

**FIXED INCOME QUARTERLY COMMENTARY**

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# Why oil matters

Markets have been unsettled. Petrol prices have jumped. You may be wondering what it all means. We have been trying to assess all the possible outcomes. However, this is unfortunately a real shock, and the outcomes are hard to predict.

## What happened?

The war involving Iran has triggered one of the most significant disruptions to global oil supply in decades. Critical infrastructure across the Middle East is under threat, and the Strait of Hormuz through which roughly a fifth of the world's oil flows, has effectively been closed. The consequences have been swift and severe.

Brent crude, the international oil benchmark, surged from around \$69 per barrel at the start of the year to close the quarter at \$118. For South Africa, a country that imports virtually all its crude oil, buys it in US dollars but earns in rands, this is a double blow. We are exposed to both the rising dollar price of oil and the rand's performance against the dollar, a multiplicative effect that makes global oil shocks hit harder here than in many other countries.

With no meaningful domestic oil reserves and a road transport network that moves the vast majority of our goods and people – a dependency made more acute by the absence of a fully functioning national rail network – South Africa is acutely vulnerable when global energy markets are disrupted. Low-income households are the most vulnerable.

The Minister of Finance moved quickly, announcing a temporary reduction in the general fuel levy of R3.00 per litre. To put that intervention in context: without it, South Africans would have

faced petrol price increases of R5.80 per litre and diesel increases of R10.27 per litre. The relief is meaningful, but it does not eliminate the shock. It softens it.

## We have been here before

This is not new territory for South Africa. Most recently and most painfully in 2022, the Russia-Ukraine war sent petrol prices above R25 per litre and triggered the most aggressive interest rate hiking cycle in a generation. At that time, South Africa was hit by several crises simultaneously. Oil prices spiked, global food prices surged because Ukraine is one of the world's largest wheat and sunflower oil producers, supply chains were still broken from COVID-19, and the South African Reserve Bank (SARB) had interest rates sitting at historic lows. The result was a brutal 4.75 percentage point increase in interest rates over 18 months, squeezing households and businesses alike.

But South Africa's relationship with oil disruption goes back much further than 2022. We have experienced several oil crises since the 1970s. The most significant were arguably the 1973 Arab oil embargo, sustained apartheid-era sanctions, the 1990 Gulf War shock and the 2004-2008 global commodity boom. At the height of international sanctions in the apartheid era, the country faced severe restrictions on crude oil imports. To survive, South Africa developed secretive oil procurement networks, paying significant premiums and using front companies to secure supply. Out of that crisis came something remarkable: SASOL, using Fischer-Tropsch technology originally developed in Germany during World War II, built the world's first commercial coal-to-liquids facility and at its peak supplied a substantial share of South Africa's liquid fuel needs.

That history is worth reflecting on today. It is a reminder that South Africa has faced energy crises before and that adversity can, if managed, produce lasting capability. Perhaps it is time to place energy independence back on our list of structural reform priorities. A coherent national energy strategy that integrates electricity and fuel policy, supports innovation in synthetic and green fuels, and provides regulatory certainty for long-term investment is no longer a luxury.

**What does the SARB think?**

As a colleague of ours put it, the SARB is a true national treasure and a critical anchor for bond investors. This moment puts that anchor to the test and so far, the SARB is responding with exactly the kind of calm, methodical credibility that has earned it that reputation.

The SARB held its most recent Monetary Policy Committee (MPC) meeting on 26 March 2026, just as this shock was unfolding. Importantly, it is not forecasting a return to 2022-style inflation. Its base case is that this oil shock is temporary, lasting roughly 8 to 10 weeks at elevated levels before prices begin to moderate, with headline inflation peaking around 4% in the second quarter before drifting back toward the SARB's new 3% target over 2027. Its message is one of cautious watchfulness, not alarm.

That said, the SARB is also not complacent. It has modelled an intermediate and an adverse scenario in which oil prices remain elevated for an extended period. The further prices rise, and the longer they stay there, the greater the risk of what economists call second-round effects, where higher fuel costs begin pushing up wages, food prices and the broader cost of living in a self-reinforcing spiral. The SARB is watching for precisely these triggers: rising inflation expectations, accelerating wage demands, and any signs that global food prices are beginning to react.

The next major checkpoint will be the May 2026 MPC meeting. By then, the SARB will have April's inflation data in hand and a far clearer picture of whether this shock is fading or deepening. That meeting will tell us a great deal about the path ahead for interest rates.

**What does this mean for your investments?**

March marked one of the worst months of underperformance for the South African bond market in recent memory, with a negative return of -6.83%. Rising inflation and the prospect of rates staying higher for longer have been clear headwinds for bonds in the short term, and we will not pretend otherwise.

That said, South African bond yields already price in a meaningful degree of uncertainty, and if the SARB manages this shock well, bonds remain an attractive long-term holding. The SARB's

institutional credibility, its commitment to its 3% inflation target, and the fact that it enters this crisis with better buffers than in 2022 all support this view.

We do not claim to have unique insights into exactly how this situation will play out. There is simply still too much uncertainty: about the duration of the conflict, about how oil prices move from here, and about how the rand holds up. What we can tell you is that we are watching carefully, and that we will deploy cash into further opportunities where we see additional risk compensation that justifies it. Patience and liquidity are important in moments like this.

Uncertainty is uncomfortable. But South Africa has navigated oil shocks before. The key difference today is that we enter this one from a position of relative stability.



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