

Interest Rates and CPI Update – 12 August 2025

Introduction

This report analyses the implications of South Africa's evolving interest rate environment, focusing on the trend in the 3-month JIBAR yield curve, which indicates market expectations of further rate reductions. It also examines the potential impact of U.S. monetary policy and the SARB's proposed 3.0% inflation target on real and nominal interest rates into the future.

The Domestic Interest Rate Market

Salient terminology relating to the following short-term interest rates:

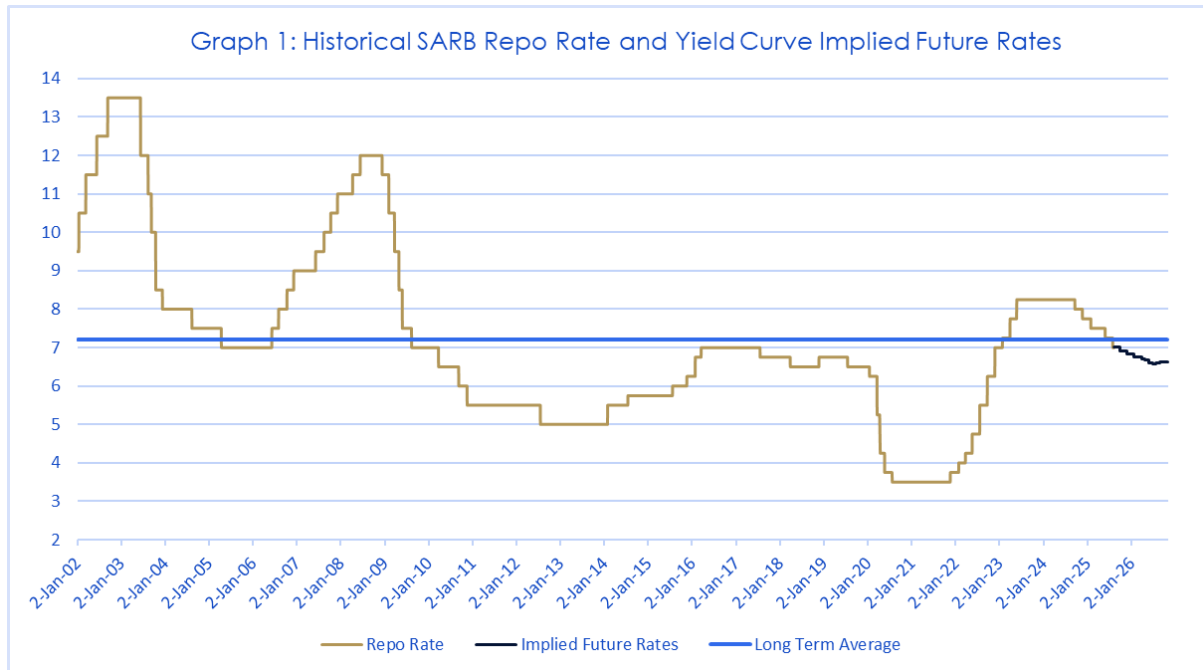
1. The REPO rate is the policy rate set by the SARB Monetary Policy Committee ("MPC"). This rate determines where banks can borrow and place funds overnight at the SARB 'window' and consequently forms the benchmark for the overnight interest rate market. The REPO Rate is currently set at 7.00% with the official annual CPI inflation target of 4.5% being the midpoint of the 3-6% band.
2. The PRIME interest rate is largely a retail market overnight base rate which is informally set at REPO rate + 3.50%. This is currently quoted at 10.50%.
3. 3M JIBAR originated from the original BA rate (90-day Bankers' Acceptance rate). The Johannesburg Interbank Agreed Rate ("JIBAR") is a rate determined through a survey of banks at 11am daily for the following three-month period. This rate is currently the key rate for corporate borrowing and hedging. This rate is currently quoted as a quarterly compounding rate of 7.02% NACQ.
4. ZARONIA will begin to replace JIBAR over the next 6-24 months as the key reference rate for corporate borrowing and hedging. ZARONIA is currently quoted at 6.85% as an overnight unsecured rate.

All the above short-term interest rates are largely driven by the SARB REPO rate with an element of duration, liquidity and expectation of the next MPC move built into them.

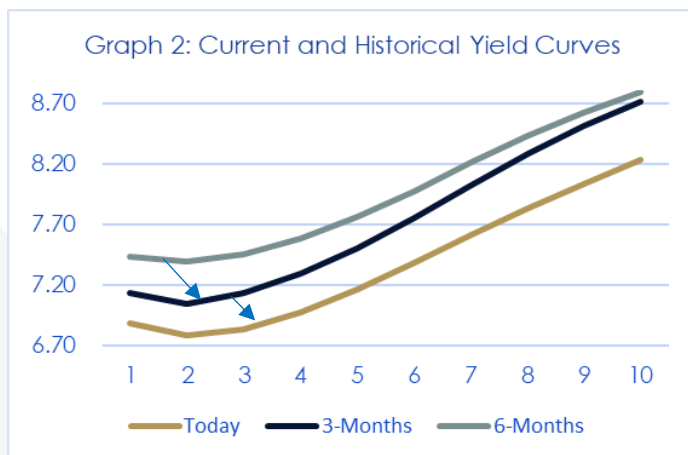
Domestic Interest Rate Market; history and outlook

The SARB cut interest rates by 25 basis points two weeks ago, bringing the repo rate down to 7.00%. As shown in Graph 1 below, the rate now sits 22 basis points below the long term average of 7.22% (blue line). The black line illustrates the forecasted 3-month JIBAR rates implied by the current yield curve. This suggests that further cuts are priced in, with the forward pricing a further 61 bps of cuts.

With South African inflation hovering around c.3.00%, there may be room for further easing. However, policy shifts in the United States under a Trump presidency could create unfavourable market dynamics and reduce the likelihood of these cuts materialising.



Graph 2 and Table 1 represent the current 3-month JIBAR yield curve. Expectations of short-term interest rates, along with RSA government bond yields in the longer duration, have a significant influence on these term interest rates as traded in both local and offshore markets. The yield curves from six months ago, three months ago, and today are shown to illustrate the progression in market-implied rate expectations.



Years	Today	3-Months	6-Months
1	6.86	7.13	7.46
2	6.75	7.05	7.43
3	6.80	7.15	7.50
4	6.93	7.32	7.63
5	7.12	7.53	7.81
6	7.34	7.79	8.03
7	7.57	8.07	8.26
8	7.79	8.32	8.47
9	8.00	8.55	8.69
10	8.19	8.76	8.84

As shown in the graph, the yield curve has been **steadily shifting downward in recent months**, while maintaining its typical upward-sloping shape beyond the three-year mark. **Fixed rates currently offered in the market are significantly lower than they were six months ago** and now sit slightly below the prevailing 3-month JIBAR, as indicated in the yield curve comparison table.

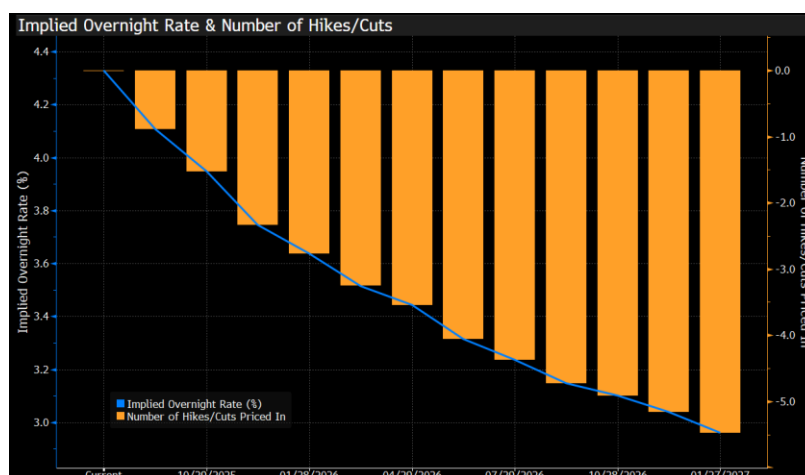
This environment allows corporates to take advantage of lower forward rates by locking in these levels through the swap market. As shown in Table 1, a three-year fixed rate is currently quoted at **6.80%**, compared to the prevailing 3-month JIBAR of **7.02%** and a longer term JIBAR average of 7.20% which is seen as a 'neutral rate' for South Africa to date.

US Interest Rate Outlook

A key factor in ZAR strength is the 'carry trade' i.e. the difference between US and domestic interest rates. The SARB closely monitors this as it has a strong impact on the value of the ZAR against the USD. As a result, we believe further easing by the SARB will require the US FOMC to cut first.

The U.S. Fed has maintained a markedly different stance from South Africa's expected easing this year, holding its policy rate steady at 4.25% to 4.50% for the sixth consecutive FOMC meeting through July 2025. This divergence in monetary policy reflects differing economic pressures and priorities. At the July 2025 FOMC press conference, Jerome Powell highlighted the uncertainty caused by tariffs, stating: "Higher tariffs have begun to show through more clearly to prices of some goods, but their overall effects on economic activity and inflation remain to be seen." This cautious approach underscores the Fed's reluctance to signal rate changes, with Powell adding, "We have made no decisions about September. We'll be taking that information into consideration and all the other information we get as we make our decision."

However, market expectations, as depicted in the Bloomberg WIRP graph adjacent, suggest a more optimistic outlook, with a 84% probability of a rate cut at the September 2025 meeting and at least two cuts anticipated by year-end. Cuts in the US rate environment would clear the way for further domestic rate cuts if CPI expectations remain at the low end of the bands.

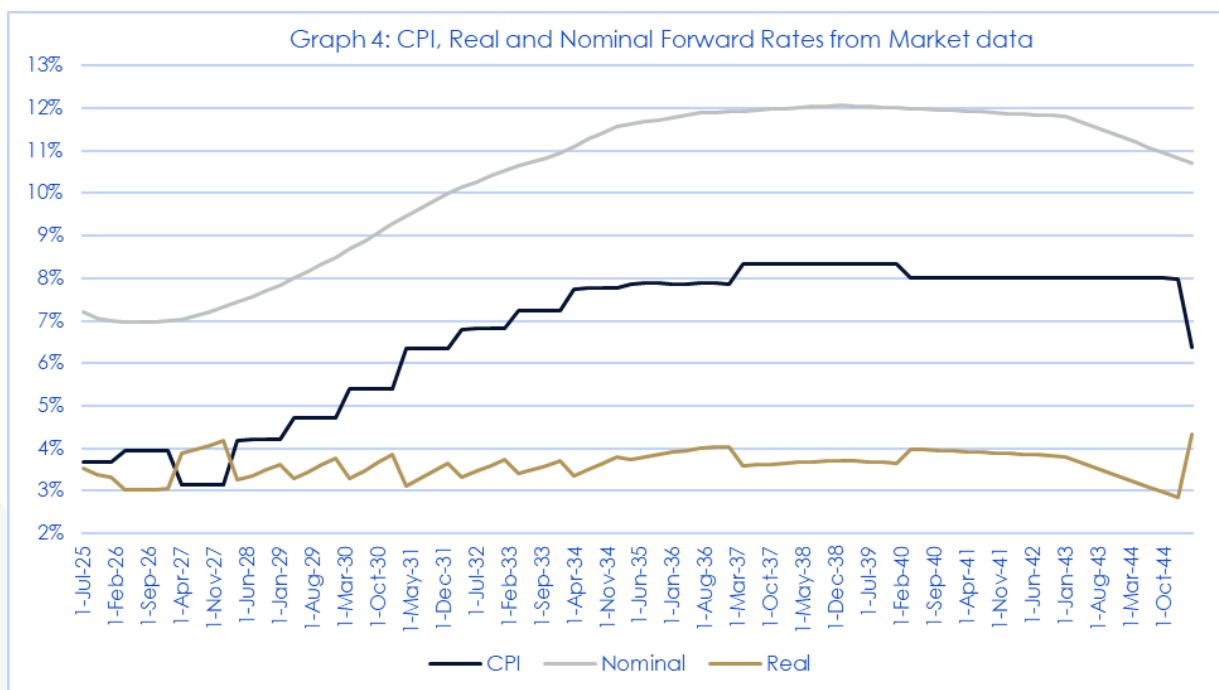


The Domestic CPI Conundrum

As widely reported, the SARB is advocating a cut in the inflation target rate to 3% from the current 3-6% band. Lower overall inflation is deemed good for RSA long term bonds (hence government cost of funding) and lower nominal rates in the medium term. It is recognised however that there will be some transition to this 3% inflation rate being entrenched and 'believed' by the market. Prevailing economic forecasts and traded market data do not currently reflect the belief that a 3% CPI rate will be achievable in the long run.

The CPI and JIBAR spread (the 'real' effective rate) has raised ongoing concern across the market, with numerous queries received from banks, borrowers and advisors. The adjustment to the 3% inflation target may lead to adjustments in pricing methodologies by clients and banks. **This is particularly pertinent to long term inflation linked project finance or lease arrangements. The main risk is that CPI continues to trend around 3.0%, as reflected in the most recent three data points, while the 3-month JIBAR remains elevated.** This dynamic would result in clients facing relatively high financing costs while tariff or lease escalations remain subdued due to persistently low inflation.

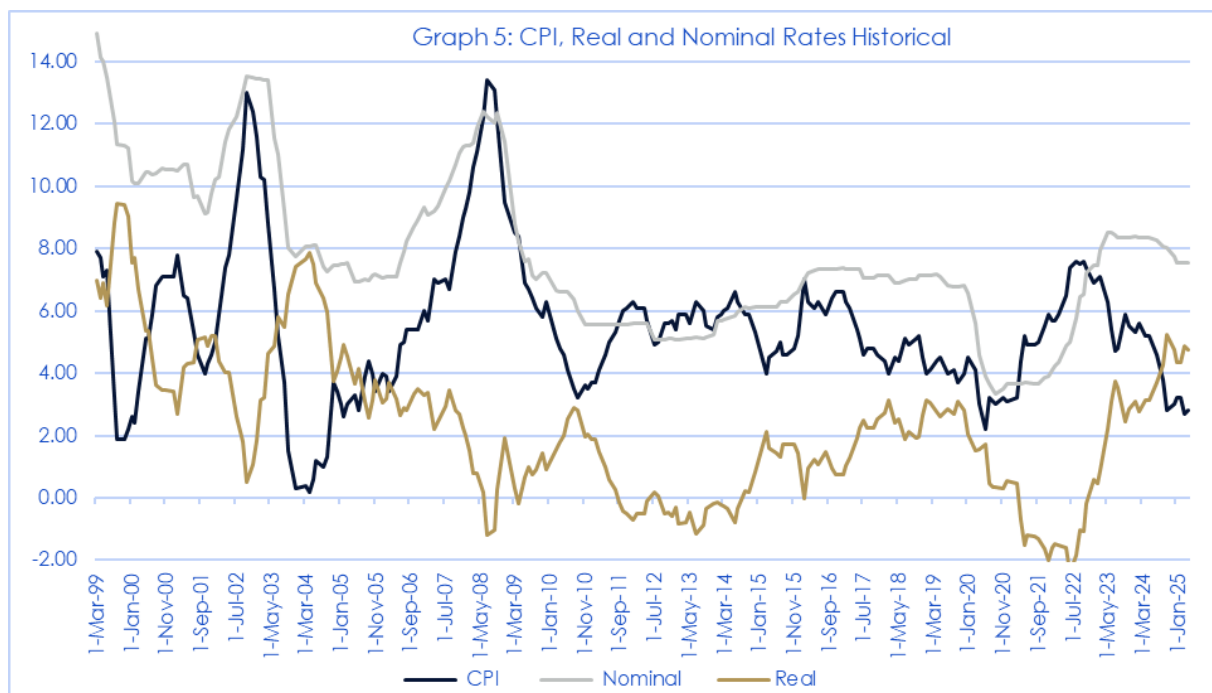
Preliminary analysis has been conducted on this issue using forecast market data for 20yrs. While the work is not yet comprehensive or conclusive, it offers some initial insights into the nature of the CPI and JIBAR spread reflected in the forward curves below.



The forward curve for real interest rates indicates a relatively stable rate of between 3% and 4% going forward over 20 years. The expected CPI rates are implied from the CPI forward swap curve which is not well traded, and we note that CPI-linked Government bonds typically trade 20 to 30 basis points higher,

which should also be factored into any analysis. It is apparent however that the 'market' has not yet adjusted to believing a 3% CPI target is consistently achievable with CPI returning to 4% and above in about 2 years.

Historical comparisons between JIBAR and CPI were also reviewed. CPI (YoY), as reported, was compared to the 3-month JIBAR rate observed at the end of each corresponding month. While the results are not precise due to timing mismatches, reporting lags and lead effects, the exercise provided a reasonable basis for comparison, as illustrated below:



The historic data is much more volatile, as expected, than the forward-looking assessments. However, the approximation or 'rule of thumb' of JIBAR being '2.5% over CPI', as suggested by several banks, appears broadly reasonable based on observed trends. Moreover, the forward-looking real rate average of c.4% does not appear misaligned with historical comparisons.

All markets are cyclical and as much as the positive real rate of 4.50% currently is above the norm, three years ago, real rates were negative 2.5%! Many factors impact real rates including comparative offshore rates, the domestic credit rating, FATF grey listing and other risk factors that may be identified by investors.

Conclusion

The CPI vs JIBAR data in this section is relatively noisy, and its contribution to the overall discussion may be limited. While this preliminary analysis does not provide a definitive conclusion, it does offer some reassurance that the current forward curves provided by the banks are not materially out of line with historical observations.

The yield curve continues to provide fixed rates that are attractive in the two-to-three-year area with the three-year fix being 6.76% against 3mJIBAR of 7.03%_{naq}.

For more information or any specific pricing requests please reach out to:

Craig Williamson:	craig@bastionadvisory.co.za	082-566-3463
Jayson Dunne:	Jayson@bastionadvisory.co.za	082-900-1561
Jacques Mol:	Jacques@bastionadvisory.co.za	082-496-4451
John Van Tubbergh:	John@bastionadvisory.co.za	083-287-3177