South African Reserve Bank Review: November 2022

Executive Summary:

- **SARB raised rates by 75bps, alongside expectations**
- **The board were split, with 3 opting for 75bps move, while 2 voted for 50bps**
- **Press conference suggested pace of future hikes could slow as rates climb north of neutral**

MNI Point of View

The Bank tightened policy further in November, putting the benchmark rate at 7.00% and meeting their assumption of the neutral rate. The decision means the prime mortgage rate is now over 10% for the first time since 2019. This blunt and direct psychological level should filter swiftly into consumer spending patterns ahead of year-end, and could slow the pace of hikes going forward.

The vote split among the board was consistent with the argument that rate hikes will slow going forward, with 3 members opting for a 75bps move, while 2 voted for a 50bps increase. This contrasts with the September decision, at which the board were again split 3-2, but 2 members voted for 100bps. Should this pattern extend, the next decision in Q1 2023 could slow to a 50bps move, or even 25bps.

While markets and the bank assume inflation will moderate across 2023, Kganyago outlined the SARB's surprise to see November CPI exceed expectations. While the data release (just one day ahead of the rate decision) is unlikely to have directly shifted the board's views this week, continued surprises over the next three months could keep the board split consistent well into next year. This keeps focus on the core readings for CPI into Q1.

The bank's model projections were consistent with 2022 being the year of front-loading policy rates, with year-end forecasts for 2023, 2024 and 2025 between 6.50 – 7.00%. Modelled inflation saw only minor revisions, with year-end 2022 ticked up to 6.8% from 6.6%, while 2023 estimates rose by just 0.1ppts to 5.4%.

Markets are already well priced for a sharp slowing in the pace of the tightening cycle next year, with the JIBAR-FRA spread compressing across 2023 and 2024 maturities, and the bank leaned into this pricing at the press conference, outlining the SARB view that inflation will slow next year, albeit alongside a more moderate pace of economic growth.

That said, SARB remain vigilant of external risks, with the bank reinforcing their message that they will reconsider their policy approach if new risks materialize. These risks persist well into 2023, with the ANC elective conference in December expected to result in a weakened mandate for President Ramaphosa, with the Section 89 impeachment process still underway at the National Assembly. This augurs further uncertainty ahead of the publication of the Treasury's plans for Eskom, with Godongwana's Medium-Term Budget Policy Statement in October pointing to an early-2023 release for a restructuring plan at the utility that could see the Treasury adopt as much as two-thirds of Eskom existing debt pile.

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Analyst Views (Alphabetic Order)

Commerzbank: SARB To Remain Important Pillar Of Support For Rand

- The South African central bank's (SARB) decision in favour of the third consecutive 75bp rate step yesterday was tight as expected: two of the five board members voted for a smaller step of 50bp.
- The rand had already appreciated in the run-up to the meeting and was unable to benefit further. The tight vote as well as the statement and the rate outlook did not seem particularly hawkish.
- Even though the SARB adjusted its rate outlook to the upside, it was apparent that just as before the model-based rate level for late 2022 (as well as for consecutive years) was lower than current levels. The levels signal only moderate future rate hikes, about 25bp for 2023 and less than that for consecutive years. That is likely to have caused disappointment.
- Everything all told the SARB is likely to remain an important pillar of support for the rand, but in view of still insufficient reform progress in important areas and difficult global financing conditions its job is not getting any easier.

Goldman Sachs: Expect Further 50bps Of Rate Hikes In Q1 2023

- The SARB delivered a second consecutive 75bp rate hike to a 7% policy rate, with the decision as well as the split vote in line with market expectations and our forecast.
- Our inflation forecast is higher than the SARB's in the near term (on supply factors), but lower in the medium term (on demand factors), with the main differences being: 1) a higher food inflation assumption; and 2) our view of a large persistent negative output gap, keeping core inflation low.
- Meanwhile, the growth revisions and assessment of downside forecast risks come as an incrementally dovish development. In our view, this likely explains the dovish shift in the voting pattern, with the shift from 2 (hawkish) dissents for 100bp in the September MPC meeting to 2 (dovish) dissents for 50bp in November. This shift also serves to signal that a smaller rate hike at the next MPC meeting (in January) is likely.
- We maintain our forecast for a further 50bp of rate hikes in Q1 2023 to a 7.50% terminal rate, and for rate cuts beginning in Q4 2023 down to a 5.50% policy rate in 2025.

JP Morgan: SARB To Hike By Further 25bp In January

- The SARB shifted from a split decision of 75bp vs. 100bp in September to considering 50bp at this meeting, in line with our expectation for strong considerations of a reduced tightening pace but favouring 75bp in the end.
- With the policy rate now back at neutral and about 50bp above pre-pandemic level, the pace of further tightening-if any at all-is less clear. The MPC provided little guidance beyond the "data dependent and sensitive to the balance of risks to the outlook" conventional comment.
- While the pace of further tightening is now (even) less certain, we believe a 50bp increase in January is the more likely scenario with the MPC perhaps also discussing a 25bp clip. This would lift the policy rate into mildly restrictive territory at 7.5%. A key reason is that we expect the FOMC to raise its policy rate by a further 100bp between now and the end of 1Q23, which would make it challenging for the SARB to pause already now.
- Alternately (not our base case), a sustained period of USD/ZAR in the 16.50-17.00 range could bias the MPC toward a lesser 25bp or even a pause in January. More likely however, currency volatility will remain elevated in the near-term. We therefore maintain our projection for a 7.5% peak in the policy rate, with the scope to proceed with a first 25bp cut in November 2023 or alternatively 1H24.

Nedbank: Expect Two 25bps Hikes In January and March 2023

- The Monetary Policy Committee (MPC) increased interest rates by 75 basis points (bps) for a third-straight time, raising the repo rate to 7% and the prime lending rate to 10.5%, in line with our and market forecasts.
- The South Africa Reserve Bank (SARB) reiterated that the risks to the inflation outlook remain on the upside, mainly due to the adverse impact of the Russia-Ukraine war on global food prices, the vulnerability in energy markets, higher domestic electricity and administered price increases, and possibly higher domestic wage settlements.
- Following a year of aggressive, albeit necessary, policy decisions, we expect the SARB to slow the pace of hikes next year with two 25 bps hikes in January and March 2023, respectively.

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