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GLOBAL TRADE SHIFTS, CENTRAL BANK DECISIONS, AND DOMESTIC HEADWINDS

GLOBAL TRADE AND TARIFFS: A NEW ERA OF PROTECTIONISM

July saw yet another shift in the global trade landscape as US President Donald Trump reintroduced widespread tariffs on dozens of America's trading partners, including long-standing allies such as Canada, India, Taiwan, Switzerland, and notably, South Africa. These trade measures form part of Trump's ongoing sweeping tariff agenda, and are intended to reduce the US trade deficit, raise domestic revenue, and support Trump's broader economic program, including funding tax cuts through tariffs.

While South African tariff negotiations with the US are ongoing, a 30% tariff on all exports to the US seems like the most likely outcome at this stage. There are, however, important exceptions to the tariffs being levied against South Africa; precious and base metals, coal, pharmaceuticals, and certain wood products, all of which are key components of South Africa's export basket, will remain exempt. Steel and vehicle exports, meanwhile, face separate 25% tariffs.

The greatest impacted category will fall on South Africa's agricultural exports to the US, particularly citrus fruits, grapes, wine, and macadamia nuts. These sectors had benefited significantly from the African Growth and Opportunity Act (AGOA), which the US plans to cancel in September. The automotive sector, already under pressure, is expected to be further affected.

While the headlines may sound alarming, it's essential to keep perspective. The US is not South Africa's largest export market by a significant margin, accounting for just 2.2% of GDP in total exports, with less than 1% subject to these new tariffs. Trade with Europe, Asia, and the rest of Africa remains far more substantial.

Nonetheless, these tariffs highlight the broader challenges of competitiveness in South Africa. Tariffs may restrict market access in the short term, but longer-term success will depend on whether South African businesses can deliver quality goods at competitive prices globally. That requires a focus not just on trade diplomacy, but on addressing deep-rooted domestic issues.

Structural inefficiencies such as unreliable electricity, port delays, crime, overregulation, and poor municipal governance continue to hamper business growth. Improving these areas would yield far greater benefits than lobbying for tariff reductions alone.

HIGHLIGHTS

US Tariffs Hit Global Trade

- The US imposed broad tariffs on key partners including South Africa. SA's exports of citrus, wine, and vehicles face up to 30% tariffs, but major commodities remain exempt.

SARB Cuts Rates and Sets 3% Target

- The Reserve Bank cut the repo rate to 7.00% and announced a new inflation target of 3%, highlighting long-term focus on competitiveness and stability.

Fed Holds Rates Amid Inflation Risk

- The US Fed held its rate at 4.25–4.50%, balancing growth concerns with tariff-driven inflation pressures.

Global Growth Outlook Improves

- The IMF upgraded its 2025 forecast to 3.0%, aided by pre-tariff import boosts and a weaker US dollar, which is down 9% YTD.

Trump's Spending Bill Adds Debt Risks

- The "One Big Beautiful Bill" makes tax cuts permanent and adds $3.4 trillion to US debt, raising inflation and policy uncertainty.

INTEREST RATES AND MONETARY POLICY: A CAUTIOUS OUTLOOK

In the United States, the Federal Reserve (Fed) opted to keep interest rates steady at its recent meeting, holding the target range at 4.25% to 4.50%. Fed Chair Jerome Powell described the current policy stance as “modestly restrictive,” appropriate in light of solid employment data and persistent inflation.

While two Fed officials voted in favour of a rate cut, the decision reflects a delicate balancing act. On one hand, trade restrictions and slowing economic growth provide an opportunity for easing policy. On the other, elevated inflation, which is likely to rise further due to the newly-implemented tariffs, makes a rate cut difficult to justify unless labour market conditions weaken significantly.

In South Africa, the Reserve Bank elected to cut the repo rate by 25 basis points to 7.00%, bringing the prime lending rate down to 10.50%. Governor Lesetja Kganyago also made headlines by announcing a shift in the Bank’s inflation target. While the SARB had previously targeted an inflation band of between 3 and 6 per cent, the reserve bank will now aim for a 3% inflation target, the bottom of its current band.

This move reflects the SARB’s long-standing belief that high inflation undermines competitiveness, leads to higher interest rates, and slows economic growth. While controversial, the shift underscores the Bank’s commitment to maintaining price stability and enhancing economic resilience.

GLOBAL GROWTH OUTLOOK: RESILIENCE AMID UNCERTAINTY

Despite ongoing trade tensions, the International Monetary Fund (IMF) has revised its global growth forecast upward. The world economy is now expected to grow 3.0% in 2025 and 3.1% in 2026, slightly higher than the IMF’s April projections. Both the US and China received growth upgrades, and a weaker US dollar has helped offset some of the damage caused by tariffs.

In their statement, the IMF noted that businesses have been “frontloading” imports ahead of new tariffs, temporarily boosting growth. However, this could create vulnerabilities if demand slows or global conditions worsen.

Emerging markets, many of which hold debt in US dollars, have benefited from the weaker dollar, which is down almost 9% this year against a basket of its primary trading partners, which makes debt servicing less expensive. Nevertheless, risks remain, particularly if inflation in the US forces the Fed to maintain higher interest rates for longer.

US FISCAL POLICY: TRUMP’S ONE BIG BEAUTIFUL BILL

Adding further complexity to the US economic picture is President Trump’s “One Big Beautiful Bill” (OBBB), signed into law on 4 July 2025. The legislation makes his sweeping 2017 tax cuts permanent, introduces new deductions, including tax-free overtime pay and zero tax on tipping, and is partially funded by cutbacks to Medicaid, food assistance, and student loan programmes.

Ultimately, while the Bill is expansionary for the US economy, and can be expected to bolster growth, it will also place upward pressure on inflation and dramatically increase the national debt burden. The One Big Beautiful Bill Act is expected to cost the US economy $3.4 trillion over the next 10 years, and more than $4 trillion when accounting for additional interest owed on the national debt.

The knock-on effects of higher growth and inflation prints could result in the FOMC maintaining interest rates at elevated levels until the Federal Reserve’s inflation target of 2.0% becomes more attainable.