BUREAU for ECONOMIC RESEARCH

WEEKLY REVIEW | NUMBER 18 |22 MAY 2026

# Strait disruptions persist despite hopes for a deal, while Johannesburg's fiscus strains

## THE WEEK IN PERSPECTIVE

Lisette IJssel de Schepper

Financial markets ended the week somewhat calmer as hopes of a renewed US-Iran deal gained momentum. While negotiations remain fragile and the core disagreements unresolved, recent rhetoric from both Washington and Tehran suggests that neither side currently wants a renewed full-scale escalation. Reports of intensified Gulf-mediated talks and a softer tone from US President Donald Trump helped ease immediate fears, contributing to a pullback in oil prices late in the week – although still up from last week. Bloomberg reported that the Iranian ambassador to France said there were discussions with Oman to establish a permanent toll system to formalise traffic through the Strait of Hormuz. Midweek, three super tankers carrying 6 million barrels of oil (combined) managed to pass the strait in negotiated transits. Meanwhile, US crude inventories recorded an exceptionally large weekly drawdown, highlighting that underlying physical oil markets remain tight.

Away from the Middle East, the sequencing of diplomatic visits to Beijing this week was also notable. Trump's visit was quickly followed by one from Russian President Vladimir Putin, underscoring China's increasingly central role in an ever more fragmented global order. While Trump's visit focused largely on stabilising trade relations, AI competition and the conflict in the Middle East, Putin's trip centred more explicitly on strategic alignment against Western influence and deeper long-term energy and geopolitical cooperation.

For markets, the broader message was that China is attempting to position itself as the indispensable balancing power between Washington and Moscow. Beijing appears eager to maintain relatively stable economic relations with the US while simultaneously deepening ties with Russia. However, the back-to-back visits also highlighted the increasingly unequal nature of the China-Russia relationship. Despite the strategic rhetoric, Moscow remains heavily dependent on Chinese demand and political support, while Beijing continues to approach the partnership pragmatically and largely on its own terms.

Even as geopolitical tensions eased somewhat, global bond markets continued to signal deep unease around inflation, fiscal sustainability and the prospect of structurally higher interest rates. US 30-year Treasury yields briefly moved back above 5% during the week, while Japanese long-dated government bond yields climbed to multi-decade highs amid expectations of

**Weekly Key Indicators**

| | Close | w-o-w |
|---|---|---|
| R/$ | R16.54 | 0.4% |
| R/€ | R19.17 | -0.3% |
| R/£ | R22.18 | -0.1% |
| $/€ | $1.16 | -0.7% |
| Brent | $107.64 | 1.7% |
| Gold | $4 510 | -3.7% |
| Platinum | $1 925 | -8.4% |
| JSE ALSI | 114 544 | -2.4% |
| 10y gov. bond | 8.77 | 10ps |
| FRA (1x4)* | 7.07 | 1bps |

*Forward rate agreement

further policy tightening by the Bank of Japan. The moves reinforced concerns that global financial conditions may remain tighter for longer, even if immediate geopolitical risks begin to moderate.

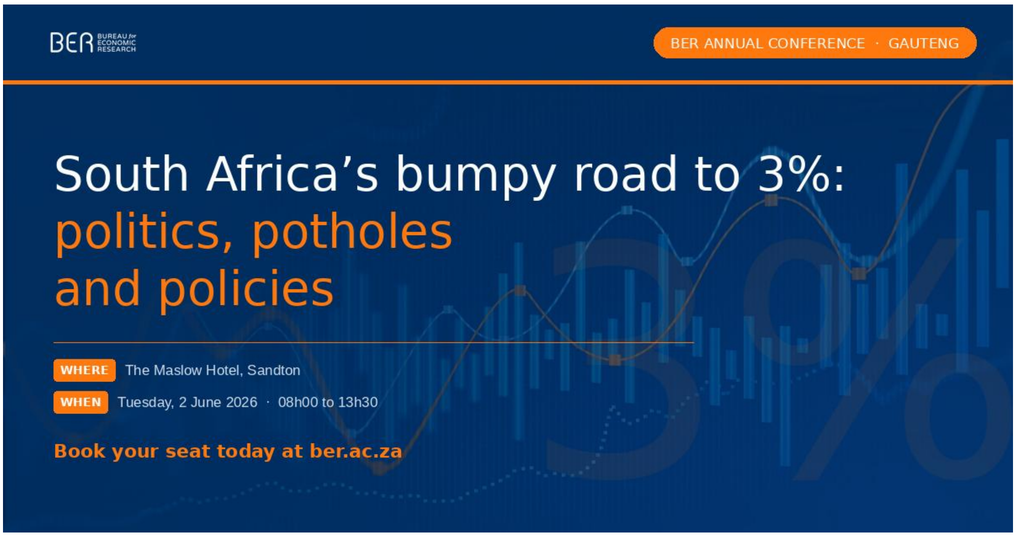
Meanwhile, at home, Johannesburg's financial position appears to be deteriorating rapidly. Market concerns are increasingly centred not only on the city's growing arrears to Eskom, but also on broader liquidity pressures ahead of upcoming bond redemptions and the possibility of National Treasury withholding transfers.

The city reportedly has sufficient cash reserves to cover roughly R1.4bn in June bond redemptions, but this will limit its ability to fully settle other current operating obligations. As a result, unpaid obligations are likely to continue accumulating on the balance sheet. The more immediate risk may emerge in July, when Johannesburg is due to receive its largest annual equitable share allocation from National Treasury. Finance Minister Enoch Godongwana has already threatened to withhold or reduce that transfer if the city fails to reverse a controversial R10.3bn wage agreement that Treasury argues is unaffordable.

At the same time, Eskom has renewed threats to interrupt electricity supply to parts of Johannesburg over arrears of roughly R5.3bn, excluding payment of the current account of around R1.6bn due in early June. The utility argues that continued municipal non-payment is undermining its own financial sustainability.

The situation increasingly highlights the growing interdependence between municipal financial stability, Eskom's balance sheet and broader sovereign fiscal risk. It also raises concerns about whether South Africa's major metros are becoming an emerging transmission channel for macroeconomic and governance risk. Furthermore, the financial difficulties in Johannesburg are coming to a head on the eve of the local government elections with the contest in the city already considered to be one (if not the) crucial battleground.

*We are excited to confirm that ActionSA national chairperson Michael Beaumont will join the DA's Helen Zille on stage at the BER Conference on 2 June, in conversation with the BER's Natasha Marrian on the battle for Johannesburg.* ***Registrations are still open – click here.***



### WEEK AHEAD: ALL EYES ON THE SARB

Markets will watch for Moody's scheduled sovereign ratings review of SA later today. While no ratings action is currently expected, investors will monitor the agency's assessment of SA's fiscal trajectory, reform momentum and broader macroeconomic risks. Attention will then shift to S&P's scheduled review the following week (29 May).

The key event next week will be the SARB's MPC meeting on Thursday, where we expect a 25-bps rate hike to be announced. While higher interest rates will do little to directly offset the fuel price shock stemming from elevated oil prices and ongoing disruption around the Strait of Hormuz, the move would send an important signal that the SARB remains committed to returning inflation sustainably to the 3% target objective over time. With fuel costs continuing to filter through the economy and services inflation stealthily increasing, the SARB is likely to prioritise anchoring inflation expectations and limiting second-round effects. April producer inflation data, also due on Thursday, will therefore be closely watched for further signs of pipeline price pressure, while private sector credit extension data out on Friday should provide additional insight into domestic demand conditions.

Internationally, inflation data will remain in focus. In the US, the core PCE price index, the Federal Reserve's preferred inflation gauge, will be released on Thursday and will be closely watched following recent upside surprises in US inflation data. In Europe, preliminary May inflation figures from Germany will provide an early indication of broader Eurozone inflation trends ahead of the aggregate Eurozone CPI release on 2 June.

| Date | Event | Latest |
|---|---|---|
| Tuesday (26 May) | SA: Leading Business Cycle Indicator (Mar) | 0.5% m-o-m |
| Wednesday (27 May) | SA: Motor Trade Sales (Mar) | 5.5% y-o-y; 1.4% m-o-m |
| Thursday (28 May) | SA: PPI (Apr) | 2.3% y-o-y; 1.1% m-o-m |
| Thursday (28 May) | SA: SARB Interest Rate Decision | 6.75% |
| Thursday (28 May) | US: Core PCE Price Index (Apr) | 0.3% m-o-m |
| Thursday (28 May) | DE: Consumer Inflation (Prel, May) | 2.9% y-o-y; 0.6% m-o-m |
| Friday (29 May) | SA: Private Sector Credit, Balance of Trade, Budget Balance (Apr) | 8.5% y-o-y; R31.87B, R-45.6B |

## SA POLITICAL UPDATE

Natasha Marrian

### RAMAPHOSA'S FIRST LEGAL MOVE IN PHALA PHALA PANEL REVIEW

President Cyril Ramaphosa's legal team has received permission from Chief Justice Mandisa Maya to launch a review of the impeachment panel report into the robbery at his Phala Phala Farm in 2022. In terms of the Superior Courts Act, a litigant must obtain consent from the chief justice or the relevant head of court before instituting civil proceedings against a judge. The 2022 panel report was compiled by former Chief Justice Sandile Ngcobo and former High Court Judge Thokozile Masipa, both retired at the time. Ramaphosa's legal team sent a letter to Maya and Gauteng Judge President Aubrey Ledwaba last week, seeking their consent. His team is awaiting a response from Ledwaba before formally launching the review of the 2022 panel report in the Western Cape High Court.

While Ramaphosa's legal team focuses on overturning the panel report, Parliament is proceeding with the impeachment process, as directed by the Constitutional Court last week. Ramaphosa is likely to interdict the process, as it rests entirely on the panel report. In the meantime, a separate request for a Motion of no Confidence in Ramaphosa, brought by the African Transformation Movement, was turned down by Speaker Thoko Didiza. Ramaphosa is likely to face continued political pressure from parties aligned to former president Jacob Zuma, such as the ATM, the EFF and the MK Party, as he pursues a review of the panel report. However, with the unequivocal support of the ANC, he is unlikely to face any real threat to his presidency, pending the finalisation of the review process.



### ANC CALLS FOR MAYORAL CANDIDATES, FROM OUTSIDE ITS RANKS

In a potentially significant shift ahead of the local government election, the ANC has opened its mayoral candidate selection process to non-members. The ANC has a long-standing process of drawing councillor candidates from local communities, where ANC membership is not necessarily a prerequisite. However, mayors of the metros and large cities have always been drawn from the party's regional leadership structures, reinforcing internal factional and patronage networks. For the first time, the ANC has overhauled this process and is seeking to attract the "best talent" to run as mayoral candidates in the upcoming local government election.

"This invitation is genuinely open to all," the party said in a statement this week. However, the selected candidates would have to take up party membership after their selection. Still, the approach carries risk. Mayoral candidates are expected to be selected by mid-June. Despite potentially being drawn from outside party ranks, the selected candidate will still rely on existing party structures to power their campaigns going into the election. Whether party structures, whose own leaders would be sidelined in the process, support these candidates remains to be seen. It will mark a test of internal party discipline and whether structures will rank the party's electoral fortunes over factional and internal party dynamics.

The final identification of mayoral candidates will be conducted by the party's national officials (its top seven leaders, including President Ramaphosa and Deputy President Paul Mashatile) after a rigorous selection and interview process by the ANC electoral commission.

The BER understands that internally, the names of ANC veterans Frank Chikane and former City of Johannesburg manager Trevor Fowler have been raised as potential candidates for the battle over Johannesburg. Former Ekurhuleni Mayor and current deputy communication minister Mondli Gungubele has been touted as a potential candidate for Ekurhuleni, and the potential return of popular Tshwane Mayor and electricity minister Kgosientsho Ramakgopa has been raised for Tshwane.

However, these are not set in stone. The nomination portal on the party website closes today (Friday, 22 May).

### NEW DA CHIEF WHIP, MORE BITE THAN BARK

The DA has appointed former prosecutor Glynnis Breytenbach as its new chief whip in parliament. This follows the election of George Michalakis as its new Parliamentary leader last week. Breytenbach has 12 years of experience as an MP. The feisty former prosecutor's appointment is a positive one for the DA, given her tenacity and commitment to reforming the criminal justice system and to the party itself. The move by Michalakis to appoint her is in line with the new trajectory the DA is pursuing under its newly elected leader Geordhin Hill-Lewis. Hill-Lewis emphasised reform of the criminal justice system as his top priority.

Breytenbach, a former senior state advocate and regional head of the specialised commercial crime unit, was among the officials sidelined during the state capture era before entering politics through the DA. She has built a reputation in parliament for an aggressive oversight style and a strong focus on the justice system, including oversight of the NPA and Public Protector.

## DOMESTIC DATA

Nomvelo Moima

### APRIL INFLATION QUICKENS ON FUEL JUMP

Headline consumer price inflation surged to its highest level in almost two years, accelerating to 4% y-o-y in April, up from 3.1% in March. This was in largely in line with expectations. The release reinforced the increasingly services-led nature of underlying inflation dynamics. Price growth was led by housing and utilities (5.2% y-o-y), contributing 1.2% pts to the annual increase. Followed by the transport component (4.9% y-o-y; +0.7% pts) and the insurance subcomponent. In contrast, food inflation surprised to the downside, easing to 2.9% y-o-y in April from 3.6% in the prior month, marking a third consecutive month of slowing. On a monthly basis, CPI rose sharply up 1.1% in April, from 0.6% rise in March, the fastest pace since 2022. Stripping away the volatile food and energy components, core inflation accelerated from 3.2% to 3.6% y-o-y.

### WHOLESALE TRADE SALES SURGE IN MARCH

Real wholesale trade sales increased by 8.3% y-o-y in March, a substantial jump from -1.4% y-o-y in February. This marked a solid rebound following two consecutive months of annual contractions and the sharpest rise in wholesale sales since July 2024. Seasonally adjusted (sa) sales jump by 5.5% m-o-m, up from 0.7% in the prior month. This was possibly supported by front-loaded demand ahead of expected price increases and is unlikely to be sustained at this pace. Still, positive for GDP, real wholesale trade sales (sa) rose by 0.9% q-o-q in Q1.

Also encouraging was that this was accompanied by continued growth in the retail sales. Real retail trade sales increased by 2.6% y-o-y in March, up from a 1.6% y-o-y in the prior month. Sales growth was mainly driven by general dealer (1.7% y-o-y, adding 0.8% pts) and the 'all other' retailers category. Of the seven retail trade categories, only retailers in food, beverages and tobacco in specialised stores registered an annual contraction in sales.

Compared to February, real retail trade sales (sa) increased by 0.1% m-o-m in March, but were flat q-o-q.

# INTERNATIONAL DATA

Paul Gluckman

### WEAKER CHINESE INDUSTRIAL PRODUCTION AND RETAIL SALES

China's annual industrial output growth decelerated from 5.7% in March to 4.1% in April, the lowest reading since July 2023. While strong exports (up 12% m-o-m due to stockpiling) would have propped up production, sluggish crude oil and non-metallic mineral production since the war resulted in a stagnant monthly reading. Although production levels were maintained through April, the overall momentum of China's industry has been subdued by the ongoing stalemate between the US and Iran.

Meanwhile, retail sales for March declined from 1.7% y-o-y to 0.2% y-o-y in April, marking the slowest growth observed since December 2022.  Monthly sales fell by 0.5% as rising cost pressures dampened consumer demand. China's economy has long struggled to stimulate domestic consumption, and mounting price pressures may further entrench this weakness. On the other hand, higher inflation can encourage consumers to increase spending, thereby promoting economic growth. The Chinese government would hope for the latter.

The unemployment rate for April declined by 0.2% pts to 5.2%.  The near-term outlook for employment is unlikely to improve given elevated input costs and the rising constraints on global demand.

### ANNUAL UK INFLATION FALLS AMID COST-PUSH SHOCK, BUT PMI FALLS BELOW 50

Consumer inflation for April eased from 3.3% y-o-y in March to 2.8% y-o-y in April. Housing and household services costs were the biggest drag (-0.5% pts), as the reduced energy price cap facilitates lower electricity and gas prices. However, this tariff relief only lasts till June, after which energy prices are expected to rise significantly, fuelling even higher inflation. For April, transport accounted for 0.7% pts of the annual inflation print.

However, that inflation eased beyond expectations, will please the Bank of England (BOE). Additionally, energy costs have not raised the overall price level or produced any second-order effects *yet*, so there is more potential for a rate hold in June – although the consensus expectation remains for a hike.

Meanwhile, the May flash PMI for the UK fell to 48.5 from 52.6, ending an economic expansion that had lasted since April 2025. The war has created strong headwinds, including high input prices and weak demand, that are weighing heavily on services. The services PMI dropped to 47.9 (from 52.7), the lowest since the pandemic. The manufacturing PMI remained at 53.7 for a second month, as heightened inventory frontloading balanced out the impact of rising input costs and supply chain delays.

### EUROZONE PMI FALLS TO 31-MONTH LOW AMID ONGOING SUPPLY SHOCK

May's flash composite PMI dropped to 47.5 from 48.8 in April, marking the second consecutive month of contraction. Surging cost pressures have restricted demand globally, leading to a reduction in activity, export orders and new business, causing the services PMI to decline further to 46.4 (from 47.6). The fall in services activity was matched by substantial employment reductions and a 32-month low in business confidence.

Meanwhile, the manufacturing PMI fell to 51.4 from 52.2. While purchasing activity and output grew as businesses try to frontload inventory to combat rising costs, severe supply chain disruptions limit manufacturers' ability to secure input stock. Consequently, supply delivery times reached a 4-year high, which pushes up the overall reading.

### US OUTPUT GROWTH HOLDS STEADY AS SIGNS OF WEAKNESS BEGIN TO EMERGE

The May composite flash PMI was unchanged at 51.7, supported by the manufacturing sector, whose PMI rose to 55.3 (from 54.5), as activity rises to meet demand for precautionary inventory. Although input prices are accelerating, manufacturers are optimistic and have added jobs to cope with new orders. High demand, tariffs and supply disruptions have also lengthened delivery times, uplifting May's print.

Meanwhile, the services PMI fell marginally to 50.9 (from 51.0). Supply constraints and surging energy costs have begun to undermine demand, business sales and push up selling prices.  These conditions have weakened business sentiment and led to job losses in the service sector. Overall, while output remains in expansionary territory, if stock demand deteriorates and input prices remain high, a downturn in growth is expected.

## FORECAST UPDATE

We have made a slight upward revision to our 2026 inflation forecast, with services inflation accelerating somewhat more than expected. On the other hand, food price inflation was lower than expected in April, which moderates the full-year FNAB estimate somewhat, even as monthly increases are expected to gain momentum as higher transport costs continue to filter through.

Nevertheless, we remain of the view that the SARB will raise its policy interest rate by 25 bps next week. MPC members are likely to debate both keeping rates unchanged and the possibility of a larger 50-bps increase. However, given the SARB's tendency to respond relatively early, but incrementally to rising inflation risks, we expect a smaller initial move. Depending on the SARB's updated inflation forecast and the signalling from its Quarterly Projection Model (QPM), we may revise our longer-term interest rate outlook further. Another 25-bps hike is becoming increasingly likely unless there is a relatively quick de-escalation of tensions in the Middle East. That said, the SARB is likely to respond not only to fuel price pressures, but also to early signs of services inflation beginning to firm, which was already on their radar pre-war.

Our high-frequency data tracker points to some downside risk to our 0.3% published forecast.

| | Actual | | Forecast | | Next release/meeting | |
|---|---|---|---|---|---|---|
| | 2025 | 2026Q1 | 2026Q2 | 2026 | | |
| **Brent crude oil**<br>($, spot, avg.) | 68.83 | 73.83 | 98.3 | 82.8 | n/a | |
| **ZAR/USD**<br>(avg.) | 17.88 | 16.36 | 16.44 | 16.46 | n/a | |
| **Prime interest rate**<br>(%, end of period) | 11.25 | 10.25 | 10.50 | 10.50 | 28-May-26 | |
| **Headline CPI**<br>(y-o-y % change) | 3.2 | 3.3 | 4.9 | 4.2 | 17-Jun-26 | May |
| **FNAB inflation**<br>(y-o-y % change) | 4.1 | 3.9 | 3.4 | 3.8 | 17-Jun-26 | May |
| **Headline PPI**<br>(y-o-y % change) | 1.5 | 2.0 | 7.8 | 5.4 | 28-May-26 | Apr |
| | **2025** | **2025Q4** | **2026Q1** | **2026** | | |
| **Real GDP growth** (seasonally adjusted) | | | | | | |
| (y-o-y % change) | 1.1 | | | 1.3 | 9-Jun-26 | 2026Q1 |
| (q-o-q % change) | | 0.4 | 0.3 | | | |

*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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