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Iran escalation lifts oil prices while SA business sentiment improves

THE WEEK IN PERSPECTIVE

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This week's domestic data releases offered some encouraging signals for the SA economy at the start of the year. The RMB/BER Business Confidence Index (BCI) rose to its highest level since 2015 (excluding the post-COVID recovery) in 2026Q1, while vehicle sales continued to surprise to the upside. However, the Absa PMI suggests that conditions in the manufacturing sector deteriorated again in February.

On the international front, PMI data from the world's two largest economies indicated softer manufacturing activity in February. Meanwhile, preliminary February inflation estimates for the Eurozone showed a modest uptick during the month, though inflation remained slightly below the European Central Bank's (ECB) 2% target.

However, attention was largely diverted from economic data to the rapidly escalating conflict between the US–Israel alliance and Iran. After Iranian officials had expressed optimism about renewed nuclear talks with the US, American and Israeli forces launched a surprise attack on Tehran last weekend. The surprise nature of the strike gave the US and Israel the upper hand, allowing them to eliminate Iran's Supreme Leader, Ayatollah Khamenei, along with several senior Iranian officials.

Iran's response has been severe and wide-ranging and several neighbouring Arab states have also come under direct attack. Early missile strikes appeared to focus on US naval bases in the Middle East, but Iran has since expanded its attacks to include energy infrastructure and civilian targets. Damage to energy facilities has already forced the closure of some oil and gas refineries in the region.

As expected, Iran has also attempted to disrupt shipping through the Strait of Hormuz. Although the waterway has not been formally closed, the Islamic Republic has warned that any vessel attempting to pass could be targeted. By Thursday, nine tankers had reportedly been attacked since the conflict began.

Naval confrontations also intensified. On Wednesday, a US submarine sank an Iranian warship off the southern coast of Sri Lanka, killing an estimated 87 people. This reportedly marked the first time since the Second World War that a US submarine had sunk an enemy vessel. The location of the incident in what was perceived as "safe" international waters suggests the war zone has expanded. The US has claimed to have destroyed Iran’s entire naval fleet, although this had not been confirmed at the time of writing.

Since Saturday, the war has continued to escalate, drawing more countries into the conflict, if only defensively. Furthermore, the situation now threatens to trigger a humanitarian crisis if hostilities persist. Reports yesterday indicated that at least 1 230 Iranians had been killed since the start of the conflict. Israel has issued evacuation orders for Beirut’s southern suburbs, while residents in the UAE and Bahrain have been urged to take immediate cover as Iranian missile attacks intensify.

A key uncertainty is how long the conflict will last. The US has indicated that operations will continue until its objectives are achieved, suggesting the campaign could last four to five weeks. However, those objectives remain somewhat unclear. The destruction of Iran’s nuclear and ballistic missile capabilities has been cited as a central goal. In June last year, US President Donald Trump stated that three of Iran’s nuclear sites had been “completely obliterated” after bunker-buster bombs were used against underground facilities. If those facilities were indeed destroyed, it is unclear how Iran could have restored them so quickly, or what would prevent it from doing so again in the future.

Although the US has not formally called for “regime change”, President Trump has suggested that the Iranian people should take control of their government once military operations conclude. Israel, meanwhile, has made it clear that a change in leadership in Tehran is a key objective, even if it has stopped short of explicitly using the term “regime change.” Within Iran, Mojtaba Khamenei, the son of Ali Khamenei, is widely seen as a potential successor, though Trump has indicated that such an outcome would be unacceptable.

For now, it appears that the US and Israel are hoping for the emergence of a new Iranian government without the need for American troops on the ground. However, history suggests that transitions of power under such circumstances are rarely smooth. Ultimately, ordinary Iranians will likely bear the greatest cost of the conflict.

The conflict has also impacted financial and commodity markets. Unsurprisingly, oil prices have risen sharply, climbing by more than 15%. Importantly, attacks on tankers have significantly raised shipping insurance costs. This means that even in the absence of a major disruption to physical supply, higher transportation costs alone are likely to place upward pressure on oil prices.

US President Trump has suggested that America could provide insurance guarantees and naval escorts for tankers passing through the Strait of Hormuz. However, as has been the case with recent White House threats and promises, the details of this proposal remain unclear, and insurance underwriters have yet to respond to the announcement.

For now, markets appear to be in a wait-and-see stance. Although the initial spike in oil prices was substantial, prices have stabilised over the past few days despite the escalation in hostilities. One possible explanation is that the global oil market was well supplied before the outbreak of the conflict. In fact, over the weekend OPEC+

announced another 206 000 barrels-per-day production quota increase for April. In other words, the oil supply exists but disruptions to shipping routes are preventing it from reaching global markets.This suggests that if tensions ease and trade routes reopen, oil prices could fall relatively quickly.

Weekly Key Indicators		
	Close	w-o-w
R/$	R16.61	4.1%
R/€	R19.23	2.2%
R/£	R22.18	2.9%
$/€	$1.16	-1.8%
Brent	$83.37	17.8%
Gold	$5 083	-1.8%
Platinum	$2 149	-4.7%
JSE ALSI	120 167	-5.1%
10y gov. bond	8.24	36bps
FRA (1x4)*	6.66	4bps

*Forward rate agreement

Currency markets were also affected as the US dollar strengthened significantly. In recent weeks, investors had been pulling away from the greenback, but the uncertainty created by the conflict has renewed demand for the currency as a safe-haven asset. As a result, the rand weakened by 4.1% against the US dollar, in step with other emerging-market currencies.

While the dollar has benefitted from the shift toward risk-off sentiment, Treasuries have not. Treasury yields have risen as investors pulled back, amid fears that inflation might tick up on the back of higher oil prices. Central banks globally will be closely monitoring the duration of the conflict. While a brief spike in oil prices can generally be absorbed, a sustained increase could add to inflationary pressures and keep interest rates elevated for longer. Locally, the SA 10-year government bond yield rose by 36bps.

CLICK HERE **FOR A COMMENT ON THE INITIAL IMPLICATIONS OF THE IRAN ATTACKS ON SA & EXCLUSIVE WEBINAR INVITATION FOR PREMIUM INSIGHTS CLIENTS**

Risk-off sentiment also weighed on equity markets. Global bourses, particularly in Asia, recorded notable losses. In the US, gains in defence stocks helped to partially offset declines in other sectors, limiting the overall impact on the S&P 500. The JSE All Share Index did not enjoy a similar cushion, with the local market declining by 5% w-o-w.

In other domestic developments, after several months of discussions between Glencore, the SA government and state utility Eskom, an agreement has been reached to supply the Glencore-Merafe Chrome Venture with electricity at a tariff of 62 cents per kilowatt-hour. The intervention follows mounting pressure on the ferrochrome industry from weak market conditions and elevated electricity prices. In December, both Glencore-Merafe smelters activated hardship provisions under their Negotiated Price Agreement, which resulted in a provisional tariff intervention of 86.74c/kWh taking effect in January. The newly proposed tariff arrangement, aimed at safeguarding approximately 1 500 jobs, is still subject to NERSA's approval.

WEEK AHEAD: 2025Q4 GDP TO REFLECT SLOWER GROWTH

Next week's main local data release is the 2025Q4 GDP print, due on Tuesday. We expect growth to moderate from Q3's 0.5% q-o-q expansion. Our published forecast is for growth of 0.3%, although the latest high-frequency indicators point to meaningful downside risks, with activity currently tracking closer to flat on the quarter.

That said, assessing the likely outcome remains challenging. Large parts of the services sector are not well captured by high-frequency data, while the relatively small agricultural sector has had an outsized influence on quarterly GDP prints in recent quarters. In addition, potential revisions to the 2025Q1–Q3 data add another layer of uncertainty. Even so, full-year growth of 1.3% for 2025 still appears attainable.

We expect the current account to swing into a slight surplus as positive terms of trade should support the trade account. A sustained increase in the oil price could bring renewed pain in the first half of 2026.

Mining and manufacturing production data for January will provide the more official readings for 2026. Both sectors underperformed in Q4, and a rebound in monthly output would offer a constructive start to the new year.

Internationally, attention will focus on consumer inflation, the US Federal Reserve's (Fed) preferred inflation gauge, and consumer sentiment and inflation expectations data on Friday. These releases, together with a further estimate of Q4 GDP - following an earlier print that disappointed relative to expectations will give markets ample information to reassess the outlook for Fed interest rates.

Date	Event	Latest
Monday (09 Mar)	CN: Consumer Inflation Rate, PPI (Feb)	0.2% y-o-y; -1.4% y-o-y
Tuesday (10 Mar)	SA: GDP Growth Rate (2025Q4)	2.1% y-o-y; 0.5% q-o-q
Wednesday (11 Mar)	US: Consumer Inflation Rate (Feb)	2.4% y-o-y; 0.2% m-o-m
Thursday (12 Mar)	SA: Mining Production (Jan)	2.5% y-o-y; -1.2% m-o-m
Thursday (12 Mar)	SA: Manufacturing Production (Jan)	-1.4% y-o-y; -1.2% m-o-m
Thursday (12 Mar)	SA: Current account deficit (2025Q4)	-0.7% of GDP
Friday (13 Mar)	UK: GDP (Jan)	0.7% y-o-y; 0.1% m-o-m
Friday (13 Mar)	US: Core PCE Price Index (Jan)	3% y-o-y; 0.4% m-o-m
Friday (13 Mar)	US: Michigan Consumer Sentiment (Prel, Mar)	56.6
Friday (13 Mar)	US: GDP Growth Rate (Q4 2nd Est)	4.4% q-o-q
Friday (13 Mar)	UK: Industrial Production, Manufacturing Production (Jan)	0.5% y-o-y; 0.5% y-o-y

SA POLITICS

Premium Insights clients can expect a detailed comment early next week on emerging thinking within the ANC around the 2027 succession battle, including growing momentum behind a negotiated "unity slate" and the potential role of businessman Patrice Motsepe in a pre-arranged leadership outcome.

DOMESTIC DATA

Nomvelo Moima

MIXED BATCH OF FEBRUARY PMI DATA

Following a solid improvement at the start of the year, the Absa PMI lost some ground, declining from 48.7 to 47.4 in February. Most of the PMI's subcomponents remained broadly in line with levels seen in January; however, this was not enough to offset a sharp contraction in business activity and weaker employment. Disappointingly, the pullback in the business activity index reflects more than a complete reversal of all January's gains, swinging back into contraction; the index fell by 5.7 points to 45.7.

On a positive note, business conditions in six months' time are expected to improve as some manufacturers' outlooks have shifted to a more positive stance.

Beyond the manufacturing sector, business conditions in other parts of the economy have remained stable over the first two months of the year. The S&P Global PMI, which covers more sectors across the private sector, was unchanged at 50 in February, a sustained improvement following broadly weak conditions at the close of 2025. Private sector activity moved sideways in February, even as demand remained subdued. At the same time, firms report lower selling prices amid softer overall input cost. In this environment, weakening demand has weighed considerably on firms' 12-month outlooks for activity, easing to the lowest level since mid-2021.

BUSINESS CONFIDENCE EDGES HIGHER IN 26Q1

The RMB/BER BC) started the year on firm footing, rising by three points to 47 in 2026Q1, marking a second consecutive improvement in confidence. This brings the BCI six points above its long-term average and a solid 20 points above the post-COVID low reached in 2023Q2. Barring the post-COVID recovery, this is the highest confidence reading since 2015. Confidence improved amongst three of the five surveyed sectors. Sentiment was bolstered by a stronger rand-dollar exchange, helping to contain firms' costs, a less restrictive interest rate environment compared to the same period last year, along with generally stable domestic politics ahead of the Budget. Which likely would have also supported sentiment but was delivered outside of the survey period (12 to 23 February). See the BCI press release **here** for more detail.

ANOTHER MONTH OF ROBUST NEW VEHICLE SALES RECORDED IN FEBRUARY

According to naamsa, following a 7.5% annual gain in January, domestic new vehicle sales grew by 11.4% y-o-y in February. This was the best domestic sales performance since February 2013. In contrast to the lively domestic market, export demand weakened. Export volumes contracted sharply in February, down 28.1% y-o-y, after eking out 0.6% y-o-y growth in the prior month, reflecting the effects of heightened protectionism across key export markets.

PPI DIPS AT THE START OF 2026

According to Stats SA, annual producer price inflation (PPI) for final manufactured goods came in at 2.2% in January, down from 2.9% recorded in the last three months of 2025. The average PPI for 2025 was 1.5%. Despite the headline PPI moving down, there is still some concentrated pipeline pressure building. Intermediate manufactured goods rose by 10.5% y-o-y, driven entirely by basic and fabricated metals (25.5% y-o-y; +11.8 percentage points).

INTERNATIONAL DATA

Katrien Smuts

CHINESE PMIS MOVE IN OPPOSITE DIRECTION

The NBS Manufacturing PMI moved lower to 49 in February, below market expectations. On the supply side, factory activity slowed, and on the demand side, new orders fell further, while buying activity also decelerated. In contrast, the RatingDog Manufacturing PMI recorded its third consecutive month in expansionary territory, rising to 52.1. The underlying components of the RatingDog PMI moved in the opposite direction of the NBS measures: output grew, new orders rose, employment expanded, and buying activity accelerated.

The divergence between the two surveys largely reflects differences in their respondent bases. The NBS PMI primarily covers larger, state-owned firms, while RatingDog's focuses more on smaller export-oriented manufacturers. This suggests that external demand for Chinese goods may remain an important driver of economic growth this year, while domestic demand remains relatively subdued.

China set a 2026 GDP growth target of 4.5%–5% at the opening of the National People's Congress this week, marking a modest step down from the "around 5%" target used in recent years and the lowest official target since 1991. The move signals greater policy realism amid persistent headwinds from the property downturn, weak domestic demand and a more uncertain global environment, while giving policymakers more flexibility to support the economy without resorting to large-scale stimulus.

US PMIS MODERATE

For a seventh consecutive month, the S&P Global US Manufacturing PMI remained in expansionary territory. The index registered 51.6 in February, down from 52.4 in January. Despite the slight decline, the February reading was supported by continued growth in factory output and new orders. Unlike in China, this expansion was largely driven by stronger domestic demand, while export orders continued to weaken. The alternative manufacturing survey from the Institute for Supply Management (ISM) also remained in expansionary territory. The ISM Manufacturing PMI recorded 52.4 in February, a marginal 0.2pt decline from 52.6 in January.

On the services side, the S&P Global US Services PMI eased to 51.7 in February from 52.7 in January. Services activity and new orders both declined relative to the previous month. Although the index remains above the 50-point expansion threshold, the moderation suggests a cooling in growth momentum. This is further reflected in weaker business sentiment, which has now fallen below its long-run average. Although a few windfalls are coming to US consumers later this year, weak consumer confidence is weighing on services activity.

SLIGHT UPTICK IN EUROZONE CPI INFLATION; UNEMPLOYMENT LOWER

February's flash estimate of Eurozone inflation came in at 1.9% y-o-y. Although this is slightly higher than January's reading of 1.7% y-o-y, it remains comfortably below the ECB's 2% target. Services inflation contributed most to the February outcome, rising to 3.4% from 3.2% in January. Inflation in food, alcohol and tobacco remained steady at

2.6%, while the energy component continued to register deflation, albeit at a slower pace (-3.2% in February compared with -4.0% in January). Recent geopolitical developments raise the risk that energy prices could turn reflationary in the coming months. For now, however, policymakers and economists are likely to look through these short-term disruptions.

FORECAST UPDATE

Heightened tensions around Iran have pushed oil prices higher and triggered bouts of volatility in financial markets this week. The rand also had one of its typical swings as global risk sentiment wobbled, although some of the initial weakness has already been retraced. For now, we are not changing the BER baseline forecast. Market moves are largely headline-driven and could reverse quickly as the situation evolves. For SA, the main transmission channels remain oil prices and global risk sentiment, with higher fuel prices and a weaker rand potentially adding to inflation pressure if the shock proves persistent. For a client comment on our initial take, **click here.**

We will reassess the full picture following next week's GDP data.

	Actual		Forecast			Next release/meeting	
	2025	**2025Q4**	**2026Q1**	**2026**			
Brent crude oil ($, spot, avg.)	68	62.33	65	63		n/a	
ZAR/USD (avg.)	17.88	17.10	16.32	16.27		n/a	
Prime interest rate (%, end of period)	11.25	10.25	10.0	9.5		26-Mar-26	
Headline CPI (y-o-y % change)	3.2	3.6	3.3	3.0		18-Mar-26	Feb
FNAB inflation (y-o-y % change)	4.1	4.2	4.5	3.7		18-Mar-26	Feb
Headline PPI (y-o-y % change)	1.5	2.9	1.8	1.7		26-Mar-26	Feb
	2024	**2025Q3**	**2025Q4**	**2025**	**2026**		
Real GDP growth (seasonally adjusted)							
(y-o-y % change)	0.5	1.9	1.8	1.3	1.8	10-Mar-26	2025Q4
(q-o-q % change)	n/a	0.5	0.3	n/a	n/a		

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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