Discovery Money Market

30 June 2026

Market background

South African markets navigated a volatile second quarter, with the Middle East conflict the dominant driver across asset classes. The shock was transmitted primarily through commodity prices, particularly oil and gas, and bond yields, with the quarter's final moves reversing materially from those at its peak.

Turning to monetary policy, the South African Reserve Bank (SARB) raised the repo rate by 25 basis points to 7% at its May meeting. The decision was driven primarily by headline CPI moving toward the upper end of the target band and concerns over potential second-round inflation effects stemming from the energy shock.

Domestic bonds sold off sharply mid-quarter in response to rising inflation expectations and geopolitical uncertainty, before recovering strongly as ceasefire negotiations progressed, leaving the ALBI in positive territory for the full period. The macro backdrop provided further support: GDP growth in the first quarter came in ahead of expectations, and South Africa received sovereign credit rating upgrades from both Moody's and Fitch during the quarter.

The rand initially depreciated in response to the terms-of-trade shock, but recovered as conditions stabilised. The fall was relatively well contained, with the local currency managing to retrace much of the sell-off by quarter-end as the country's terms-of-trade position improved.

Looking ahead, the key variable is the inflation trajectory. Having demonstrated a willingness to hike pre-emptively, the SARB's next move will be sensitive to incoming inflation data, with the balance of risks dependent on whether the energy price shock proves transitory or embeds more broadly into domestic prices.

Performance review

The portfolio outperformed the benchmark over the quarter.

The July Monetary Policy Committee meeting is shaping up to be a close call. The most recent Inflation Expectations Survey surprised to the upside with the two-year forecast coming in ahead of expectations, rising to 3.9% from 3.6% previously. The market is now pricing in a 25-basis point hike for July, with a further hike thereafter taking the total priced move to 50 basis points.

In terms of positioning, we have added duration into weakness and will continue look for further opportunities.

Outlook and strategy

As transport through the Strait of Hormuz normalises, we no longer view elevated oil prices as a significant risk to the inflation outlook. Nevertheless, inflation risks remain: core services are experiencing upside pressure, and on a forward-looking basis, food inflation presents some upside risk to our inflation outlook. With the second-quarter inflation expectations survey moving meaningfully higher, we expect the SARB to remain on the hawkish side and focus on bringing those expectations lower.

Stripping out the fuel levy relief provided by National Treasury to offset the significant increases in petrol prices over the second quarter, revenues are performing extremely well and are ahead of expectations, with both VAT and personal income tax contributing to the overrun. The June data, when available, will provide a clearer picture of whether corporate tax revenues are beginning to reflect the precious metals windfall from the second half of last year. This could be an important driver of fiscal outperformance over the course of the fiscal year.

In addition, the next two to three months will be supportive from a coupon-flow perspective, which should provide some support to the South African government bond market..