

Flash Comment

South Africa: SARB surprises and keeps interest rates on hold

- The South African central bank (SARB) surprised the markets when it left the key policy rate on hold at 7.50%.

Details

The South African central bank surprised the markets when it left the key policy rate unchanged at 7.50%. Most market participants, including us, expected a 50bp rate cut. The rand (ZAR) was slightly firmer after the rate decision.

Assessment & Outlook

Today's decision has to be seen in light of still stubbornly high inflation and the possible re-emerge of inflationary risks from the recent spike in oil prices, but also from speculation about electricity price hikes. All these factors have prevented the SARB from further interest rate reductions, as worries over possible inflationary risks clearly outweighed concerns over the condition of the South African economy at today's MPC meeting.

In the statement, the SARB governor, Mboweni, expressed his concern over the still high inflation, and noted that downside risks to inflation are being offset by cost-push factors. On the other hand, he said that the economy continues to show signs of stress, which represent downside risks to inflation. The governor furthermore said that there has been significant monetary accommodation since December 2008, and even more interesting, he said that if he were the only member of the MPC, he would not deliver any further monetary easing.

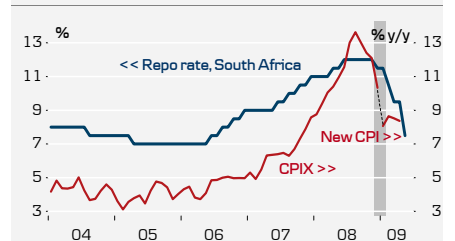
Nonetheless, we still stick to our forecast and expect one more 50bp rate cut, which might come in August (August 13) given that there is no MPC meeting in July.

Key figures

Key policy rate	Act	Con	DB	Last
	7.50%	7.00%	7.00%	7.50%

Source: Danske Markets

SARB keeps interest rates on hold



Source: EcoWin Reuters and Danske Markets

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Disclosure

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