Publication: The Star - Business Report

Page: 11

Title: Fed rate decision could put pressure on rand and South African households

Publish Date: 16 September 2026

AVE: 29484.8

Author: ASHLEY LECHMAN

FEDERAL RESERVE

THE US Federal Reserve's September interest-rate decision could influence the rand, fuel prices and the South African Reserve Bank's policy debate. Economists are divided between a rate hike and a hold as inflation and growth data send mixed signals. | Pexels.com

Fed rate decision could put pressure on rand and South African households

ASHLEY LECHMAN

ALL eyes will be on the US Federal Reserve's Federal Open Market Committee (FOMC) decision on interest rates, which will take place on Wednesday evening in South African time.

The decision comes as oil prices surge once again this year at levels well over $100 per barrel, inflation fears run rampant across global markets, analysts and economists have predicted that the Fed's chair, Kevin Warsh, will announce a hike in rates.

US interest rates matter closer to home in South Africa because the South African Reserve Bank (Sarb) will be making its decision on the repurchase rate (repo rate) next week, with the Fed's decision taken into consideration by the Sarb's Monetary Policy Committee (MPC) when deciding on what to do with interest rates locally.

Philip Short, a fund manager at Flagship, said that the market is pricing a 90% probability of a 25 basis point (bps) hike by the Fed.

"More importantly, it is pricing in four 25 bps hikes over the next 12 months, which would take the Fed funds rate from the current 3.50%–3.75% to 4.50%–4.75% in September 2027. Although US inflation has been more of a cost-push issue, we still think the Fed will hike rates, given recent inflation prints and to tame US long-end bond yields. This move will sway the Sarb to hike."

At the last meeting in July, the Sarb's Monetary Policy Committee held rates, with four members voting to hold and two preferring a 25 bps hike. However, back then, the odds of the Fed hiking this week, were much lower than they are today. Higher oil and refining prices will keep SA inflation above the Sarb's 3-4% target, prompting the Sarb to one more hike by year-end," Short said.

What it could mean for households

Neil Roets, CEO of Debt Rescue said that the Fed's decision this week matters well beyond the US.

"I believe a 25 bps increase is now a real possibility. For South Africa, that would add another layer of pressure ahead of the Reserve Bank's decision next week. We at Debt Rescue are concerned about what this combination of global and domestic pressures means for SA households. Higher US rates can support the dollar and place pressure on emerging-market currencies such as the rand, while the Iran conflict and renewed oil-supply concerns are keeping global energy prices elevated," Roets said. He added that both can feed into South Africa's inflation outlook through fuel, transport and broader input costs.

"Our July inflation rate eased to 4.3%, but that should not create a false sense of comfort. Transport inflation remained high at 8.9%, while South Africa's unemployment rate rose to 33.6% in the second quarter. That leaves many households with very little capacity to absorb another round of price or borrowing-cost increases.

Full Page Image