How high will the Sarb hike the repo rate? Finder panel divided

The Sarb's Monetary Policy Committee (MPC) is set to increase the repo rate at the September meeting but just how much is up for debate, according to Finder.com's latest Sarb *Repo Rate Forecast* report.

Source: The South African Reserve Bank.

Finder's panel of 18 economists, academics, and property specialists unanimously forecast a rate hike with half (50%) predicting a 50bp increase, 44% a 75bp increase and 6% just 25bps.

However the majority (67%) of panelists think the MPC should only increase the rate by 50bps, with just 28% suggesting a larger 75bp increase.

Both Standard Bank head of SA macroeconomic research, Elna Moolman and Old Mutual multi-managers strategist Izak Odendaal are in favour of a 50bp increase but think the MPC will increase the rate by a more aggressive 75bps.

Odendaal's 75bp forecast is due to "the continued upward pressure on global interest rates, specifically in the US where the Fed is also likely to hike by 75bps at the upcoming meeting."

"...However, the MPC does not need to move quite so aggressively given that domestic inflation pressures remain muted outside of food and fuel," he argued.

Moolman noted that “the Sarb wants to avoid an inflation spiral at all cost and would therefore rather be pre-emptive in its hiking”. She also said “the Sarb would be reluctant to slow its rate hikes with the real forward-looking policy rate still quite low at this stage”.

Just under a third (31%) of the panel said the MPC risks creating a recession by raising the repo rate too much. Just under half the panel (47%) think the economy will go into recession, 29% as soon as next year.

Those for a 75bps increase

However, EFConsult chief economist, Frank Blackmore and University of the Free State associate professor of banking Johan Coetzee think the MPC will and should increase the rate by 75bps.

“Better to increase by larger increments sooner to reinforce the effect of hiring rates and slow down as one approaches equilibrium,” said Blackmore while Coetzee highlighted the strong inflationary pressure.

“There is simply too much inflationary pressure from food and transport costs not to justify a 75bps increase in the repo rate. With the Producer Price Index for July at 18%, global interest rate movements on the up, and the no ending in the Russia/Ukraine situation any time soon, we are unfortunately going to bear the brunt of a faster than normal interest-rate escalation cycle.”

Meanwhile ETM Analytics co-head of financial markets, Kieran Siney thinks the bank should and will only raise the rate by 50bps noting interest-rate expectations have moderated significantly in the last month.

Assessing tightening effects

“The domestic credit cycle remains weak, inflation will be more constrained than in many other countries worldwide, growth remains sub-trend, and margin compression remains a theme. The combination implies that the pace of rate hikes will slow; by year-end or the start of 2023, the Sarb is expected to pause and assess the effects of all the tightening already implemented.”

Whether the rate increases by 50 or 75bps, the majority of the panel agrees that a hike is also in store for November (78%) with a third of the panel (33%) predicting that will be the peak of this cycle. However, another third (33%) don’t think the cycle will peak until March 2023.

Just over half (53%) of the panel thinks inflation has already peaked with an additional 36% predicting it will have peaked by October this year.