momentum investments

in the moment

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July CPI rose to 3.5%, with rates expected to remain on hold

At 3.5% y/y in July, inflation reached its highest level in 10 months.

The spike from 3% y/y in June was in line with the Reuters median consensus and largely driven by moderating fuel deflation.

Core inflation edged up marginally to 3% y/y in July from 2.9% y/y in June.

This indicates that underlying inflationary pressures remain broadly contained.

From 1 July 2025, South Africans (SA) faced steep municipal tariff hikes.

Nevertheless, average electricity increases were lower than the previous year, limiting the pressure on annual inflation.

The Agricultural Business Chamber of SA (Agbiz) expects food inflation to ease in the coming months.

This is supported by recovering meat supplies, ample grain stocks, a decent fruit harvest and a rebound in vegetable output after recent weather disruptions.

So what?

Statistics SA's (Stats SA) published inflation rate of 3.5% y/y in July 2025 is above the SA Reserve Bank's (SARB) new 3% preference within its 3% to 6% target band, though this was largely expected.

Looking forward, inflation is likely to trend slightly higher but remain below the SARB's previous preference (4.5%). Given this anticipated inflation trajectory and the likelihood that inflation expectations could trend higher in response to realised inflation outcomes, we expect the SARB to keep the repo rate at 7% at its September interest rate meeting.

We expect inflation to average 3.3% in 2025 and to edge up to 4.1% in 2026. Key upside risks include volatile oil prices, rand weakness and further administered price adjustments.

Consumer lens

Food inflation rose to 5.5% y/y in July from 4.7% y/y in June.

The average cost of an average household food basket* in July was R5 443, up by 3.6% y/y or R190.6.

Transport deflation softened to 1.7% y/y in July from 3.3% y/y in June.

Marginal fuel decreases of 9c/l for petrol (ULP 95) and 48c/l for diesel (0.05%) are expected in September*.

* 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 19 August 2025.
The petrol cost of an average car (45 litres) is R971.6 in August 2025, R12.6 less than in July 2025.

Smaller electricity tariff hikes help limit annual inflationary pressure

According to Stats SA, headline inflation accelerated to 3.5% y/y in July 2025 from 3% y/y in June 2025. Upward price pressure stemmed from food and non-alcoholic beverages, alcoholic beverages, transport, recreation and culture, restaurants and accommodation as well as personal care and miscellaneous services. The remaining categories either slowed or remained unchanged.

Table 1: Electricity tariff increases for 2025/26 lower or unchanged from the previous year

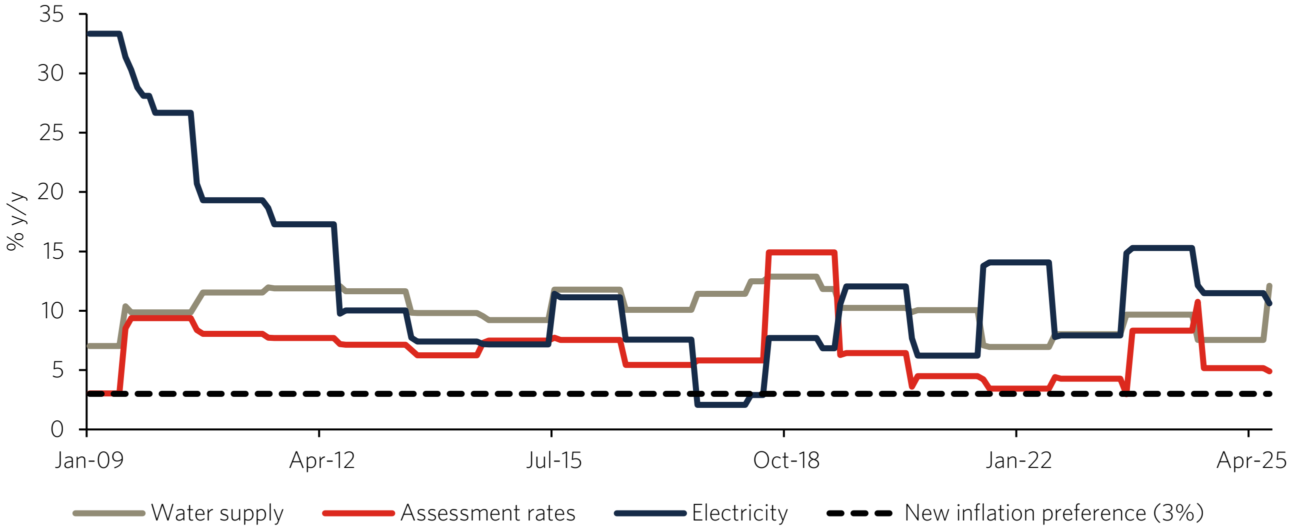
Municipality	Rates	Water	Electricity	Refuse removal
Johannesburg	4.6 (3.8)	13.9 (7.7)	12.7 (12.7)	6.6 (5.9)
Tshwane	-4* (5)	13 (5.9)	10.2 (12)	4.6 (5)
eThekwini	5.9 (6.5)	12.9 (10.9)	12.7 (12.7)	9 (7)
Cape Town	8 (5.7)	4.5 (6.8)	7.2 (11.8)	7.4 (5.7)

Source: My Property, MidCity utilities, IOL, Momentum Investments
** Decrease due to the new general valuation roll*
Tariffs for 2024/25 are in brackets
Red = higher than the previous year and green = lower than the previous year

As of 1 July 2025, SA citizens began feeling the impact of municipal tariff hikes across essential services including electricity, water, sanitation, refuse removal and property rates. The implemented increases significantly outpaced inflation across the big municipalities (see table 1). Nevertheless, housing and utilities, which includes municipal tariff increases that Stats SA surveys annually, moderated slightly to 4.3% y/y in July from 4.4% y/y in June. This is because electricity tariff hikes were either lower or the same as the previous year. Nersa approved an electricity tariff hike of 12.7% for 2025/26.

> Electricity inflation eased to 10.6% y/y in July from 11.5% y/y previously (see chart 1). Water supply inflation saw a huge jump to 12.1% y/y from 7.5% y/y while assessment rates also moderated to 4.9% y/y from 5.2% y/y.

Chart 1: Administered price increases tracking above the SARB's new inflation preference of 3%



Source: Global Insights, Stats SA. Momentum Investments
Data until July 2025

Due to the sharp jump in water tariffs, core inflation edged slightly higher to 3% y/y in July from 2.9% y/y in June.

Among the core inflation categories, only two categories (water supply and insurance) recorded increases above 6% in July.

Transport savings cushion against higher food price costs

Fuel deflation narrowed sharply from 11.2% y/y in June to 5.5% y/y in July. This was driven by both base effects and higher fuel prices, with petrol up 52c/l and diesel 82c/l in July. This fed directly into transport inflation, which lost some of its disinflationary pull (negative 3.3% y/y in June to negative 1.7% y/y in July).

> In August, petrol prices edged lower by 28c/l, helped by a slightly firmer rand (average of R17.77/US$ in July from R17.84/US$ in the previous month) while Brent crude oil remained largely stable at US$71/bbl in July.

On the other hand, diesel prices increased by 65c/l in August. Encouragingly for consumers, early data from the CEF points to a marginal decrease in fuel prices in September, extending the run of positive news for household transport costs. The lower transportation costs offer some relief amid higher food prices.

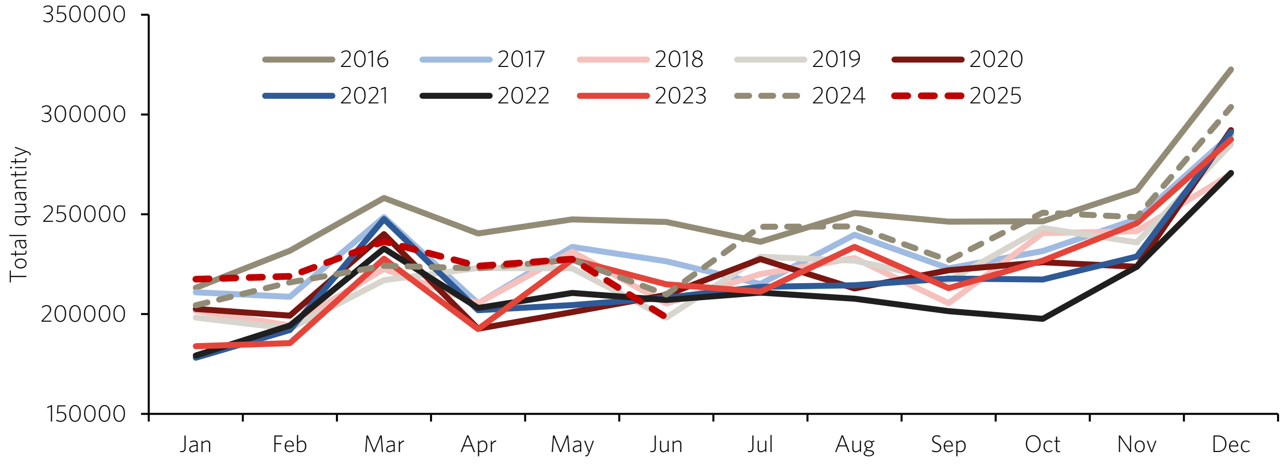
Stats SA reported that food and non-alcoholic beverages inflation rose to 5.7% y/y in July from 5.1% y/y in June, driven by food (5.5% y/y from 4.7% y/y) as inflation in non-alcoholic beverages fell. The acceleration in food inflation marked the sixth consecutive monthly rise.

> The main drivers of higher food prices were meat (10.5% y/y, up from 6.6% y/y) and vegetables (14.6% y/y, up from 13.6% y/y).

In contrast, the "other food" category rose only marginally, while six food categories declined. Fruits and nuts saw the largest moderation, falling from 13.2% y/y to 9.5% y/y.

> The outbreak of the foot-and-mouth disease constrained cattle availability for slaughter (see chart 2), driving meat prices higher.

Chart 2: Cattle slaughtering in June fell to its lowest level for that month since 2019



Source: Red meat levy admin, Momentum Investments

However, according to Agbiz, slaughtering resumed in major feedlots, and early signs of easing red meat prices should start reflecting in upcoming inflation prints. As such, concerns around meat prices are likely to fade as supply normalises. Agbiz further expects food inflation to moderate in the coming months, supported by ample domestic grain supplies and a promising fruit harvest. Meanwhile, the recent spike in vegetable prices appears to be a temporary weather-related shock, with supply expected to recover markedly in the second half of the year.

The Food and Agriculture Organisation's Food Price Index, a benchmark for world food commodity prices, accelerated by 7.6% y/y in July (5.8% y/y in June). The higher prices for meat, dairy products and vegetables oils outweighed the decline in international prices of cereals and sugar.

SARB likely to hold rates steady in September

The spike in July's inflation rate to 3.5% y/y lifted inflation above the SARB's new 3% preference level within its 3% to 6% target band. This outcome was largely expected.

Looking ahead, inflation is likely to trend somewhat higher but remain below the midpoint of the target band (the SARB's previous preference of 4.5%). Importantly, the SARB has emphasised that anchoring inflation closer to 3% is critical for credibility, making it more sensitive to negative upside surprises, in our view. Should inflation expectations drift higher in response to recent prints, the SARB will likely maintain its restrictive stance in the coming months.

> "In the near term, we expect the repo rate to be held at 7% at the September meeting as the SARB balances short-term price pressures against the need to safeguard its disinflation strategy."

We expect inflation to average 3.3% in 2025 and edge higher to 4.1% in 2026. Risks to the outlook include volatile global oil prices, rand weakness and further administered price adjustments.