



SARB unanimously keeps repo rate steady at 8.25%

Highlights

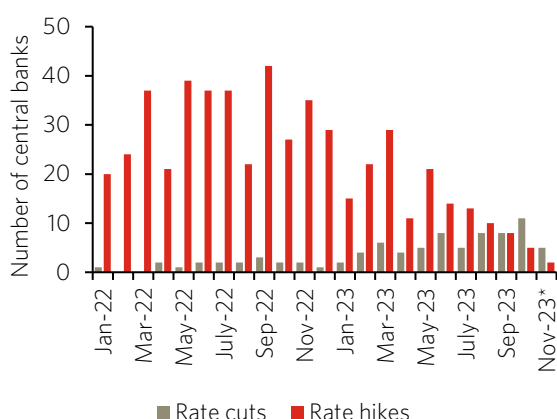
- The number of interest rate cuts in the world has started to outpace the number of hikes but the majority of central banks are erring on the side of caution by pausing the interest rate cycle and keeping monetary policy in restrictive territory to fend off potential upside threats to inflation. The United States (US) Federal Reserve (Fed), the European Central Bank (ECB) and the Bank of England (BOE) have all kept their key central bank interest rates constant at their latest policy decision meetings.
- The Bloomberg median consensus forecasts that major central banks, including South Africa (SA), will start cutting rates in the second quarter of 2024. In our view, the bias to monetary policy is for a later and shallower interest rate cutting cycle in light of lingering upside risks to inflation.
- With domestic growth risks assessed as being balanced, the SA Reserve Bank (SARB) slightly revised their growth forecast up to 0.8% in 2023 (previously 0.7%). The SARB expects additional electricity supply to support growth over the medium-term and has consequently revised growth for 2024 and 2025 up to 1.2% (previously 1%) and 1.3% (previously 1.1%), respectively.
- Despite higher inflation prints over the past few months, the SARB notes that their baseline forecast has improved. Headline inflation is expected to average 5.8% in 2023 (previously 5.9%) and moderate to 5% in 2024 (previously 5.1%) before stabilising at 4.5% from 2025. Core inflation was revised slightly lower to 4.8% in 2023 (previously 4.9%) and 4.6% in 2024 (previously 4.7%).
- Nevertheless, risks to the inflation outlook are still assessed to be to the upside. These include El Niño (drier weather conditions in SA), international oil prices, volatile exchange rates and electricity prices.
- The SARB's expectation on average fuel price inflation for 2023 is broadly unchanged around 0.4% but it was revised significantly lower for 2024 to 3.2% from 5.8%. Food inflation is expected to average 10.6% in 2023 (previously 10.4%) on account of elevated risks.
- The unanimous decision to keep the repo rate unchanged at 8.25% is in line with the improved baseline forecast. Given lingering risks to the inflation trajectory, the SARB maintained a hawkish tone.
- We maintain our standing view of rates being kept elevated for longer to tame inflationary pressures. Until the SARB sees inflation sustainably moderating toward the midpoint of the inflation target (4.5%), rate cuts are likely to be less of a consideration. In our opinion, the SARB may only start cutting rates in the second quarter of 2024 with a cumulative 75-basis points (bps) worth of cuts pencilled in for 2024 (in line with the Reuters consensus but more than the SARBs QPM (Quarterly Projection Model) guidance of 50-bps in 2024).
- The Monetary Policy Committee (MPC) dates for 2024 are listed at the end of the report.

Globally, monetary policy to remain restrictive despite interest rate cuts predicted for 2024

The number of central banks cutting interest rates has gradually increased. There were 11 central banks that implemented interest rate cuts in October 2023. This was the highest number of central banks cutting in more than a year (see chart 1). On the other hand, only five central banks raised rates in October. In November (month-to-date), five central banks have cut rates and two have hiked rates.

While there is growing evidence of more central banks easing policy rates, it is still concentrated in only a handful of economies suggesting that the majority of central banks are keeping rates steady. The three major central banks namely, the Fed, the ECB and BOE all kept rates unchanged at the latest meetings.

Chart 1: Rate cuts are slowly picking up momentum



Source: cbrates.com, Momentum Investments
* Month-to-date (1 to 22 November)

In October, the ECB's Governing Council unanimously decided to keep interest rates constant at 4.5%. According to Reuters, the ECB President guided that the bank intends to keep rates higher for longer, but this guidance was not successful. The market now expects the ECB to start cutting rates sooner (first part of the second quarter) in response to slower growth. This is partly due to communication that the Eurozone economy was weaker than predicted in September and is estimated to remain weak for the rest of the year.

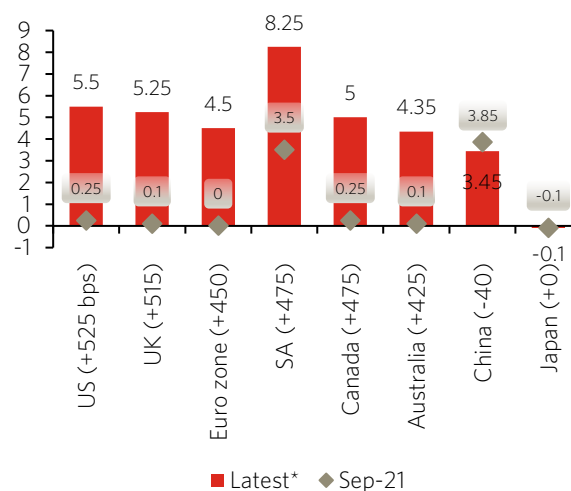
The Fed kept the federal funds target range steady at 5.25% to 5.5% for a second consecutive meeting in

November. The minutes of the November FOMC (Fed Open Market Committee) meeting reveal that the decision to keep rates constant was unanimous but the tone remained hawkish. The Fed Chair highlighted that there is still a possibility for further interest rate hikes if the need arises.

The BOE MPC decided to keep interest rates steady at 5.25% in November backed by a strong majority of six out of nine members.

The last meetings of the year for these three central banks are scheduled for the second week of December, where the consensus expects no shift in interest rates. A key question facing markets is the timing of the next sustainable interest rate cutting cycle. Chart 2 provides a snapshot of where interest rates of the major central banks (with the addition of SA) started and where they have settled as of 23 November 2023. Apart from China and Japan, the other central banks have hiked rates in excess of 400 bps making this a reasonably steep hiking cycle.

Chart 2: Aggressive rate hiking cycle



Source: Bloomberg, Momentum Investments
*As of 23 November 2023

Table 1: Market consensus pencilling in rate cuts to start in 2024 Q2

	First rate cut	Cumulative cuts*	2024 year-end rate
US*	Q2 2024	105 bps	4.45%
UK	Q2 2024	75 bps	4.5%
Eurozone	Q2 2024	75 bps	3.75%
SA	Q2 2024	75 bps	7.5%
Canada	Q2 2024	100 bps	4%
Australia	Q2 2024	55 bps	3.8%

Source: Bloomberg, Momentum Investments

*Cumulative cuts from the rate as of 22 November 2023 until 2024 Q4

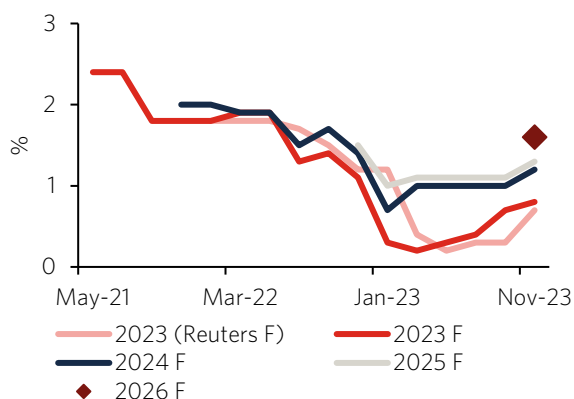
The Bloomberg median consensus points to rate cuts commencing in the second quarter of 2024 for the major central banks as seen in table 1. The US is expected to have a relatively more aggressive cutting cycle of c.100 bps between the current rate announced in the November 2023 meeting and the fourth quarter of 2024.

Following the larger-than-anticipated spike in SA's inflation rate to 5.9% y/y in October, the Bloomberg consensus pushed the first rate hike from the first quarter of 2024 initially to the second quarter of 2024, in line with our expectation.

Domestic growth estimates revised upward due to reduced loadshedding

Following the positive second-quarter growth surprise, which led to the SARB upwardly revising its growth projection for 2023 to 0.7% (previously 0.4%), the SARB further revised its growth estimate slightly up to 0.8% for 2023 as seen in chart 3. The November 2023 Reuters median consensus growth estimate was unchanged at 0.7% for 2023 (on par with our own forecast but marginally lower than the SARB's new forecast).

Chart 3: SARB's real growth revisions



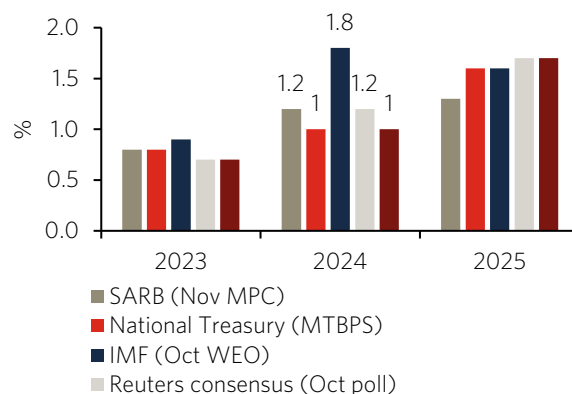
Source: SARB, Momentum Investments

The slight upward revision does not deviate from our expectation of weaker growth in the second half of 2023 relative to the first half. This is because sectoral monthly data is pointing to weaker economic growth for the third quarter. Moreover, the drop in the fourth quarter business confidence index is not encouraging for economic activity in the last quarter of 2023. The

Bloomberg consensus (22 November 2023) and the Reuters median consensus (November 2023 poll) have pencilled in a mild contraction of 0.1% for the third quarter.

Risks to the medium-term growth outlook were assessed to be balanced. The SARB expects additional electricity supply to support growth over the medium-term and has consequently revised growth for 2024 and 2025 up to 1.2% (previously 1%) and 1.3% (previously 1.1%), respectively. The SARB pitched a new forecast for growth in 2026 at 1.6%. However, they highlighted that electricity and logistics constraints remain binding for economic activity.

Chart 4: IMF's 2024 real growth forecast is an outlier

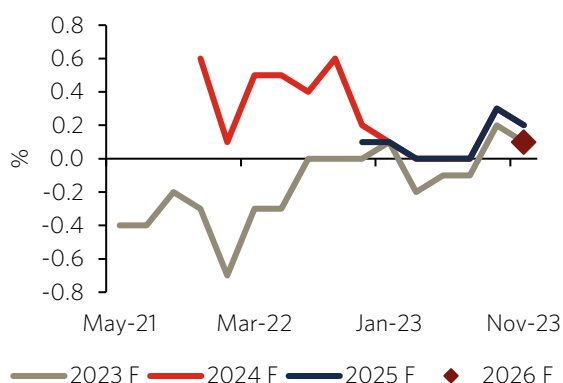


Source: SARB, National Treasury, IMF, Reuters, Momentum Investments

Analysts surveyed in the November Reuters econometer poll were more optimistic about growth in

2025 (1.7%, unchanged) than the SARB. Our growth forecasts of 1% for 2024 is marginally below the SARB's forecast and our view is aligned with the Reuters consensus for 2025 as seen in chart 4. Our 2025 figure reflects a ramp up in private sector participation in addressing the country's energy constraints.

Chart 5: SARB's output gap revisions

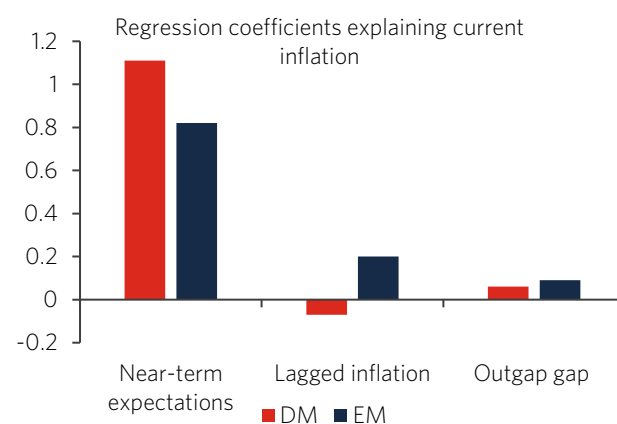


Source: SARB, Momentum Investments

The SARB's potential growth estimates were lifted slightly to 0.1% for 2023 (previously 0%), 0.1% for 2024 (previously 0.8%) and 1.2% for 2025 (previously

1%). The new forecast for 2026 is 1.6%. As a result, the output gap is moderately lower but is still expected to be slightly positive through to 2026 as seen in chart 5. Estimates are much closer to 0% implying little positive or negative impact on inflation from an expected improvement in growth. Nonetheless, the IMF notes a reasonably weak correlation between current inflation and the output gap as seen in chart 6.

Chart 6: Output gap is not the biggest driver of current inflation

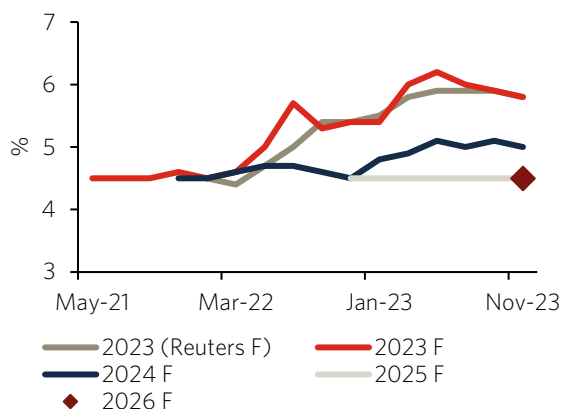


Source: IMF, Momentum Investments
Linear regression uses data between 1991 and Q1 2023

SARB expects a further moderation in inflation

According to the SARB, the recent uptick in the inflation rate (up from 4.7% y/y in July to 5.9% y/y in October) was anticipated and did not deviate greatly from their monthly forecasts and as such explains the SARB's downward revision in their inflation forecast.

Chart 7: SARB's headline inflation revisions

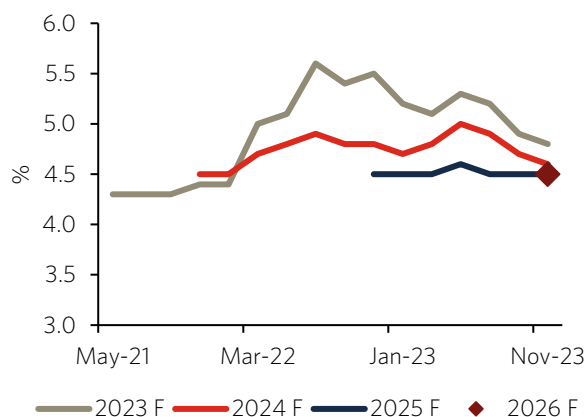


Source: SARB, Momentum Investments

The SARB expects headline inflation to average 5.8% in 2023 (previously 5.9%) and moderate to 5% in 2024 (previously 5.1%) before stabilising at 4.5% from 2025 as seen in chart 7.

Since the September MPC meeting, core inflation has dropped to 4.4% y/y in October. On the back of better monthly outcomes, core inflation forecasts were revised slightly lower to 4.8% in 2023 (previously 4.9%), 4.6% in 2024 (previously 4.7%) and is expected to stabilise at 4.5% from 2025 onwards as illustrated in chart 8. The SARB notes that the expected core inflation profile suggests that inflationary pressures have not spread and demand-side pressures are not elevated.

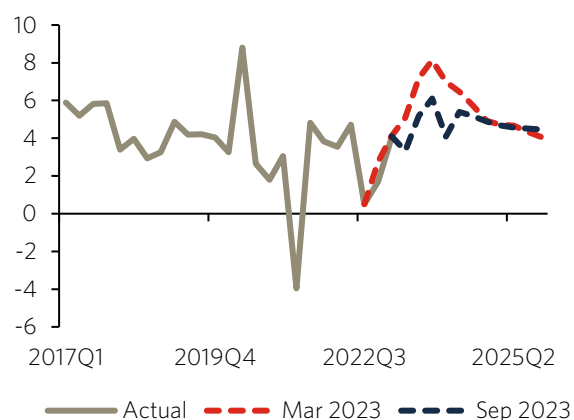
Chart 8: SARB's core inflation revisions



Source: SARB, Momentum Investments

Over the past year, headline inflation dynamics have largely been influenced by food and transport inflation, while core inflation has been influenced by core goods inflation. The SARB has frequently noted that muted services inflation (revised down to 4.3% from 4.4% for 2023), has slowed the acceleration in core inflation. Muted services inflation has been mostly due to a deceleration in public transport, contained rental inflation and lower-than-anticipated unit labour costs. According to the SARB, SA is not experiencing a wage-price spiral partly because the economy is weak, and this is dampening bargaining power. Moreover, higher costs associated with loadshedding are limiting business' ability to extend higher wage increases. As a result, nominal wages are growing below the rate of inflation, implying negative real wage growth.

Chart 9: SARB's unit labour cost forecasts*



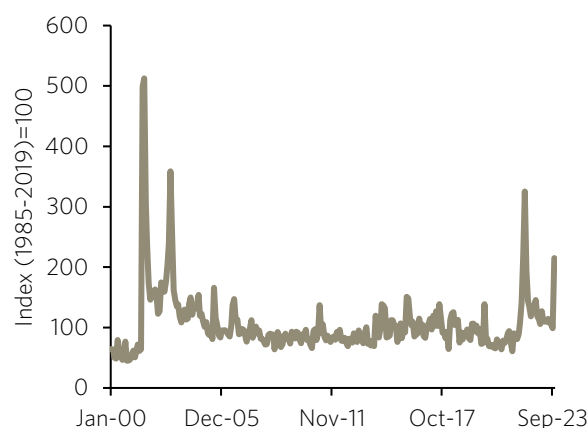
Source: SARB, Momentum Investments

* Forecasts are in dotted lines. Last data point is 2025 Q4

The November MPC meeting took place without knowledge of the fourth quarter inflation expectations results published by the Bureau for Economic Research. Inflation expectations are one of the key considerations by the MPC and the results could have guided the MPC members on whether respondents in the survey looked through the recent spikes in inflation or if there is a risk that the previous prints have somewhat embedded into expectations, which would complicate the task of monetary policy. The SARB continued to reiterate their preference to anchor inflation expectations around the midpoint of the target range.

In the October 2023 Monetary Policy Review, the SARB flagged risks to food prices stemming from geopolitical tensions, El Niño weather conditions and loadshedding. Some risks have materialised and some are still threats but the overall assessment is that inflation risks are still tilted to the upside

Chart 10: Rising geopolitical risk concerns



Source: Dario Caldara and Matteo Iacoviello

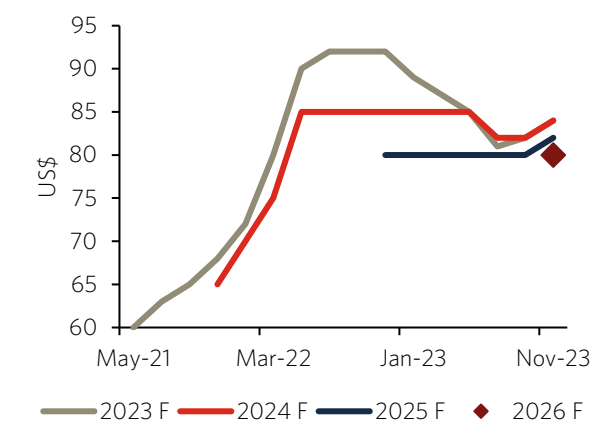
Data until October 2023

As seen in chart 10, geopolitical concerns spiked in October when news of the Gaza-Israel war broke out. Rising tensions accelerate geopolitical fragmentation which threatens food security., El Niño is estimated to only start affecting food prices from March or April 2024 and loadshedding intensity and duration has eased significantly during October and November due to improving generation capacity. The Avian flu outbreak was another risk previously highlighted that has materialised and which drove up food inflation in October. Given upside risks to food inflation, the SARB

expects food inflation to average 10.6% in 2023 (previously 10.4%). The forecast for 2024 is slightly higher at 5.5%.

The price of Brent crude oil has come down recently but the SARB notes that oil markets are still tight. The SARB revised its oil price forecast to US\$84/bbl in 2023 and in 2024 (previously US\$82/bbl) and to US\$82/bbl in 2025 (previously US\$80/bbl) as seen in chart 11. The average fuel price inflation for 2023 is broadly unchanged around 0.4% but has been revised significantly lower for 2024 to 3.2% from 5.8%.

Chart 11: SARB’s Brent Crude (US\$/barrel) revisions



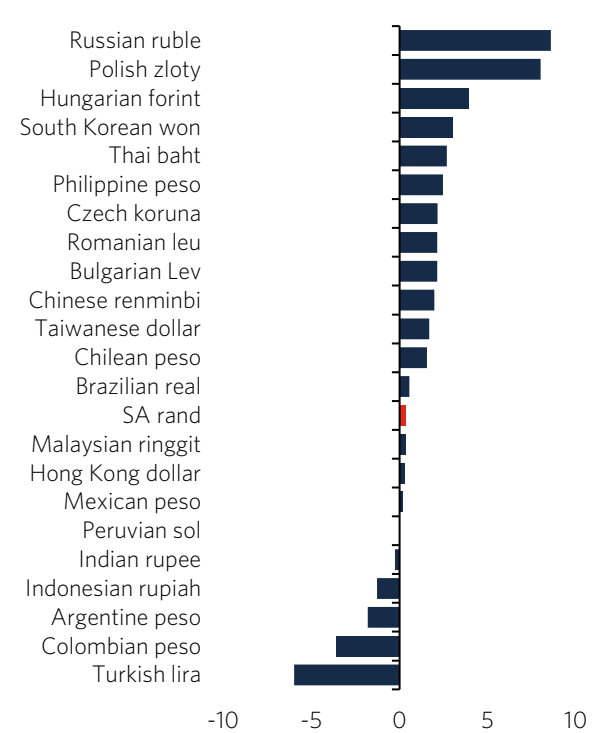
Source: SARB, Momentum Investments

The Gaza-Israel conflict has not had a sustained impact on the oil price because global oil supply has not been affected by the war yet.

The rand marginally appreciated against the US dollar between the September and November MPC meetings (see chart 12). The rand did, however, experience a great deal of volatility during this period and moved from above R19/US\$ on 25 October to R18.18/US\$ on 15 November where it ranked as the fourth best performing currency before depreciating again. According to the SARB, ‘the lack of sustained economic

growth and dependence on commodities is reflected in the high volatility of the currency in response to global risk-on and risk-off episodes’. The rand strength leading up to mid-November can partly be attributed to a more generalised impression that the Fed hiking cycle has come to an end (dollar depreciation) and the positive reception of the Medium-Term Budget Policy Statement (MTBPS). According to Investec, the recent depreciation was on the back of dollar appreciation from the release of the FOMC meeting minutes. Nonetheless, the possible escalation of the Gaza-Israel war has the potential to weaken the rand due to increased global risk aversion.

Chart 12: Most emerging market currencies strengthened against the US\$ since the last MPC*



Source: SARB, Momentum Investments
 * 21 September to 23 November
 Positive = currency appreciation against the US\$, negative = depreciation

Unanimous decision to keep the repo rate constant

The November-decision-to keep the repo rate constant at 8.25% was made unanimously and marks the third consecutive meeting where interest rates were kept constant. The stronger preference to keep rates steady

in this meeting compared to the previous two meetings which were concluded with a three-two split (see table 2) echoes their sentiment that baseline inflation forecasts have improved.

Table 2: Shift in MPC member preferences at the scheduled November 2023 meeting

Number of committee members	Favoured no move	Favoured a 25-basis point hike	Favoured a 50-basis point hike	Favoured a 75-basis point hike	Favoured a 100-basis point hike
18 November 2021	2	3	-	-	-
27 January 2022	1	4	-	-	-
24 March 2022	-	3	2	-	-
19 May 2022	-	1	4	-	-
21 July 2022	-	-	1	3	1
22 September 2022	-	-	-	3	2
24 November 2022	-	-	2	3	-
26 January 2023	-	3	2	-	-
30 March 2023	-	2	3	-	-
25 May 2023	-	-	5	-	-
20 July 2023	3	2	-	-	-
21 September 2023	3	2	-	-	-
23 November 2023	5	-	-	-	-

Source: SARB, Momentum Investments

In the question-and-answer session, there was interest around the resignation of Deputy Governor Kuben Naidoo and whether more members would be added to the MPC (the committee is legally allowed to have up to seven members and currently has five members including Naidoo). The governor expressed that in the

same way that there is discretion to appoint an MPC member once their term ends (see members terms in table 3), a member has the discretionary to pursue other opportunities. He further indicated that there is an ongoing search to appoint more members.

Table 3: SARB MPC members terms

Member	Term 1	Term 2
Lesetja Kganyago (Governor)	9 Nov 2014 to 8 Nov 2019	9 Nov 2019 to 8 Nov 2024
Kuben Naidoo (Deputy Governor)	1 Apr 2015 to 13 Mar 2020	1 Apr 2020 to 31 Mar 2025
Fundi Tshazibana (Deputy Governor)	10 Jul 2019 to 9 Jul 2024	-
Rashad Cassim (Deputy Governor)	10 Jul 2019 to 9 Jul 2024	-
Chris Loewald (MPC member)	Ongoing permanent position as Head of Research-	

Source: Citi, Momentum Investments

The governor also addressed questions pertaining to the Gold and Foreign Exchange Contingency Reserve Account (GFECRA) and the use thereof. He reiterated that the account is a consolidation of three accounts (the gold price adjustment account, the foreign exchange adjustment account and the forward exchange contract account) and all three accounts can make a profit or loss at any point, but the current

balance (approximately R500 billion) is unrealised gains. The use of this account would either require the SARB to sell the underlying assets or print money but both avenues would be costly. He concluded by stating that there are ongoing engagements between the SARB and National Treasury and international expertise have been brought in to address this matter and find a prudent way forward.

Guiding inflation sustainably back toward 4.5% remains a priority

Despite keeping rates constant with a unanimous vote, the SARB maintained a hawkish tone due to a resurgence in inflationary pressures as evidenced by the inflation rate shooting up towards the upper end of the inflation target range in October.

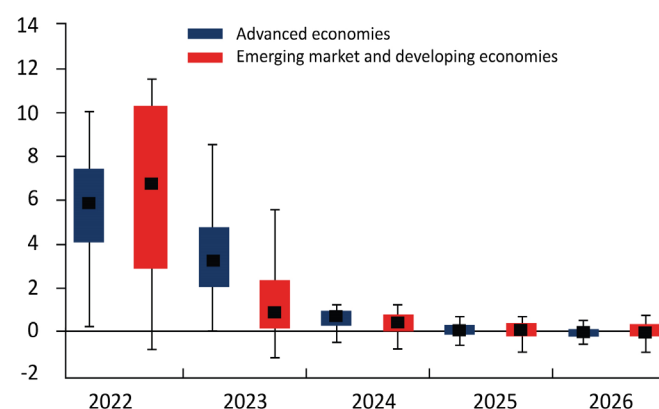
Some aspects of the inflation profile have improved such as less intense loadshedding in the past two months as well as the decrease in international oil prices which are filtering through to lower domestic fuel prices. Furthermore, good soil conditions are anticipated to cushion against the drier weather conditions. While the MTBPS was generally well received, fiscal risks remain elevated particularly with the upcoming February 2024 budget based in an election year. The recent acceleration in food inflation also keeps food inflation as a key risk to the trajectory, while rising geopolitical risks also pose a threat to the inflation outlook.

Consequently, we maintain our standing view of rates being kept elevated for longer to tame inflationary pressures. Until the SARB sees inflation sustainably moderating toward the midpoint of the inflation target (4.5%), rate cuts are likely to be less of a consideration. Our view is that the SARB may only start cutting rates in the second quarter of 2024 with a cumulative 75 bps worth of cuts pencilled in for 2024. Our projection is in line with the Reuters consensus but more than the SARBs QPM guidance for 50-bps in 2024. A rise in

geopolitical tensions could result in either a late start to the cutting cycle and/or a shallower cycle.

Globally, the IMF notes that inflation rates will, on average, only full reach targets by 2025 as illustrated in chart 13. The IMF further emphasises that inflation expectations play a critical role in influencing the inflation trajectory and central banks' ability to achieve a soft landing (i.e. bring down the inflation rate without causing a recession). Therefore, we expect policymakers (domestic and globally) to remain cautious of inflation threats and keep real policy rates restrictive to keep inflation expectations at bay.

Chart 13: Gradual reversion of inflation rates to targets



Source: IMF 2023 October World Economic Outlook, Momentum Investments
The boxes denote the upper quartile, median, and lower quartile of the distribution; the whiskers show the maximum and minimum within the boundary of 1.5 times the interquartile range.

MPC interest rate decision dates for 2024

25 January 2024
27 March 2024
30 May 2024

18 July 2024
19 September 2024
21 November 2024