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CPI returned to the inflation target band at 3% in June

In line with the Reuters median consensus, headline inflation (CPI) rose to 3% y/y in June (2.8% y/y in May).

This was predominantly due to the easing of deflation in the transport category.

Core inflation moderated from 3% y/y in May to 2.9%y/y in June.

This was mainly due to lower insurance inflation.

Rental inflation remained subdued, further highlighting limited demand-pull price pressures.

On the other hand, PayProp's data suggests that the rental market is recovering.

Brent crude oil prices have come down following a fragile ceasefire between Israel and Iran.

The International Energy Agency's (IEA) assessment of oil demand and supply suggests downward pressure on global oil prices for the remainder of the year.

So what?

Despite the uptick in headline inflation, as reported by Statistics South Africa (Stats SA), local inflation remained contained. However, July's fuel and municipal tariff hikes are likely to push inflation higher in July. Because inflation expectations are somewhat influenced by past inflation, renewed price pressures could limit the impact that the SA Reserve Bank's (SARB) 3% inflation target scenario could have in guiding inflation expectations lower, for now.

While technical work on lowering the inflation target has been completed, the decision now lies with the Finance Minister and timing remains uncertain. Given subdued inflation, we believe a 25-basis point rate cut at the July interest rate setting meeting is likely. However, without a lower target, the SARB has flagged limited room for deeper cuts in the near term. Added uncertainty around the 1 August tariff deadline may also temper the SARB's dovishness.

Consumer lens

Food inflation rose to 4.7% y/y in June from 4.4% y/y in May.

The average cost of a household food basket* in June was R5 443, up by 3.6% y/y or R190.36.

Transport deflation slowed to 3.3% y/y in June from 4.8% y/y in May.

Petrol (ULP 95) users could pay R0.26/l less in August 2025 while diesel (0.05%) users could pay R0.66/l more*.

* 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 22 June.
The petrol cost of an average car (45 litres) is R984 in July 2025, R23.4 more than in June 2025.

Stats SA's surveyed rental inflation remained subdued

Stats SA reported an acceleration in headline inflation from 2.8% y/y in May to 3% y/y in June 2025. Seven of the 13 main inflation categories registered a higher inflation rate, inflation in four decelerated and inflation in two was unchanged. The biggest contributor to higher inflation was the smaller drag from transport prices.

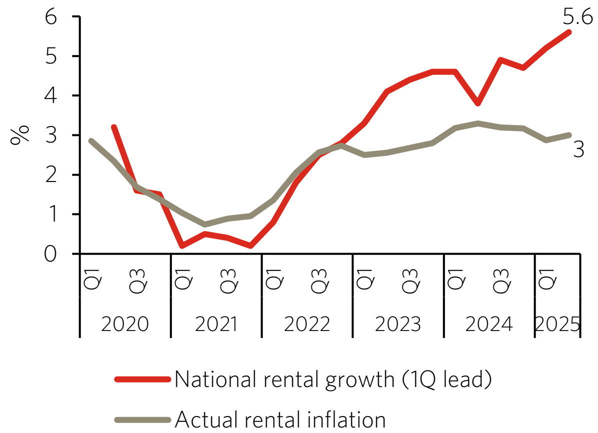
On the other hand, underlying inflation moderated with core inflation declining from 3% y/y in May to 2.9% y/y in June. This was predominantly due to lower insurance inflation (7.9% y/y from 8.2% y/y).

June is one of the highest survey months as Stats SA surveys an additional 20% of the inflation basket outside of the monthly surveyed items. The bulk of the additional items surveyed include actual rentals for housing (weight: 4.37%) and owners' equivalent rent (weight: 11.16%). These housing inflation components have tracked below their respective long-term averages since the COVID-19 pandemic. In June, actual rental inflation edged up slightly to 3% y/y (from 2.9% y/y), while owners' equivalent rent rose to 2.5% y/y (from 2.4% y/y), both still subdued relative to historical norms.

> Data from PayProp suggests that the rental market is recovering with reported rental growth of 5.6% y/y in the first quarter of 2025 (highest since August 2017).

However, uncertainty caused by trade tariffs and the resultant economic growth downgrades could weigh on the rental market.

Chart 1: Widening gap between national rental growth and actual rental inflation



Source: PayProp, Stats SA, Momentum Investments

According to PayProp, tenant affordability appears to be holding up well, with the share of tenants in arrears at a record low of 17%. Lower interest rates could further support affordability, easing pressure on household budgets if rental growth continues to rise. While the possibility of rechecking tenant affordability at lease renewal dates may help keep arrears low by ensuring only financially stable tenants are retained, it could also reduce lease renewal rates. This could increase tenant turnover, raise vacancy risk and keep the rental market subdued.

Sharp, albeit temporary, increase in June oil prices

Transport deflation slowed to 3.3% y/y in June from 4.8% y/y in May, mainly due to moderating fuel deflation.

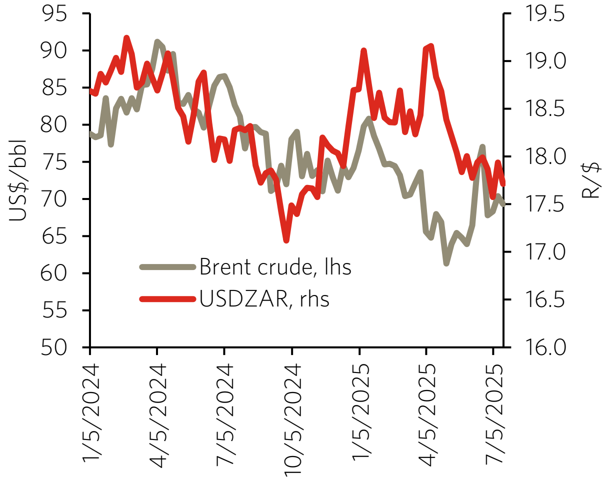
> We are likely to see a further moderation in fuel deflation in July due to higher fuel prices in the month.

Fuel prices increased in July on the back of a sharp, but temporary, increase in Brent crude oil prices in June, which was triggered by the escalating conflict in the Middle East (see chart 2). Due to lower Brent crude oil prices after the Israel-Iran fragile ceasefire and a stronger rand, the CEF is signalling toward a decrease of R0.26/l in the price of petrol for August.

Oil supply and demand observations by the IEA suggests downward pressure on international oil prices for the remainder of the year.

In the July 2025 Oil Market Report, the IEA indicated that oil demand growth is expected to be the lowest rate since 2009 (outside of the pandemic in 2020). On the other hand, growth in oil supply was revised up for the year due to an accelerated unwinding of Organisation of the Petroleum Exporting Countries plus (OPEC+) oil production cuts. The announced ramp-up for August will reverse 80% of the voluntary production cuts implemented since 2023. If that increase is implemented in September as suggested, the oil production cut unwinding process would be completed one year earlier than planned.

Chart 2: Rand stronger and oil prices lower



Source: Bloomberg, Iress, Momentum Investments
Weekly data until week ending 20 July 2025

Curbing animal disease outbreaks is key to containing food inflation

Food inflation edged up to 4.7% y/y in June from 4.4% y/y in May, marking the fifth consecutive monthly increase. The biggest contributors to this increase were meat (6.6% y/y from 4.4% y/y) and vegetables (13.6% y/y from 10.3% y/y).

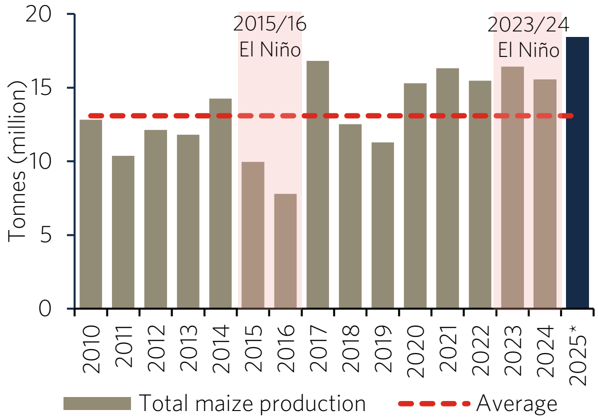
Diving into meat inflation (the largest food component), beef prices have surged, shifting from a long period of deflation or very low inflation over the past 21 months to over 6% inflation and double-digit increases since April 2025.

Higher red meat prices were expected due to stronger demand. However, the magnitude of the increases is exacerbated by the impact of the foot-and-mouth disease.

At the foot-and-mouth disease Indaba, the Minister of Agriculture spoke about the need for a "nationally managed but jointly funded" vaccine bank for animal diseases, including, but not limited to, foot-and-mouth disease. This public-private partnership could limit the negative impact of animal diseases.

In terms of crops, the Crop Estimates Committee's (CEC) fifth forecast projects a 15.8% increase in summer crop production in 2025 compared to 2024 (see chart 3). The estimated rebound in supply, especially for key staples like maize, could help ease food price pressures, particularly through the cereals category. Cereal products inflation (the second largest food category) moderated from 4.5% y/y in May to 3% y/y in June.

Chart 3: Estimated 2025 summer crop production is the highest in 15 years



Source: CEC, Momentum Investments
** Fifth estimate*

Globally, the Food and Agriculture Organisation's Food Price Index rose by 5.8% y/y in June, driven by sharp increases in dairy and vegetable oil prices. Meat prices edged slightly higher while sugar and cereal prices declined. The SARB noted that despite favourable harvests in key regions, sluggish global economic growth, trade tensions, geopolitical risks and climate shocks could still drive international food prices higher in the coming months.

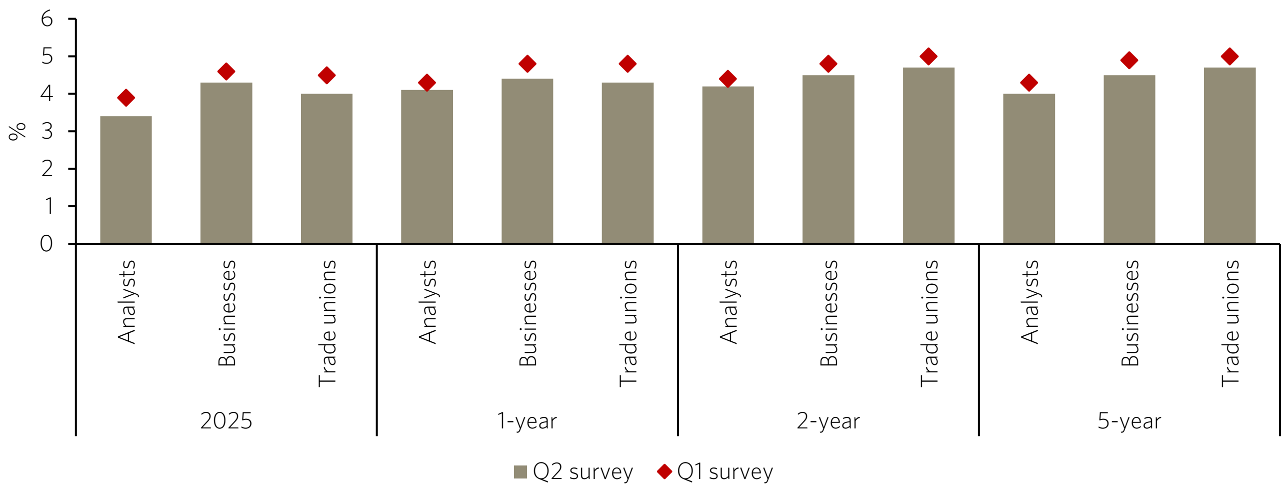
> So far, the stronger domestic currency (in part driven by favourable terms of trade) has partially cushioned SA from higher global food prices.

25-basis point cut still possible despite the rise in inflation

Despite the acceleration in headline inflation to 3% y/y in June, local inflation remained contained. However, the fuel price increases in July as well as the municipal tariff increases which are effective in July point to a further acceleration in the July inflation print.

In response to sub-3% inflation prints over the past three months, inflation expectations in the Bureau for Economic Research's (BER) second-quarter survey eased to 3.9% for 2025 (previously 4.3%). Encouragingly, the moderation was broad-based across all respondent groups (analysts, businesses and labour unions) and time horizons (current, 1-year, 2-year, and 5-year) as illustrated in chart 4.

Chart 4: Broad-based moderation in inflation expectations in the second quarter



Source: BER, Momentum Investments

The SARB acknowledged that the decline in expectations was not driven by its published 3% inflation target scenario, as inflation expectations were submitted before the scenario was published. While there is still room for inflation expectations to adjust to the results of the lower target scenario, businesses and trade unions tend to anchor expectations on past inflation trends. This means the renewed inflation acceleration could limit the scenario's positive influence.

With the technical work around lowering the inflation target largely completed, the process currently sits in the political realm. The timing of the decision, which rests with the Finance Minister, remains uncertain.

Given the subdued inflation profile, we believe that there is still room for the SARB to cut interest rates by an additional 25 basis points at the July meeting. This would bring the repo rate down to 7%.

The SARB has suggested that in the absence of a lower inflation target, scope for deeper cuts is limited in the near term, as higher rates are needed to anchor expectations closer to 3%. This limits the extent of the cutting cycle, for now, beyond the expected 25-basis point cut, in our view. Furthermore, uncertainty around the 1 August reciprocal tariff deadline still lingers, which could potentially limit the SARB's willingness to commit to a more dovish tone.