Jul)	EZ: Industrial Production (May)	0.3% y-o-y; 0.1% m-o-m
Wednesday (15 Jul)	US: PPI (Jun)	6.5% y-o-y; 1.1% m-o-m
Thursday (16 Jul)	UK: GDP (May)	1.2% y-o-y; -0.1 m-o-m
Thursday (16 Jul)	UK: Industrial Production, Manufacturing Production (May)	-0.2% y-o-y; 1% y-o-y
Thursday (16 Jul)	US: Retail Sales (Jun)	6.9% y-o-y; 0.9% m-o-m
Friday (17 Jul)	US: Industrial Production, Manufacturing Production (Jun)	1.7% y-o-y; 1.4% y-o-y
Friday (17 Jul)	US: Michigan Consumer Sentiment (Prel, Jul)	49.5

SA POLITICAL UPDATE

Natasha Marrian

MUNICIPAL IMPUNITY: JOBURG AMONG 69 OFFENDERS FLAGGED BY TREASURY

"The only thing that we can do is start this process to give them some pain so they understand that there's no Treasury waiting to bail them out as they mismanage themselves," a senior government official told the BER this week, after the National Treasury announced it was withholding the equitable share transfer from 69 municipalities. Among them was the City of Johannesburg, which will not receive its July tranche of R3.3bn in equitable share funding.

Treasury's dual motive

The National Treasury says it is exercising its legal obligation to hold municipalities accountable for financial mismanagement. But the intervention also sends a broader political message: National Treasury is no longer prepared to shield municipalities from the consequences of persistent financial mismanagement.

Treasury said the funding was being withheld to "instil fiscal discipline" and ensure that unauthorised, irregular, fruitless and wasteful expenditure (UIFWE) is addressed.

Alongside the withholding, Treasury has released criteria municipalities must meet before funding is restored - among them a "consequence management pillar," requiring councils to account for their ballooning unauthorised, irregular, fruitless and wasteful expenditure.

The Johannesburg impasse

The key sticking point appears to be the Treasury's insistence on consequence management. Mayor Dada Morero announced on Wednesday that the city's unfunded budget "had been resolved." Deputy Mayor Loyiso Masuku, who oversees finance, said the city's disciplinary board was "fully functional," and that a report on consequences for the UIFWE, standing at R23.6bn, would be tabled at a council meeting in July. Masuku offered no further detail, but by law both the political office-bearers (Masuku) and the accounting officer are required to account for the state of the city's finances.

This week's media briefing, led by Morero, illustrated the scale of the challenge: Johannesburg has just 12 days of cash on hand, against a required 32; it is spending far more than it collects in revenue; and it lacks the funds to finance maintenance and capital spending, leaving service delivery constantly disrupted by failing infrastructure. The city's financial position is detailed further in a data story published by our **Impumelelo Growth Lab** on Wednesday.

What happens next

Treasury's intervention is designed to shift the city's culture toward accountability and stronger leadership. Whether it will spur genuine reform in Johannesburg's administration remains uncertain. The more likely scenario is that the city continues limping toward the election, with the current leadership either re-elected or replaced at that point.

MADLANGA COMMISSION: AN EXTENSION, POLITICAL LINKS AND ARRESTS

President Cyril Ramaphosa extended the Madlanga Commission of Inquiry to November 16 with evidence hearings set to conclude on October 2 - just a month before the local government election. Because the final report deadline now falls after the election, the public will only see the commission's findings and recommendations once voting is done. Ramaphosa has not publicly released either of the two interim reports submitted to his office so far, though he committed in January to making the final report available for public scrutiny.

Malema implicated in intelligence plot

This week's evidence was once again politically explosive, implicating EFF leader Julius Malema in an alleged conspiracy with former crime intelligence boss Feroz Khan to discredit former Inspector-General of Intelligence Isaac Dintwe through parliamentary questions.

Evidence suggested the communication flowed via Mo Sayed of Carnilinx, whose CEO, Adriano Mazzotti, previously funded the EFF's initial party registration. Further testimony also linked Malema to an alleged attempt to influence a public tender and to information related to the VBS investigation.

TREASURY INVESTIGATES TENDER MANIPULATION

The National Treasury has launched an investigation into a former senior official exposed in evidence before the commission for allegedly manipulating processes to favour companies linked to Sayed in South African Police Service tenders, with Khan acting as a conduit.

The official under investigation, Fani Molefe, a former senior Treasury procurement officer, is alleged to have improperly influenced transversal contracts - those required by multiple public-sector entities, not just one - during his tenure. Treasury will bring in an external forensic investigator to probe all transversal contracts awarded during that period.

Ekurhuleni arrests

A more encouraging development linked to the commission is the arrest and court appearance of four former and suspended Ekurhuleni metro officials, over allegations that emerged from its hearings. Among them: former city manager Imogen Mashazi and metro police head Julius Mkhwanazi. Mkhwanazi is linked to alleged organised crime boss Vusimuzi "Cat" Matlala, while Mashazi is accused of shielding Mkhwanazi from disciplinary action over those ties.

The arrests suggest authorities are acting more quickly on evidence emerging from the commission than was the case after the Zondo Commission, raising hopes that accountability may not be delayed until the inquiry concludes.

DOMESTIC DATA

Lisette IJssel de Schepper

MANUFACTURING REMAINS A DRAG ON GROWTH

Manufacturing production remained under pressure in May, declining by 4.3% y-o-y. While output rose by 1.1% m-o-m on a seasonally adjusted basis, the broader trend remained weak. Unless production records an unusually strong rebound in June, the sector appears set for a second consecutive quarterly contraction, which will drag on Q2 GDP growth. The data reinforce the signal from the June Absa PMI, in which the average business activity index for Q2 remained below 50 and was broadly unchanged from Q1. Respondents continued to cite weak demand, with the unwinding of earlier front-loaded orders weighing on activity.

Worryingly, nominal sales also declined, suggesting manufacturers continue to face a difficult operating environment. Together with higher input costs during the Middle East conflict, this is likely to have placed further pressure on profitability

INTERNATIONAL DATA

Paul Gluckman

EUROZONE CONSUMER SPENDING PICKS UP AS PRODUCER PRICE PRESSURES PERSIST

Monthly retail sales ticked up by 0.2% in May, recovering from April's 0.3% decline. The modest rise was driven by higher food, drink and tobacco sales volumes (0.6%), which outweighed lower automotive fuel sales in specialised stores (-0.5%). Annual retail sales growth also accelerated to 1.6% in May, suggesting consumer spending remained resilient despite elevated energy costs. Stronger food, drink and tobacco sales offset weaker automotive fuel sales.

Meanwhile, producer price inflation accelerated to 5.9% y-o-y in May (from 5% in April), reflecting the earlier surge in energy prices. However, the monthly increase slowed sharply to 0.2%, suggesting that producer price pressures may already be easing following the recent decline in oil prices.

STRONG GROWTH CONTINUES IN THE US SERVICE SECTOR

The ISM services PMI logged its 24th consecutive expansion, registering 54 in June, 0.5% pts below May's print. Despite slower growth in business activity, new orders and supply deliveries, all four subindexes are expansionary and above their 12-month moving average. Notably, the employment index entered expansionary territory for the first time since February, increasing by 3.3% pts to 51.7 and offsetting the decline in the other indices. Respondents suggest the World Cup contributed to an improved job market. However, June's weaker-than-expected non-farm payroll report painted a somewhat softer picture of labour market conditions, suggesting employment momentum may be moderating.

The price index declined to 67.7, its first time below 70 since February. Inventory accumulation also slowed sharply as businesses began unwinding earlier order front-loading. Nevertheless, expansion in 14 of 18 service industries was robust in June.

CHINESE CONSUMER PRICES STAGNATE YET AGAIN WHILE PPI SPIKES TO 4-YEAR HIGH

Annual consumer inflation eased from 1.2% to 1% in June, underscoring the continued weakness in domestic demand. Food prices fell 1.6% y-o-y, largely dragged by a continued decline in pork prices (15.9% y-o-y). Transport costs also moderated (4.1% y-o-y in June from 5.4% in May), as easing war tensions allowed the government to lower fuel prices. The further cut in fuel costs allowed monthly consumer prices to fall by even more in June than in May (-0.3% vs -0.1%). Core inflation also remained subdued at 1%, suggesting price weakness extends beyond volatile food and energy components.

In contrast, producer prices climbed 4.1% y-o-y for June, the highest rate since mid-2022, reflecting higher input costs associated with the recent Middle East conflict. The widening gap between producer and consumer inflation suggests firms may find it increasingly difficult to pass higher costs on to consumers, potentially squeezing profit margins. However, the monthly data were more encouraging. Producer prices declined by 0.3% m-o-m in June, mirroring the recent reversal in global oil prices and suggesting the worst of the cost shock may already be passing.

FORECAST UPDATE

We have not made any changes to our forecasts this week. Although oil prices rose slightly amid renewed uncertainty over the US-Iran negotiations, they remain well below the levels seen during the recent conflict. As such, while the balance of risks around inflation and interest rates has shifted modestly towards the upside again, oil markets remain highly headline-driven and volatile.

Work has, however, started on the BER's quarterly forecast update, which will be released later this month. As always, the forecast tables below remain indicative of our latest view and will be updated should incoming data or market developments warrant any revisions.

	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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