momentum investments

in the moment

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Rising housing costs nudge inflation upward

Headline inflation beat expectations at 3.4% y/y in September.

The Reuters median consensus anticipated inflation to accelerate to 3.5% y/y in September from 3.3% y/y in August.

Core inflation was 3.2% y/y in September, in line with the Reuters median consensus.

The increase in core inflation from 3.1% y/y was mainly due to a lift in housing costs.

Brent crude oil and the rand continue to be supportive of contained inflation.

Brent crude slipped to the low US$60s/bbl in October following news of the Israel-Gaza ceasefire.

The Crop Estimates Committee (CEC) has maintained a positive outlook for SA's 2025 summer crops.

A larger maize crop should help ease local food price pressures but rising production costs continue to pose a threat to food prices.

So what?

The acceleration in headline and core inflation in September 2025 was expected. However, both measures came in slightly below the South African Reserve Bank's (SARB) third quarter estimates. Headline inflation averaged 3.4% (vs 3.6% expected) in the third quarter and core inflation was 3.1% (vs 3.2%). This is an encouraging sign for the inflation trajectory and interest rate-cut prospects. However, inflation is still expected to trend higher in the fourth quarter.

The rand held relatively firm amid global volatility, though risk sentiment, United States (US) rate expectations and fiscal concerns continue to weigh on its outlook. The Medium-Term Budget Policy Statement (MTBPS) on 12 November will be a key test of fiscal discipline. We expect the SARB to keep the repo rate unchanged at 7% in November, with softer quarterly inflation outcomes slightly increasing the odds of a 25-basis-point cut.

Consumer lens

Food inflation eased further to 4.4% y/y in September from 5.2% y/y in August.

The average cost of a household food basket* in September was R5 379, up by 2.4% y/y or R123.7.

Transport deflation eased to 0.1% y/y in September from 1.4% y/y in August.

Petrol (ULP 95) price is estimated to decrease by 59c/l and diesel (0.05%) by around 35c/l in November**.

* 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 21 October 2025.
The petrol cost of an average car (45 litres) is R973.4 in October 2025, R3.60 more than in September 2025 and R26.10 more than a year ago.

Housing costs and transport lift inflation while food and NAB inflation moderated

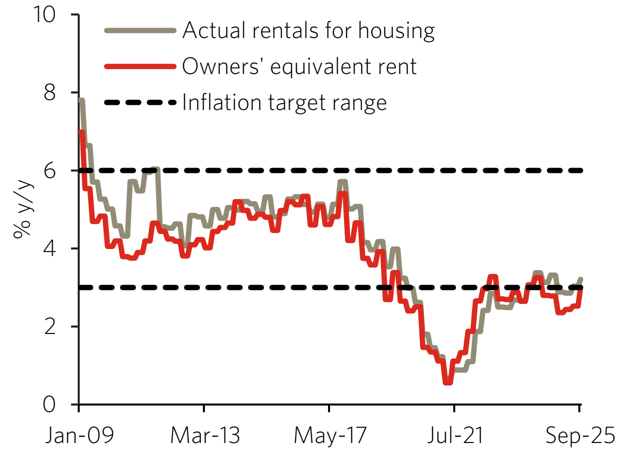
Headline inflation, published by Statistics (Stats) SA, rose to 3.4% y/y in September, up from 3.3% in August and slightly below the Reuters median consensus of 3.5% y/y. Core inflation was in line with expectations at 3.2% y/y, up from 3.1% y/y in August.

> Inflationary pressure in September was broad-based, with six of the 12 categories recording increases, three remaining unchanged and three recording declines.

The largest upward pressure came from housing and utilities (4.5% y/y in September from 4.3% y/y in August), transport (negative at 0.1% y/y from negative 1.4% y/y) and restaurants and accommodation (3% y/y from 2.6% y/y). On the downside, the most significant disinflationary pressure came from food and non-alcoholic beverages (NAB), which eased to 4.5% y/y from 5.2% y/y.

Owners' equivalent rent, which constitutes 11.16% of the inflation basket, increased from 2.5% y/y to 3% y/y in September (see chart 1), marking its return to the inflation target band for the first time since May 2024. Actual rentals for housing, which account for 4.37% of the inflation basket, edged higher to 3.2% y/y in September from 3%.

Chart 1: House costs around the 3% preferred level



Source: Global Insight, Stats SA, Momentum Investments

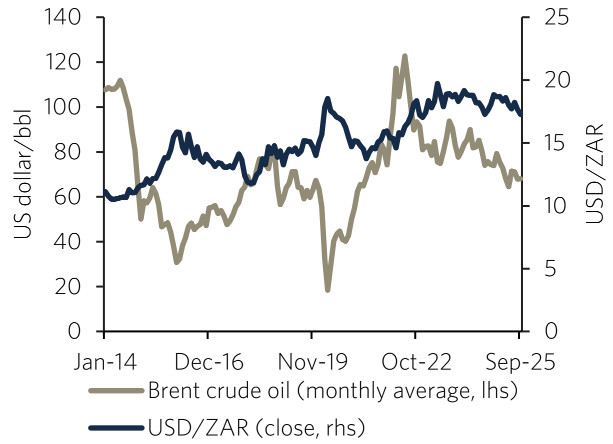
Slower decline in transport prices

The drop in transport prices, which started a year ago, has slowed significantly from negative 1.4% y/y in August to negative 0.1% y/y in September. At its peak, transport costs declined by 5.3% y/y in October 2024.

> Slower declines in transport costs are due to smaller fuel price decreases and base effects.

Public transport fell further into deflation at 1.9% y/y in September from 1.5% y/y in August likely reflecting the lagged nature of changes in public transport costs.

Chart 2: Oil price and the rand moving in a favourable direction



Source: Global Insight, Stats SA, Momentum Investments

Global oil prices were little changed in September at an average of US$68/bbl compared to US$67.9/bbl in

August. The International Energy Agency reported that an expected supply surplus offset the upward pressures created by increased Ukraine tensions and new sanctions on Russia and Iran. On the exchange rate front, the rand traded within a fairly narrow range in September and averaged R17.44/US$, stronger than R17.70/US$ in August. The petrol price (ULP 95) increased marginally 8c/l in October while diesel (0.05%) dropped by 10c/l. We expect this to have a marginal impact on inflation in October.

On the other hand, early data from the CEF is pointing to a bigger decrease in the price of petrol (59c/l) in November. This is due to lower oil prices in October and lower petrol prices could dampen the upward pressure stemming from the transport category since June 2025.

Brent crude slipped to the low US$60s/bbl in October, down from the mid-US$60s in late September, following news of the Israel-Gaza ceasefire, which reduced the Middle East risk premium.

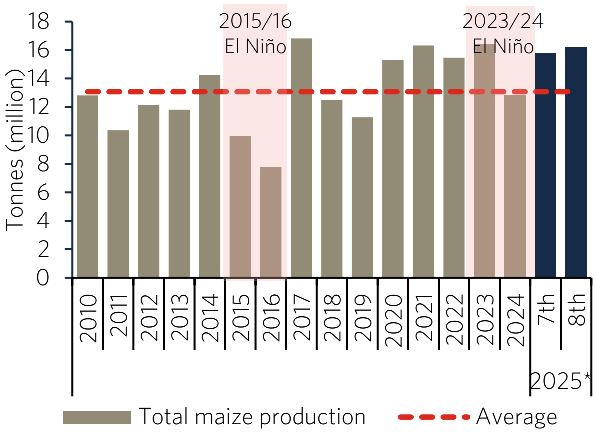
Plunge in vegetable prices largely behind easing food and NAB

The sharp deceleration in food and NAB (4.5% y/y in September from 5.2% y/y in August) was mainly due to vegetables inflation easing markedly to 1.2% y/y in September from 9.3% y/y in August and 14.6% y/y in July.

> The larger-than-expected decrease in food inflation may have contributed to headline inflation being lower than the consensus estimate.

Inflation in the two biggest components of the food basket (meat and cereal products) increased slightly in September.

Chart 3: Maize production expected to recover



Source: CEC, Momentum Investments
** Production estimates*

> Locally, the CEC has maintained a positive outlook for SA's 2025 summer grain season.

The latest (8th) commercial maize production forecast stands at 16.2 million tonnes, up 2.4% from the previous estimate (7th). This represents a solid recovery compared to last season (see chart 3).

A larger maize crop should help ease local food price pressures, particularly for staple goods such as maize meal, poultry feed and cereals. However, other components of the food basket, such as meat, dairy, and processed items, remain exposed to input cost fluctuations. The Agriculture Business Chamber of SA (Agbiz) notes that although SA is nationally food secure, thanks to a strong agricultural sector, many households still face food insecurity due to poverty, inefficient logistics and rising energy costs.

Agbiz indicated that the SA Weather Service (SAWS) is now broadly in line with international weather forecasters, indicating the 2025-26 summer season could experience La Niña rainfall patterns. Such conditions are expected to favour crop production and benefit agricultural activities overall. Nevertheless, weather variability and biosecurity concerns should continue to be closely monitored.

Globally, the Food and Agriculture Organisation (FAO) Food Price Index (FPI) averaged 128.8 points in September 2025, modestly down from its revised August figure of 129.7. However, this level remains about 3.4% higher than a year earlier.

Disaggregating the sub-indices: dairy declined by 2.6% month-on-month (m/m), cereals declined by 0.6% m/m, vegetable oils fell 0.7% m/m and sugar fell by 4.1% m/m. Meat prices rose 0.7% m/m and reached a record high.

The temporary US government shutdown is causing data delays from the US Department of Agriculture, leading to uncertainty in global crop monitoring.

Lingering risks likely to keep interest rates steady

Headline and core inflation increased in September 2025, as expected by analysts and the SARB. Quarterly figures for both measures were slightly below SARB estimates: headline inflation was 3.4% (vs 3.6% expected) in the third quarter and core inflation was 3.1% (vs 3.2% expected). This is encouraging for the inflation trajectory and rate cut expectations. However, inflation is still expected to trend higher in the fourth quarter.

While the rand has shown resilience amid fluctuating global conditions, global risk sentiment, shifting US interest rate expectations and ongoing domestic fiscal concerns remain key risks to its performance. The MTBPS will be tabled on 12 November 2025 and will give guidance on fiscal discipline.

The broader inflation backdrop in September reflected modest relief in global food commodity prices and local food prices, though pockets of upward pressure persist, particularly in meat. Domestically, an improved maize production forecast offers a degree of protection against imported food price shocks, but logistical inefficiencies and high electricity costs continue to weigh on retail food prices.

We maintain the view that the SARB will likely keep interest rates on hold at 7% in the November meeting but highlight the rising risk of a 25-basis point cut given the lower-than-expected inflation outcomes in the third quarter. We expect inflation to average around 3.3% in 2025.