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Oil shock returns and global bonds sell off as SA growth loses momentum

THE WEEK IN PERSPECTIVE

Lisette IJssel de Schepper

The Brent crude oil price surged to above $108/bbl this week as renewed US-Iran hostilities and tighter shipping conditions revived concerns about global supply. This was the first break past $100/bbl since July, while the US oil benchmark, WTI, rose to around $100/bbl for the first time since May. The latest increase matters not only because crude is expensive again, but because some of the buffers that helped absorb the first phase of the shock are thinner. Strategic reserves have been drawn down, crude inventories are lower and refined-product markets, particularly diesel, remain tight. This means that a renewed disruption could feed more persistently into fuel and production costs than earlier in the conflict. At the same time, stronger Chinese buying and lower production by Saudi Arabia have added to price pressure, making the latest move more than a purely geopolitical reaction.

For SA, the renewed rise in oil prices is already showing up in the fuel-price calculations. Although it is still early in the pricing cycle, current under-recoveries point to another sizeable increase in October. This time, the pressure is particularly pronounced for petrol, with the average under-recovery currently around R2/l, while diesel is also pointing to a further increase after September's sharp rise. The stronger rand is providing some relief, but not nearly enough to offset higher international product prices.

That changing mix also matters for inflation. The September diesel price increase raised costs across freight, agriculture and other diesel-intensive sectors; another large petrol increase would more directly affect household transport costs. Repeated fuel-price increases also make it harder to be confident that the energy shock will remain temporary. Indeed, the continued pressure on energy prices was an important factor behind the European Central Bank's (ECB) decision to hike its policy interest rate for a second time this year.

There are still competing signals from the Strait of Hormuz. Iran and Oman appear to be moving closer to an agreement on a temporary shipping arrangement, which could help restore some commercial traffic through the waterway. However, renewed attacks on vessels and US strikes on Iranian tankers underline how fragile that progress remains. Oil briefly pared gains on hopes that an Oman-Iran agreement could improve shipping flows, but the broader risk premium has remained elevated. The key question is increasingly not whether some traffic can resume, but whether it can do so reliably enough to rebuild depleted buffers and ease pressure on refined-product markets.

Financial markets are also contending with persistent pressure at the long end of the bond market. In the US, the Treasury expanded its bond-buyback programme again this week, but long-term yields still rose as investors judged the intervention to be insufficient. The episode is notable because it shows how difficult it is to offset the combination of large fiscal deficits, heavy issuance and persistent inflation risk. Once policymakers signal a willingness to intervene more actively in the bond market, investors may also start testing the limits of that support. The US 30-year and UK 10-year yields both rose to their highest levels since 2007 on Thursday. The US 10-year yield also moved close to 5%, while equity markets came under renewed pressure as investors confronted the combined risk of higher inflation and tighter financial conditions. For SA, elevated global yields matter because they keep the external benchmark for government and private-sector borrowing unusually high.

At home, the local growth picture disappointed. This week's Q2 GDP release showed that the SA economy contracted by 0.2% q-o-q, while Q1 growth was revised slightly lower – **find the BER's detailed client comment here**. The outcome was weaker than our published forecast and leaves the economy entering the second half of the year with less momentum than previously thought. While July manufacturing output was encouraging, mining had a tough start to Q3, with a -1.9% m-o-m decline. PGMs and gold were the main drags, although the fall in PGM output partly reflected a temporary safety-related shutdown at a major producer, suggesting some potential for a rebound in August. For now, we are retaining our 1.3% growth forecast for 2026, but the risks are clearly tilted to the downside.

Weekly Key Indicators

	Close	w-o-w
R/$	R16.17	1.0%
R/€	R18.80	1.1%
R/£	R21.87	1.1%
$/€	$1.16	0.1%
Brent crude oil	$102.26	7.0%
Gold	$4 357	-3.3%
Platinum	$1 811	0.2%
JSE ALSI	114 993	-1.5%
10y gov. bond	8.88	14bps
FRA (1x4)*	7.17	4bps

*Forward rate agreement

This leaves the SA Reserve Bank (SARB) facing a more difficult policy trade-off. Weaker-than-expected domestic activity strengthens the case for holding rates, but successive fuel-price shocks increase the risk of renewed headline inflation pressure and second-round effects. The September MPC meeting is therefore taking place against an unusually conflicted backdrop of weaker domestic growth, renewed external inflationary pressures and global financial conditions that remain tight.

Elsewhere, US-Canada trade tensions escalated further this week, with Washington announcing additional import restrictions and tariff measures after Ottawa retaliated. The immediate global economic impact remains smaller than that of the Middle East shock, but the dispute is becoming an increasingly important test of how even close US allies respond to sustained trade pressure. Canada's willingness to push back rather than simply accommodate Washington could have broader implications if it encourages other countries to diversify trade relationships rather than deepen dependence on the US.

US fiscal policy is also providing markets with another reason for caution. President Trump floated a $5 000 dividend for US adults if Republicans retain control of Congress after the midterms. The proposal faces substantial political and legislative hurdles, but the scale of the potential cost means markets cannot ignore it entirely at a time when concerns about US deficits and borrowing needs are already putting pressure on long-term yields.

WEEK AHEAD: INFLATION EXPECTATIONS AND THE FED IN FOCUS AHEAD OF SARB DECISION

Next week will be particularly important for the SARB, with several of the final inputs into the 23 September Monetary Policy Committee (MPC) decision due for release. Most important locally will be the Q3 BER inflation expectations survey on Wednesday. Expectations moved sharply higher in Q2 following the global energy shock, making the latest reading an important test of whether those pressures have begun to moderate or have become more entrenched.

The domestic growth picture will also receive further attention. July retail sales and wholesale trade data will provide additional evidence on household and business demand at the start of Q3, while the 2026Q3 FNB/BER Consumer Confidence Index will show how consumers' willingness to spend has evolved through the energy shock.

Internationally, the US Federal Reserve's interest-rate decision on Wednesday will be another important input for the SARB. The Fed's September decision has become finely balanced, with stronger labour-market data arguing for tighter policy while the inflation outlook remains crucial to whether policymakers ultimately hike or hold. Today's CPI will be important to tilt the balance, after yesterday's PPI accelerated from 4.7% to 5.4% in August, with the details reinforcing concerns that some of the recent disinflation is being reversed. Whatever the outcome, the Fed's decision and accompanying guidance could affect the dollar, global bond yields and the rand in the days immediately preceding the SARB meeting.

Elsewhere, the Bank of England (BoE) will announce its policy decision on Thursday. After holding the Bank Rate at 3.75% in July, it is expected to keep the rate unchanged once more. The Bank of Japan (BoJ) interest rate decision on Friday is likely to receive more attention than usual. Following the rare joint US-Japanese intervention to prop up the yen after it hit a four-decade low in July, US Treasury Secretary Scott Bessent has also made unusually explicit comments in favour of a stronger yen and suggested that faster monetary-policy normalisation in Japan would be appropriate. A quicker BoJ hiking cycle could support the currency and help contain imported inflation, but it could also have wider implications for global bond markets if higher Japanese yields encourage domestic investors to repatriate capital.

Date	Event	Latest
Tuesday (15 Sep)	CN: Industrial Production, Retail Sales, Unemployment rate (Aug)	4.5% y-o-y; 0.6% y-o-y; 5.2%
Tuesday (15 Sep)	EZ, DE: ZEW Economic Sentiment (Sep)	31.4; 34.2
Wednesday (16 Sep)	UK: Consumer Inflation (Aug)	2.9% y-o-y; 0.3% m-o-m
Wednesday (16 Sep)	SA: Inflation Expectations (Q3)	4.2% y-o-y
Wednesday (16 Sep)	SA: Retail Sales (Jul)	1.6% y-o-y; -0.6% m-o-m
Wednesday (16 Sep)	US: Retail Sales (Aug)	5% y-o-y; -0.6% m-o-m
Wednesday (16 Sep)	US: Fed Interest Rate Decision	3.75%
Thursday (17 Sep)	SA: Wholesale Trade Sales (Jul)	-6.8% y-o-y; -3.4% m-o-m
Thursday (17 Sep)	SA: FNB/BER Consumer Confidence (Q3)	-19
Thursday (17 Sep)	UK: BoE Interest Rate Decision	3.75%
Friday (18 Sep)	JP: BoJ Interest Rate Decision	1.0%

SA POLITICAL UPDATE

Natasha Marrian

ANC FACES HIGH-STAKES COURT BATTLE OVER CANDIDATE LISTS

According to the Electoral Commission of SA (IEC), the ANC simply ran out of time in submitting its councillor and PR candidate lists, resulting in incomplete submissions in six municipalities across the Eastern Cape, KwaZulu-Natal and the Free State. The ANC has now approached the Electoral Court to force the IEC to accept the lists captured on the commission's electronic nomination system, but not finally submitted. However, the IEC argued that parties had been given ample time to conclude their submissions – its electronic system allowed for submissions since June 21. It also noted that two days before the final deadline, most of the ANC's lists remained incomplete and outstanding.

The ANC argued that a technical glitch in the last half hour before the deadline prevented it from submitting the lists, but the IEC denies this, providing evidence that the ANC was able to submit a list during the same period, in the thirty minutes before the deadline. The Commission concludes that the ANC had simply left it too late and disputes the party's account that a system failure prevented timely submission.

While this is not the first time the ANC has missed deadlines for submitting candidate lists (it did so in 2021, too, and has done so perennially in by-elections), the impact is more severe, given the ANC's dramatic decline from outright electoral dominance to a 40% party in the 2024 national election. The ANC, which historically contested every municipality in the country, will not be on the ballot in two Eastern Cape local municipalities (Ngquza Hill Local Municipality and the Port St Johns Local Municipality) if its court challenge fails. It received 73% and 75% of the vote in the two municipalities, respectively, in the 2021 local government election.

In three municipalities, the ANC will be on only one of three ballots and in Mangaung, it will be on one of two ballots. It is already on the back foot in Mangaung. It scraped through with just 50.6% of the vote in 2021 and is not in a formal coalition but relies on parties such as the EFF and Patriotic Alliance for issue-specific votes in the metro. Its exclusion from the PR ballot would significantly reduce its prospects of securing outright control of Mangaung and increase the likelihood of another hung metro.

ANC secretary-general Fikile Mbalula also confirmed that City of Joburg mayoral nominee Frank Chikane was also left off the list in "error" but indicated that this would be corrected, potentially through substitution, later in the process. There was a scramble to resolve the list crisis, with some leaders arguing that voters could be diverted to the ANC's alliance partner, the SA Communist Party (SACP), in affected councils. The SACP is contesting elections independently of the ANC for the first time, and relations between the partners have been fraught. However, both have maintained that their historic alliance remains intact.

The political impact of the administrative bungle on ANC secretary-general Fikile Mbalula is likely to stretch beyond the election and into the party's upcoming succession race. Mbalula is largely blamed for the internal mess. As secretary-general, he is ultimately responsible for the running of the party machinery and fulfilling its administrative obligations ahead of an election. The debacle could also damage Mbalula's succession prospects. He and Deputy President Paul Mashatile are the two candidates most visibly in the running to succeed President Cyril Ramaphosa.

COSATU TO MULL ELECTORAL OPTIONS AT CRUCIAL CONGRESS

The Congress of SA Trade Unions (Cosatu) will hold a crucial national congress next week, where it will decide how to position itself in the upcoming election. Its allies, the ANC and the SACP, are both contesting the 4 November election independently of each other for the first time. Cosatu has acted as a go-between for the two parties, hoping to help them resolve the impasse that led to the SACP's decision. However, sources revealed this week that those efforts have so far failed to resolve the dispute.

The SACP has stood by its decision to contest elections independently after the formation of the government of national unity. The communist party is vociferously opposed to the DA's inclusion, arguing that the ANC should have opted for a minority government instead after its decline in electoral support to just 40% in the 2024 national election. The SACP has since pushed ahead with its resolution, campaigning independently and planning to contest across all 257 municipalities in the country. As such, the party will be looking to Cosatu affiliates for (financial) support as it ramps up its campaign.

Cosatu has left the decision on which of its allies it will support in the election to its national congress, which kicks off at Gallagher Estate in Johannesburg on Monday. So far, only one of its 21 affiliates has resolved to support the SACP, its second-largest affiliate, the National Education, Health and Allied Workers Union (Nehawu). Nehawu is likely to push hard to compel Cosatu and all its affiliates to back the communist party. It hopes to do so through persuasion and potentially by replacing Cosatu president Zingiswa Losi with her deputy, Mike Shanganane. Losi is a close ally of President Cyril Ramaphosa and has consistently pushed for unity within the alliance.

Cosatu's largest union, the SA Democratic Teachers' Union, and other large affiliates, such as the police union Popcru and the municipal union Samwu, are set to push for the federation to support the ANC.

The support of individual unions would be crucial for the SACP, given its lack of election machinery. However, the electoral value of a Cosatu endorsement is less clear than it once was. The ANC's support has declined sharply despite the federation's longstanding backing, suggesting that organised labour's ability to mobilise votes for the party has weakened. Despite this, the ANC would welcome Cosatu's endorsement, given its weakness entering the 2026 election season. It could provide a useful psychological boost for its volunteers campaigning on the ground.

However, the BER understands that Cosatu is likely to adopt a middle-of-the-road approach, an "electoral pact" under which unions would be urged to support "any of the two allies". Insiders say this compromise is necessary to ensure that Cosatu itself is not plunged into a divisive battle between the ANC and the SACP.

DOMESTIC DATA

Paul Gluckman

Q2 GDP DISAPPOINTS AS THE ECONOMY LOSES GROWTH MOMENTUM

Real GDP declined by 0.2% q-o-q, below the consensus expectation of -0.1% and following a downwardly revised 0.4% expansion in Q1. The disruption caused by the Middle Eastern conflict and elevated oil prices weighed on confidence and the overall economic environment, although the contraction underscored broader economic weakness.

From the production side, only three out of 10 sectors contracted q-o-q, yet they subtracted significantly from the headline print. Unexpectedly, trade, catering and accommodation was the largest drag (-1.9%; -0.2% pts), which is disappointing given relatively strong household consumption. This was followed by declines in manufacturing (-1.8%; -0.2% pts) and mining (-3%; -0.1% pts), consistent with their recent monthly production data. The persistence of weakness in those two sectors is a concern, given their importance to the country's growth and employment prospects.

Heading into Q3, the performance of these sectors has diverged. Encouragingly, manufacturing production grew by 2.2% m-o-m in July, driven by strong food and beverage output (8% m-o-m; 1.8% pts). However, mining output continued its Q2 trend, falling 1.9% m-o-m, largely due to lower PGM (-4.3%; 1.2% pts) and gold (-10.4%; 1.1% pts) production.

From the expenditure side, a significant rise in imports (4.9% q-o-q; -1.3% pts) was the main drag, far outweighing the improvement in export demand (0.9%; 0.2% pts). Positively, gross domestic expenditure increased by 0.9% q-o-q, as household consumption (0.4%; 0.3% pts), government expenditure (0.4%; 0.1% pts) and a rise in inventories (+R26.5bn; 0.6% pts) offset the overall growth trend. Unfortunately, fixed investment remains weak, declining for the second consecutive quarter (-0.2%; 0.0% pts).

The combination of the Q2 contraction and the lower Q1 estimate points to more subdued growth in 2026 than previously expected. Clearly, the effect of elevated input costs and supply constraints has taken a toll on the economy. A reversal of these external factors could allow growth to gain momentum in the second half of 2026. However, as the third quarter nears its end, those pressures have not eased.

CURRENT ACCOUNT SWINGS SHARPLY BACK INTO DEFICIT

The current account balance (% of GDP) moved from a surplus of 2.3% in Q1 to a deficit of 2.6% in Q2, the widest since 2019Q3. A substantial rise in imports relative to exports drove the overall decline, and consequently, the trade balance fell from 5.3% to 1.9% over the same period. Our terms of trade fell 9% q-o-q, meaning import prices surged faster than our exports, and yet imports outgrew exports in volume as well. The energy shock played an important role. According to the SARB, the value of crude-oil imports rose by 82.1% in Q2 even though import volumes increased by only 1.8%, illustrating how sharply higher energy prices inflated SA's import bill.

INTERNATIONAL DATA

Nomvelo Moima

ECB RAISES POLICY RATE AS ENERGY MARKETS REMAIN UNSETTLED

As widely anticipated, the ECB hiked its policy deposit rate by 25 bps to 2.50% on Thursday, marking the central bank's second rate hike this year. Members of the ECB's Governing Council voted unanimously to raise rates, with their decision centred on the persistence of near-term upside risks to the inflation trajectory driven by continued conflict in the Middle East.

ECB staff projections for headline inflation were revised to indicate inflation will remain above target for longer. Headline inflation is still expected to average 3% in 2026, while the return towards the 2% target is now slower than previously expected. However, since the last interest rate decision, a positive yet precarious development has been the resilience of the euro area economy, as reflected in upward revisions to economic growth forecasts for 2026 and 2027. Both the monetary policy statement and ECB President Christine Lagarde's post-meeting remarks gave no explicit forward guidance. Lagarde stressed that future decisions would remain data-dependent and made on a meeting-by-meeting basis. Even so, with inflation expected to remain above target for an extended period and markets now assigning a substantial probability to another hike this year, the overall message was cautious rather than dovish.

ENERGY PRICES PUSH UP CHINA'S HEADLINE CONSUMER AND PRODUCER INFLATION

China's headline consumer price inflation print showed the first acceleration since April, after slowing to a six-month low in July. In line with consensus expectations, annual consumer inflation rose to 0.8% in August, up from 0.5%. The re-acceleration was largely driven by non-food prices, which quickened from 0.9% y-o-y in July to 1.2% y-o-y in August, partly reflecting higher transport and fuel costs.

Meanwhile, factory gate prices rose to an above-consensus 3.8% y-o-y in August, following a 3.5% y-o-y rise in July. On a monthly basis, PPI rose by 0.4%, reversing July's 0.7% m-o-m decline, as higher crude oil, coal and non-ferrous metal prices reinforced cost pressures.

The data suggest that the global energy shock is beginning to interrupt China's previously very subdued inflation picture, even though domestic demand remains relatively soft.

FORECAST UPDATE

This week's Q2 GDP release was weaker than expected, with the economy contracting by 0.2% q-o-q and Q1 growth revised slightly lower. The outcome leaves our current 1.3% growth forecast for 2026 looking more challenging, and the risks are now clearly tilted to the downside.

For now, however, we are retaining the 1.3% forecast and will reassess the full-year growth profile once we have additional high-frequency data on Q3 activity. The latest BER survey evidence suggests that momentum remained weak into the third quarter, although a technical recession is not our central view at this stage.

We have made no changes to our inflation, oil, rand, or interest-rate forecasts this week although a sustained period with Brent above $100/bbl would require us to revisit the oil-price assumptiont. The weaker growth backdrop strengthens the case for the SARB to keep the policy rate unchanged at its 23 September meeting, although next week's inflation expectations survey and the US Fed decision will be important inputs into the final call. We will also be watching how the rand responds to the Fed decision, oil-price developments and the broader global bond sell-off.

	Actual		Forecast		Next release/meeting	
	2025	2026Q2	2026Q3	2026		
Brent crude oil ($, spot, avg.)	68.83	97.05	86.03	84.90	n/a	
ZAR/USD (avg.)	17.88	16.47	16.38	16.43	n/a	
Policy interest rate (%, end of period)	7.25	7.00	7.00	7.00	23-Sep-2026	
Headline CPI (y-o-y % change)	3.2	3.3	4.5	4.2	23-Sep-26	Aug
FNAB inflation (y-o-y % change)	4.1	3.9	1.2	2.4	23-Sep-26	Aug
Headline PPI (y-o-y % change)	1.5	6.7	6.3	5.4	30-Sep-26	Aug
Real GDP growth (seasonally adjusted)						
(y-o-y % change)	1.1	0.9	0.6	1.3	1-Dec-26	2026Q3
(q-o-q % change)		-0.2	0.1			

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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Please refer to the glossary on the **BER website** for explanations of technical terms.