



ECONOMIC COMMENTARY

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GLOBAL MARKETS NAVIGATE CONFLICT, OIL, AND CENTRAL BANK LIMBO

The global economy is, once again, walking a tightrope. Over the past month, a volatile mix of geopolitical conflict, oil price shocks, and unclear central bank signals has tested the nerves of investors and policymakers alike. While markets have remained broadly stable, the risk landscape has shifted in subtle but significant ways.

Tensions between Israel and Iran intensified after Israel struck nuclear and military targets in Iran. The market's immediate reaction was sharp: Brent crude increased by more than 12% in early trading to \$78.50 per barrel. While prices quickly lowered to around \$73.00, this knee-jerk response highlighted how exposed global supply chains remain to geopolitical shocks. The Strait of Hormuz, through which roughly a third of the world's seaborne oil passes, remains a flashpoint. Yet, historical context seems to temper fear. Previous crises, from 9/11 to the Russian invasion of Ukraine, have caused similar oil spikes that later subsided. Even during the 1980s tanker war, oil prices stabilised within weeks. Unless a significant supply disruption materialises, history suggests that oil markets could calm down.

Still, this uncertainty complicates the already difficult job of central banks. The United States (US) Federal Reserve (Fed), Bank of England, and European Central Bank have all been inching toward rate cuts in the second half of 2025. However, oil-driven inflation could now delay those plans. The memory of post-COVID inflation lingers and central banks remain wary of being caught off guard again.

US monetary policy, in particular, faces conflicting data. Headline inflation has eased but geopolitical risks and lingering wage pressure cloud the picture. The Fed, which kept interest rates steady at its last meeting, may continue to hold rates through the third quarter. Some policymakers fear that cutting rates too soon, particularly with oil prices rising, could reignite inflation expectations and undo the hard-won credibility of recent years. Adding to the complexity is US President Donald Trump, who reopened debate at the G7 Summit in Canada. Trump criticised the continued exclusion of Russia from the G7 and suggested that the group should include China. These remarks, while unsurprising from Trump, highlight a broader trend: The weakening of traditional global alliances and institutions. With rising trade barriers and ideological fragmentation, the rules of engagement in global trade and diplomacy are increasingly being rewritten.

China's economy, meanwhile, offers a study in contrasts. Industrial output slowed to 5.8% in May, its weakest performance of 2025, largely owing to declining exports and the weight of ongoing trade tensions. At the same time, retail sales exceeded expectations, growing 6.4%, thanks in part to a pulled-forward shopping festival. Still, consumer confidence remains shaky. Home prices declined again in May, and property investment continues to contract. Stimulus efforts are ongoing but analysts remain sceptical that Beijing's interventions can fully offset long-term structural pressures.

Locally, the South African Reserve Bank (SARB) cut its benchmark repo rate by 25 basis points, bringing the prime lending rate down to 10.75%. Easing inflation and a stronger rand gave policymakers room to act. While this will not dramatically boost growth, it will ease debt burdens and signal confidence in the inflation trajectory. This stands in contrast to global peers, where the tone remains cautious. The SARB's action highlights the value of fiscal and monetary discipline in times of global flux. However, the sustainability of this advantage hinges on continued rand strength, contained wage pressures, and a benign oil environment (none of which can be guaranteed).

For investors, the message is clear: Geopolitical shocks are not always economically catastrophic but they do demand vigilance. The coming months will test the resolve of central banks, the durability of global alliances, and the resilience of emerging markets. Diversification, attention to fixed-income opportunities, and careful consideration of commodity markets remain prudent strategies. In an age of uncertainty, fundamentals – more than forecasts – should guide investment decisions.

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