BUREAU for ECONOMIC RESEARCH

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Markets price out the war premium while SA prepares for the next test

THE WEEK IN PERSPECTIVE

Lisette IJssel de Schepper

Remarkably, Brent crude oil fell back to its pre-war level this week, effectively erasing the entire premium that had built up during the US-Iran conflict. The speed of the reversal reflects growing confidence that, while negotiations between Washington and Tehran remain incomplete, both sides now have strong incentives to avoid renewed escalation.

The biggest shift this week came from the energy market. The US issued a 60-day licence allowing Iran to resume oil exports while negotiations continue, signalling a willingness to make meaningful concessions in pursuit of a longer-term agreement. At the same time, tanker traffic through the Strait of Hormuz has continued to recover. Although shipping volumes remain well below normal, more vessels are now transiting the waterway with their tracking systems switched on, suggesting confidence is gradually returning. The result has been a dramatic improvement in oil market sentiment, with reports of physical supply exceeding demand in parts of the market.

For SA, the implications are immediately tangible. The sharp decline in international oil prices means motorists are set for meaningful relief at the pumps from 1 July. Even after the temporary fuel levy relief introduced during the conflict expires, current over-recoveries indicate petrol prices will fall by roughly R1.50 per litre and diesel by between R2.70 and R3.10 per litre, depending on the grade. Illuminating paraffin, which was not eligible for the temporary levy relief, could decline by around R5 per litre. Together, these reductions should provide a meaningful boost to household purchasing power while easing near-term inflationary pressures. However, while lower oil prices are unequivocally positive for SA, part of the benefit is offset by a firmer US dollar, which has weakened the rand somewhat against the greenback. Still, the rand remains one of the better-performing emerging market currencies. Bets on potential Fed tightening – with the Fed's preferred measure of inflation reaching a three-year high this week – strengthened the dollar and weighed on precious metals, with gold falling below $4 000/oz for the first time since late last year.

Weekly Key Indicators

	Close	w-o-w
R/$	R16.48	0.5%
R/€	R18.75	-0.5%
R/£	R21.76	0.1%
$/€	$1.14	-1.0%
Brent crude oil	$73.09	-8.5%
Gold	$4 008	-5.7%
Platinum	$1 608	-6.2%
JSE ALSI	110 900	-3.6%
10y gov. bond	8.37	-7bs
FRA (1x4)*	7.18	17bps

*Forward rate agreement

The broader lesson, however, is that geopolitics rarely follows a straight line. Perhaps the biggest surprise has been Washington's willingness to temporarily relax sanctions on Iranian oil exports. While presented as part of the peace process, the move also reflects the political importance of keeping energy prices contained. In effect, the US appears willing to sacrifice some economic pressure on Iran in exchange for lower global oil prices and reduced inflationary risks. Yet many of the underlying issues remain unresolved, including Iran's nuclear programme, the future of sanctions and regional security arrangements. For now, markets have chosen to focus on the improving short-term outlook rather than the many unresolved long-term risks. Whether that optimism proves justified remains an open question, and commodity markets are likely to remain highly volatile.

With the oil shock fading, investors quickly found something else to worry about. Concerns that valuations in parts of the artificial intelligence sector have become stretched triggered renewed volatility in global equity markets this week, particularly among semiconductor stocks. The sell-off was a reminder that markets have a habit of replacing one worry with another. Indeed, this was the main worry just before the US-Iran war started at the end of February.

Finally, in the UK, growing expectations that Andy Burnham could succeed Keir Starmer as prime minister underscore how quickly the political landscape is shifting (although the past decade has seen disproportionately fast shifts in UK leadership). While his domestic agenda is better understood, his perspectives on foreign policy haven’t yet been well articulated or tested. This is crucial because the Prime Minister plays a prominent role in shaping Britain's approach to Ukraine, relations with the US and security in the Middle East.

WEEK AHEAD: INFLATION EXPECTATIONS IN THE SPOTLIGHT

With Bafana Bafana safely through to the FIFA World Cup knockout stages and preparing to face Canada on Sunday evening, the economic calendar offers its own high-stakes fixture next week: the BER’s inflation expectations survey. The survey arrives at a critical juncture for monetary policy. Since the SARB's precautionary rate hike in May, oil prices have fallen sharply, headline inflation has surprised to the downside, and geopolitical risks have eased following the US-Iran memorandum of understanding. However, the survey fieldwork was conducted while oil prices remained elevated and before markets became more confident that a broader de-escalation in the Middle East was possible. As such, the survey may ultimately prove to capture the peak of inflation anxiety rather than the current mood. Even so, that is precisely what makes the results valuable for policymakers seeking to understand how households, businesses and analysts responded to the shock. Given the SARB's repeated concern that higher fuel prices could become embedded in broader inflation expectations, the release is likely to receive considerable attention ahead of the July MPC meeting.

Additional local releases will provide further insight into underlying economic conditions. The Absa Manufacturing PMI for June will provide the first indication of whether manufacturers have started to look beyond the recent oil shock. Particular attention will be paid to whether improving geopolitical conditions have lifted business expectations, while the purchasing price index will provide an early indication of how quickly easing oil prices

are feeding through to input costs. Private-sector credit extension, vehicle sales and the S&P Global PMI will meanwhile provide further evidence on how households and businesses are responding to the recent period of elevated fuel prices and tighter financial conditions. The formal sector employment data is admittedly backwards-looking, covering the first quarter of the year, but will nevertheless be watched for evidence of whether formal employment reflected the same weakness observed in the QLFS.

Beyond the data, attention will also focus on the planned 30 June anti-immigration protests. We have written extensively about the issue in recent editions, and Natasha provides further analysis below, but the risk of localised unrest remains one of the key near-term domestic uncertainties.

Globally, attention will focus on the US labour market. Following a hawkish Federal Reserve meeting under new Chair Kevin Warsh, investors will closely scrutinise June's non-farm payrolls and unemployment figures for evidence that the labour market remains sufficiently strong to support a higher-for-longer interest-rate environment. Manufacturing surveys from the US and China will meanwhile provide an early indication of global growth momentum heading into the second half of the year. Eurozone inflation data will also be closely monitored after the ECB's rate hike earlier this month. While policymakers remain concerned about the risk of higher energy costs feeding into broader inflation pressures, recent declines in oil prices suggest those fears may already be easing.

Date	Event	Latest
Tuesday (30 Jun)	CN: NBS Manufacturing PMI (Jun)	50
Tuesday (30 Jun)	SA: Private Sector Credit, Balance of Trade, Budget Balance (May)	9.2% y-o-y; R15.2B; -R63.6B
Tuesday (30 Jun)	SA: Inflation expectations (Q2)	3.6% y-o-y
Tuesday (30 Jun)	SA: Formal Non-Agricultural Employment (Q1)	0.2% q-o-q
Wednesday (01 Jul)	CN: RatingDog Manufacturing PMI	51.8
Wednesday (01 Jul)	EZ: Consumer Inflation Rate (flash, Jun)	3.2% y-o-y
Wednesday (01 Jul)	US: ISM Manufacturing PMI	54
Wednesday (01 Jul)	SA: Total New Vehicle Sales (Jun)	51.07K
Wednesday (01 Jul)	SA: Absa Manufacturing PMI (Jun)	50.8
Thursday (02 Jul)	US: Unemployment Rate, Non-Farm Payrolls (Jun)	4.3%; 172K
Friday (03 Jul)	CN: RatingDog Composite PMI (Jun)	54
Friday (03 Jul)	SA: S&P Global PMI (Jun)	49.6

SA POLITICAL UPDATE

Natasha Marrian

MUNICIPAL AUDIT OUTCOMES: ANOTHER WARNING FOR COALITION POLITICS

SA's metros - home to 40% of the population, providing services to 46% of households and accounting for 54% of local government expenditure - continue to regress in their audit outcomes. Auditor General Tsakane Maluleke presented the 2024/2025 audit outcomes to Parliament's local government and traditional affairs portfolio committee this week – the final audit for the fifth local government administration.

The central message was that the incoming administrations must effect "fundamental and far-reaching reform, driven by capable, collaborative and ethical leaders that are committed

to building municipalities". She called for accountable leadership, transparent systems and processes, and strong institutional integrity – easier said than done. Not a single metro received a clean audit. Indeed, the metros with qualified audit opinions increased over the administration's term from two to five. The AG made material findings on performance reporting at all metros, except the City of Cape Town and City of Ekurhuleni. Persistent non-compliance by metros and their municipal entities over the four years of the administration resulted in an increase in irregular expenditure of R73.87 billion, 77% of which was due to non-compliance in the procurement and contract management processes. The weaknesses identified created an environment susceptible to fraud and manipulation and increased the risk of financial loss, she told Parliament.

The story of regression in audit performance at the metro level is unsurprising, given the state of governance and collapsing service delivery across the country's major cities, except Cape Town. This week, Finance Minister Enoch Godongwana wrote to Johannesburg Mayor Dada Morero, warning that national transfers could be withheld due to the city's adoption of an unfunded adjustment budget. Meanwhile, Ekurhuleni finally passed its budget this week, after three attempts. The budget was finally passed after the ANC-led administration struck a deal with the DA to lower the proposed rates hike from 2% to 1.5% in exchange for its support.

JUNE 30 LOOMS LARGE, WHAT THEN?

SA's security cluster is bracing for protests on June 30, in line with a demand by anti-immigrant groupings for all illegal foreign nationals to leave the country. Protests are scheduled to take place across the country, with the security cluster focussing on KwaZulu-Natal and Gauteng as key hot spots. While President Cyril Ramaphosa on Thursday described next Tuesday as "business as usual", police and private security are on high alert should the protests turn violent. Anti-immigrant groupings said their intention is to hold peaceful protests to ensure that their demands that illegal foreigners leave the country immediately are met. Government intelligence assessments indicate that the protest could morph into a wider bid to destabilise the country ahead of the local government election. The ANC publicly conceded its view that the protests bore the hallmarks of the July 2021 unrest, which culminated in the death of 330 people and billions lost to the economy after a meeting of its high-level national working committee on Thursday.

"The ANC addresses these issues politically, because what is unfolding on some of our streets is not, at its heart, about immigration at all. We have seen this architecture before. In July 2021, our country was dragged to the very edge of the abyss by a coordinated assault dressed up as a grievance; an organised attempt to render the country ungovernable and to challenge the authority of the democratic State itself," ANC secretary general Fikile Mbalula says.

"What we are witnessing now carries the same fingerprints. Unlawful immigration is being manipulated by new political formations whose real purpose is to manufacture chaos, to collapse the institutions of the State, and to engineer fear and unfair conditions on the very eve of our local government elections." Insiders believe that some anti-immigrant groups are acting alongside former president Jacob Zuma and his MK Party.

Measures are being taken to prevent protests from descending into chaos. The eThekwini Municipality has declined the application for a permit to protest by anti-immigration groups. It is understood that Ramaphosa is set to meet the isiZulu King Misuzulu kaZwelithini over the weekend.

More broadly, the anti-immigrant sentiment is unlikely to be resolved quickly. Ramaphosa's five-point plan announced in his address to the nation two weeks ago will take time to yield results even if his administration pushes ahead with tightening border control, amendments to the country's labour laws to increase the fines for businesses employing illegal foreign workers, and to clean up and digitise home affairs systems. The greatest risk remains weak law enforcement capacity, including the SA Police (**more on the SAPS and the importance of criminal justice reform, here**).

ANC/EFF TIE-UP FALTERS IN EKURHULENI, FLOURISHES ELSEWHERE

The experience of the fifth administration offers useful insights into the coalition path the ANC may take after the November 4 election. While the ANC/EFF marriage has collapsed in the Ekurhuleni metro, it continues elsewhere. Indeed, the EFF is the political party with which the ANC has the most local government coalitions nationwide.

While the EFF has suffered significant internal turmoil, including the departure of its founding deputy president Floyd Shivambu and the conviction of its leader Julius Malema for discharging a firearm at a public rally, the EFF's support remains surprisingly resilient, according to a by-election tracker by Victory Research's Gareth Van Onselen. However, another by-elections analyst, Wayne Sussman, points out that the EFF's by-election performance is magnified because it contests by-elections selectively, according to its strength, selecting only those where it can perform well in.

The upcoming election will be a significant test of the EFF's resilience. The first election registration drive was held by the IEC over the weekend, with a fascinating statistic: of the 477 174 brand-new registrations, a massive 80% were South Africans under the age of 30. The EFF's weakness has long been its inability to draw out its base – largely voters under 30. With a huge surge in registrations among this age group, the EFF has the potential to perform better than it did in the 2021 local election.

While the results tallies are set to dictate the make-up of governments across the country's municipalities, the ANC appears more inclined toward tie-ups with the EFF at the local level than to mirror the GNU arrangement by bringing in the DA. This is despite the decline in the performance of these municipalities under such coalitions, with Johannesburg the clearest example. There are ANC insiders at the national level who prefer a tie-up with larger parties, such as the DA locally; however, there is significant internal resistance to this at the party's regional and provincial levels. The trend in the governments formed post the November 4 election may be akin to those formed after 2021, where the ANC and the EFF anchor tie-ups with a host of smaller parties, but potentially across more municipalities.

DOMESTIC DATA

Nadia Matulich

CONSUMER CONFIDENCE FALLS SHARPLY AMID GEOPOLITICAL UNCERTAINTY

The **FNB/BER Consumer Confidence Index (CCI)** fell sharply in Q2, dropping from a 15-month high of -7 to -19. This marks the lowest reading since 2025Q1, a quarter characterised by domestic policy uncertainty following the Finance Minister's proposal to raise VAT by 2%.

Not unexpectedly, the drop in confidence appears to have been driven primarily by the conflict in Iran, with subsequent higher fuel prices and travel disruptions weighing on sentiment. However, while responses were received before the recent rate hike, it was also before the recent decline in oil prices, which could be positive for sentiment.

The decline was broad-based, with all three sub-indices falling. The current economic outlook index dropped by 18 points to -32, while the household financial outlook index fell by 12 points to 0. The index measuring the suitability of the present time to buy durable goods declined by 3 points to -23.

The largest decline was recorded among high-income households, where confidence fell by 24 points to -28. Middle-income households also recorded a notable decline, with confidence down by 12 points to -19. By contrast, confidence among low-income households remained unchanged at -12.

PPI JUMPS AS FUEL-RELATED COSTS SURGE

Producer price inflation rose sharply in May, coming in at 7.8% y-o-y, up from an already elevated 4.8% in April. This was in line with the build-up in purchasing price pressures signalled in recent PMI releases. As expected, coke, petroleum, chemical, rubber and plastic products were the largest contributor to the increase, rising by 22.0% y-o-y and contributing 4.7%pts. These prices were also the biggest contributor (+2% pts) to the 2.6% m-o-m increase in PPI. With oil prices now back at pre-war levels, producer price inflation is likely to have peaked.

APRIL DATA POINTS TO SLOWDOWN AT THE START OF Q2

The composite leading business cycle indicator decreased notably in April, falling by 1.8%. This points to a potential slowing in growth momentum in the second quarter. Overall, 8 of the 10 components contributed negatively to the composite indicator.

Motor trade sales fell by 3.8% m-o-m in April, bringing an end to the recent upward momentum. In y-o-y terms, sales were still up by 6.5% compared with April 2025, but this was substantially lower than the 15.3% y-o-y increase recorded in March. Fuel sales were the biggest drag, falling by 4.2% and subtracting 1.1% pts.

INTERNATIONAL DATA

Kelebogile Mabitsi

US CORE PCE INFLATION LINES UP WITH CONSENSUS TO REACH 3-YEAR HIGH

The Fed's preferred inflation measure, the core PCE price index, edged up from 3.3% y-o-y in April to 3.4% y-o-y in May, a 31-month high and broadly in line with expectations. The increase reflected firmer inflation in both goods (4.8%) and services (3.8%), with nondurable goods inflation accelerating to 5.6% y-o-y. The data supports the Fed's more hawkish stance, with markets now pricing in one rate hike this year and another next year. Monthly, core PCE inflation rate was unchanged at 0.3%.

Annual energy prices surged from 18.3% in April to 24.3% in May. However, with oil prices falling to pre-war levels this week, some of these energy-related inflation pressures may prove temporary.

The S&P Global Flash US Composite PMI rose from 51.5 in May to 52.2 in June. This was driven by growth in services and manufacturing output, although services slowed amid low consumer confidence and customers pushing back on high prices. Manufacturers continued to benefit from inventory frontloading amid worries about additional price hikes and supply disruptions. Businesses continued to pass costs onto customers. Overall, firms expect business activity to improve in the year ahead, provided that the US-Iran war de-escalates.

The final estimate showed the US economy grew at an annualised 2.1% in Q1, revised up from 1.6%, reflecting stronger investment despite softer consumer spending.

CONSUMER CONFIDENCE TICKS UP AS PRIVATE SECTOR DOWNTURN SOFTENS IN EZ

June's flash estimate for consumer confidence increased to -17.7, from May's -19 reading. The slight recovery aligns with the recent rebound in ZEW's economic sentiment and stronger wage growth recorded for Q1. However, consumer sentiment remains below its long-term average, reflecting the lingering uncertainty from the US-Iran war.

Meanwhile, the contraction in private sector activity narrowed from 48.5 in May to 49.5 in June, according to the S&P Global Flash EZ Composite PMI. The services PMI rose to a 3-month high of 48.9, driven by rising demand for travel and leisure activities. Meanwhile, the manufacturing PMI and output indices edged down slightly, but remained in expansionary territory, supported by customers front-loading to buffer against supply constraints and further price hikes.

Unlike the US, inflationary pressures eased for both selling and input prices; the latter rose at the slowest pace since the Middle East conflict began. Lastly, expected overall business confidence ticked up for a second consecutive month.

SENTIMENT PICKS UP AMONGST GERMAN BUSINESSES AND CONSUMERS

Germany's Ifo Business Climate Index rose from 85 in May to 85.6 in June. Firms reported that the current business environment is less uncertain. As such, the indicators for current and expected conditions improved. Similarly, the GfK Consumer Climate indicator increased

marginally from -29.7 in May to -29.2 in June. The improved sentiment is attributed to an expected easing of geopolitical tensions.

WEAK SERVICES WEIGH DOWN ON THE UK'S PRIVATE SECTOR ACTIVITY

The S&P Global UK Flash Composite PMI remained in contraction for a second month running, declining from 49.7 in May to 49.4 in June. The weakness in the services sector was due to rising costs and lower customer confidence caused by political uncertainty and the US-Iran war. This countered a 21-month high in manufacturing output, which was supported by customer front-loading.

Input price inflation moderated further, albeit higher costs persisted for commodities, transport, and IT equipment. Easing cost pressures led firms to raise selling prices at a slower rate. Like the other PMIs, forward-looking sentiment improved.

FORECAST UPDATE

Headline PPI surprised on the downside relative to our forecast, reinforcing the view that the recent inflation scare is beginning to unwind. Combined with a lower fuel price trajectory through the remainder of the year, this has prompted a downward revision to our full-year PPI forecast. Indeed, May's 7.8% y-o-y increase now appears likely to have marked the peak for 2026, with June inflation expected to come in marginally lower before easing more noticeably during the second half of the year.

Next week brings quarter-end market data, which may require minor adjustments to our Q3 forecasts if the starting point differs materially from our current assumptions. For now, however, we remain comfortable with the forecasts below. If anything, there may now be some downside risk to our Brent crude oil forecast for the second half of the year as geopolitical tensions continue to ease. That said, the oil market remains highly headline-driven, and any setback in US-Iran negotiations or renewed disruption in the Middle East could quickly reverse recent gains.

	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	4.5	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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