



Modest headline CPI rise and a lower target favour a rate cut

Headline inflation rose to 3.6% y/y in October from 3.4% y/y in September.

Transport inflation was the main driving force while food and non-alcoholic beverages (NAB) partially offset upward pressure. Core inflation dropped to 3.1% y/y.

Food inflation is expected to moderate in the coming quarters.

But could be offset by housing costs which are expected to normalise higher. Electricity and medical insurance inflation remain high but should slow in 2026 compared to 2025.

Transport switched from being deflationary to inflationary in October 2025.

Demand and supply expectations for 2025 and 2026 point to an oversupply in the international oil market which will help contain prices and local fuel prices.

The finance minister adopted a 3% inflation target with a one percentage point tolerance on either side.

Under a 3% inflation regime, prices take longer to double (24 years) compared to 16 years under a 4.5% inflation target.



So what?



An acceleration in the October headline inflation rate was anticipated and was mostly due to low base effects. The trend of accelerating inflation is expected to continue moderately throughout the year, largely due to fuel and housing inflation, before decelerating next year.

Chances for an interest rate cut at the upcoming November rate-setting meeting, with the South African Reserve Bank

(SARB) looking through the expected short-term bounce in inflation, have increased substantially due to the adoption of a lower inflation target and a supportive backdrop for the rand. Local factors contributing to the strength in the rand included the credit rating upgrade by S&P Global Ratings, partly in response to a prudent budget and continued reforms. SA was also removed from the Finance Action Task Force's grey list, contributing to further confidence.

Consumer lens



Food inflation moderated to 3.9% y/y in October from 4.4% y/y in September.

The average cost of a household food basket* in October was R5 440.6, which increased by 1.7% y/y or R91.95.



Transport inflation spiked to 1.5% y/y in October from negative 0.1% y/y in September.

Petrol (ULP 95) price is estimated to increase by around 23c/l and diesel (0.05%) by around 69c/l in December**.

* According to the Pietermaritzburg Household Affordability Index
The average food basket includes bread, frozen chicken portions, maize meal, sugar, beef, rice, cooking oil, potatoes, tinned pilchards, wors and other items.

** According to the Central Energy Fund (CEF) on 17 November 2025.
The petrol cost of an average car (45 litres) is R950 in November 2025, R23 less than in October 2025 and R8 less than a year ago.

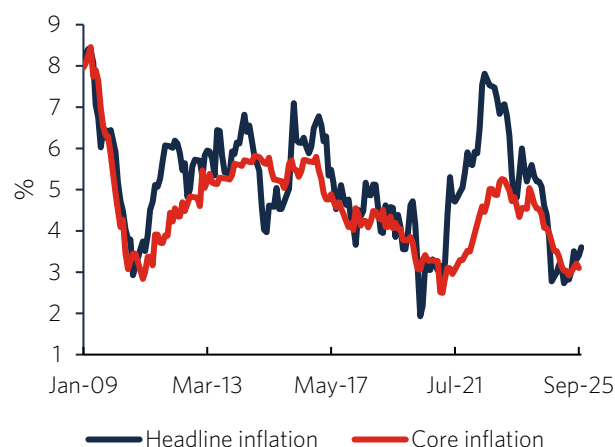
Lower-than-expected increase in headline inflation while core inflation dropped

Statistics (Stats) SA reported that headline inflation in October was 3.6% y/y, an increase from 3.4% y/y in September and slightly lower than the Reuters median consensus of 3.7%.

The rise in headline inflation was mainly driven by a notable turnaround in transport inflation, which rose from negative 0.1% y/y in September to 1.5% y/y in October. Additionally, prices for recreation, sport and culture climbed to 3.4% y/y from 2.9% y/y and alcoholic beverages and tobacco increased to 4.5% y/y from 4.2% y/y over the same period. These upward pressures were partially offset by a moderation in several categories, including food and NAB (down to 3.9% y/y in October from 4.5% y/y in September), restaurants and accommodation services (2.1% y/y from 3% y/y), information and communication (0.6% y/y from 0.9% y/y), furniture and household equipment (0.4% y/y from 0.7% y/y) as well as clothing and footwear (1.1% y/y from 1.2% y/y).

On the other hand, core inflation eased to 3.1% y/y in October from 3.2% y/y in September highlighting contained underlying inflationary pressures.

Chart 1: Core inflation contained around 3%



Source: Global Insight, Stats SA, Momentum Investments
Data until October 2025

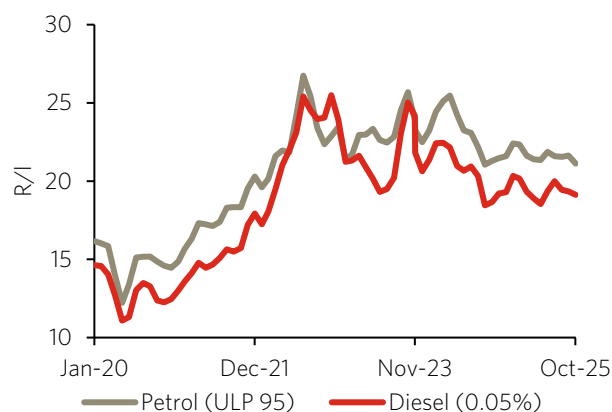
Transport moved out of deflation

October marked the first month in over a year (13 months) where transport inflation shifted out of deflation territory. Transport inflation was 1.5% y/y in October 2025 from negative 0.1% y/y in September. This was primarily attributable to a low base effect, with deflation bottoming out at 5.3% y/y in October 2024.

In October 2025, the petrol price (ULP 95) rose by a modest 8c/l, while diesel prices (0.05%) recorded a slight decrease of 10c/l during the same period. On the other hand, petrol price movements in November were more notable with petrol decreasing by 51c/l to R21.12, the lowest price since October 2024, and the price of diesel dropped by 21c/l thanks to lower oil prices (Brent crude oil averaged US\$3.4 less at US\$64.5/bbl in October compared to the previous month) and a stronger rand (R17.29/US\$ in October compared to

R17.44/US\$ in September). Looking ahead, the CEF is guiding to an increase in fuel prices (23c/l for petrol and 69c/l for diesel) in December.

Chart 2: Petrol prices have trended lower



Source: Iress, CEF, Momentum Investments
Data until November 2025

In late October 2025, the United States (US) sanctioned Russia's two largest oil companies, Rosneft and Lukoil, which together account for roughly half of the country's oil production, in an effort to cut funding for Russia's war in Ukraine, according to *Reuters*. The move initially pushed Brent crude prices higher, amid fears of supply disruption. However, to avoid abrupt market shocks, Washington issued a temporary wind-down license allowing certain transactions to continue in an orderly manner. The underlying sanctions, however, remain in place.

According to the *International Energy Agency*, global oil demand is projected to rise moderately in 2025, primarily driven by the US, China and Nigeria. However, supply is anticipated to increase at a pace that exceeds demand, reinforcing expectations of an oversupplied oil market. In 2026, global oil demand growth is forecast to be slightly lower than in 2025, while supply is also expected to increase at a reduced rate. Nevertheless, supply is expected to continue to outpace demand, thereby widening the market surplus and maintaining downward pressure on international oil prices.

Food prices no longer the inflation villain, accompanied by an overall moderation in the inflation basket

Food inflation eased for the third consecutive month, reaching 3.9% y/y in October, down from 4.4% y/y in September and the recent high of 5.5% y/y in July 2025. Especially notable is the drop in vegetable inflation, which fell from 1.2% y/y in September to negative 4.4% y/y in October (recent peak of 14.6% in July 2025). Meat inflation also eased from 11.7% y/y in September to 11.4% y/y in October.

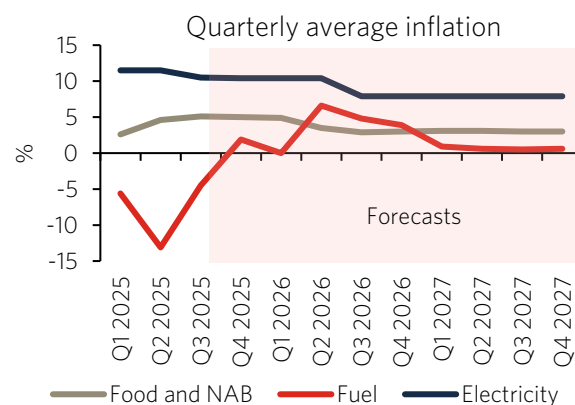
The SARB expects food and NAB inflation to decelerate from 5.1% in the third quarter of 2025 to 5% in the fourth quarter and moderate more meaningfully from the second quarter of 2026 (see chart 3). The Agricultural Business Chamber of SA noted that positive factors heading into 2026 include a favourable weather forecast, farmers' strong intentions to expand summer grain and oilseed planting areas and overall optimism within the horticulture industry.

Although electricity inflation is projected to stay high, it is anticipated to ease from previous levels (see chart 3).

Similarly, health insurance, which will be surveyed in February 2026, is expected to remain elevated. This is because all major medical aid schemes have announced contribution increases for 2026 that exceed the Council for Medical Schemes' (CMS) recommended 3.3% and are above the new inflation target (refer to table 1). However, these increases are generally lower than

those implemented in 2025, meaning the y/y rise in February 2026 will be positive but smaller than 2025 (10.5% y/y).

Chart 3: Electricity inflation expected to moderate but remain elevated



Source: Global Insight, SARB (September MPC), Momentum Investments

Table 1: Medical aid contribution increases higher than the new 3% inflation target

Medical scheme (%)	2025 average increase	2026 average increase
Bestmed	12.75	6.8
Bonitas	10.2	8.8
Discovery Health	9.3	7.2*
Medihelp	10.8	8.46
Momentum Health	9.4	9.9
CMS proposal**	4.4	3.3

Source: Moonstone, Momentum Investments

* Effective 1 April 2026

** Suggested increase plus reasonable utilisation estimates

Upward inflationary pressure is expected from fuel inflation in the near term due to base effects.

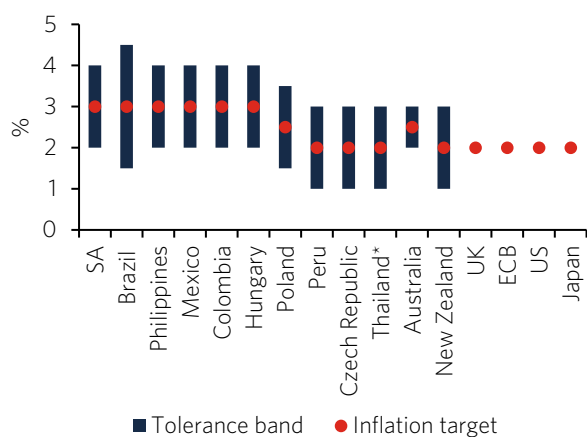
Stats SA will conduct the next housing costs survey in December 2025. There was an increase in September's housing inflation of 3.2% y/y for actual rentals and

3% y/y for owners' equivalent rent (OER). The SARB anticipates a normalisation in inflation in this category, which will exert upward pressure on inflation, given the low base. However, housing inflation is not expected to reach previous highs soon (before the pandemic, actual rentals averaged 5.1% and OER averaged 4.6%).

Lower inflation target paves the way for greater price stability and an interest rate cut

The Minister of Finance formally adopted a point target of 3% with a tolerance band of one percentage point to either side in the Medium-Term Budget Policy Statement. This is lower than the previous 3% to 6% inflation target band, with a 4.5% midpoint. This move aligns SA's inflation target with its peers and trading partners (see chart 4) and will improve the country's competitiveness and support rand strength.

Chart 4: SA's inflation target is now more aligned with peers and trading partners

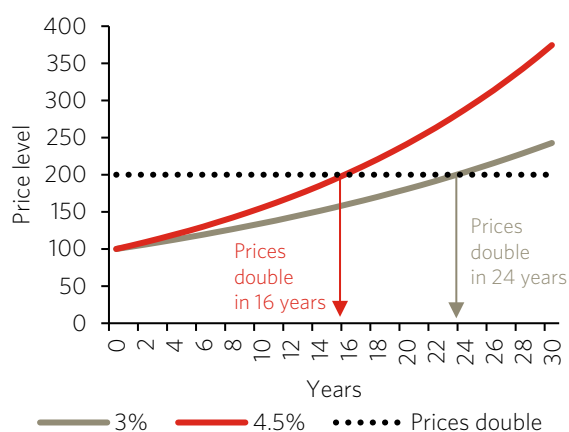


Source: National Treasury, Momentum Investments
* Thailand = inflation target range

Adjusting to a lower target is expected to anchor inflation expectations and reduce inflation rates, thereby contributing to greater price stability. An additional benefit of a lower inflation target is that prices take longer to double. Treasury noted that it would take 24 years for prices to double under a 3% inflation regime, compared to only 16 years under a 4.5% target (see chart 5). This extended period before prices double helps to preserve purchasing power and

supports long-term financial planning for households and businesses.

Chart 5: Prices take longer to double in a low inflation regime



Source: Treasury, Momentum Investments

The move to a lower inflation target was welcomed by S&P Global Ratings, which upgraded SA's sovereign credit rating by one notch to BB in November on the back of a better fiscal position, improving economic growth supported by structural reform and reduced contingent liabilities.

Treasury reiterated the SARB's view that a lower inflation target could lead to persistently lower interest rates. Treasury's interest rate forecasts indicate 7% by the end of this year (suggesting no rate cut by the SARB at its November meeting), 6.75% by the end of 2026 (reflecting one 25 basis-point reduction) and 6.25% by the end of 2027 (equivalent to 50 basis points worth of cuts).

Chances for an interest rate cut at the upcoming November rate-setting meeting, with the SARB looking through the expected short-term bounce in inflation, have increased substantially due to the adoption of a lower inflation target and a supportive backdrop for the

rand. Local factors contributing to the strength in the rand included the credit rating upgrade by S&P Global Ratings. SA was also removed from the Finance Action Task Force's grey list in late October 2025, contributing to further investor confidence.

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