

The key is remaining constructive on domestic bonds

By [Luigi Marinus](#)

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In the wake of the Monetary Policy Committee (MPC) deciding to increase the repo rate by 75 basis points to 5.5%, let's unpack Sarb governor, Lesetja Kganyago's rate call.



Source: 123RF

Short-term interest rates have now increased by 2% since the low of 3.5%.

Even though the 75 basis point increase was larger than expected, interest rates are still at low levels compared to history.

The South African Reserve Bank (Sarb) has reduced their forecast for global growth in 2022, 2023 and 2024, while the forecast for SA GDP growth increased from 1.7% to 2.0% in 2022, but decreased to 1.3% and 1.5% in 2023 and 2024 respectively, from the 1.9% forecast in both years in the previous meeting.

Fuel and transport added significantly to the most recent inflation print with the Sarb assuming this to continue in 2022 as the fuel-price forecast increased from 31.2% to 38.9% but due to only increase by 4.5% in 2023.

Inflation is expected to moderate from the current level to 6.0% this year and 5.6% next year. However, market surveys are predicting higher inflation than the Sarb's forecast at 6.5%.

At PPS we remain constructive on domestic bonds with allocations to nominal and inflation-linked bonds as the steep yield curve still provides adequate compensation for the inherent risk.

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