

Better rainfall and larger harvest 'could keep repo rate at 7%'

By [Robert Laing](#)

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Better rainfall leading to a larger harvest is likely to keep the Reserve Bank's repo rate level at 7% during 2017, BMI Research said in a note on Tuesday morning.



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"The risks to this view are considerable, though, and skewed to the upside. Indeed, should we see a sharper than expected hiking cycle by the US Federal Reserve or a domestic policy misstep causing severe capital flight, this would likely be enough to force the Reserve Bank to continue tightening," BMI said.

The research firm expects SA's gross domestic product growth to accelerate from about 0.5% in 2016 to 1.1% in 2017 which "implies a still quite tepid economic outlook."

Inflation is likely to continue to climb above the Reserve Bank's 6% ceiling for the next few months, but BMI forecasts it will fall back within the band once farmers start harvesting between May and July.

"Severe El Niño-related drought saw grains prices soar in the early part of 2016, while in the latter part of the year, the higher input costs began to feed through to processed foods, dairy and meat prices, exacerbating the upward pressure on

inflation.

"However, with a return to wetter weather for SA, an uptick in white and yellow maize production will prompt a gradual easing of food price growth."

The SA Crop Estimate Committee expects farmers to sow 2.44-million hectares of maize in the coming season, up from 1.95-million last year.

"We expect the Reserve Bank to keep the policy rate on hold in 2017, at 7%, bringing to an end the gradual hiking cycle seen in recent years. The bank has raised the policy rate by 75 basis points in 2016, after 50 basis points worth of hikes in 2015 in an attempt to combat the dual impact of a sharp rand sell-off and a series of poor harvests which ramped up food price pressures.

"However, with reduced food price pressures tempering headline inflation, and still sluggish growth, it is our core view that the bank will shift to a more neutral monetary policy position," BMI said.

Source: BDpro

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