BUREAU for ECONOMIC RESEARCH

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# Can the SARB afford to wait?

## THE WEEK IN PERSPECTIVE

Lisette IJssel de Schepper

The SA Reserve Bank (SARB) meets next week with the inflation outlook clearly less comfortable than it was a few months ago. Oil prices remain elevated, another sizeable fuel-price increase is likely in October, and the US Federal Reserve (Fed) raised rates this week. The Fed's latest projections also suggest that further tightening remains on the table. None of that should be dismissed.

Global financial conditions have also tightened further. The US 10-year Treasury yield moved above 5% this week, its highest level since 2007, as higher oil prices, inflation concerns and heavy government borrowing weighed on bond markets. Although yields subsequently eased back below 5%, the move underscores how quickly the external financing backdrop can tighten, especially for emerging markets such as SA. Elsewhere, China's August data again pointed to an uneven recovery, with industrial output improving, but retail sales and investment remaining weak, underscoring the still-fragile global demand backdrop.

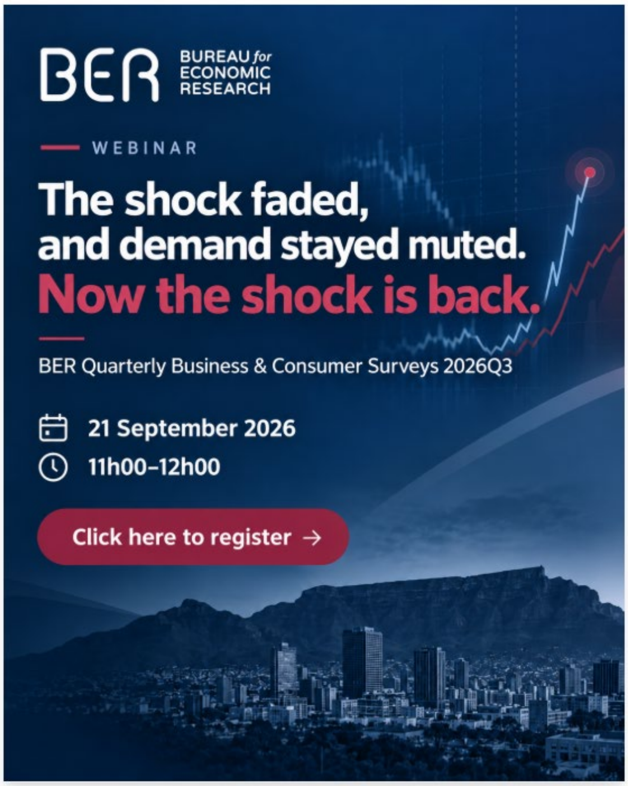
SA-specific political risk also moved back onto the radar this week after the US announced new visa restrictions targeting South Africans it accuses of being involved in race-based discrimination, uncompensated land seizures or inciting violence. The immediate real economy impact is limited, but the move adds another layer of uncertainty to already-strained US-SA relations and is relevant to country-risk perceptions and the rand.

Meanwhile, the Brent crude oil price eased somewhat towards the end of the week. However, it remains above $100/bbl as the broader energy shock remains unresolved. A higher oil price alone, however, is not a sufficient reason to raise the policy rate again. As has been said many times this year, a rate hike will not reopen the Strait of Hormuz, increase the supply of oil or bring down the local fuel price. Monetary policy has a role to play when the initial energy shock starts feeding into broader prices, wages and inflation expectations.

So far, we do not see much evidence of that. The Q3 BER inflation expectations survey was reassuring as professional expectations stabilised or edged lower across most of the forecast horizon, while household expectations fell sharply. Five-year-ahead professional expectations eased to 4.0%, and expectations for 2027 and 2028 also declined. Wage expectations remained broadly stable. That said, 4% is still some distance from the new 3% target, and the survey largely predates the latest renewed surge in oil prices. We therefore cannot assume that expectations won't rise again if the shock persists.

Meanwhile, the oil shock itself is not only inflationary, but also contractionary. Higher fuel and input costs erode households' real disposable income and weigh on firms' margins, weakening demand and potentially limiting how much of the cost increase businesses are able to pass on to consumers.

The growth side of the economy is also taking strain. Q2 GDP contracted and our 1.3% full-year growth forecast, compared with the SARB's 1.4% forecast in July, now carries clear downside risk. That said, July retail sales were a notable positive surprise, rising by a solid 2.5% m-o-m and 3.4% y-o-y, although the timing matters: the data coincided with a decline in domestic fuel prices, which temporarily eased pressure on household budgets. With fuel prices having since moved sharply higher again, it is not clear that this strength will be sustained. Indeed, the latest BER business and consumer surveys continue to point to subdued underlying demand.




Yesterday's FNB/BER Consumer Confidence Index recovered from -19 to -13, but the improvement was driven by less pessimistic expectations for the economy and household finances. Consumers' assessment of whether now is a good time to buy durable goods deteriorated further to an 18-month low, suggesting that current discretionary demand remains weak. Raising rates would therefore come at a cost to the economy that is struggling to gain momentum.

This is also where SA differs from the US. The Fed is tightening against an economy where activity is still expanding at a solid pace, domestic spending remains resilient and the labour market has held up relatively well. The Bank of Japan also raised rates this morning, taking them to a 31-year high, but Japan's policy backdrop is very different from SA's. The SARB, by contrast, is dealing with a much weaker demand backdrop. It also moved earlier with the 25 bps hike in May. A Fed or BoJ hike, therefore, does not automatically imply that the SARB should follow.

If anything, the Bank of England's decision to hold despite higher energy-driven inflation is a closer parallel. The BoE explicitly noted that there is still little evidence of material second-round effects, while softer labour-market conditions and higher borrowing costs are already weighing on demand.

**Weekly Key Indicators**

| | Close | w-o-w |
|---|---|---|
| R/$ | R16.27 | 0.6% |
| R/€ | R18.68 | -0.6% |
| R/£ | R21.72 | -0.7% |
| $/€ | $1.15 | -1.2% |
| Brent crude oil | $103.44 | -3.9% |
| Gold | $4 362 | 0.1% |
| Platinum | $1 796 | -0.8% |
| JSE ALSI | 113 551 | -1.3% |
| 10y gov. bond | 8.79 | -9bps |
| FRA (1x4)* | 7.20 | 1bps |

*Forward rate agreement

The decision is finely balanced, but for now that argues for keeping the powder dry. The SARB moved ahead of many other central banks by raising rates in May, and the rand has remained resilient despite the renewed oil shock. Indeed, the rand is stronger than the SARB expected, providing an important offset to the higher oil price. Even after this week's Fed hike, the Bank therefore has some room to wait and see whether the current shock starts generating the broader inflation pressures that monetary policy is designed to contain.

The case for waiting is not that the inflation risks are benign. They are not. Oil remains high, October fuel prices are likely to rise sharply, and food inflation risks are building, although actual food inflation remains low for now. But monetary policy is already restrictive, even if it becomes somewhat less so as the inflation outlook rises. Domestic demand is weak, the output gap appears larger than previously thought and, importantly, there is still little evidence that the supply shock is becoming embedded in longer-term inflation expectations or wages. A September hold would therefore not amount to complacency. It would allow the SARB to distinguish between a first-round price shock and the second-round effects that monetary policy is actually designed to contain.

Furthermore, waiting in September would not mean closing the door on further tightening. The SARB can still act in November if the evidence changes. In a weak economy, you do not have to hike on the risk of second-round effects before there is evidence that those effects are emerging.

If the government wants to cushion the next leg of the fuel shock, fiscal policy may also have a role to play. National Treasury indicated this week that revenue collections are outperforming expectations and that the fiscal framework remains on track. That does not create unlimited room for support, but it could strengthen the case for considering another temporary fuel-levy intervention if October's increase proves exceptionally large. Such relief would need to remain targeted and temporary to avoid undermining the broader fiscal consolidation path.

### WEEK AHEAD: QUIET CALENDAR, BUT A BIG WEDNESDAY FOR SA

Next week is relatively quiet on the data front, with most of the attention concentrated on Wednesday's SA inflation release and the SARB's September interest-rate decision. There will be no *BER Weekly Review* next Friday, but clients will receive a detailed comment late on Wednesday covering both the latest inflation data and the MPC decision.

We expect headline inflation to edge up to 4.5% y-o-y in August, from 4.3% in July. Looking further ahead, inflation is likely to continue rising slowly through the remainder of 2026 as the renewed surge in international oil and fuel prices feeds through to domestic pump prices. The rand has so far provided some offset, but current fuel-price under-recoveries point to another sizeable increase in October.

The inflation release will land on the same day as the SARB decision. As set out above, our baseline is for a hawkish hold, although a hike would not surprise us. Elsewhere, the SARB's leading business cycle indicator on Monday will provide another reading on the near-term domestic growth outlook. Flash PMI data for the Eurozone, UK and US on Wednesday will offer a timely gauge of global activity and whether the combination of high oil prices and tighter financial conditions is beginning to weigh more visibly on demand.

| Date | Event | Latest |
|---|---|---|
| Monday (21 Sep) | SA: Leading business cycle indicator (Jul) | -1.4% m-o-m |
| Wednesday (23 Sep) | EZ, UK, US: Composite PMI (Sep, flash) | 52; 52.5; 56 |
| Wednesday (23 Sep) | SA: Consumer inflation (Aug) | 4.3% y-o-y |
| Wednesday (23 Sep) | SA: SARB interest rate decision | 7% |

## SA POLITICAL UPDATE

Natasha Marrian

### RAMAPHOSA TAKES A BREATHER AS MASHATILE REMAINS OFF THE PUBLIC STAGE

President Cyril Ramaphosa has been booked off from public engagements after his return from the Brics Summit in India this week. The Presidency says he has been advised by his medical team to "rest and recover." Insiders say it is more exhaustion than any severe ailment plaguing the President, after a gruelling schedule in recent months . Ramaphosa's deputy, Paul Mashatile, has also been away from his full public programme since undergoing what his office has described as a "minor medical procedure". Ramaphosa has also been spearheading the ANC's election campaign on the ground after the ANC failed last month to name mayoral candidates for the eight metros and 22 secondary cities due to factional differences.

Identifying mayoral candidates would have enabled them to run with the groundwork in place in the crucial final leg of the local election campaign, the ANC's toughest since 1994. However, Ramaphosa remains the face of the campaign and has been on the trail for the ANC, along with the other national officials.

He was billed to head to the hotly contested eThekwini region on Thursday, where he was expected to conduct community meetings, door-to-door visits and sectoral discussions with taxi associations and businesses. The ANC also announced the suspension of the four-day blitz in KwaZulu-Natal on Wednesday – a setback, given expectations that Jacob Zuma's uMkhonto we Sizwe Party is on track to emerge as the largest party in the key metro.

There is greater uncertainty about Deputy President Mashatile's health. This week, speculation over the seriousness of his condition prompted his office to release a statement by Mashatile himself, assuring the nation that he is on the road to recovery. He also released a picture of himself on Thursday on his social media feed, during a visit from former president Thabo Mbeki.

The assurances have not stopped internal speculation about what his absence may mean for the ANC succession contest ahead of the party's 2027 conference. Despite the noise, it is too early to determine whether Mashatile is out of the running for the post – he has been viewed as the front-runner in the race. His office has maintained that he underwent a "minor procedure" – according to Mashatile's own statement, there is no fixed date for his return to his duties. In his statement this week, he said, "on the advice of my doctors, I will continue resting until advised otherwise".

## ANC LOSES COURT BID OVER MISSED IEC DEADLINE

As we signalled last week, the Electoral Court dismissed the ANC's bid to have the incomplete submission of its councillor candidate lists recognised by the Electoral Commission of SA. This is a setback for the ANC, which could weaken the party in some municipalities where it has historically been strong, particularly in the Eastern Cape. As such, the ANC may yet push ahead with a further legal appeal; however, it is racing against time, with the IEC on track to begin printing ballots.

The failure to submit 181 candidates across six councils, mainly in the Eastern Cape and the Free State will affect the party's ability to contest those councils fully. But the saga also exposes deeper tensions between the ANC's provincial structures and its national office, as well as weaknesses in managing a complex national candidate-submission process.

The IEC's court papers in response to the ANC's application were instructive in this regard. They show that two days before the deadline, the vast majority of the ANC's candidate nominations had not been submitted, a significant risk given the scale and complexity of the party's national submission process. Furthermore, there was no active attempt to submit candidates in two crucial Eastern Cape local municipalities in the 30 minutes before the deadline on August 28, which is the period which the ANC alleged a "system glitch" prevented it from submitting the list. The IEC reveals that the last time the lists for the two local municipalities were updated was after 10pm the night before the deadline, 27 August.

It is in these two municipalities that the ANC could be hardest hit because it failed to submit nominations for both ward and PR councillors. Its support in the two local councils was strong in the 2021 local election, obtaining over 70% of the vote in both. Insiders in the ANC and across a number of opposition parties say this could leave the ANC absent from the ballot in those two councils, although the IEC had not yet confirmed this at the time of writing.me.

The failure by the ANC to add the name of potential Joburg mayoral candidate Frank Chikane and other mayoral candidates can be remedied at a later stage, through a substitution, Mbalula confirmed at a media briefing last week.

The list saga continues to put pressure on Mbalula and is being used by opponents to challenge his authority. He faced a defamation case from Nkosazana Dlamini-Zuma this week, while Andile Lungisa has taken legal action over his omission from the Nelson Mandela Bay PR list. Eastern Cape secretary Lulama Ngcukayitobi has also threatened court action after Mbalula blamed the province for the candidate-list crisis.

Taken together, the disputes point to mounting internal pressure on Mbalula from different parts of the party. Dlamini-Zuma and Lungisa are associated with the former Zuma/RET faction, while Ngcukayitobi's dispute with Luthuli House appears more closely linked to opposition to the ANC's cooperation with the DA in the GNU.

## UNPRECEDENTED COLLAPSE OF COSATU CONGRESS

This week, the labour prong of the tripartite alliance, Cosatu, was expected to debate which of its historic allies it would support in the upcoming election: the ANC or the SA Communist Party. However, the congress, convened at a cost of around R30m, including the travel and accommodation arrangements for delegates, collapsed before any substantive discussions could commence.

The collapse of a Cosatu congress is unprecedented and underscores the depth of internal divisions within the federation. More than 1 800 delegates were sent home without the congress having resolved disputes over credentials and leadership, leaving both the electoral process and substantive policy discussions unresolved.

The collapse of the Cosatu congress was not linked to the ANC/SACP battle – it was a factional fight over leadership positions. Reports about the position of deputy president Mike Shingange had whittled the fight down to an individual, but the dispute was also about a massive change of guard, which the congress was meant to usher in.

This leadership overhaul was agreed to between the largest unions, and the distribution of several top posts had largely been negotiated in advance, the BER understands.

The position of general secretary was expected to go to current president Zingiswa Losi, while Sadtu deputy president Mabutho Cele was expected to become president. Sactwu president Susan Khumalo was expected to become first deputy president, while Nehawu treasurer Kgomotso Makhupola was expected to take the treasurer post.

However, Cosatu's largest industrial union, the National Union of Mineworkers, rallied smaller unions to push Shingange to remain in the race for the presidency, challenging Losi and upending the pre-planned line-up.

Shingange also belongs to Nehawu, which could not field two candidates for positions among the top Cosatu office bearers. The union asked Shingange to withdraw his candidacy, to allow its treasurer Makhupola to ascend to the post of treasurer of Cosatu, but he refused.

The union placed him on a precautionary suspension on the eve of the Cosatu congress, which led to delays in the congress beginning on Monday. However, after lengthy discussions and a legal challenge, Shingange was allowed to remain in the presidential race. His suspension nevertheless became the flashpoint for a wider dispute over delegate credentials and his eligibility to participate. Several affiliates backing Shingange, including the NUM, withheld their delegate credentials as the dispute deepened. This left the congress unable to establish a quorum and ultimately forced its adjournment.

The federation will now have to reconvene the elective congress within a month – according to its Constitution. The move marks a setback for the federation, which was set to pronounce on the way forward for workers in a tough economic and rapidly shifting political environment. It also postpones the potentially important debate over Cosatu's stance towards the ANC and SACP ahead of the local elections,

# DOMESTIC DATA

Vincent van der Westhuizen

### INFLATION EXPECTATIONS EASE AHEAD OF SARB MPC MEETING

The third-quarter inflation expectations survey was conducted against a backdrop of continued geopolitical tensions in the Middle East. The energy-price shock associated with the US-Iran conflict pushed inflation expectations sharply higher in the previous quarter. In the third quarter, however, professional inflation expectations were broadly stable to lower across the forecast horizon, while household expectations eased markedly, reversing much of the second-quarter increase.

Average current-year headline inflation expectations across analysts, businesspeople and trade union officials remained at 4.4% in 2026, unchanged from the previous survey, while household one-year inflation expectations fell sharply to 4.9% from 6.0%, the lowest level in nearly five years. Over five years, professional expectations eased to 4.0% from 4.1%, while household expectations declined to 8.3% from 9.1%.

### CONSUMER CONFIDENCE RECOVERS SOME LOST GROUND, BUT OUTLOOK REMAINS CLOUDY

The FNB/BER Consumer Confidence Index (CCI) rebounded to -13 in the third quarter, after crashing from -7 to -19 in the second quarter. The improvement was driven by rebounds in the CCI's economic outlook and household finances sub-indices, with low-income household confidence recovering to its highest level since 2024Q3, most likely benefiting from low food inflation. While the partial recovery in the CCI is welcome news, it was driven by two forward-looking indicators, and there are several reasons to expect consumer spending growth to remain subdued in the coming months.

The only present-time indicator - consumers' rating of the appropriateness of the present time to buy durable goods - deteriorated further to its lowest level since 2025Q1. The Brent crude oil price has soared since fieldwork for the survey was conducted, putting further upward pressure on domestic fuel prices and constraining consumers' real disposable income. Confidence among high-income households – the group with the greatest spending power in the economy – remains very low, while both middle- and high-income consumers are disproportionately affected by hikes in the prime interest rate.

### RETAIL SALES EXCEED FORECASTS, AND WHOLESALE TRADE IMPROVES

Retail trade sales grew by 3.4% y-o-y in July, up from a downwardly revised 1.1% in June, far exceeding forecasts of 0.9%. The largest drivers of this growth were general dealers (up 3.2% y-o-y), all ‘other’ retailers (up 6.8% y-o-y), retailers in textiles, clothing, footwear and leather goods (up 2.9% y-o-y), and retailers in food, beverages and tobacco in specialised stores (up 4.8% y-o-y). Hardware, paint and glass was the only sector to record a contraction (down 0.3% y-o-y). On a monthly basis, seasonally adjusted retail trade sales grew by 2.5% in July, up from -0.8% in June.

For the third consecutive month, in contrast with retail sales growth, wholesale trade sales contracted by 1.1% y-o-y in July. However, this is an improvement from its 6.0% contraction in June and 7.1% contraction in May. On a monthly basis, seasonally adjusted wholesale trade sales grew by 6.2% in July, up from -2.5% in June. Dealers of solid, liquid and gaseous fuels and related products were the largest drivers of the monthly growth, growing at 16.7% m-o-m, while only dealers of agricultural raw materials and livestock and of other goods reported monthly contractions of 15.3% and 3.9%, respectively.

The timing of the improvement is notable. July coincided with lower domestic fuel prices after crude oil prices eased in the second half of June, which would have provided some temporary relief to household budgets and business costs. With oil and fuel prices having since moved sharply higher again, it remains to be seen whether the July momentum can be sustained.

## INTERNATIONAL DATA

**Nadia Matulich**

### ~~A~~ FED FULL OF HAWKS RAISES RATES AS INFLATION CONCERNS PERSIST

The very brief FOMC statement noted that the Fed unanimously decided to raise the federal funds rate by 25 basis points to 3.75%-4%. The Committee stated that economic activity has continued to expand at a solid pace despite elevated geopolitical uncertainty, with domestic spending, productivity and job gains remaining robust. However, inflation remains elevated, which appears to have been the key factor behind the decision to hike.

Determining what comes next is more difficult. New Fed Chair Warsh is not a strong proponent of explicit forward guidance, although his speech at Jackson Hole last month suggested that this hike forms part of a broader move towards greater policy “discipline” and the “removal of a dose of accommodation”. This points to a further removal of accommodation, with additional tightening potentially still to come. Further hikes are therefore plausible, particularly while economic activity remains resilient and inflation elevated, conditions that generally give the Fed greater room to tighten. By contrast, the decision would be less straightforward if economic activity were weakening and unemployment rising while inflation remained high. The latest dot plot also leaned hawkish, with most Fed officials pencilling in another rate increase this year.

The flash estimate from the University of Michigan Survey of Consumers also indicated that consumers remain concerned about inflation, with year-ahead inflation expectations rising from 4.0% in August to 4.6% in September. Overall consumer sentiment declined by 4 points to 47.8, leaving the index 13.2% lower than a year ago.

### BANK OF ENGLAND KEEPS RATES UNCHANGED, BUT MONITORS SECOND ROUND EFFECTS

Conversely, the Bank of England (BoE) voted to keep rates unchanged at 3.75% at its September meeting. August inflation came in at 3.1%, driven largely by higher transport costs following a rapid increase in motor fuel prices. Core inflation remained somewhat more subdued at 2.6%, although still above the 2% target. The Monetary Policy Committee voted six to three in favour of holding rates, with three members preferring a 25bps hike. The Committee noted that the conflict in the Middle East continues to place upward pressure on crude and refined energy prices. At the same time, the domestic economy remains relatively resilient, but is hardly growing with vigour, expanding by 0.4% q-o-q in Q2. Labour demand has also remained notably weak, with unemployment at around 4.9%.

From the minutes, the Committee appears to have had a robust debate about whether the energy shock was beginning to generate broader inflationary pressures. This contrasts with the US, where stronger domestic conditions provide greater scope to tighten. In the UK, weaker activity makes it less straightforward to hike into a supply shock. The Committee remains data-dependent, but several members indicated that tightening could be warranted if broader inflationary pressures intensify.

### GERMAN ECONOMIC EXPECTATIONS IMPROVE MARGINALLY

Finally, in the EU, the latest ZEW Indicator of Economic Sentiment for Germany pointed to cautious optimism about the economic recovery. The indicator of economic expectations rose marginally to 34.7 points, 0.5 points above its August level, while the current situation indicator improved by 14 points to -47.1. Respondents nevertheless noted that risks remain considerable, with elevated energy prices and uncertainty around a potential escalation in geopolitical tensions continuing to weigh on the outlook. Expectations for the broader Eurozone, however, declined by 5.6 points to 25.8. More reassuringly, respondents' assessment of the current economic situation improved by 7.6 to -13.9.

## FORECAST UPDATE

We have made a sizeable upward revision to our near-term oil-price assumptions following the renewed surge in Brent crude. Our 2026Q4 Brent forecast is now $102/bbl, which lifts the expected average for the year to $92.7/bbl. The stronger oil price profile feeds directly into the near-term inflation outlook, particularly via domestic fuel prices.

As a result, we have revised our inflation profile higher in the final quarter of the year, taking our 2026 headline CPI forecast to 4.4%. We still expect the rand to provide some offset to the external price shock, but the current fuel-price under-recoveries suggest that the pass-through into domestic pump prices will be significant.

Our baseline remains for the SARB to keep the policy rate unchanged at 7.0% at next week's MPC meeting. However, the risk of a further hike has increased. A September hike cannot be ruled out, while November remains another plausible window should higher fuel prices begin to feed more visibly into broader inflation, inflation expectations or wage- and price-setting behaviour.

| | Actual | | Forecast | | Next release/meeting | |
|---|---|---|---|---|---|---|
| | 2025 | 2026Q2 | 2026Q3 | 2026 | | |
| **Brent crude oil**<br>($, spot, avg.) | 68.83 | 97.05 | 92.00 | 92.70 | n/a | |
| **ZAR/USD**<br>(avg.) | 17.88 | 16.47 | 16.38 | 16.43 | n/a | |
| **Policy interest rate**<br>(%, end of period) | 7.25 | 7.00 | 7.00 | 7.00 | 23-Sep-2026 | |
| **Headline CPI**<br>(y-o-y % change) | 3.2 | 3.3 | 4.5 | 4.4 | 23-Sep-26 | Aug |
| **FNAB inflation**<br>(y-o-y % change) | 4.1 | 3.9 | 1.2 | 2.4 | 23-Sep-26 | Aug |
| **Headline PPI**<br>(y-o-y % change) | 1.5 | 6.7 | 6.3 | 5.4 | 30-Sep-26 | Aug |
| **Real GDP growth** (seasonally adjusted) | | | | | 1-Dec-26 | 2026Q3 |
| (y-o-y % change) | 1.1 | 0.9 | 0.6 | 1.3 | | |
| (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*.

# CONTACT US


**Editor:** Lisette IJssel de Schepper

**Tel:** +27 (0)21 808 9777

**Email:** lisette@sun.ac.za



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