BUREAU for ECONOMIC RESEARCH

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Fuel relief, a firmer fiscus and coalition maths

THE WEEK IN PERSPECTIVE

Lisette IJssel de Schepper

For once, several pieces of domestic news moved in the right direction this week. Consumer inflation surprised slightly to the downside, the Medium Term Budget Policy Statement (MTBPS) confirmed that government debt has stabilised, and SA government bonds rallied after National Treasury announced lower weekly issuance and a new bond-buyback programme (**clients can read our detailed MTBPS comment here**). Yet any sense of relief was quickly tempered by another surge in global oil prices. Brent moved above $110/bbl on Thursday following renewed attacks on oil tankers in the Strait of Hormuz, once again highlighting how exposed SA remains to a shock it cannot control.

That contrast captures the current macroeconomic picture fairly well. SA has rebuilt some important buffers over the past few years. The fiscal position is considerably more credible; the rand has proved relatively resilient; and underlying inflation pressures remain relatively contained. But improved resilience is not the same as insulation. As a net oil importer, SA remains particularly vulnerable when global energy prices rise sharply.

September's CPI print provided a useful example. Headline inflation edged up to 4.5% y-o-y from 4.4% in August, below the consensus (and our) forecast of 4.7%. The fuel shock is still very visible as fuel prices were almost 28% higher than a year ago and transport contributed 1.5% pts to headline inflation. Yet food and non-alcoholic beverage inflation remained just 1.2%, while services inflation eased slightly. For now, therefore, much of the pressure remains concentrated in areas directly or indirectly linked to energy rather than pointing to a broad-based acceleration in prices.

Unfortunately, September predates the much larger fuel-price increase implemented in October. Our latest forecast therefore still sees headline inflation averaging around 5.2% y-o-y in the fourth quarter. The fuel-price relief announced in the MTBPS should, however, cushion some of the pressure in November and December, limiting the extent of further increases at the pump. The key question is no longer whether the oil shock will lift headline inflation, it already has, but how far that shock spreads into transport, food, goods prices, wages and inflation expectations. For now, we still expect the SARB to keep the policy rate unchanged at 7.25% in November, but the renewed rise in oil prices keeps the risk of further tightening alive. Our baseline only allows for easing from around the middle of 2027.

Wednesday's MTBPS provided some additional protection against the shock. The R10bn temporary fuel-price relief will cushion consumers from some of the expected November and December increases. At the same time, stronger-than-expected revenue collection has allowed Treasury to remain broadly on course with fiscal consolidation despite weaker economic growth. Government debt peaked at 78.4% of GDP in 2025/26, while Treasury continues to target rising primary surpluses over the medium term.

Markets responded particularly favourably to Treasury's funding announcements. The benchmark 2035 government bond yield fell by around 15 bps after Treasury said it would reduce weekly fixed-rate bond issuance and introduce a bond-buyback programme. More broadly, SA assets have held up relatively well despite the renewed external shock. Brent crude is up more than 5% over the week, yet the rand is essentially unchanged against the dollar, while the 10-year government bond yield is around 10 bps lower. The JSE has fared less well, declining by around 1.5%.

Weekly Key Indicators		
	Close	w-o-w
R/$	R16.52	0.0%
R/€	R18.49	0.0%
R/£	R22.07	0.8%
$/€	$1.12	0.0%
Brent crude oil	$111.70	5.4%
Gold	$4 055	-2.4%
Platinum	$1 585	-2.1%
JSE ALSI	108 525	-1.5%
10y gov. bond	8.77	-10bps
FRA (1x4)*	7.31	4bps

*Forward rate agreement

Still, better fiscal outcomes, improved cash balances and lower funding requirements are giving Treasury more room to manage the debt portfolio, while the relative stability of the rand and bond market suggests investors are continuing to differentiate SA favourably despite the global shock. There are, however, limits to how much comfort should be drawn from the MTBPS. The medium-term debt trajectory is somewhat less favourable than envisaged in February as weaker nominal GDP growth slows the decline in the debt ratio (that said, rebased National Accounts data expected later this month may result in a more favourable ratio, technically). The proposed fiscal anchor is also less binding than we had hoped, relying on future administrations to set and report against their own fiscal objectives rather than imposing a clear numerical constraint.

Fiscal consolidation, importantly, does not solve SA's underlying growth problem (nor is it intended to, of course). Yet, SA's improved fiscal credibility, relatively resilient currency and progress on structural reform all make the economy better placed to absorb shocks than it was several years ago. But these gains are still operating mainly as buffers. They are limiting the downside rather than generating a step-change in economic activity.

Overnight developments provided an even more uncomfortable reminder of why those buffers matter. Brent crude traded around $112/bbl, its highest level since May, as attacks on vessels in and around the Strait of Hormuz intensified and Houthi strikes targeted Saudi infrastructure. Iran reported that seven tankers had been damaged, while the US ordered non-emergency diplomatic staff and their families to leave Saudi Arabia and Aramco reportedly evacuated its Dhahran headquarters. The escalation has reinforced fears of a broader regional conflict and renewed disruption to oil supply.

That combination perhaps best sums up the week. Domestic policy credibility is providing some protection. Treasury can afford temporary fuel relief, bond funding conditions have improved and inflation has not yet become broadly entrenched. But SA cannot determine what happens to the oil price. Each renewed escalation drains household purchasing power, raises business costs, complicates monetary policy and delays the investment-led recovery the economy badly needs.

We have three BER webinars coming up (2026Q4 forecast later today, post-MTBPS and pre-LGE next week), clients can **email Lisette or your contact economist for registration details.**

WEEK AHEAD: ADVANCED-ECONOMY CENTRAL BANKS AND ECONOMIC GROWTH ACTION

Monetary policy returns to centre stage next week, with a string of central-bank decisions including those from Chile, Canada, the US Federal Reserve (Fed) and the European Central Bank (ECB). Most are expected to leave rates unchanged, although the reasons differ across economies.

In the US, markets have substantially scaled back expectations of another immediate hike following more cautious comments from Fed Chair Kevin Warsh, despite September's hotter inflation readings. A hold next week would shift attention to December, when another increase remains firmly in play.

The ECB is also expected to pause after raising rates by 25 bps in September. A Reuters poll found that 70 out of 73 economists expect the deposit rate to remain at 2.50% in October, although most anticipate another increase in December as the energy shock keeps inflation elevated. The key question will therefore be whether the Governing Council continues to signal a quarterly pace of tightening or becomes more concerned about the impact of higher energy costs and financial conditions on growth.

US data will also be important. Thursday brings the advance estimate of third-quarter GDP alongside September core PCE inflation. The US economy has remained surprisingly resilient despite higher borrowing costs, so the GDP print will be important for assessing how much room the Fed has to remain restrictive. The BEA has confirmed both releases for 29 October.

Finally, the eurozone releases its first estimate of third-quarter GDP on Friday, alongside the September unemployment rate. With growth remaining weak and the ECB expected to keep policy tight for longer, the GDP print will help show how much resilience remains in the bloc.

Closer to home, the calendar is relatively busy but contains no single blockbuster release. The SARB's leading indicator on Tuesday will provide another read on near-term momentum, followed by motor trade sales on Wednesday. Thursday brings September producer inflation and private-sector credit extension, while Friday's trade and budget balances will provide an early read on the external and fiscal positions after the MTBPS. Earlier this year, Stats SA flagged that the rebased GDP figures would be released in October – this should thus happen next week, unless postponed again. Rebasing and benchmarking is unlikely to result in major changes in the growth pattern, but could change the size of the economy.

Date	Event	Latest
Tuesday (27 Oct)	SA: Leading Business Cycle Indicator (Aug)	-0.9% m-o-m
Wednesday (28 Oct)	US: Fed Interest Rate Decision	4%
Wednesday (28 Oct)	SA: Motor Trade Sales (Aug)	3.2% y-o-y; 4.1% m-o-m
Thursday (29 Oct)	SA: PPI, Private Sector Credit (Sep)	5% y-o-y; 7.5% y-o-y
Thursday (29 Oct)	US: GDP Growth Rate (adv, Q3)	2.2% q-o-q
Thursday (29 Oct)	EZ: ECB Interest Rate Decision	2.5%
Thursday (29 Oct)	US: Core PCE Price Index (Sep)	3% y-o-y; 0.2% m-o-m
Friday (30 Oct)	EZ: GDP Growth Rate (Flash, Q3)	0.6% q-o-q; 1.2% y-o-y
Friday (30 Oct)	SA: Balance of Trade, Budget Balance (Sep)	R20.5B; R20B

SA POLITICAL UPDATE

Natasha Marrian

COALITIONS TOP OF MIND IN THE FINAL STRETCH TOWARD ELECTION

The final tally of the vote will determine the make-up of coalitions set to preside over many of the country's municipalities, including potentially several of its eight metros. With polling suggesting that no party is likely to secure an outright majority in key cities such as Johannesburg, turnout will be critical, particularly for the ANC and DA as they compete to emerge as the largest party.

Parties are increasingly considering their coalition options in the final stretch before the polls. The DA has said it will not work with the EFF and the MK Party. ActionSA has reiterated its basic conditions for forming coalitions. Party leader Herman Mashaba this week reaffirmed those three non-negotiables: a zero-tolerance approach to corruption, providing equal services to all residents and a rejection of undocumented foreign nationals in municipalities in which ActionSA forms part of the government.

The MK Party's campaign has meanwhile been complicated by the ill health of its central figurehead, former president Jacob Zuma. Zuma was discharged from hospital over the weekend after an extended stay in Pietermaritzburg, with the party saying he had been treated for fatigue and had resumed attending to party matters. The MK Party also cancelled its planned Siyathatha rally, traditionally an important show of force late in an election campaign, saying it would instead direct resources towards ward-level campaigning and community engagement. It remains unclear whether Zuma will return to public campaigning before election day.

Some shifts on the coalition front are simmering beneath the surface in the ANC. While the party was meant to unveil its mayoral candidates ahead of the election, it is now only expected to do so after the final tally of the vote comes in. This is due to deep divisions in the party over mayoral candidates, in general and in Johannesburg in particular. There are fears that selecting party veteran Frank Chikane, initially intended to lend credibility to the ANC's bid to run the city again, would demobilise regional activists and members during the crucial last leg of the campaign. Chikane remains in contention, however, with the ANC's national leadership retaining considerable influence over the eventual mayoral choice.

Discussions with ANC sources at regional, provincial and national level indicate that the dynamics around Joburg are complex and will be tough to navigate after November 4. There are three broad scenarios that could unfold. The first is that the numbers leave the DA as the largest party, requiring only a few smaller partners to form a government, although current polling indicates that an outright majority remains unlikely. The second is a grand coalition between the ANC and the DA. The third is a more transactional arrangement, broadly resembling the current coalition structure between the ANC, EFF, PA and other smaller parties.

A variation of the third scenario, previously favoured by some in the DA ahead of the signing of the GNU pact, would be a minority-government arrangement in which the two largest parties divide institutional roles. One could, for example, take positions such as speaker while the other runs the executive, with agreements reached on a case-by-case basis to pass budgets and other key measures.

A grand coalition would mirror the national government of national unity, with multiple parties anchored by the ANC and the DA. Such an arrangement could involve fewer parties with meaningful electoral support than the current coalition structure. However, as we illustrated in our note earlier this week, there is set to be significant pushback within regional and provincial ANC structures against such a tie-up.

Further discussions with ANC sources this week indicated frustration within the party toward the DA at national level, particularly after its opposition to the ANC's successful court bid to submit its councillor candidates in six municipalities. Insiders felt the opposition by the DA was unnecessary and particularly difficult to reconcile with the DA's position in another court case, in which it is seeking to compel parties to reveal the names of candidates on their PR lists.

Another complication is the impact that excluding parties such as the EFF from a Johannesburg coalition in favour of the DA could have on the provincial government. Insiders said the provincial

leadership cares mostly about preserving its control of the Gauteng government. Leaving the EFF out of coalitions in the metros in Gauteng could result in the party pulling out at a provincial level, and there is precedent for tensions in one sphere spilling into another. When the EFF was removed from the finance MMC post in Ekurhuleni, it threatened to pull out of coalition arrangements in Gauteng, culminating in its inclusion in the provincial government and its securing of the finance portfolio.

Internal ANC dynamics will therefore play a role. Both regionally and provincially, there is significant opposition within the ANC to working with the DA. The national leadership is likely to step in if municipal negotiations begin to threaten the stability of the national arrangement or require coordination across different spheres of government. That said, the position of Gauteng ANC leader Panyaza Lesufi is more tenuous than it was in 2024, given that the provincial party conference has not been held and the Gauteng ANC is currently being run by a task team. He and his leadership core therefore do not currently derive their mandate from an elected provincial structure.

Stepping away from the coalition front, security will be crucial ahead of the polls. President Cyril Ramaphosa's move to lift the suspension of National Police Commissioner Fannie Masemola this week has provided some stability to the security establishment ahead of the election. Masemola returned to work on Monday after the criminal charges against him were withdrawn in September.

With the SAPS in the spotlight for the wrong reasons, and former deputy national police commissioner Shadrack Sibiya denied bail this week in the rape, human trafficking and sexual grooming case he faces, insiders say Masemola's return to the helm has provided a welcome morale boost. Sibiya denies the allegations against him.

The country's security services are set to be on high alert ahead of the election against a backdrop of escalating anti-immigrant mobilisation and violence, particularly in KwaZulu-Natal. On Thursday, police opened a murder investigation after a foreign national was beaten to death by a crowd in central Durban.

DOMESTIC DATA

Nkosinathi Nonkonyane

RISING FUEL PRICES ADD FURTHER INFLATIONARY PRESSURE

Annual headline consumer price inflation edged up to 4.5% in September, from 4.4% in August, but came in below market expectations of 4.7%. The increase was largely driven by transport inflation, which accelerated from 8.8% to 10.8% and contributed 1.5% pts to headline inflation. This primarily reflected higher fuel prices, which were up 27.9% y-o-y and 6.2% m-o-m. Housing and utilities (5.2%, contributing 1.3% pts) and insurance and financial services (5.4%, 0.6% pts) were also significant contributors. Monthly consumer inflation rose by 0.4% in September, slightly above market expectations of 0.3%.

Importantly, underlying inflation pressures remained comparatively contained. Annual core CPI, which excludes food and energy, eased to 4% in September from 4.1% in August, while monthly core inflation rose by a modest 0.2%. The September print therefore continues to point to an inflation shock concentrated primarily in fuel and related transport costs rather than a broad-based acceleration in prices. However, the much larger fuel-price increase implemented in October means headline inflation is likely to rise further in the near term.

RETAIL SALES REMAIN RESILIENT, WHILE WHOLESALE TRADE REBOUNDS FROM A WEAK BASE

Annual retail sales grew by 3.3% in August, only marginally softer than the 3.4% recorded in July. The largest contributors were retailers in textiles, clothing, footwear and leather goods, where sales rose by 6.5% and contributed 1% pt, while "all other retailers" increased by 8.1% and general dealers by 2%, each contributing 0.9% pts. Only hardware, paint and glass retailers recorded an annual contraction.

Seasonally adjusted retail sales declined by 0.3% m-o-m in August after jumping by 2.4% in July. Despite the monthly dip, the quarterly picture remains relatively encouraging.

Wholesale trade presents a somewhat different annual picture, with real sales declining by 0.9% y-o-y in August, marking a fourth consecutive annual contraction. However, the monthly and quarterly dynamics are more encouraging than the annual rate suggests. Seasonally adjusted wholesale sales rose by 6.2% m-o-m in July and a further 1.2% in August, following particularly weak outcomes in May and June.

As a result, the July-August level of wholesale activity is now above the second-quarter average. Rather than pointing to another quarterly contraction, the data currently suggest some recovery in Q3, although the September outcome will determine whether that rebound is sustained. The divergence between still-negative annual growth and improving sequential momentum is therefore worth keeping in mind when assessing the sector's contribution to third-quarter GDP.

INTERNATIONAL DATA

Vincent van der Westhuizen

EXPORTS CONTINUE TO DRIVE CHINA'S "TWO-SPEED ECONOMY"

China's GDP grew by 4.5% y-o-y in Q3, up from 4.3% in Q2 and above expectations of 4.4%. This raises the country's GDP y-o-y growth for the first nine months of 2026 to 4.6%, within the government's full-year growth target of 4.5–5%, reducing some of the immediate pressure for additional policy easing. Q3 growth was largely driven by strong exports, including strong demand for high-tech and electronic goods, which offset continued weak investment and sluggish domestic demand. The figures reinforce the picture of China's "two-speed economy", with growth increasingly reliant on manufacturing and overseas demand.

In September, China's exports increased by 36.3% y-o-y, resulting in a monthly trade surplus of $133.5bn, close to a record. Its industrial production grew by 5.5% y-o-y (0.61% m-o-m), up from 5.2% in August and above expectations of 5.4%, supported by continued manufacturing expansion (up 6% y-o-y). In contrast, fixed-asset investment fell by 7.2% in the first nine months of 2026 compared with the same period a year earlier, with property investment remaining the largest drag (-20.6% y-o-y). Retail sales increased by 1.1% y-o-y, up from 0.4% in August and above the 0.5% expectation. However, despite the improvement, "insufficient domestic demand" was still cited as a prominent challenge by Mao Shengyong, vice-minister of the National Bureau of Statistics.

The country's surveyed urban unemployment rate fell to 5.2% in September, down from August's five-month high of 5.3% and below expectations of 5.3%. For the first nine months of 2026, the rate remained unchanged from the same period in 2025 at 5.2%.

UK INFLATION SURGES ON HIGHER FUEL PRICES

The UK's annual CPI inflation rate rose to 3.5% in September, up from 3.1% in August and above expectations of 3.4%, driven by transport costs from elevated petrol and diesel prices. M-o-m, CPI inflation rose by 0.4%. Annual core CPI inflation rose to 2.8%, up from 2.6% in August, increasing m-o-m by 0.2%.

Producer input prices rose by 8.3% y-o-y in September, up from 6.7% in August and exceeding expectations of 7.2%, while output prices rose by 4.6% y-o-y, up from 3.8% in August. M-o-m, producer input prices rose by 1.5%, driven primarily by inputs of crude oil prices (up 14% m-o-m), while output prices rose by 0.8%. Core PPI rose to 2.9% y-o-y in September, up from 2.8% in August.

These accelerating inflation rates come ahead of the UK budget speech on the 28th of October, pushing up interest costs on government debt and constraining the UK government's fiscal space, while also cementing expectations of a BoE interest rate hike on the 5*th* of November.

GERMAN INVESTOR MORALE FALLS AS ENERGY PRICES REMAIN HIGH

The ZEW Indicator of Economic Sentiment for Germany fell to 28.1 in October, down from 34.7 in September and below expectations of around 30, marking the end of five consecutive months of improvement. The largest sectoral drags came from banks (down 18.4 points) and insurance companies (down 9 points), both of which remain comfortably positive, while steel and metal production and electrical engineering provided sectoral support. The ZEW flagged weak private consumption and investment as areas of concern, with high energy prices weighing on real incomes, increasing production costs and keeping inflation elevated.

In contrast, the current situation indicator improved by 11.2 points to -35.9, its highest level since May 2023, indicating that respondents were less negative about current conditions even as expectations weakened.

Sentiment also weakened across the broader Eurozone, with the ZEW expectations index falling to 18.5 from 25.8.

FORECAST UPDATE

We have completed our latest quarterly forecast round, and the central message is slightly less encouraging than it was three months ago. Real GDP growth for 2026 has been revised down to 1.1%, from 1.3% previously, with growth expected to improve only gradually to 1.3% in 2027 and 1.8% in 2028. The economy is still growing, but there is little evidence yet of a meaningful acceleration.

Importantly, the downgrade does not reflect uniformly weaker domestic demand. Household spending has held up somewhat better than expected, but the bigger constraint remains investment. Without a stronger private-investment response to improving infrastructure, reform progress and greater macroeconomic stability, SA's medium-term growth rate is unlikely to move materially higher.

The external environment has also become less supportive. We now assume Brent crude oil averages around $103/bbl in Q4, while weaker export volumes and much stronger imports leave the current account in a materially larger deficit than we expected three months ago. At the same time, the rand has remained relatively resilient, providing some buffer against the imported inflation shock.

Headline inflation is now forecast to average 4.3% in 2026, but this masks a pronounced near-term hump. We expect inflation to average around 5.2% y-o-y in Q4 as the latest fuel price increases feed through, before slowing again in 2027.

Our baseline remains for the SARB to hold the policy rate at 7.25% in November and through the first half of 2027. We only expect easing to resume from around July next year, later than implied by the SARB's current QPM path, reflecting the persistence of near-term inflation risks and the need to guard against second-round effects.

Overall, the forecast remains one of slow recovery rather than acceleration. Household demand is proving reasonably resilient, and the macroeconomic backdrop is more credible than a few years ago, but weak private investment, subdued employment growth and the external energy shock continue to limit the pace of improvement.

	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
	2025	2026Q2	2026Q3	2026		
Headline PPI (y-o-y % change)	1.5	6.7	5.7	5.6	29-Oct-26	Sep
Real GDP growth (seasonally adjusted)						
(y-o-y % change)	1.1	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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