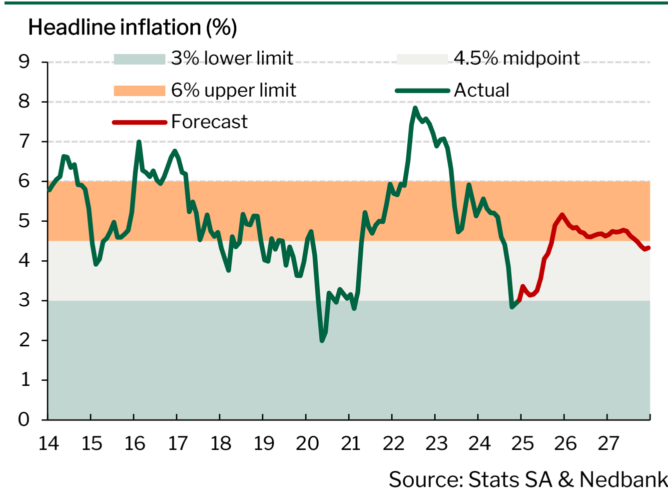
MPC Preview

ECONOMICS | SOUTH AFRICA | MONETARY POLICY

Another rate cut is on the cards

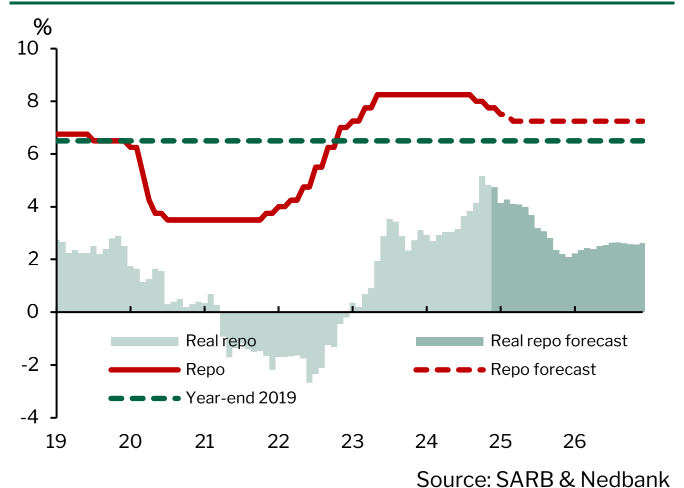
- We expect another 25-basis-points (bps) cut at next week's MPC meeting, mainly based on the benign inflation outcomes of the past two months and a relatively subdued inflation outlook.
- Inflation is forecast to drift upwards in the months ahead but will still average a muted 4% in 2025. Mild upward pressure will likely come from food and fuel prices, as they start to climb off a much lower base. Rising global food prices and a weaker rand are expected to offset the downward pressure exerted by higher domestic food production, which should benefit from good rains over the past two months. Fuel price deflation will also gradually fade and reverse. While global oil prices are forecast to decline, a low base and a weaker rand will slowly lift local fuel prices to higher ground. Meanwhile, still restrictive monetary policy, price-sensitive local demand, and lower domestic operating costs on fewer power outages and other disruptions should contain core inflation to around the SARB's 4.5% target in 2025.
- Some of the upside risks the MPC envisaged in November materialised. The rand came under renewed pressure against a resurgent US dollar, which benefited from the anticipated impact of the second Trump administration's economic policies. The markets argued that Trump's policy agenda would sustain US economic outperformance albeit at the expense of higher inflation, which would probably lead to a more hawkish Federal Reserve (Fed) and fewer US interest rate cuts. Consequently, investors expected interest rate differentials to shift in favour of the US dollar. Global oil prices also increased, driven by higher seasonal demand caused by a colder-than-usual winter in the Northern Hemisphere. On the domestic front, the trajectory of electricity tariffs also remains unresolved, with NERSA delaying its decision on Eskom's proposed hikes to the end of January.
- While global oil prices are unlikely to hold onto recent gains, the rand faces another volatile year. The currency's recent slide and underlying vulnerability to shifting global risk appetites will make the MPC more cautious. Even so, the US Fed has already reduced its policy rate by 100 bps, while the SARB has only eased by 50 bps, creating some space for more rate cuts without placing the rand under too much pressure. At the same time, inflation has declined significantly, and the outlook remains relatively subdued. More importantly, monetary policy is still restrictive, with real interest rates rising to just short of 5%. We, therefore, see room for further moderate policy easing. We forecast only two more rate cuts of 25 bps each in 2025. The first is expected next week, followed by another in March, taking the repo and prime lending rates to 7.25% and 10.75%, respectively. This aligns with the November estimates of the SARB's Quarterly Projection Model, which also pointed to reductions of about 50 bps in 2025.

Chart 1: Inflation will remain subdued, but drift higher.



Source: Stats SA & Nedbank

Chart 2: There is room for more rate cuts

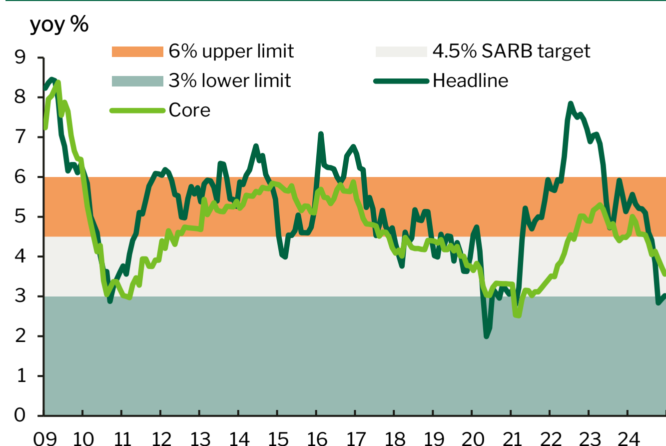


Source: SARB & Nedbank

Recent inflation trends

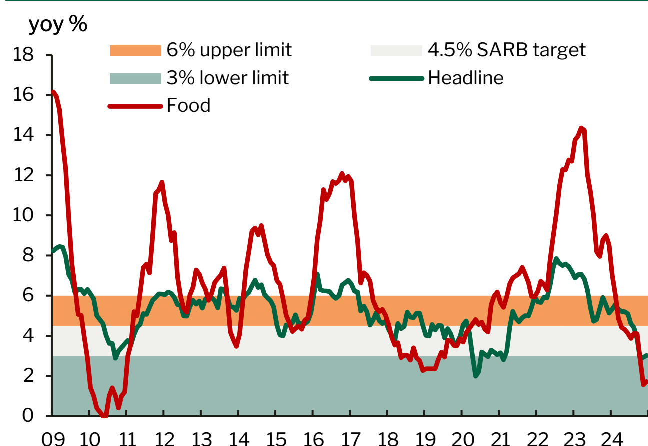
Headline inflation decelerated throughout 2024, remaining below the SARB's 4.5% target for five consecutive months and reaching a trough at 2.8% in October. Since then, inflation started to rise again, ticking up to 2.9% in November and 3% in December. Food and fuel prices exerted modest upward pressure. Food prices rose off a low base, while the rate of decline in fuel prices moderated. Encouragingly, the gradual easing in core inflation, which excludes food and fuel prices, continued.

Chart 3: Inflation remains below the SARB's 4.5% target



Source: Stats SA

Chart 4: Food prices ticked up in December

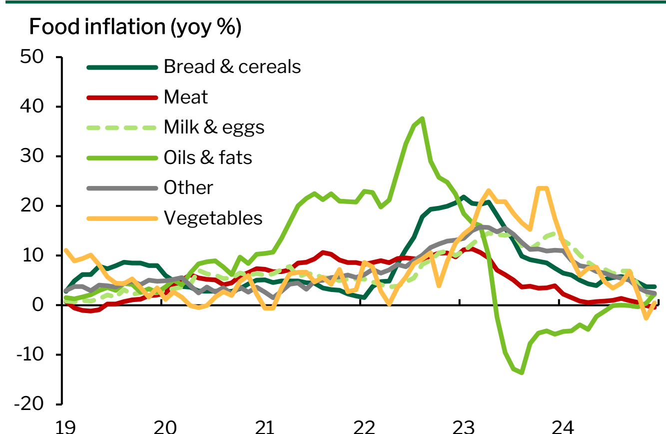


Source: Stats SA

Food inflation ticked up to 1.7% in December, after sliding to a low of 1.6% in November from a peak of 14.4% in March 2023. The upturn was broad-based, heavily influenced by a much lower base. A similar pattern emerged in global food prices, which rose further from low levels (see section below). The gentle rise in global food prices and a weaker rand also exerted modest upward pressure.

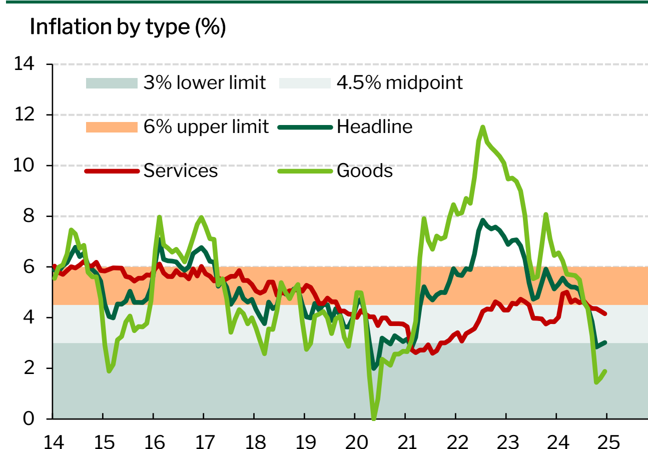
Fuel price deflation faded. The rate of decline in fuel prices moderated from a sharp 19.1% in October to a still substantial 10.2% in December. This follows two months of hikes in local fuel prices due to a weaker rand and slightly higher global oil prices. Meanwhile, some upward inflation pressure came from housing and utilities surveyed in December, which reflected elevated actual rentals and owners' equivalent rent due to the lagged impact of earlier interest rate hikes.

Chart 5: Food prices are edging up off a low base



Source: Stats SA

Chart 6: Goods inflation rose slightly, but services eased



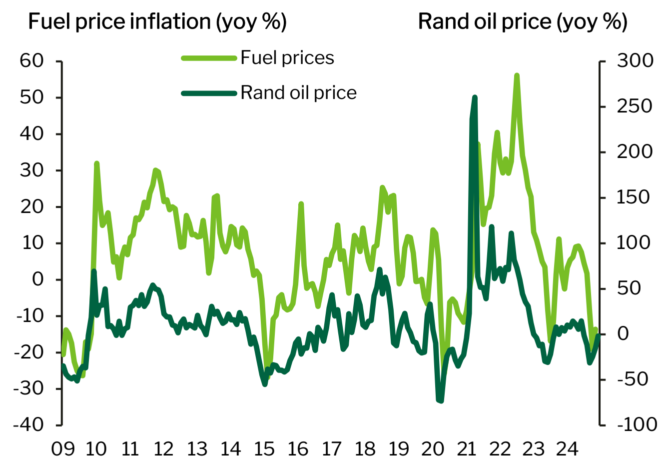
Source: Stats SA

Core inflation eased further from 3.7% in November to 3.6% in December, its lowest level since February 2022. Core inflation remained below the SARB's 4.5% target for six consecutive months, reflecting subdued underlying price pressures and easing supply-side constraints. Most of the drag came from services inflation, which slowed further as restrictive monetary policy kept spending in check. However, goods inflation ticked up, lifted by higher non-durables, which outweighed the impact of lower semi-durables and durables, probably reflecting seasonal discounting during the festive season.

Administered prices - a major source of inflation over the past decade - remained steady at elevated levels, rising by 7% yoy for the fifth consecutive month in December. Electricity tariffs remained the main driver, increasing by 11.4% yoy in December, only marginally down from 15.3% in June.

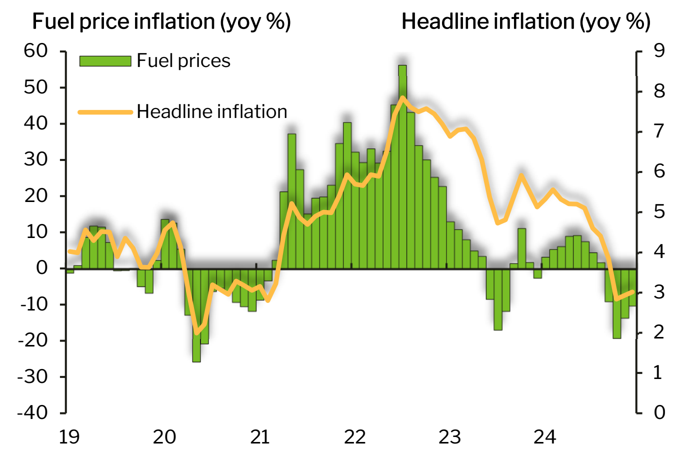
Consumer inflation averaged 4.4% in 2024, down from 5.9% in 2023. Despite the uptick in recent months, inflation remains low, and the underlying impulse is weak. Base effects are the main reason consumer prices are starting to drift upward.

Chart 7: Fuel prices rose over the past three months



Source: Stats SA

Chart 8: Fuel price deflation moderated



Source: Stats SA

Our inflation forecasts.

We expect inflation to continue drifting higher, ending the year around 5% but averaging 4% in 2025. The upturn will continue next year before losing a little steam in 2027. Inflation is forecast to average 4.7% in 2026 and 4.6% in 2027. Our outlook broadly aligns with the SARB's November forecasts.

The gradual upturn in food and fuel prices off a very low base will lift inflation to higher ground in the year ahead. Global food inflation will increase as the base effects reverse. Local food prices will also rise as the high base created by animal diseases, power disruptions, and logistical constraints fades and reverses. However, healthy summer crops could still partly contain the upside, given good rains over the past two months. Weather conditions are also expected to remain favourable during the rest of the year due to the onset of the La Niña phenomenon, which is usually associated with high rainfall. The recent mild upward rise in fuel prices is expected to continue, reflecting the impact of a weaker rand, which will probably offset lower global oil prices (see sections on the rand and oil prices below). Meanwhile, still restrictive monetary policy, price-sensitive local demand, and lower domestic operating costs on fewer power outages and other disruptions should contain core inflation to around the SARB's 4.5% target in 2025.

However, our forecast still faces upside risks. The biggest concern is the rand, which is likely to be vulnerable to a resurgent US dollar, supported by the changes in US economic policies under the second Trump administration. Other risks include:

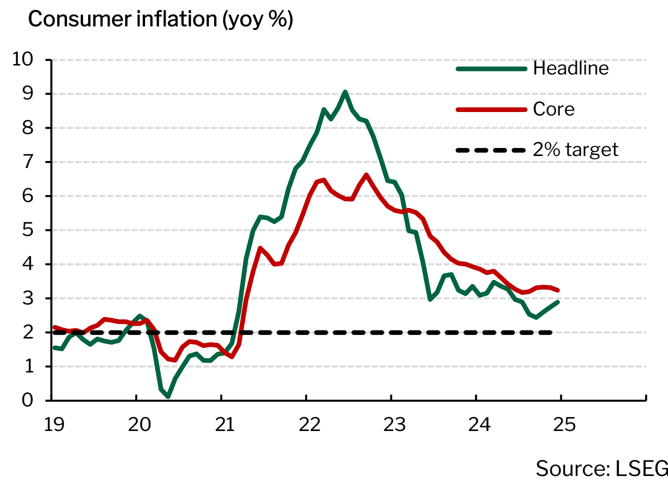
- Housing costs could rise as the domestic economy recovers, allowing companies to recoup higher financing and other expenses.
- Electricity tariff increases could be larger than the SARB's assumptions.
- Wage growth could still outpace inflation and productivity growth, raising operating costs and fuelling an acceleration in services inflation.
- Lastly, climate change poses a threat to food security. Similarly, the persistent risk of renewed outbreaks of animal diseases is also a concern, which could cause food inflation to increase faster than expected.

Global inflation: Stickiness returned

Inflation risks resurfaced towards the end of last year. In advanced countries, progress towards the 2% target stalled. US headline inflation crept up from 2.4% in September to 2.9% in December. Encouragingly, the core measure, which excludes volatile food and energy prices, fared a little better. After three months stuck at 3.3%, core inflation finally budged, easing to

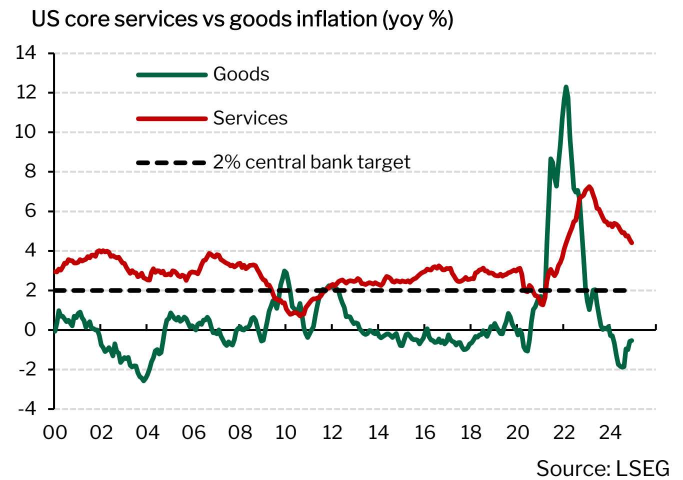
3.2% in December. The Federal Reserve's (Fed) preferred inflation gauge, core PCE inflation, also reflected underlying stickiness, holding steady at 2.7% between July and September before ticking up to 2.8% in October and staying there in November. A similar tale unfolded in other advanced countries (ACs). Eurozone inflation rose from 1.7% in September to 2.4% in December, while core stayed put at 2.7% for the fourth straight month. Over the same period, UK headline inflation rose from 1.7% to 2.5%, and that of Japan increased from 2.5% to 2.9%. Regarding core inflation, underlying price pressures in the UK and Japan also remained elevated.

Chart 9: Food prices increased as the base normalises



Source: LSEG

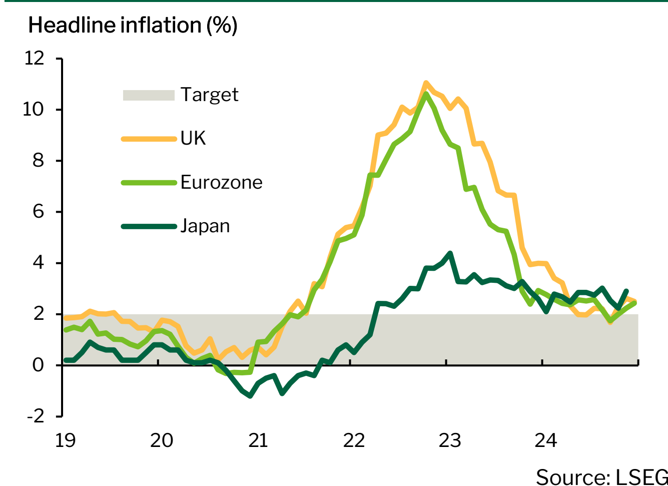
Chart 10: The goods price cycle is starting to turn.



Source: LSEG

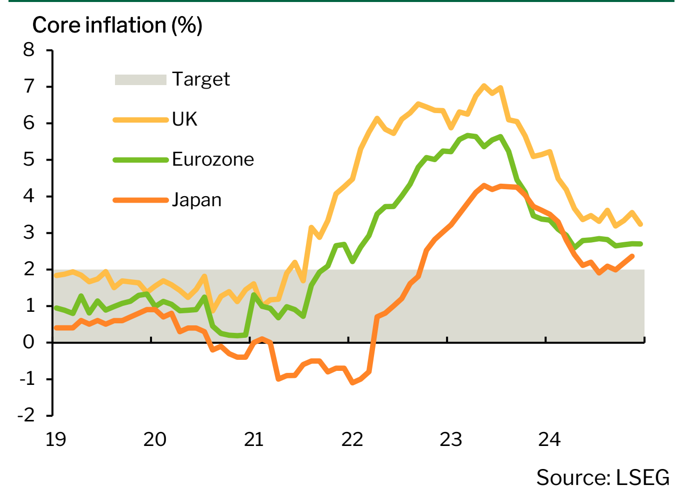
In advanced countries, the same factors contributed to the general stickiness. Essentially, the downward force from goods prices faded as previously favourable base effects diminished and reversed. These effects were most evident in food and energy prices. Off a much lower base, food prices edged up, and the rate of decline in energy prices moderated. Essentially, goods prices normalised as global supply chains adjusted, and the distortions caused by the pandemic and later Russia's war on Ukraine diminished. At the same time, services inflation slowed too gradually to offset the upward drift in goods prices. Higher wage increases kept services elevated. Wages are inflexible and, therefore, adjust only slowly to shifting inflation. Over the past two years, organised labour has played catch-up, negotiating more aggressive increases to compensate for the erosion in real incomes caused by the 2021-22 inflation bulge. Since wages are the largest cost component in services, this catch-up process exerted upward pressure on fees. While higher interest rates have brought demand and supply into better balance in the goods markets, demand for services remained brisk across advanced countries, making it easier for companies to recoup cost increases through higher charges.

Chart 11: Inflation also proved sticky in other ACs



Source: LSEG

Chart 12: Core inflation also drifted sideways



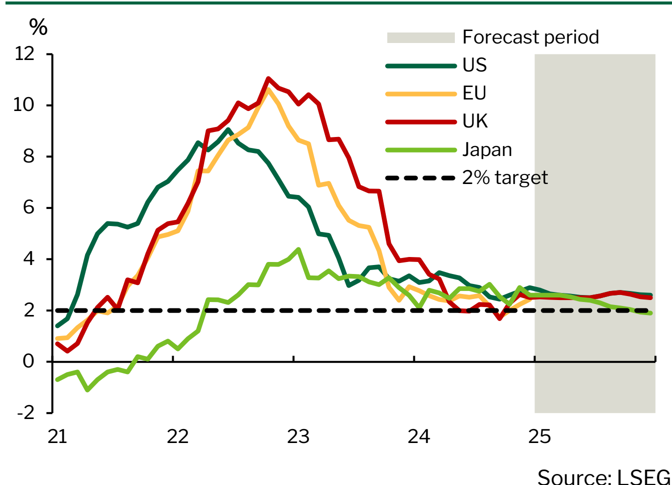
Source: LSEG

Inflation prospects will likely diverge somewhat over the year. Although market forecasts still reflect inflation easing towards the 2% target over the next three years, the anticipated speed of convergence differs considerably across advanced countries. Uncertainty plagues the US inflation outlook. Analysts have raised their forecasts significantly. The Reuters consensus is for US inflation to remain sticky above 2% over the next three years, easing only slowly to 2.6% in 2025, 2.5% in 2026 and 2.4% in

2027. However, the consensus masked significant disagreement among forecasters on the future trajectory. This reflects different assumptions on the likely impact of the second Trump administration's economic policies, which rests on tax cuts, deregulation, higher tariffs, and tighter immigration controls. Those anticipating much higher inflation argue that the proposed tax cuts will keep growth above potential and aggravate an already unsustainable fiscal position, keeping demand pressure on prices elevated. At the same time, tariffs will lift prices, albeit to varying degrees. Although tariffs typically translate into a once-off increase in the price level, the impact will take time to disappear from the base. Even worse, the effect could be more dynamic if US tariffs trigger a tit-for-tat trade war, leading to higher tariffs on a wider range of products from a growing number of countries. Everyone agrees that a universal tariff would be the most damaging. Finally, stricter immigration controls and deportations would restrict labour supply, placing renewed upward pressure on wages, leading to either sticky or rising services inflation.

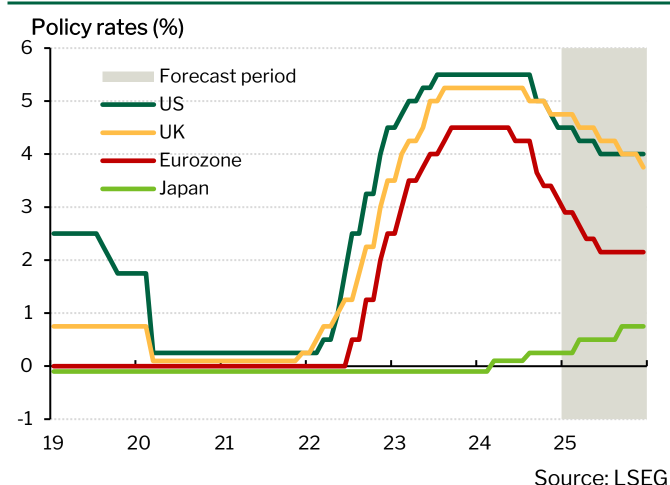
However, most forecasts reflect a more nuanced picture. Some argue that the most radical tariff threats are unlikely to be enacted and instead serve as leverage to secure more favourable terms for the US in future trade negotiations. They point to the tariffs imposed during Trump's first term, which neither lived up to the rhetoric in scale nor raised inflation materially. Notably, the upward pressure exerted by higher tariffs will likely be offset by the downward force from a stronger US dollar. Moreover, strict immigration controls and mass deportations will be hard to implement. The administration's ambitious targets will likely encounter administrative, logistical and legal challenges, which would slow implementation and limit the disruptions to the labour force. As for the growth-boosting impact of tax cuts, these will be countered by still restrictive monetary policy and anchored inflation expectations. All said, most forecasters expect the policy changes to slow disinflation rather than derail it altogether.

Chart 13: Inflation also proved sticky in other ACs



Source: LSEG

Chart 14: Core inflation also drifted sideways



Source: LSEG

US monetary policy easing continued, but the murky inflation outlook made the Fed more cautious. As expected, the Federal Open Market Committee (FOMC) reduced its policy rate by 25 bps in December. However, the committee also signalled a slower pace of easing this year. The FOMC described inflation as 'somewhat elevated' and took a more pessimistic view of inflation's trajectory. They expected inflation to hover above 2% over the next two years, only aligning with their target in 2027, a whole year later than projected in September. They still expected the economy to remain relatively robust and the unemployment rate to stay at a low 4.3% over the next three years. Given this context, the FOMC pared back its rate-cut projections for 2025 to 50 bps in total, about 25 bps less than expected in September. In response to all these developments, the markets reduced their rate-cutting expectations dramatically. By mid-January, the Fed's future priced in only one cut of 25 bps around July.

According to the Reuters poll, Eurozone inflation is forecast to stabilise at 2% by mid-year. Subdued domestic demand and softer wage growth will likely return inflation to target relatively quickly. The markets see Japan's inflation rate receding off last year's higher base to around 1.9% by year-end, underpinned by a firmer currency and patchy demand due to further monetary policy tightening. In contrast, UK inflation will likely prove more persistent, staying elevated at 2.5% in 2025 before reaching the target around 2026. Disinflation from subdued domestic demand and softer wage growth will contain the impact of renewed currency weakness amid mounting fiscal woes.

Given diverging inflation outlooks, the central banks of Europe moved at different speeds. The European Central Bank (ECB) reduced its key policy rates by a further 25 bps in December. Their forecasts reflected confidence in returning inflation to its target, given the expectation that demand would remain relatively subdued and only recover slowly over the next three years.

Policymakers expected headline inflation to ease gradually from 2.4% in 2024 to 2.1% in 2025 and 1.9% in 2026. They also expected domestic demand to recover only gradually, still held back by relatively high borrowing costs. Real GDP growth was forecast to pick up from 0.7% in 2024 to 1.1% in 2025 and 1.4% in 2026. As expected, the Bank of England (BoE) opted for a cautious approach, leaving its bank rate unchanged at 4.75%. They cited concerns over the inflation outlook amid robust wage growth and indications of rising inflation expectations. The central bank stressed that monetary policy must remain restrictive until the upside risks to the inflation outlook have subsided. The Bank of Japan (BoJ), which ended decades of ultra-accommodative policies in 2024, raised its short-term interest rate to 0.5% in January. The BoJ aims to gradually lift interest rates from accommodative to neutral, which is projected at around 1%. Policymakers expected broadening wage growth to drive inflation to 2.4% in 2025 before easing to 2% in 2026. The board still expected Japan's economy to stage a moderate recovery during the year.

In emerging markets, disinflation generally continued. China still teetered on the brink of deflation. Inflation slowed for the fourth month to a low 0.1% in December, down from a modest 0.6% in August. Food prices declined, while non-food prices inched up. Most of the drag came from declines in transport, while housing costs also remained subdued. On a slightly brighter note, core inflation rose to 0.4%, ticking up slowly from a recent low of 0.1% in September. Meanwhile, most other emerging markets saw price pressures moderating further, driven mainly by soft global food and fuel prices, reinforced by a moderate, albeit choppy, pullback in emerging market currencies compared to a year earlier. A notable exception is Brazil, where inflation returned, climbing to 4.8% in December after easing to a low of 3.7% in April from a high of 12.1% in April 2022. Mounting demand pressures were responsible for the resurgence in inflation, driven by robust government and household spending. The inflation outlooks for emerging economies remain relatively favourable. The disinflationary process will likely continue at a slower pace. The lingering impact of restrictive monetary policy, expectations of lower oil prices, and relatively steady food prices will exert downward pressure, likely offsetting the impact of currency weakness and volatility. Altogether, we expect inflation to be sticky but contained, with significant upside risks to the outlook.

Apart from Brazil, emerging-market central banks also started loosening monetary policy as inflation subsided and the Fed's easing provided their currencies with some breathing space. The People's Bank of China (PBoC) stepped up efforts to rejuvenate its economy and shake off the persistent deflationary threat. The central bank used its entire toolkit. It reduced the required reserve ratio, injected liquidity, lowered its 7- and 14-day reverse repo rates, and cut its 1- and 5-year loan prime rates. Moreover, PBoC extended support for the beleaguered real estate market through various other measures, including changes to minimum downpayment ratios and central bank lending to government-subsidised housing. On the opposite end of the spectrum, Brazil's central bank tightened aggressively, raising its policy interest rate to 12.25% from 10.50% in August, due to resurgent inflation and substantial currency weakness.

In conclusion, the upside risks to global inflation have increased significantly, driven partly by cyclical factors but mostly by the likely change in US economic policies. On the cyclical front, there is a risk that the anticipated disinflation from services materialises too slowly just as goods prices start to rise off a low base. Although the specifics are still unknown, the US policy agenda is more likely to be inflationary than disinflationary. On the bright side, the inflation exported by the US will be partly countered by deflation exported by China due to substantial excess capacity in manufacturing. The key for emerging markets will be the impact of Trump's policies on the US dollar and its implications for their currencies.

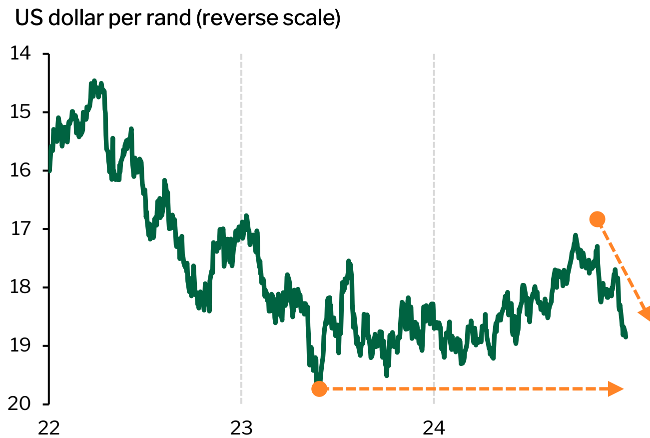
The rand: Downside risks have increased.

The rand's pullback after the favourable election outcomes of last year was a powerful disinflationary force, driving inflation below target faster and more decisively than the SARB and most analysts expected. Unfortunately, the rand came under renewed pressure against a resurgent US dollar towards the end of last year, breaching the R19 level a few times in late December and early January. Recently, the currency has stabilised somewhat, trading just below R18.50. On a trade-weighted basis, the rand depreciated by a relatively steep 3.5% in Q4 before regaining a marginal 0.4% in January.

The rand's course is highly dependent on the US dollar's trajectory. Global investors see a strong US dollar as a major consequence of the changes in US economic policies. The dollar should benefit through four channels. First, higher tariffs tilt the competitive advantage in favour of US producers and *potentially* (albeit debatable) narrow the US trade deficit by reducing imports. Secondly, Trump's policy agenda could be inflationary, leading to fewer or even no further US rate cuts. With most other central banks expected to reduce their policy rates by more than the US Fed, interest rate differentials will again shift in the US's favour. Thirdly, Trump's policies are widely expected to boost US growth while hurting global trade and, thereby, the rest of the world economy. Consequently, US economic outperformance will continue to support the dollar. And finally, US foreign relations will likely become more unpredictable. US rhetoric will likely be more hostile, but transactional motives will probably drive the

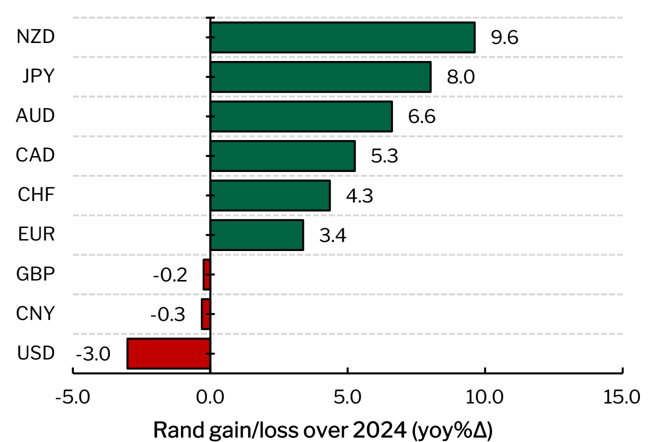
ultimate policy outcomes. Nonetheless, these uncertainties would also tend to keep safe-haven demand for the US dollar elevated.

Chart 15: The rand came under renewed pressure



Source: LSEG

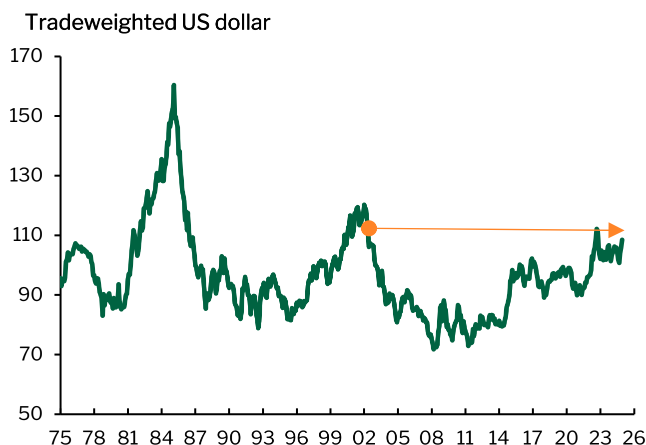
Chart 16: The rand's performance in 2024



Source: LSEG

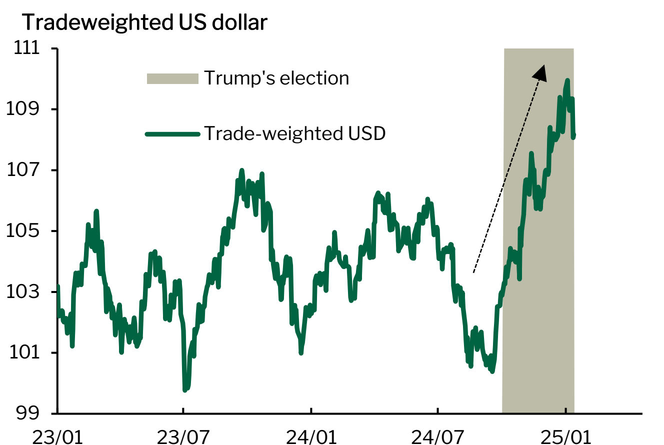
The bigger question is how much of these effects have already been priced in. The US dollar is trading near its best levels since the global financial crisis. The trade-weighted US dollar strengthened by 7% in 2024, more than offsetting the moderate correction of 2023. This suggests that the scope for further upside is limited. At the same time, the markets appear determined to focus on the growth-enhancing elements of Trump's policies while ignoring or rationalising the potential negative consequences for the US and the rest of the world, particularly over the medium term. Consequently, the risk of disappointment is high, reinforcing the likelihood that the best possible outcomes have already been discounted. As a result, we expect the US dollar to remain at relatively strong levels but nonetheless drift sideways over the year.

Chart 17: The USD is around its best levels in 21 years



Source: LSEG

Chart 18: Trump's victory led to another strong rally



Source: LSEG

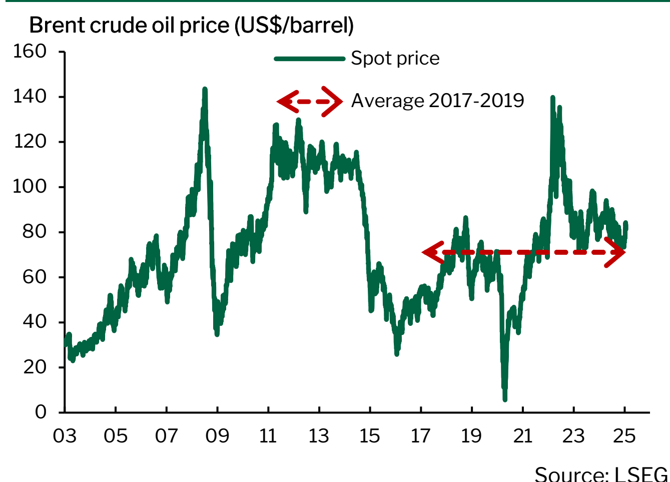
Set against this backdrop, the rand's pullback in 2024 probably also fully accounted for most of the positive domestic developments. Even after the rand's recent slide, the currency is still trading broadly within our fair value estimates based on purchasing power parity and emerging market risk premiums. Significant further rand strength would require a deeper downward shift in the country's sovereign risk premium, which only seems possible on material improvements in South Africa's fiscal metrics, structurally lower inflation, or meaningfully better domestic growth outcomes. We expect only gradual improvements on all these fronts over the year. So, we see the rand holding relatively steady against a range-bound, albeit quite strong, US dollar. In net terms, we expect the rand to become a mild source of inflation in the year's second half. Given the unsettled global landscape, the downside risks to our rand forecast have undoubtedly increased.

Global oil prices: Fundamentals support lower prices

Global oil prices rose over the past three months. Brent crude increased by 11.5% from a low of $73 per barrel in September last year to $79.56 on 23 January. Higher seasonal demand due to a colder-than-usual winter in the Northern Hemisphere is mainly to blame. Even at these higher levels, Brent is still 4.9% lower than in January 2023. The underlying downward trend is widely forecast to continue. The US Energy Information Administration (EIA) expects global oil production to outpace demand over the next two years. They forecast output growth of 1.7% in 2025 and a further 1.5% in 2026, driven mainly by sound growth in non-OPEC+ oil production, underpinned by a gradual but consistent rise in US oil output. The rising market share of competitors is also expected to convince OPEC+ countries to unwind their production cuts later this year. At the same time, global oil demand is forecast to rise by only 1.2% in 2025 and only 1% in 2026. Subdued demand in most advanced countries and fading demand from China due to slowing economic growth and structural shifts toward electric vehicles are expected to outweigh strong demand from India. Altogether, EIA sees Brent averaging $74 per barrel in 2025 before sliding to an average of $66 per barrel in 2026. These translate into declines of 8% and 11% in 2025 and 2026, respectively. Market forecasts show a similar trajectory and level for 2025 but reflect a gradual decrease of only 2% to $72.8 in 2026.

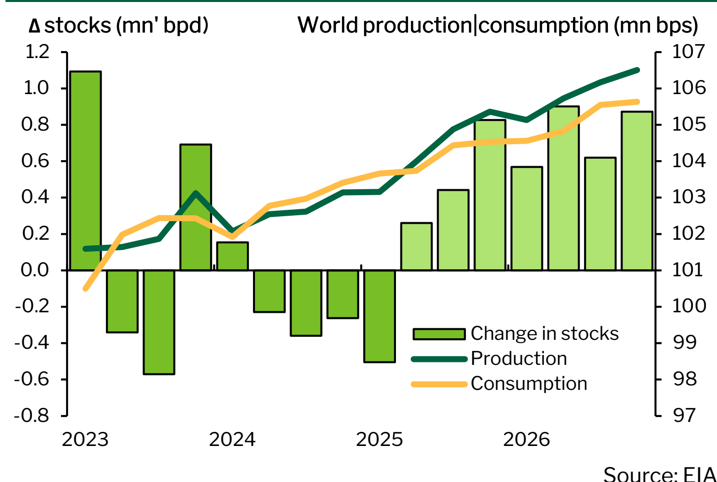
At this stage, global prices are not likely to be inflationary. However, international oil markets are finely balanced and vulnerable to renewed geopolitical conflicts in oil-producing regions.

Chart 19: Global oil prices edged up in late 2024



Source: LSEG

Chart 20: EIA forecast of the world oil market



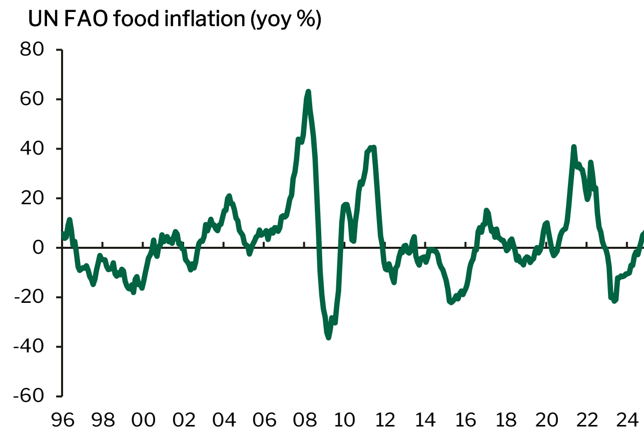
Source: EIA

Global food prices: Starting to turn upwards

Global food inflation increased towards the end of last year. According to the United Nations' Food and Agriculture Organisation (FAO), food prices accelerated by 6.6% yoy in December, up from 5.8% in November. Most of the upward pressure in December came from food oils, dairy and meat. However, cereal and sugar remained deep in deflation, with prices down by 9.3% yoy and 10.6%, respectively. The outlook is relatively favourable, but we still expect prices to rise off a low base. Higher world supplies will contain the upside. Crops are expected to improve due to favourable weather conditions associated with the La Niña phenomenon and declines in shipping costs due to lower global oil prices. However, the biggest concern is the likely impact of new trade restrictions and higher tariffs from the Trump administration, which could spread to other countries. The adverse effect of global warming and stockpiling amid concerns over potential shortages could also place upward pressure on food prices.

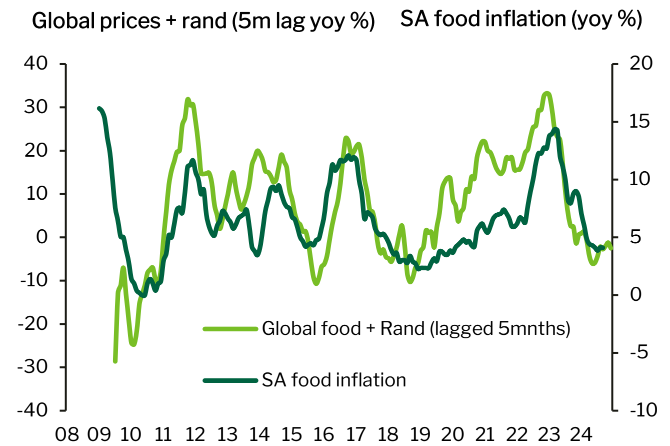
The gradual upward drift in global food prices and a weaker rand are forecast to exert mild upward pressure on domestic food prices.

Chart 21: Global food prices are also rising off a low base



Source: UN FAO

Chart 22: Global food prices will filter through to SA.

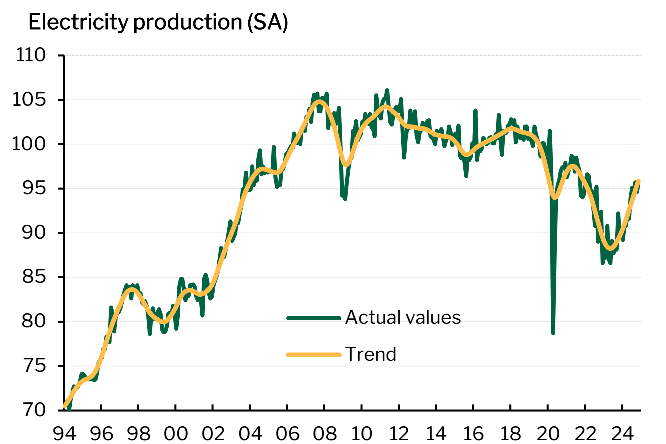


Source: Stats SA & UN FAO

Domestic fundamentals: Firmer demand matched by improved supply

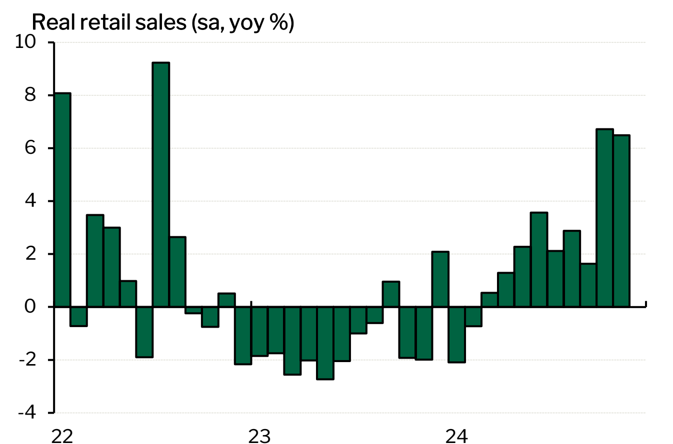
Monthly indicators suggest the economy regained some upward traction in Q4 after the unexpected relapse in Q3. Consumers led the rebound as household finances gradually improved. Rapidly receding inflation boosted real pay, helping to offset sluggish job creation. After four quarters of contraction, real personal disposal income grew by 1% qoq in Q2 and a further 0.6% in Q3. Debt service costs, which have weighed on consumers for over two years, probably declined slightly in Q4, with the SARB delivering a second rate cut and household borrowing slowing further. Then, the boost from the 2-pot-retirement-fund withdrawals also took effect and appears set to exceed R80 billion. Consumers probably used these windfalls to repay debt and increase spending. As a result, real retail sales picked up in October and November. Retailers reported a good turnout for Black Friday, Cyber Monday, and much of the festive season. Credit card purchases softened but remained generally robust. Moreover, new car sales increased by a further 9.9% over the final quarter.

Chart 23: Electricity supply improved noticeably.



Source: Stats SA

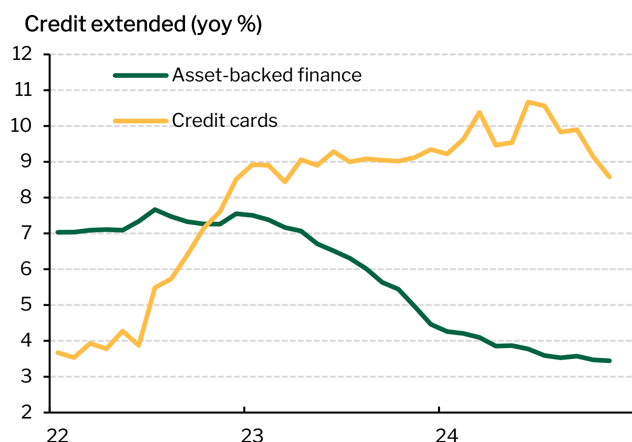
Chart 24: Retail sales recovered off a low base.



Source: Stats SA

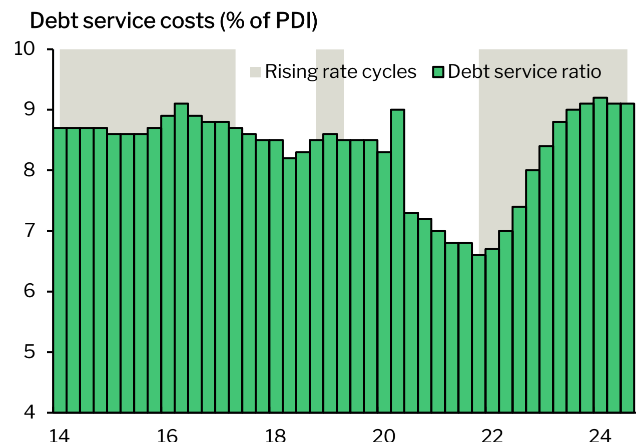
Elsewhere, activity remained relatively sluggish in Q4. After two months of growth, mining production declined in October and November. Manufacturing output also struggled to gain traction, shrinking in November after rising moderately in October. The forward-looking BER/ABSA PMI points to further weakness in December. It dipped below 50 in November before falling to a gloomy 46.2 in December. Despite these pockets of weakness, the economy probably grew by around 0.6% qoq in Q4.

Chart 25: Transactional credit remains strong



Source: SARB

Chart 26: Debt service costs are still elevated.



Source: Stats SA

The recovery is expected to gain moderate momentum in 2025. Consumers will continue to carry the economy, driven by rising real incomes, subdued inflation, lower interest rates and the ongoing boost from retirement fund withdrawals. We also expect fixed capital formation to contribute, initially propped up by public sector spending but later supported by a modest upturn in private sector outlays. Given National Treasury's plans to reduce the budget deficit and stabilise the public debt burden, we only see space for modest growth in government spending. Finally, the net export position will remain a drag on GDP growth. We believe that firmer domestic spending will lift import volumes by more than easing structural constraints, and steady global growth will elevate exports. Taken together, the stage is set for a gradual economic recovery. We expect real GDP to grow by about 1.4% in 2025 and a slightly faster 1.8% in 2026. The balance of risks is still tilted to the downside. The global landscape will likely become more unpredictable with potentially harmful consequences as US foreign and trade policies change under the second Trump administration.

The anticipated recovery in domestic demand will likely be matched by further improvements in supply conditions. In 2024, structural reforms yielded some results. The most significant among these was the end of load-shedding, which helped normalise operations and reduce the heavy costs associated with prolonged outages. Although the country's transport network remains highly inefficient, slightly more volume moved by rail and the delays at the ports eased somewhat. Plans are afoot to accelerate logistics reforms, but the benefits of reduced operating costs and improved international competitiveness will take time to filter through. Stage 2 of Operation Vulindlela, which aims to accelerate reforms to facilitate faster growth, will now focus on municipalities where public infrastructure has fallen into disrepair and services have deteriorated dramatically. However, these incremental improvements will likely continue and accumulate, creating some breathing space for moderately faster growth without creating undue price pressures.

Monetary policy implications

With inflation well below the SARB's 4.5% target and expected to remain relatively subdued, we believe there is room for further monetary policy easing. Although domestic demand is gradually recovering, supply-side constraints are also easing, albeit slowly. Moreover, monetary policy is still restrictive, with real interest rates rising to just short of 5%. We believe these developments alone support a 25-bps cut at next week's meeting. However, the upside risks to the inflation outlook have increased. While global oil prices are unlikely to hold onto recent gains, the rand faces another volatile year. The currency's recent slide and underlying vulnerability to shifting global risk appetites will make the MPC more cautious. A mitigating factor against these upside risks is that the US Fed has already reduced its policy rate by 100 bps, while the SARB has only eased by 50 bps. This creates space for one more rate cut later this year without placing the rand under too much pressure. Consequently, we expect another rate cut in March, taking the repo and prime lending rates to 7.25% and 10.75%, respectively. This aligns with the November estimates of the SARB's Quarterly Projection Model, which also pointed to reductions of about 50 bps in 2025. At this level, interest rates will still be 50 bps higher than just before the Covid 19 pandemic struck.

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