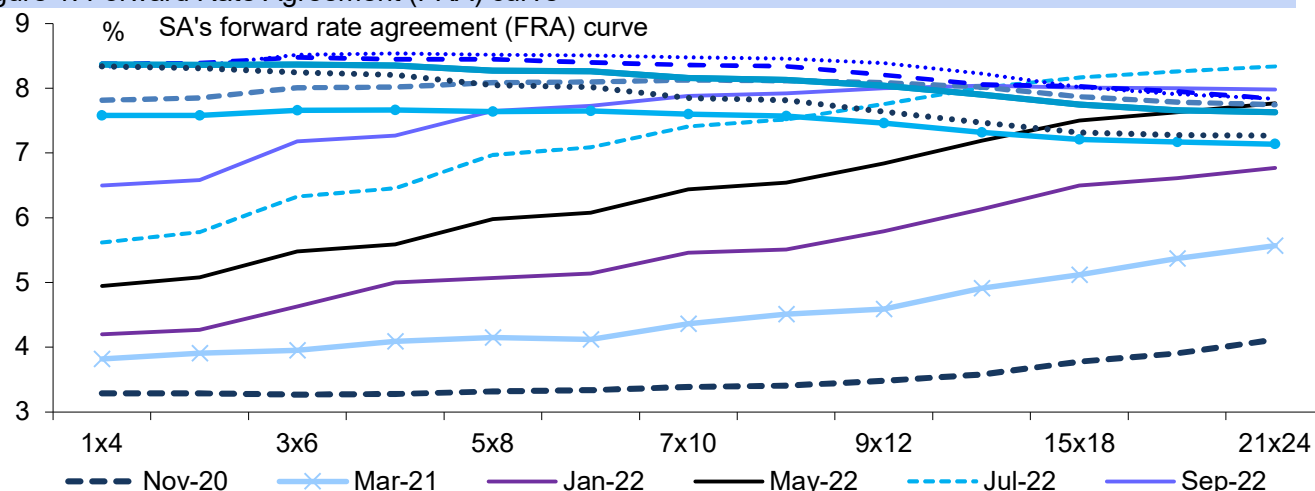




MPC preview: SARB likely to keep rates on hold again

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Figure 1: Forward Rate Agreement (FRA) curve



Source: Bloomberg

South Africa's Reserve Bank (SARB) will decide on its interest rate stance again at the MPC meeting in the last week of this month, a few days before the FOMC (Federal Open Market Committee – or US monetary policy authorities') meeting at the end of January. Both the MPC and the FOMC are expected to leave interest rates unchanged, with the FOMC minutes released last week (for the 13th December 2023 FOMC meeting), proving more cautious on the start of the US rate cut cycle than markets were hoping for. The FOMC minutes highlighted "the importance of maintaining a careful and data-dependent approach to making monetary policy decisions and reaffirmed that it would be appropriate for policy to remain at a restrictive stance for some time." Financial markets tend to run ahead on exuberance, and the rand saw some strength early last week, then mild weakness post the FOMC minutes release, but largely trading relatively quietly overall. The start of the US interest rate cut cycle is typically positive for investor appetite towards EM portfolio assets, bolstering EM currencies. South Africa has only seen very modest flows so far, as foreigners purchased R8.9bn worth of SA bonds so far this year, and R14.8bn in Q4.23, after selling -R1.2bn in Q3.23 (Bloomberg's and JSE settled trade data), with investor sentiment towards SA held back by domestic issues (see Rand note, Monday 8th January, contact details below).

Financial markets have pulled back on expectations for the timing of the first US interest rate cut, from early last week's view of close to a 75% chance of a 25bp cut in the fed funds rate at the 20 March 2024 FOMC meeting, to now around 50%. The previously seen 100% chance of close to two 25bp interest rate cuts in the

Figure 2: Forecasts

Period end rate %	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25
Repo Rate	8.25	8.25	8.25	8.25	8.00	7.75	7.25	7.00
Prime Overdraft Rate	11.75	11.75	11.75	11.75	11.50	11.25	10.75	10.50

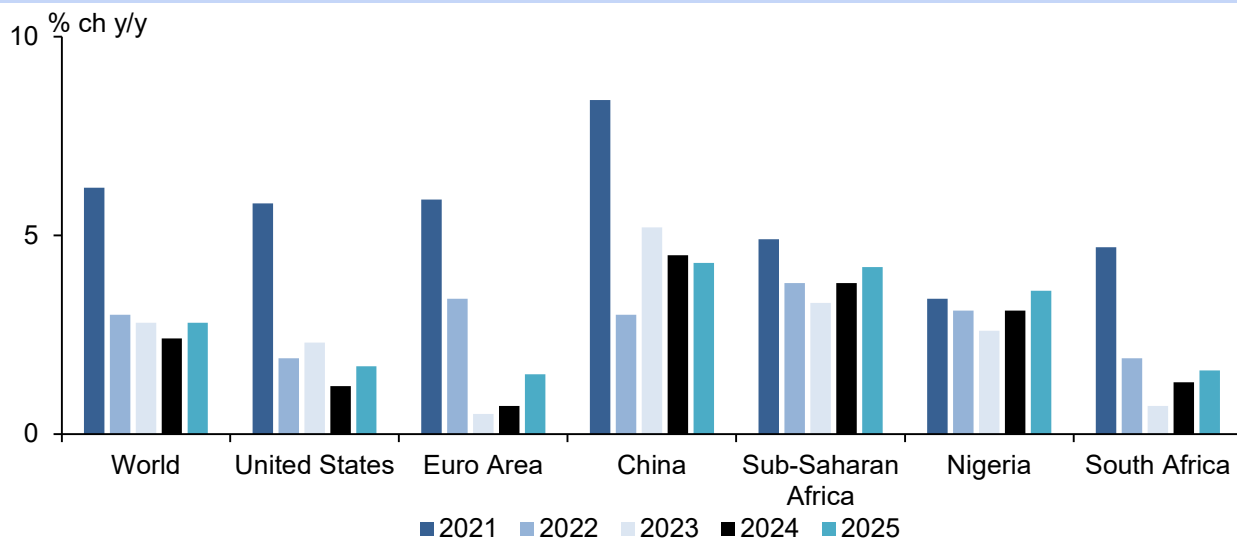
Source: Iress, Investec



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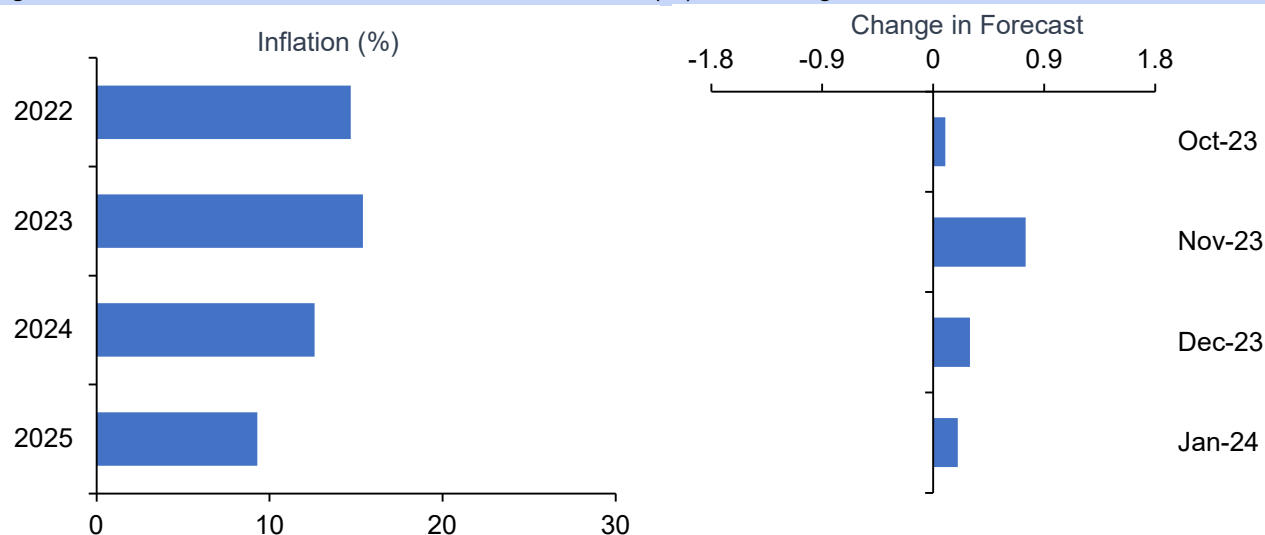
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Figure 3: Major Economies and Sub-Saharan Africa, Real GDP, annual variation in %



Source: Focus Economics January 2024

Figure 4: Sub-Saharan Africa, 2024: 12.6% - inflation (%) and change in forecast



Source: Focus Economics January 2024

Figure 5: Reuters November 2023 forecasts: CPI % y/y

Forecast period	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24	2023	2024	2025
CPI % y/y	5.8	4.9	4.6	5.8	4.9	4.6	5.8	4.9	4.6
Previous survey	5.0	5.2	5.2	4.9	4.8	4.7	5.8	4.9	4.5

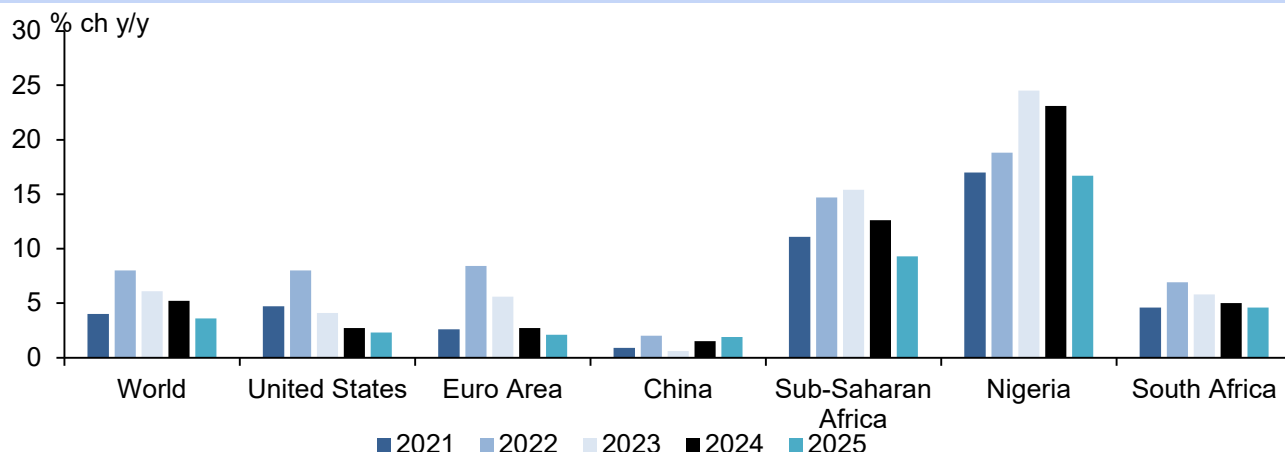
Source: Reuters



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Figure 6: Major Economies and Sub-Saharan Africa consumer prices, annual variation in %



Source: Focus Economics January 2024

US by the 1st of May FOMC meeting, has now pulled back to around 87% chance of one. SA market expectations currently do not see the chance of an interest rate cut in Q1.24. Specifically, South Africa's FRA (Forward Rate Agreement) curve instead is factoring in at least two 25bp cuts in the repo rate in H2.24. Additionally, the SARB (South African Reserve Bank) tends to be on the hawkish side and will view the CPI inflation rate still running above 5.0% y/y as a disincentive to any interest rate cuts in SA in the near term.

The SARB has communicated its determination to see CPI inflation regain the mid-point, of 4.5% y/y of the inflation target range, with the latest print at 5.5% y/y, and likely to remain above 5.0% y/y until March, only reaching 4.5% y/y in July. Additionally, risks to the inflation outcome are to the upside, with CPI inflation likely to rise to around 5.8% y/y in January. South Africa is also unlikely to cut its interest rates in January as the differential between SA and US interest rates would narrow further, causing the rand to weaken, with inflationary effects (i.e. place upwards pressure on South Africa's CPI inflation outcome). The petrol price cut for December

Figure 7: Reuters November 2023 forecasts: Repo rate % y/y

Forecast period	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24	2023	2024	2025
Repo rate % y/y	8.25	8.25	8.00	7.75	7.50	7.25	8.25	7.50	7.00
Previous survey	8.25	8.25	8.00	7.75	7.50	7.50	8.25	7.50	7.00

Source: Reuters

Figure 8: Inflation forecasts	2023	2024	2025	2026	2027	2028
Consumer Inflation (Av: %)	5.9	4.5	4.2	4.6	4.7	4.6
Producer Inflation (Av: %)	6.8	4.8	5.1	5.1	5.0	5.1
Salary & wage increases (%)	4.6	4.7	5.3	5.5	5.6	5.6

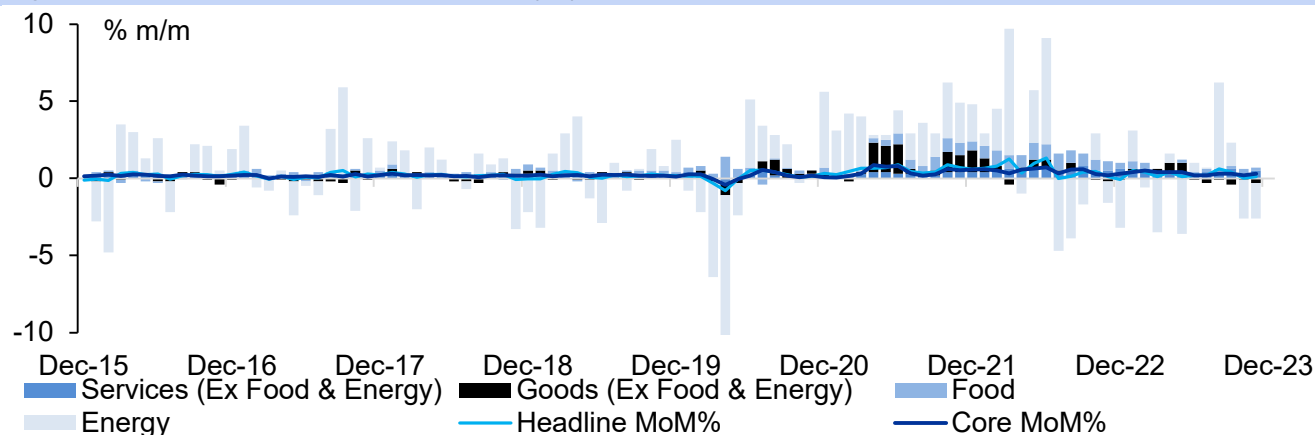
Source: Investec



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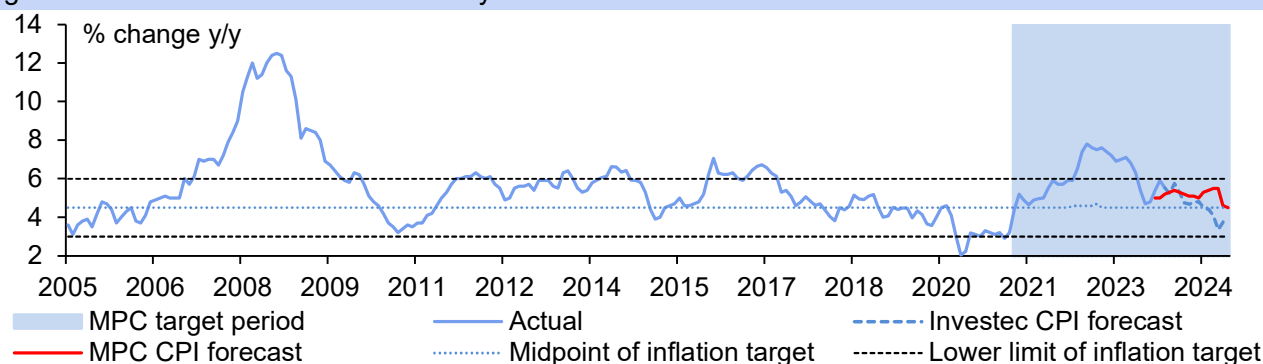
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Figure 9: Contributions to US CPI mom % (sa), and core CPI



Source: Bloomberg

Figure 10: SA Consumer Inflation: history and forecasts



Source: Stats SA, SARB, Investec

Figure 11: Reuters November 2023 Foreign exchange rates poll: USDZAR

	1M	3M	6M	1Y
Release/Effective Date	30 Nov 2023	31 Jan 2024	30 Apr 2024	31 Oct 2024
Median	18.9050	18.9250	18.7250	18.2400
High	19.1800	19.9000	20.4300	20.8000
Low	18.2000	17.5000	17.0000	16.7500
No. of forecasts	17	20	20	18

Source: Reuters

Figure 12: Reuters November 2023 forecasts: GDP

Forecast period	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24	2023	2024	2025
GDP y/y %	0.3	1.0	1.6	1.5	1.7	1.7	0.7	1.3	1.7
Previous survey	0.2	0.6	1.4	1.7	1.8	2.0	0.7	1.1	1.7

Source: Reuters



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Figure 13: SA Monetary Policy Committee (MPC) meeting dates for 2024

Month	Date	Investec Forecast
January	25 January 2024	8.25
March	27 March 2024	8.25
May	30 May 2024	8.25
July	18 July 2024	8.25
September	19 September	8.00
November	21 November 2024	7.75

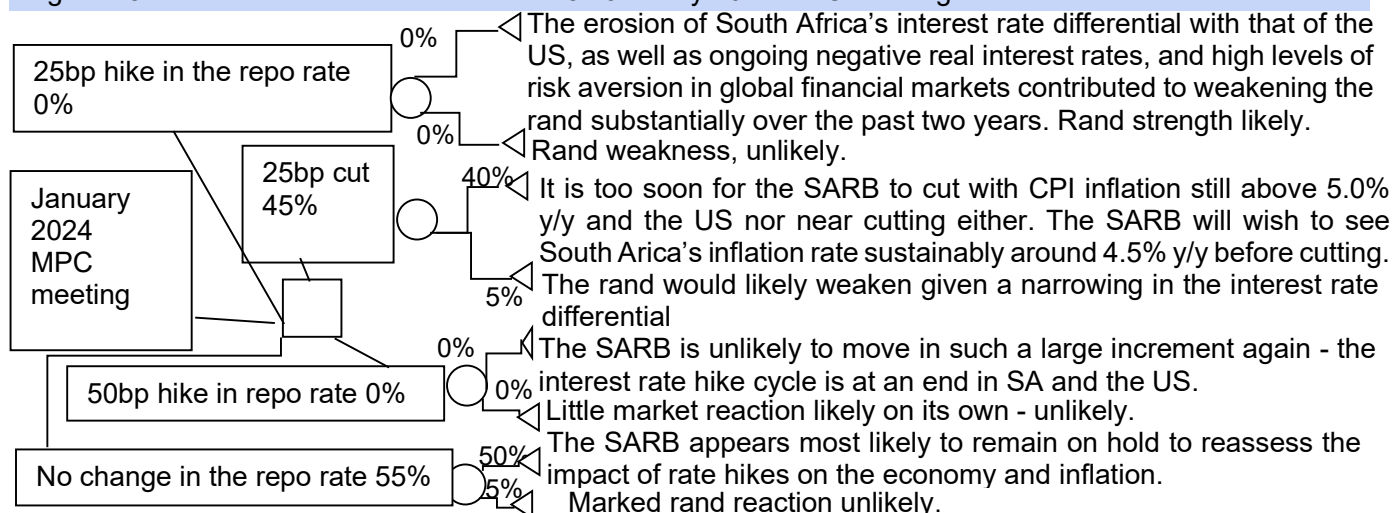
Source: SARB, Investec

Figure 14: Forecasts	2022	2023	2024	2025	2026	2027	2028
Repo Rate	7.00	8.25	7.75	6.75	6.75	6.75	6.75
Prime Overdraft rate	10.50	11.75	11.25	10.25	10.25	10.25	10.25
SA rand bond	11.74	11.50	11.00	10.50	10.30	10.00	9.90
US Fed funds rate	4.50	5.50	4.75	3.50	3.50	3.50	3.50
UK Bank rate	3.50	5.25	4.75	3.25	3.00	3.00	3.00

Note: forecasts are % year-end. Source: Investec, SARB, IRESS

was only 65c/litre, which will have a very small moderating effect on that month's CPI inflation outcome. International food prices fell by -3.1% m/m in December 2023, and the rand weakened by only 0.4% m/m, although domestic food production and other costs are elevated. CPI inflation is likely to fall towards 5.0% y/y in December, but then rise in January again as inflation proves volatile. Inflationary pressures, globally and domestically, are on a general downwards trend, which is adding to expectations of interest rate cuts. This does not mean inflation consistently falls (at every print), but instead in general is tending to decline. We continue to forecast South Africa's first interest rate cut in H2.24.

Figure 15: Decision tree for South Africa's 25th January 2024 MPC meeting





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Figure 16: US interest rate projections

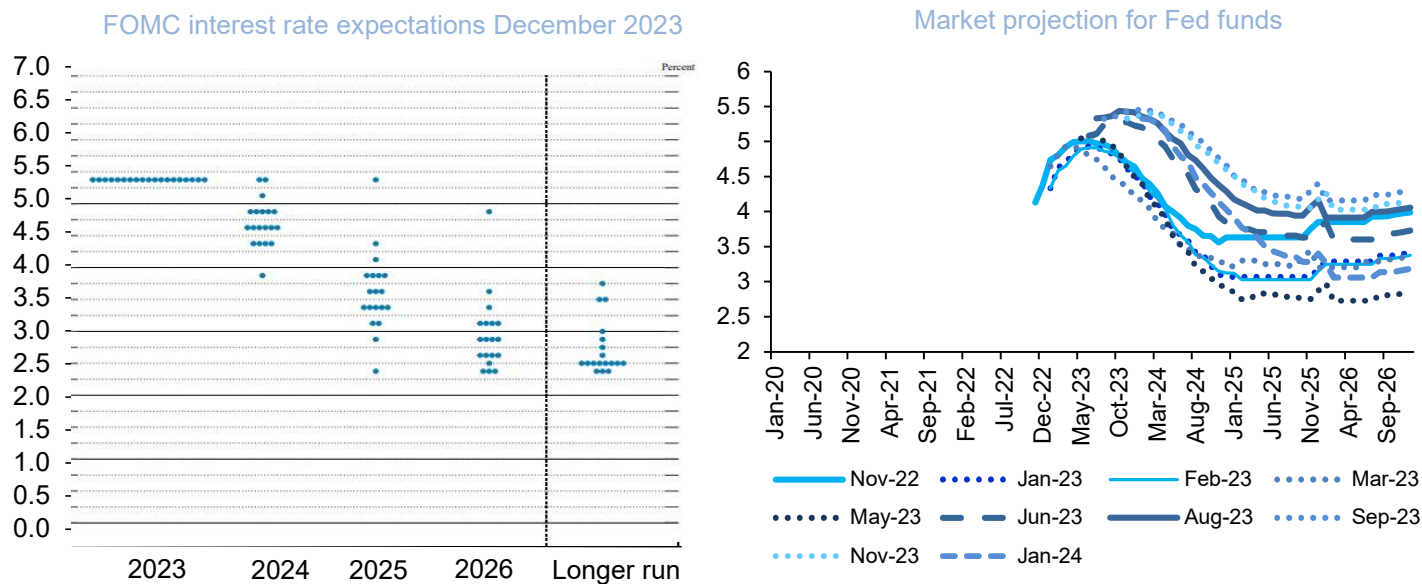


Figure 17: FOMC 2024 Meeting Schedule

30-31 January 2024
 19-20* March 2024
 30-1 April/May 2024
 11-12* June 2024
 30-31 July 2024
 17-18* September 2024
 6-7 November 2024
 17-18* December 2024

Source: Federal Reserve Bank

*Meeting associated with a summary of Economic Projections

Figure 18: Forecast of international interest rates (% , end quarter)

	US Fed funds	Euro zone Refi rate	Euro zone deposit rate	UK Bank Rate
Current	5.25-5.50	4.50	4.00	5.25
Q1.23	4.75-5.00	3.50	3.00	4.25
Q2.23	5.00-5.25	4.00	3.50	5.00
Q3.23	5.25-5.50	4.50	4.00	5.25
Q4.23	5.25-5.50	4.50	4.00	5.25
Q1.24	5.25-5.50	4.50	4.00	5.25
Q2.24	5.00-5.25	4.00	3.75	5.25
Q3.24	4.75-5.00	3.75	3.50	5.00
Q4.24	4.50-4.75	3.50	3.25	4.75

Source: Macrobond, Investec



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Figure 19: Interest rate forecast end rates

Date	Prime forecast	Prime less Inflation	Repo	Repo less Inflation
Jan 2023	10.75	3.9	7.25	0.4
Feb 2023	10.75	3.7	7.25	0.2
Mar 2023	11.25	4.2	7.75	0.7
Apr 2023	11.25	4.4	7.75	0.9
May 2023	11.75	5.4	8.25	1.9
Jun 2023	11.75	6.4	8.25	2.9
Jul 2023	11.75	7.0	8.25	3.5
Aug 2023	11.75	6.9	8.25	3.4
Sep 2023	11.75	6.4	8.25	2.9
Oct 2023	11.75	5.8	8.25	2.3
Nov 2023	11.75	6.2	8.25	2.7
Dec 2023	11.75	6.5	8.25	3.0
Jan 2024	11.75	6.0	8.25	2.5
Feb 2024	11.75	6.5	8.25	3.0
Mar 2024	11.75	7.0	8.25	3.5
Apr 2024	11.75	7.1	8.25	3.6
May 2024	11.75	7.0	8.25	3.5
Jun 2024	11.75	6.9	8.25	3.4
Jul 2024	11.75	7.3	8.25	3.8
Aug 2024	11.75	7.3	8.25	3.8
Sep 2024	11.50	7.4	8.00	3.9
Oct 2024	11.50	8.1	8.00	4.6
Nov 2024	11.25	7.5	7.75	4.0
Dec 2024	11.25	7.5	7.75	4.0
Jan 2025	11.00	7.0	7.50	3.5
Feb 2025	11.00	6.9	7.50	3.4
Mar 2025	10.75	6.6	7.25	3.1
Apr 2025	10.75	6.7	7.25	3.2
May 2025	10.50	6.7	7.00	3.2
Jun 2025	10.50	6.7	7.00	3.2
Jul 2025	10.25	5.9	6.75	2.4
Aug 2025	10.25	5.8	6.75	2.3
Sep 2025	10.25	5.8	6.75	2.3
Oct 2025	10.25	5.9	6.75	2.4
Nov 2025	10.25	6.0	6.75	2.5
Dec 2025	10.25	5.9	6.75	2.4

Source: IRESS, Investec



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Figure 20: Interest rate forecast end rates (continued)

Date	Prime forecast	Prime less Inflation	Repo	Repo less Inflation
Jan 2026	10.25	6.0	6.75	2.5
Feb 2026	10.25	6.0	6.75	2.5
Mar 2026	10.25	6.0	6.75	2.5
Apr 2026	10.25	5.8	6.75	2.3
May 2026	10.25	5.6	6.75	2.1
Jun 2026	10.25	5.5	6.75	2.0
Jul 2026	10.25	5.6	6.75	2.1
Aug 2026	10.25	5.7	6.75	2.2
Sep 2026	10.25	5.8	6.75	2.3
Oct 2026	10.25	5.6	6.75	2.1
Nov 2026	10.25	5.5	6.75	2.0
Dec 2026	10.25	5.6	6.75	2.1
Jan 2027	10.25	5.6	6.75	2.1
Feb 2027	10.25	5.5	6.75	2.0
Mar 2027	10.25	5.3	6.75	1.8
Apr 2027	10.25	5.5	6.75	2.0
May 2027	10.25	5.6	6.75	2.1
Jun 2027	10.25	5.6	6.75	2.1
Jul 2027	10.25	5.9	6.75	2.4
Aug 2027	10.25	5.7	6.75	2.2
Sep 2027	10.25	5.6	6.75	2.1
Oct 2027	10.25	5.6	6.75	2.1
Nov 2027	10.25	5.8	6.75	2.3
Dec 2027	10.25	5.8	6.75	2.3
Jan 2028	10.25	5.9	6.75	2.4
Feb 2028	10.25	5.9	6.75	2.4
Mar 2028	10.25	5.9	6.75	2.4
Apr 2028	10.25	5.8	6.75	2.3
May 2028	10.25	5.7	6.75	2.2
Jun 2028	10.25	5.7	6.75	2.2
Jul 2028	10.25	5.3	6.75	1.8
Aug 2028	10.25	5.6	6.75	2.1
Sep 2028	10.25	5.7	6.75	2.2
Oct 2028	10.25	5.7	6.75	2.2
Nov 2028	10.25	5.7	6.75	2.2
Dec 2028	10.25	5.7	6.75	2.2

Source: IRESS, Investec



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Figure 21: CPI forecast averages

Date	Index Base 2016	Annual y/y	Monthly m/m	Quarterly y/y	Calendar year y/y	
Jan 2023	107.1	6.9	-0.1		2023	5.9
Feb 2023	107.9	7.0	0.7			
Mar 2023	109.0	7.1	1.0	7.0		
Apr 2023	109.4	6.8	0.4			
May 2023	109.6	6.3	0.2			
Jun 2023	109.8	5.4	0.2	6.2		
Jul 2023	110.8	4.7	0.9			
Aug 2023	111.1	4.8	0.3			
Sep 2023	111.8	5.4	0.6	5.0		
Oct 2023	112.8	5.9	0.9			
Nov 2023	112.7	5.5	-0.1			
Dec 2023	112.8	5.2	0.1	5.6		
Jan 2024	113.3	5.8	0.4		2024	4.5
Feb 2024	113.6	5.3	0.3			
Mar 2024	114.2	4.7	0.5	5.3		
Apr 2024	114.5	4.7	0.3			
May 2024	114.9	4.8	0.3			
Jun 2024	115.1	4.8	0.2	4.8		
Jul 2024	115.8	4.5	0.6			
Aug 2024	116.0	4.4	0.2			
Sep 2024	116.4	4.1	0.3	4.3		
Oct 2024	116.6	3.4	0.2			
Nov 2024	116.9	3.8	0.3			
Dec 2024	117.0	3.7	0.1	3.6		
Jan 2025	117.8	4.0	0.7		2025	4.2
Feb 2025	118.3	4.1	0.4			
Mar 2025	118.9	4.1	0.5	4.1		
Apr 2025	119.1	4.0	0.2			
May 2025	119.2	3.8	0.1			
Jun 2025	119.5	3.8	0.2	3.9		
Jul 2025	120.8	4.3	1.1			
Aug 2025	121.2	4.4	0.3			
Sep 2025	121.5	4.4	0.3	4.4		
Oct 2025	121.6	4.3	0.1			
Nov 2025	121.9	4.2	0.2			
Dec 2025	122.1	4.4	0.2	4.3		

Source: Stats SA, Investec



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Figure 22: CPI forecast averages (continued)

Date	Index Base 2016	Annual y/y	Monthly m/m	Quarterly y/y	Calendar year y/y	
Jan 2026	122.9	4.3	0.6		2026	4.6
Feb 2026	123.4	4.3	0.4			
Mar 2026	124.0	4.3	0.5	4.3		
Apr 2026	124.5	4.5	0.4			
May 2026	124.8	4.7	0.3			
Jun 2026	125.2	4.8	0.3	4.7		
Jul 2026	126.5	4.7	1.0			
Aug 2026	126.7	4.6	0.2			
Sep 2026	127.0	4.5	0.2	4.6		
Oct 2026	127.4	4.7	0.3			
Nov 2026	127.7	4.8	0.3			
Dec 2026	127.9	4.7	0.1	4.7		
Jan 2027	128.6	4.7	0.6		2027	4.7
Feb 2027	129.3	4.8	0.5			
Mar 2027	130.1	4.9	0.6	4.8		
Apr 2027	130.4	4.8	0.3			
May 2027	130.7	4.7	0.2			
Jun 2027	131.1	4.7	0.3	4.7		
Jul 2027	132.0	4.4	0.7			
Aug 2027	132.5	4.6	0.4			
Sep 2027	132.9	4.7	0.3	4.6		
Oct 2027	133.3	4.7	0.3			
Nov 2027	133.5	4.5	0.1			
Dec 2027	133.6	4.5	0.1	4.6		
Jan 2028	134.3	4.4	0.5		2028	4.6
Feb 2028	134.9	4.4	0.5			
Mar 2028	135.8	4.4	0.6	4.4		
Apr 2028	136.3	4.5	0.4			
May 2028	136.7	4.6	0.3			
Jun 2028	137.1	4.6	0.3	4.6		
Jul 2028	138.5	4.9	1.0			
Aug 2028	138.8	4.7	0.2			
Sep 2028	139.0	4.6	0.2	4.7		
Oct 2028	139.5	4.6	0.3			
Nov 2028	139.6	4.6	0.1			
Dec 2028	139.7	4.6	0.1	4.6		

Source: Stats SA, Investec



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Figure 23: Economic Scenarios:

		Q1.24	Q2.24	Q3.24	Q4.24	Q1.25	Q2.25	Q3.25	Q4.25
Extreme	USD/Rand (average)	17.10	16.50	15.50	15.00	14.60	14.50	14.40	14.10
	Repo rate (end rate)	7.50	7.25	7.00	6.50	6.25	6.00	5.50	5.25
	1% SA economic growth very quickly rises to 3–5%, then 5–7%. Good governance, growth-creating reforms (structural constraints eradicated), strong property rights, no nationalisation or expropriation without compensation. High business confidence and fixed investment growth, substantial FDI, fiscal consolidation drives debt to low ratios of 2000s. Very subdued domestic inflation on extreme rand strength, very favourable weather conditions. Strong global growth, risk-on, commodity boom. Rapid upgrades of credit ratings to investment grade. Very short grey listing. Quick transition to renewable energy from fossil fuels.								
Up case	USD/Rand (average)	17.50	17.20	17.00	16.90	16.80	16.70	16.50	16.20
	Repo rate (end rate)	7.75	7.75	7.50	7.00	6.75	6.50	6.00	5.75
	1% Economic growth lifts towards 5.0% y/y, rising business confidence and investment, structural constraints eroded, global growth strong, global financial markets risk-on. No nationalisation or expropriation without compensation. Low domestic inflation on favourable weather and global conditions, rand strength, lower inflation on increased privatisation. Credit rating upgrades on fiscal consolidation, markedly lower borrowings. Substantial transition to renewable energy away from fossil fuel usage, comprehensive measures to alleviate climate change impact on economy. Grey listed for less than eighteen months.								
Base case	USD/Rand (average)	17.95	17.70	17.90	17.70	17.50	17.80	17.90	17.70
	Repo rate (end rate)	8.25	8.25	8.00	7.75	7.25	7.00	6.75	6.75
	47% Economic growth modest lifts towards 3.0% y/y on reforms, global financial market risk sentiment is neutral to positive. SA remains in the BB credit rating category bracket on fiscal consolidation (debt to GDP stabilisation). The rand stabilises, then strengthens somewhat. Inflation is impacted by weather patterns via food price inflation. A transition to renewable energy and slow move away from fossil fuel usage occurs and measures to alleviate the impact of climate change on the economy are modestly implemented. The Russian/Ukraine conflict eases. Little to no expropriation without compensation. Temporary grey listing.								
Lite (domestic)	USD/Rand (average)	19.00	19.20	19.30	19.30	19.50	19.50	19.70	19.50
	Repo rate (end rate)	8.75	9.00	9.50	9.50	9.50	9.50	9.25	9.00
	Down case 43% The lite down case has the same expected international environment as the base case, but the domestic environment differs. Business confidence depressed, substantial electricity and water shedding, very weak rail capacity, civil and political unrest, little investment growth, swing toward left leaning policies recession. Temporary increase in state borrowings, risk of credit rating downgrades rise, then occur later in period, but sees eventual fiscal consolidation Expropriation of private sector property is very limited and has a modestly negative impact on the economy. High inflation on unfavorable weather conditions, marked rand weakness. Little transition to renewable energy or measures to alleviate climate change. Lengthy greylisting.								
Severe down case	USD/Rand (average)	20.50	21.20	21.40	21.50	21.50	21.30	21.50	21.50
	Repo rate (end rate)	9.25	10.50	11.00	11.00	11.50	11.50	11.00	10.75
	8% Lengthy global recession, global financial crisis – insufficient monetary and other support domestically and internationally. ANC/EFF coalition in 2024. Widespread, severe services load shedding, severe civil and political unrest. Government borrows from increasingly wider sources, SA rated single B from all three key agencies, eventually CCC grade, increased risk of default, sinks deeper into a debt trap. Failure to transition to renewable energy and to sufficient measures to alleviate the impact of climate change on the economy. Very high inflation on very adverse weather conditions, severe rand weakness. Full implementation of expropriation without compensation occurs (particularly for land held for speculative purposes), with a significant negative impact on the economy. SA blacklisted.								

Note: Event risk begins Q1 24. Source: Investec



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Tuesday 9 January 2024

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