



COMMENTARY

Interest Rate Preview

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MKI Economics Commentary is a brief note intended to provide MKI's interpretation of key economic events such as the Budget, MTBPS, Monetary Policy (Interest Rates) and Employment data releases.

Interest Rate Decision Preview

The **South African Reserve Bank (SARB)** will hold its last **Monetary Policy Committee (MPC)** Meeting for 2019. Starting on Wednesday the 20th of November 2019, the meeting will conclude with the interest rate decision announcement on Thursday, 21 November 2019. This is the last of the **MPC** meetings for the year, the last was in October where the **MPC** decided to hold the rate steady at 6.5%.

Developments Since the October MPC

Treasury spooked the markets with what was argued to be the worst **Medium-Term Budget Policy Statement (MTBPS)** since the advent of democracy. All debt metrics deteriorated. Treasury announced a tax collection shortfall of R57bn in the current fiscal year. Against all odds, Moodys surprised on the upside by maintaining SA's investment grade albeit with a negative outlook. On the inflation front, the September reading surprised on the upside by slowing to 4.1% year on year.

Inflation Expectations Anchored

Having slowed to 4.1% YoY in September and well within the SARB target of between 3-6%, the latest **Purchasing Managers Index** failing to reach the crucial reading of above 50, there is every reason to believe the October release on November 20 will be between 4.1 and 4.3. The oil price has stabilised since the last **MPC** further supporting **Moses Kotane Institute's** view that inflation is unlikely to overshoot.

Immaterial Changes in ZAR Exchange Rate

According to Nedbank, the average ZAR: USD rate for September was R14.85. The currency weakened to average R14.91 in October. Reuters reported that 1645 GMT, the rand was firmer at R14.68 per dollar. The US and China appear to be reaching a trade agreement. Should this materialise, emerging markets currencies including the rand are likely to be strong as investors adopt a risk-on attitude. SA's inflation expectations tend to mirror exchange rate expectations. A relatively stable average rand during the period under review may help anchor inflation expectations and sway the SARB to discount the exchange rate on the positive side in their assessment.

Spluttering Economic Growth

Business Report reported Moodys, the last of the major credit ratings agency to hold SA credit rating at investment grade has slashed 2020 economic growth to just 1%. The revised forecast compares with 1.2% forecast for 2020 by the National Treasury released in the October **Medium-Term Budget Policy Statement** last month. Amid the economic growth disappointment, calls are growing for the **SARB** to chip in with a rate cut to support economic growth. Recent history will suggest that **SARB** is unlikely to come to party as time and again the Bank has reiterated that its mandate is that of maintaining price stability and has on numerous occasions pleaded with Treasury and government in general to make the all-important economic reforms.

SARB Likely to Keep Rates on Hold at 6.5%

It is **MKI's** considered view that **SARB** will likely keep interest rates on hold when the announcement is made on Thursday. This despite relatively stable rand, benign inflation expectations and weak growth. Despite the mandate of the **SARB** being inflation targeting, we are of the view that the economic data



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currently available does offer an opportunity for the **SARB** to cut the repo rate by at least 25 basis points. Structural reforms, however, are urgently required to lift the economy into meaningful and sustainable growth trajectory. Many a consumer is praying for a rate cut as an early Christmas gift having missed out during the **Medium-Term Budget Policy Statement** by Minister Mboweni in October.