



Inflation data deciding factor

It remains to be seen whether the monetary policy committee sitting this week will again hike interest rates

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THE markets remain on tenterhooks in the wake of a decision by the US Federal Reserve to leave interest rates unchanged, which offered the rand and other emerging market currencies some relief.

The focus has shifted towards the Reserve Bank ahead of its monetary policy committee (MPC) meeting this week, with inflation data expected on Wednesday.

A lingering question is whether the MPC would continue on an interest rate hiking trend it had resumed in July.

The outlook appeared to be certainly upwards as a result of the skidding of the rand. However, last week's non action by the US Fed complicated the picture.

The rand was trading around R13.30 against the dollar yesterday which reflected some recovery against the recent slide towards the R14 mark.

"The rhetoric coming through from the Fed was very dovish as it emphasized concerns over slowing growth in China and financial market volatility," an FNB market analyst said.

Recent financial market turbulence which could be linked to weaker Chinese growth was considered by the US Fed, the analyst said.

"These issues appear likely to persist beyond the short term. As such, there is a growing risk that the Fed

may wait until next year to adjust interest rates as it tries to get a better handle on the impact that a slowdown in emerging markets is likely to have on the US," the analyst said.

This view is supported by lower inflation in the US.

"There isn't really a lot of pressure to raise rates right now," the analyst said.

Headline CPI grew at a slightly faster rate of 5% year-on-year in July, the analyst said.

"For August we expect that inflation will slow to 4.6% year-on-year. This is due largely to a petrol price cut during the month, however weak demand and a decline in core inflation is also expected to have played a role."

"We expect that the Bank will keep the repo rate on hold at 6% this week," the FNB analyst said.

"This is likely to be a close call as recent rand weakness may be sufficient justification for a further interest rate hike. However the Bank will have to cut both its inflation and GDP growth forecasts for this and next year and as a result it may be difficult to justify an interest rate hike, the analyst said.

The fact that interest rates were hiked in July and that the Fed paused this week, suggests that the Bank can afford to pause and see how the economy performs over the coming weeks," the analyst said.

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