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Reserve Bank 'will keep interest rates on hold'

THE rand's rally since January, a slow pick-up in domestic economic activity and moderate job creation are some of the factors that will persuade the Reserve Bank to leave interest rates unchanged on Thursday.

This is according to economists interviewed on Wednesday ahead of the monetary policy committee's (MPC's) statement on Thursday afternoon.

The committee has been worried that the weak rand would raise the cost of commodities such as crude oil and fan food inflation.

It raised the repo rate by 50 basis points to 5.5% in January.

Bank governor Gill Marcus has said rate hikes are likely to be moderate due to weak economic growth. The Bank forecasts the economy to grow by 2.8%, slightly higher than the 2.5% most economists project.

Economists say although the Bank does not target a level of the rand, its appreciation against the dollar since the MPC's January meeting would have eased inflation concerns. Although the rand maintains a weaker bias, it has come off its weakest levels since January.

It touched R10.66/\$ on Wednesday as mounting speculation that China would stimulate its economy made emerging-market assets more attractive to investors.

Standard Bank rand strategist Bruce Donald said the strengthening rand would ease the MPC's "anxiety" regarding inflation.

"The most likely trigger for additional tightening by the central bank would be further bouts of weakness in the exchange rate," he said.

"We think that strengthening in the exchange rate since the last meeting will provide reason for the bank to pause at this meeting."

Inflation has, as expected, been rising this year and hit 5.9% year on year last month.

A BDLive median consensus forecast from a survey of 12 economists expects the repo rate to be held at 5.5%. Seven out of the 12 expected rates to remain on hold, three expected a 50-basis-point hike, and two a 25-basis-point increase.



P R E S S C O V E R A G E

The MPC forecasts the consumer price index (CPI), which measures inflation, to peak at 6.6% in the final quarter of this year.

Coface economic risk analyst George Marais said it expected inflation to peak at 6.5% in June, mainly because of higher food and fuel prices in coming months.

He said rates were likely to be raised by 50 basis points on Thursday and then remain on hold until next year. He said a cumulative 100-basis-point increase this year would tackle inflation and not be very harmful to the economy.

"With gross domestic product growth already low, the MPC cannot afford to increase rates any further after today as we are intent on stimulating foreign investments," Mr Marais said.

Nomura International emerging-markets economist Peter Attard Montalto said in a research note the MPC was receiving "anecdotal evidence" that rand pass-through was already lower as a result of "behavioural changes" after the increase in rates in January.

"The hawks will see this as a reason to hike early again this month to further squash pass-through; the doves have reason to wait."

<http://www.bdlive.co.za/economy/2014/03/27/reserve-bank-will-keep-interest-rates-on-hold>