

# SA Economics



Interest rate note: the interest rate hike cycle is likely to slow in SA

Tuesday 24 January 2023

Monetary Sector % year-end	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4
Repo Rate (year-end: %)	7.50	7.50	7.00	7.00	6.50	6.50	6.50	6.50
Prime Overdraft Rate (year-end: %)	11.00	11.00	10.50	10.50	10.00	10.00	10.00	10.00
SA rand bond (Av: %)	11.20	11.00	11.00	10.90	10.80	10.70	10.60	10.50

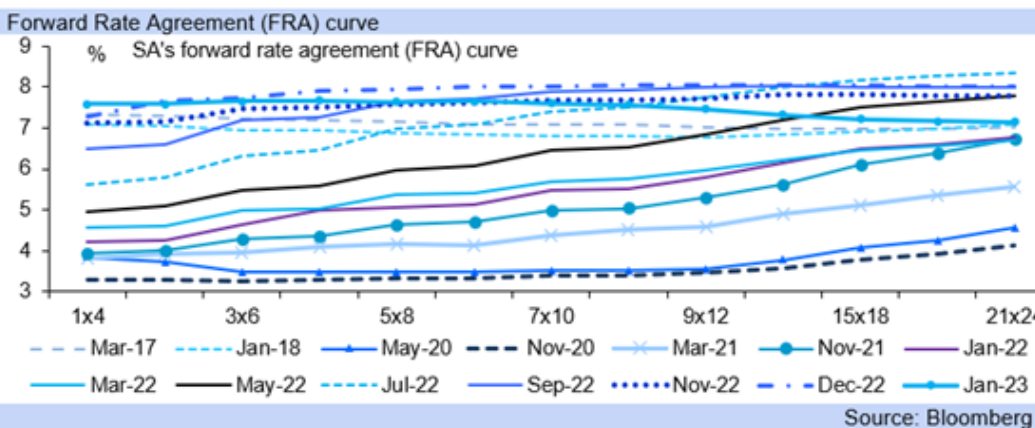
Note: % quarter-end. Source: SARB, Investec

Monetary Sector	2022	2023	2024	2025	2026	2027
Repo Rate (year-end: %)	7.00	7.00	6.50	6.50	6.50	6.50
Prime Overdraft Rate (year-end: %)	10.50	10.50	10.00	10.00	10.00	10.00
SA rand bond (year-end: %)	11.55	10.90	10.50	10.10	10.00	9.90

Key official international interest rates (% , end quarter)				
	US	Euro zone	Euro zone	UK
	Fed funds	Refi rate	deposit rate	Bank Rate
Current	3.75-4.00	2.00	1.500	3.00
Q1.22	0.25-0.50	0.00	-0.50	0.75
Q2.22	1.50-1.75	0.00	-0.50	1.25
Q3.22	3.00-3.25	1.25	0.75	2.25
Q4.22	4.25-4.50	2.50	2.00	3.50
Q1.23	4.50-4.75	2.50	2.25	4.00
Q2.23	4.50-4.75	2.50	2.25	4.00
Q3.23	4.50-4.75	2.50	2.25	3.75
Q4.23	4.00-4.25	2.25	2.00	3.25

Source: Macrobond, Investec

Inflation	2022	2023	2024	2025	2026	2027
Consumer Inflation (Av: %)	6.9	5.3	4.6	4.3	4.6	4.7
(year-end: %)	7.2	4.4	4.2	4.4	4.7	4.5
Producer Inflation (Av: %)	14.4	7.3	4.8	5.1	5.1	5.0
(year-end: %)	14.0	4.4	4.9	4.8	5.3	4.9
Salary & wage increases (%)	4.2	5.4	5.1	5.5	5.4	5.4



- This week's MPC meeting is expected to see South Africa's interest rates hiked again, with both the Forward Rate Agreement (FRA) curve and the consensus economist estimates showing a 50bp lift.
- That is, the FRA curve has fully factored in a 50bp hike, but only factored in a 75bp hike at close to 10% chance of it occurring. Only one more hike this year is currently being factored in by the FRAs, 25bp, also in H1.23.

- The MPC tends to follow the markets expectations on the day of its meeting, but has historically lent to the hawkish side, although the Fed's drop down to 50bp move in December will likely be a key influence.
- The SARB has maintained a strong stance against high inflation, although it has been under-forecasting CPI inflation, with 2022 coming out at 6.9% y/y versus the SARB's last forecast of 6.7% y/y.
- In May the SARB expected CPI inflation would average 5.9% y/y for 2022, and in July adjusted this to 6.5% y/y, with inflation proving higher in 2022 than expected, and stickier (slower) in coming down.
- For 2023 the SARB expect its targeted measures at 5.4% y/y, and is likely to leave its forecast around this rate (we have 5.3% y/y), but aims to achieve a 4.5% y/y outcome, and so pressure will remain for a further rate hike.
- The rand has been weakened against the key crosses (including the US dollar) by the fact that the US has hiked interest rates by a larger quantum (4.25%) than SA has (3.50%) to date in the current interest rate hike cycle.
- A 50bp hike at the MPC meeting on Thursday will not restore the balance, and even a 75bp lift only temporarily as the FOMC is expected to hike at its next meeting (on 1<sup>st</sup> February) by at least a 25bp move in its target rate.
- The rand could gain somewhat on a 75bp increase in the repo rate instead of 50bp this week, although the ongoing loadshedding remains a substantial, overshadowing negative effect on the domestic currency.

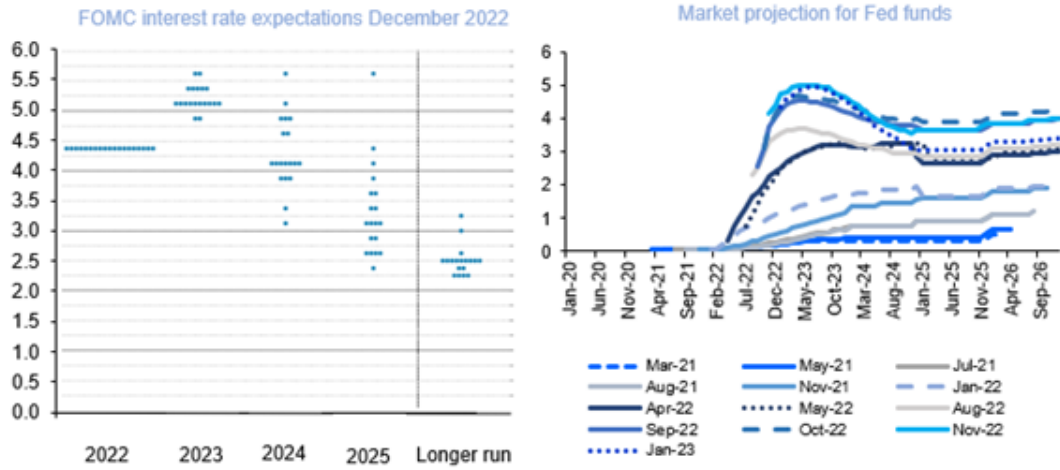
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CPI forecast averages

Date	Index Base 2021	Annual y/y	Monthly m/m	Quarterly y/y	Calendar year y/y	
Jan 2022	100.2	5.7	0.2			
Feb 2022	100.8	5.7	0.6			
Mar 2022	101.8	5.9	1.0	5.8		
Apr 2022	102.4	5.9	0.6			
May 2022	103.1	6.5	0.7			
Jun 2022	104.2	7.4	1.1	6.6		
Jul 2022	105.8	7.8	1.5			
Aug 2022	106.0	7.6	0.2			
Sep 2022	106.1	7.5	0.1	7.7		
Oct 2022	106.5	7.6	0.4			
Nov 2022	106.8	7.4	0.2			
Dec 2022	107.2	7.2	0.4	7.4	2022	6.9
Jan 2023	107.4	7.2	0.2			
Feb 2023	107.9	7.0	0.4			
Mar 2023	108.4	6.5	0.5	6.9		
Apr 2023	108.8	6.3	0.4			
May 2023	109.1	5.8	0.2			
Jun 2023	109.3	4.9	0.2	5.6		
Jul 2023	110.4	4.3	1.0			
Aug 2023	110.6	4.3	0.2			
Sep 2023	110.9	4.5	0.3	4.4		
Oct 2023	111.4	4.6	0.4			
Nov 2023	111.7	4.6	0.3			
Dec 2023	111.9	4.4	0.2	4.5	2023	5.3
Jan 2024	112.5	4.7	0.5			
Feb 2024	112.8	4.6	0.3			
Mar 2024	113.5	4.7	0.6	4.7		
Apr 2024	114.0	4.7	0.4			
May 2024	114.3	4.8	0.3			
Jun 2024	114.5	4.8	0.2	4.8		
Jul 2024	115.4	4.6	0.8			
Aug 2024	115.7	4.6	0.2			
Sep 2024	116.0	4.6	0.3	4.6		
Oct 2024	116.3	4.4	0.2			
Nov 2024	116.6	4.4	0.3			
Dec 2024	116.7	4.2	0.1	4.3	2024	4.6
Jan 2025	117.5	4.4	0.7			
Feb 2025	118.0	4.5	0.4			
Mar 2025	118.5	4.4	0.5	4.5		
Apr 2025	118.8	4.2	0.2			
May 2025	118.9	4.0	0.1			
Jun 2025	119.1	4.0	0.2	4.1		
Jul 2025	120.4	4.3	1.1			
Aug 2025	120.8	4.4	0.3			
Sep 2025	121.2	4.4	0.3	4.4		
Oct 2025	121.3	4.3	0.1			

Source: Stats SA, Investec

US interest rate projections



Source: FOMC, Bloomberg

## Interest rate forecast end rates

Date	Prime forecast	Prime less Inflation	Repo	Repo less Inflation
Jan 2022	7.50	1.8	4.00	-1.7
Feb 2022	7.50	1.8	4.00	-1.7
Mar 2022	7.75	1.8	4.25	-1.7
Apr 2022	7.75	1.9	4.25	-1.6
May 2022	8.25	1.7	4.75	-1.8
Jun 2022	8.25	0.8	4.75	-2.7
Jul 2022	9.00	1.2	5.50	-2.3
Aug 2022	9.00	1.4	5.50	-2.1
Sep 2022	9.75	2.3	6.25	-1.2
Oct 2022	9.75	2.2	6.25	-1.3
Nov 2022	10.50	3.1	7.00	-0.4
Dec 2022	10.50	3.3	7.00	-0.2
Jan 2023	11.00	3.8	7.50	0.3
Feb 2023	11.00	4.0	7.50	0.5
Mar 2023	11.00	4.5	7.50	1.0
Apr 2023	11.00	4.7	7.50	1.2
May 2023	11.00	5.2	7.50	1.7
Jun 2023	11.00	6.1	7.50	2.6
Jul 2023	10.50	6.2	7.00	2.7
Aug 2023	10.50	6.2	7.00	2.7
Sep 2023	10.50	6.0	7.00	2.5
Oct 2023	10.50	5.9	7.00	2.4
Nov 2023	10.50	5.9	7.00	2.4
Dec 2023	10.50	6.1	7.00	2.6
Jan 2024	10.00	5.3	6.50	1.8
Feb 2024	10.00	5.4	6.50	1.9
Mar 2024	10.00	5.3	6.50	1.8
Apr 2024	10.00	5.3	6.50	1.8
May 2024	10.00	5.2	6.50	1.7
Jun 2024	10.00	5.2	6.50	1.7
Jul 2024	10.00	5.4	6.50	1.9
Aug 2024	10.00	5.4	6.50	1.9
Sep 2024	10.00	5.4	6.50	1.9
Oct 2024	10.00	5.6	6.50	2.1
Nov 2024	10.00	5.6	6.50	2.1
Dec 2024	10.00	5.8	6.50	2.3
Jan 2025	10.00	5.6	6.50	2.1
Feb 2025	10.00	5.5	6.50	2.0
Mar 2025	10.00	5.6	6.50	2.1
Apr 2025	10.00	5.8	6.50	2.3
May 2025	10.00	6.0	6.50	2.5
Jun 2025	10.00	6.0	6.50	2.5
Jul 2025	10.00	5.7	6.50	2.2
Aug 2025	10.00	5.6	6.50	2.1
Sep 2025	10.00	5.6	6.50	2.1
Oct 2025	10.00	5.7	6.50	2.2
Nov 2025	10.00	5.8	6.50	2.3
Dec 2025	10.00	5.6	6.50	2.1

Source: Stats SA, Investec

MPC's latest forecasts (November)										
% ch (y/y)	1	2	3	4	Actual					
					2021	1	2	3	4	2022
Headline CPI	3.1	4.9	4.9	5.5	4.5	5.7	6.6	7.6	6.8	6.7
	(3.1)	(4.9)	(4.9)	(5.5)	(4.5)	(5.7)	(6.6)	(7.4)	(6.6)	(6.5)
Core CPI	2.8	3.1	3.1	3.3	3.1	3.6	4.1	4.6	4.8	4.3
	(2.8)	(3.1)	(3.1)	(3.3)	(3.1)	(3.6)	(4.1)	(4.5)	(5.0)	(4.3)

Source: SARB

Note: Figures below the forecast in parentheses represents the previous MPC forecast

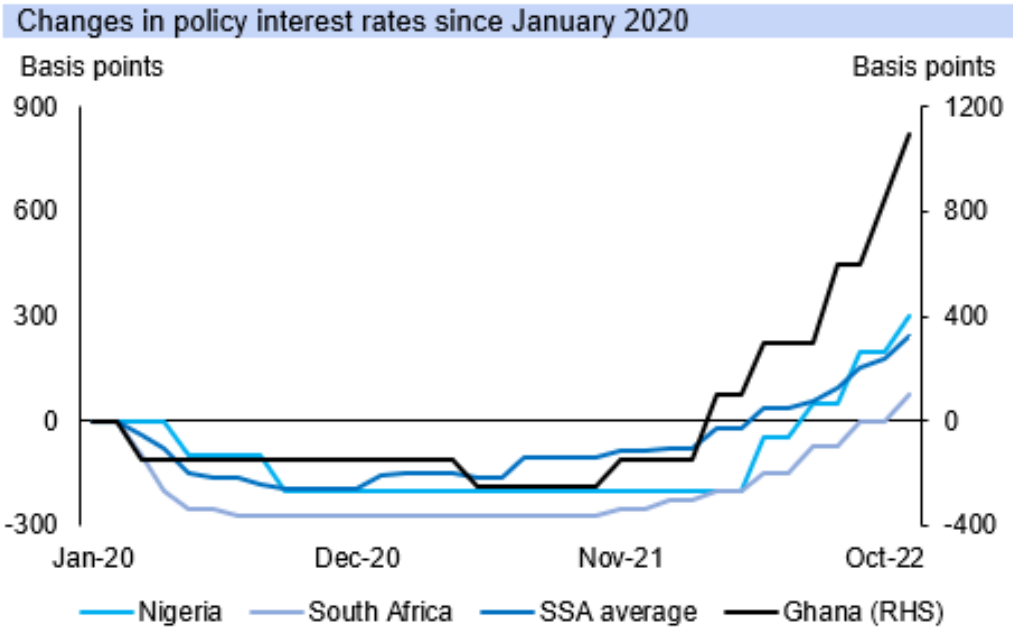
MPC's latest forecasts (November)										
% ch (y/y)	1	2	3	4	Forecast					
					2023	1	2	3	4	2024
Headline CPI	6.8	6.0	4.4	4.7	5.4	4.6	4.5	4.4	4.4	4.5
	(6.4)	(5.8)	(4.4)	(4.7)	(5.3)	(4.7)	(4.6)	(4.6)	(4.5)	(4.6)
Core CPI	5.4	5.7	5.5	5.3	5.5	5.1	4.9	4.7	4.5	4.8
	(5.4)	(5.5)	(5.3)	(5.2)	(5.4)	(5.0)	(4.9)	(4.7)	(4.5)	(4.8)

Source: SARB

Note: Figures below the forecast in parentheses represents the previous MPC forecast

- While it is highly unlikely that the SARB will deliver a 1.00% rise in the repo rate this month, it would likely have a slightly more positive impact on the rand as the interest rate differential with the US would rise.
- However, South Africa has already seen a material impact on the economy from the interest rate hikes in the current cycle. The last increase took place in November (75bp) and economic activity has slowed noticeably.
- November's BankservAfrica Economic Transactions Index (BETI) recorded the lowest level in 2022, falling solidly for six months, reflecting weakening business confidence, and the impact of higher debt servicing costs.
- The drop in the value of electronic payment transactions processed (BankservAfrica's BETI) during the month of November of -1.0% y/y adds to the likelihood of a weak economic growth outcome in Q4.22.
- Higher interest rates are having a suppressing effect, as the SARB intends them to, in the face of still high inflation, with disinflation (falling inflation) only occurring at modest pace in SA, but likely to speed up in H1.23.
- The SARB will also likely be concerned with the upwards trend in its core forecasts for 2023 (core inflation excludes food and non-alcoholic beverages, fuel and energy prices from the CPI).
- The latest CPI print showed core inflation easing only slightly, by 0.1% y/y, to 4.9% y/y, while the latest SARB forecast it rising over 2023 to reach 5.5% y/y in Q3.23, although this is likely excessive.
- The SARB could make a more significant downwards adjustment to its core CPI inflation forecasts for 2023, but is likely to leave its 2024 CPI inflation forecast unchanged at 4.5% y/y at its MPC meeting this month.

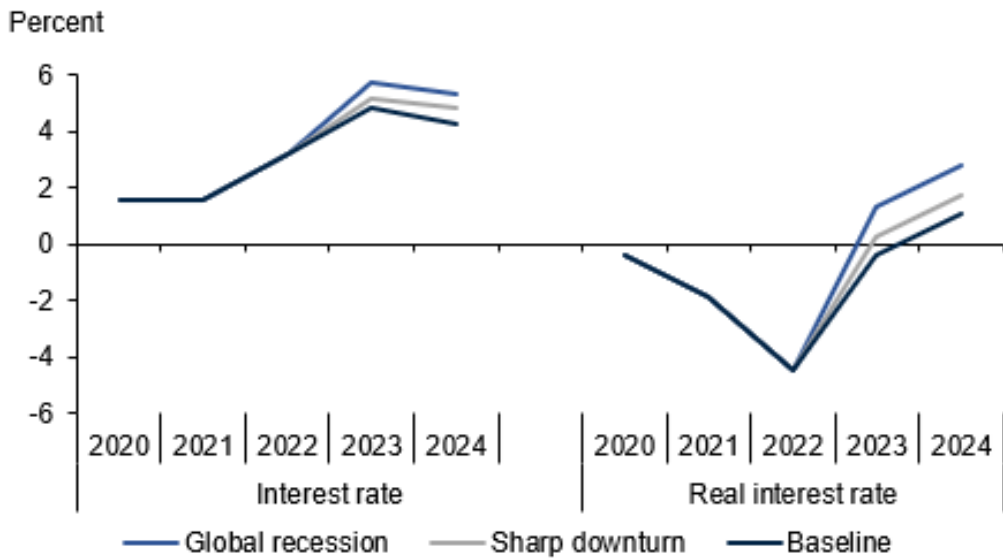
- Reducing its core inflation forecasts for 2023 materially, and its 2024 figure of 4.8% y/y closer to 4.5% y/y would also allow the SARB to ease its interest rate hike cycle with a 50bp instead of 75bp lift this month.



Source: World Bank, Global Economic Prospects January 2023  
 Note: SSA = Sub-Saharan Africa. Change in policy rates since January 2002. SSA average = unweighted average for 8 SSA EMDEs. Last observation is November 2022.



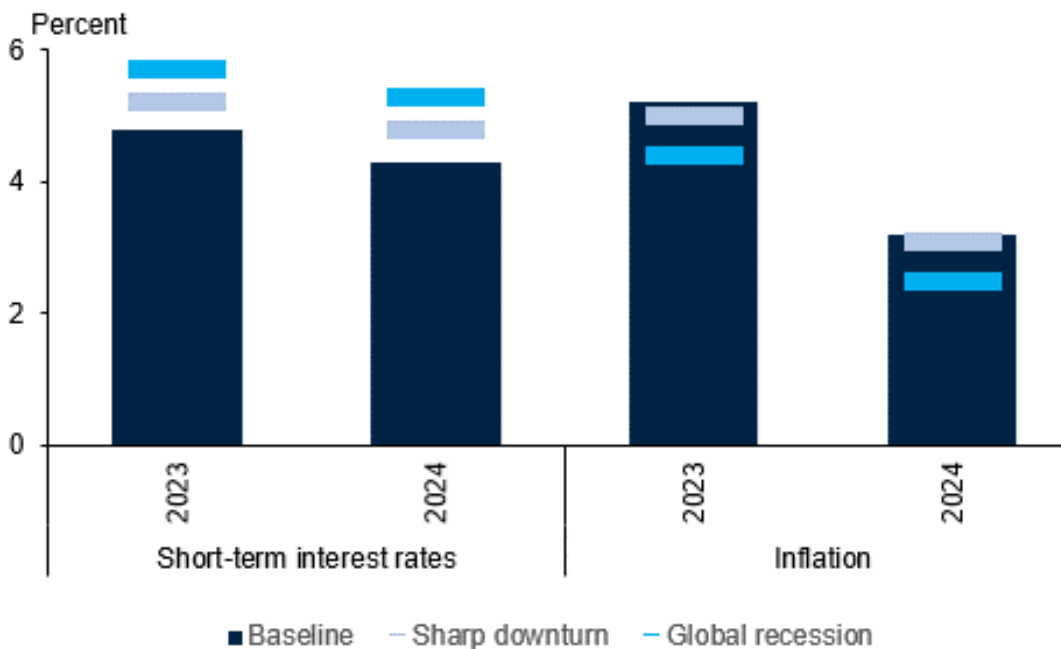
### Global short-term interest rates



Source: World Bank, Global Economic Prospects January 2023

Note: Global nominal short-term interest rate is measured as GDP-weighted averages of national rates. The baseline assumptions are broadly in line with Consensus expectations 3 months and 12 months ahead.

### Global interest rates and inflation under different scenarios



Source: World Bank, Global Economic Prospects January 2023

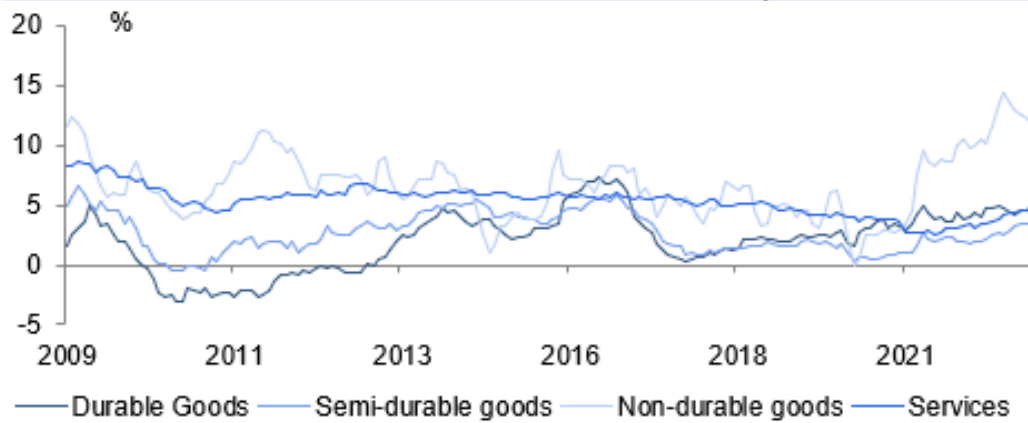
Note: These scenarios are produced using the Oxford Economics Global Economic Model.

SA CPI all goods vs services price inflation



Source: Stats SA

SA CPI durable, non-durable, semi-durable and services price inflation



Source: Stats SA