momentum investments

in the moment

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Rising housing costs lift December's inflation rate

Headline inflation rose marginally to 3.6% y/y in December 2025 from 3.5% y/y in November.

This was in line with expectations, while the 2025 average inflation rate of 3.2% was slightly below an expected 3.3%.

Housing inflation lifted notably in December, following subdued rates since the pandemic.

This suggests a modest re-emergence of demand-pull inflation pressures.

Food inflation was mainly driven by rising meat prices in 2025.

With occasional relief from falling vegetable and weaker dairy prices in 2025. Experts expect food inflation to be contained in 2026, but risks remain.

Lower Brent crude oil prices and a stronger rand aided lower fuel prices in 2025.

We believe that short-term risks for the rand lean toward further appreciation and oil prices will remain subdued, which bodes well for the inflation outlook.

So what?

The South African Reserve Bank (SARB) faces a delicate balance between the risk of lowering interest rates too soon against maintaining a cautious approach to meet its 3% inflation target. At the World Economic Forum, the SARB governor indicated that SA may reach 3% inflation by 2026, earlier than previous forecasts. This likely means the SARB will revise its inflation outlook downward in January, aided by a stronger rand.

As a result, the probability of an interest rate cut in January is likely higher. Though the timing of the first rate cut is uncertain, we still expect two 25-basis point reductions in 2026 based on the inflation trajectory. Our 2026 inflation forecast of 3.5%, match the SARB and Reuters' consensus, but a firmer currency could result in downside surprise.

Consumer lens

Food inflation was unchanged at 4.4% y/y in December 2025.

The average cost of a household food basket* in December 2025 was R5 333.45, R80.08 less than a month ago and R49.93 less than a year ago.

Transport inflation rose to 1% y/y in December from 0.7% y/y in November.

Notable price decreases of 76.8c/l for petrol (ULP 95) and 79.9c/l for diesel (0.05%) are expected in February 2026**.

* 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 January 2026.
The petrol cost of an average car (45 litres) is R933.8 in January 2026, R269.6 less than in July 2022 when petrol prices peaked.

Headline and core inflation inched higher in December

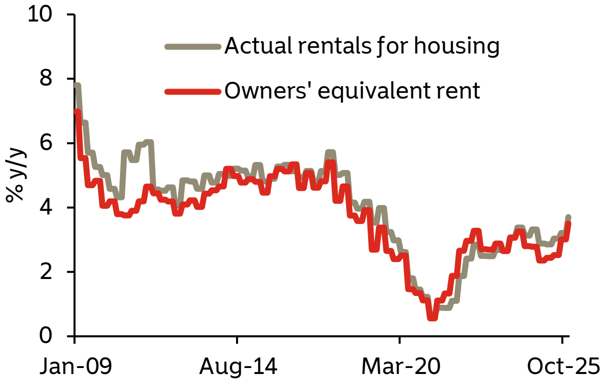
Headline inflation, as reported by Statistics (Stats) SA, rose to 3.6% y/y in December 2025 from 3.5% y/y in November, resulting in an average inflation rate of 3.2% for 2025.

December's inflation rate matched the Reuters median consensus of 3.6%, while the 2025 average inflation rate was below our estimate, the Reuters consensus and the SARB's forecast of 3.3%.

> The acceleration in prices in December was mainly due a rise in housing inflation, which is surveyed once a quarter, transport as well as services inflation in restaurants and accommodation.

Transport inflation edged up to 1% y/y in December from 0.7% y/y in November and restaurant and accommodation services prices increased by 2.9% y/y from 2.3% y/y over the same period. In terms of housing prices, actual rentals were up 3.7% y/y in December from 3.2% y/y in in November and owners' equivalent rent was up 3.5% y/y from 3% y/y over the same period.

Chart 1: Housing inflation edges higher after a prolonged pandemic-induced slump

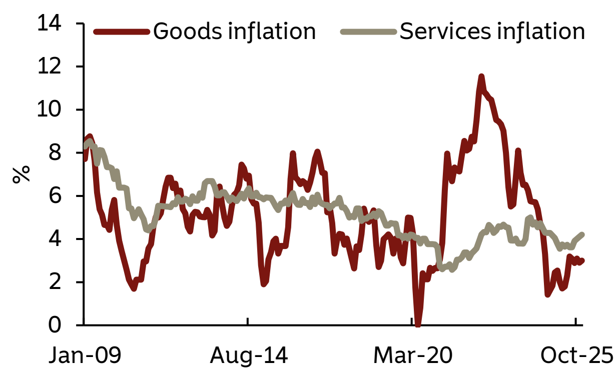


Source: Stats SA, Momentum Investments
Data until December 2025

According to an article in *BusinessDay*, the property rental market continues to display divergences. The residential sector is experiencing robust momentum, driven largely by a persistent shortage of available rental stock. This supply constraint is fuelling expected rental escalations between 4.5% and 5.5% for 2026, especially in key growth areas within Gauteng. This signals upward pressure in rentals going forward. However, buy-to-let activity is increasing, with ooba reporting that buy-to-let investment properties accounted for 12% of all home loan applications in 2025, up from 10.9% in 2023. Furthermore, there is ongoing commercial-to-residential conversions, particularly in Gauteng. This increase in supply could limit the upward rental pressure. In contrast, the commercial property sector (most notably office space) remains subdued, with rental escalations expected to moderate to about 3% in 2026.

Core inflation rose to 3.3% y/y in December from 3.2% y/y in November, largely due to the rise in housing costs.

Chart 2: Services inflation remains sticky



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

Goods inflation accelerated to 3% y/y in December, from 2.9% y/y in November, but was lower than the peak rate of 3.2% y/y recorded in July 2025. Contained goods inflation can be attributed to the strengthening of the currency and a reduction in fuel prices, both of which have helped to contain input costs, imported inflation and retail prices. Services inflation climbed to 4.2% y/y from 4.1% y/y, reaching its highest level for 2025. The persistent elevation in services inflation signals a degree of stickiness in underlying price pressures. This stickiness may complicate efforts to bring overall inflation to target, as services represent a slightly larger portion of the consumer basket (51.6% vs 48.4% for goods). We may see a downward trend in services inflation once contracts start to adjust to the new lower target.

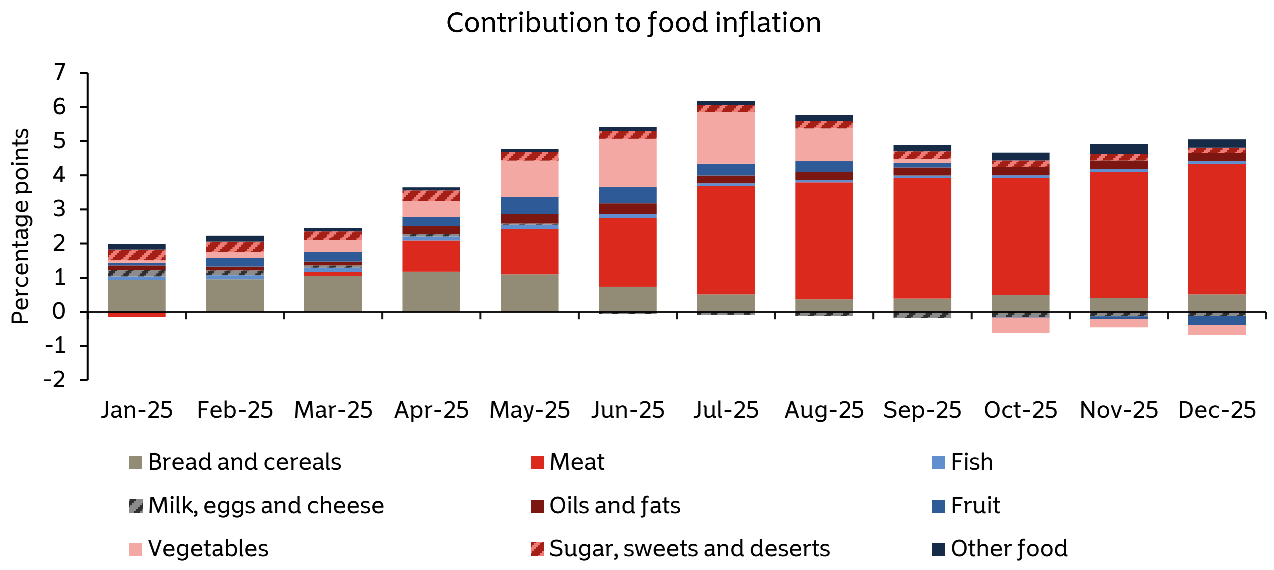
Food inflation is expected to be broadly contained in 2026, but risks remain

Food inflation remained unchanged at 4.4% y/y in December and averaged 3.8% in 2025.

Food inflation experienced considerable upward pressure in 2025, accelerating from 1.5% in January to 5.5% y/y in July before moderating. Meat emerged as the primary driver, with its contribution to overall food inflation ranging from negative 0.1 to 2 percentage points in the first half of the year and then escalating sharply to more than three points from July onwards (see chart 3) due to the foot-and-mouth disease. Bread and cereals added steadily less, remaining below a 1.2-percentage point contribution. Vegetables, however, fluctuated widely, starting as positive contributors but later exerting downward pressure as supply conditions improved. The rest of the food categories had only marginal impacts while prices of milk, eggs and cheese detracted from food inflation from mid-year onwards.

> "The overall pattern for food inflation in 2025 reflects a year dominated by meat-driven inflation, offset at times by deflation in vegetables and dairy products."

Chart 3: Meat drove food inflation higher in 2025



Source: Stats SA, Momentum Investments

Looking ahead to 2026, the Agricultural Business Chamber of SA projects that food inflation will average between 3.5% and 4%. The first half of the year may experience elevated meat prices due to ongoing uncertainty regarding vaccination progress (estimated at R2.5 billion per year for cattle over three years). However, the outlook for the second half of 2026 is more positive, with strong harvests anticipated because of favourable weather conditions.

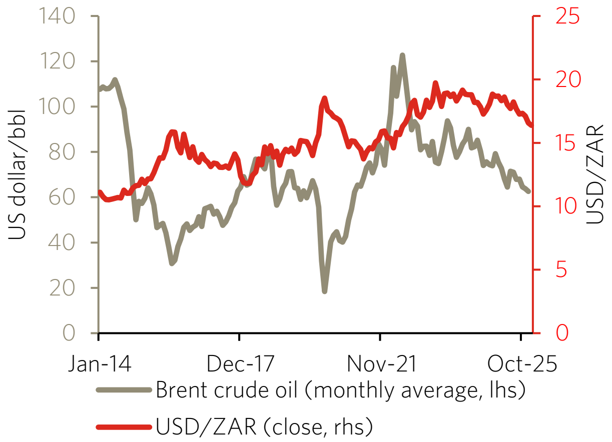
Certain foods could experience increased price pressure. According to agricultural experts, ongoing flooding resulting from the La Niña season is expected to impact the supply of tomatoes and potatoes (ground horticulture), indicating potential upward pressure on prices. Additionally, the floods may negatively affect the quality of fruits.

A stronger exchange rate and lower oil prices remain supportive for transport inflation

Transport inflation rose in December as fuel inflation increased to 0.6% y/y from 0.1% y/y in November, following December's fuel price hikes. Public transport deflation also slowed to 0.9% y/y from 1.7% y/y.

According to CEF data, February is expected to see fuel prices drop significantly for the second month in a row, with petrol (ULP95) and diesel (0.05%) both likely to decrease by around 70c/l. This follows January's reductions of 66c/l for petrol and R1.37/l for diesel.

Chart 4: Oil and rand dynamics supportive of lower fuel prices



Source: Energy Information Administration, Iress, Momentum Investments
Data until December 2025

Fuel price declines have been supported by a stronger exchange rate and lower oil prices (see chart 4). The rand briefly hit R16.3/US$ during the first two weeks of 2026, its highest level in over three years, before easing but remained resilient. We believe that short-term risks for the rand lean toward further appreciation, given the favourable commodity price mix SA is experiencing, which bodes well for the inflation outlook. Contributing factors include:

- Credit rating upgrades due to improved fiscal metrics (Budget Review will be tabled on 25 February 2026)
- Increased economic growth and investment
- High commodity prices, particularly gold
- Lower oil prices

The outlook for oil prices remains subdued, which is favourable for the inflation outlook.

> "The International Monetary Fund (IMF) indicates that oil prices are anticipated to decline in 2026 due to modest global demand growth and robust supply increases."

Nonetheless, a soft price floor is maintained by higher-cost producers, Chinese strategic stockpiling and OPEC+ (Organisation of the Petroleum Exporting Countries plus selected non-member countries) efforts to prevent a significant price downturn. The IMF projects average oil prices of approximately US$62/bbl for 2026 and 2027, compared to US$69.1/bbl in 2025 and US$80.5/bbl in 2024. Nevertheless, geopolitical risks remain a key risk to the global oil outlook, despite the current oil supply glut. For instance, the price of Brent crude oil temporarily inched up following the United States' (US) capture of the Venezuelan President and unrest in Iran in early January. Iran accounted for 4.5% of global oil production in 2024 while Venezuela accounted for 1.1% according to OPEC, making disruptions in Iran a bigger risk to the global oil market.

Inflation projections likely to be revised lower

While the December inflation rate was in line with expectations, the 2025 inflation outcome was below expectations.

The SARB's Monetary Policy Committee faces a delicate balance between the risk of prematurely lowering interest rates and maintaining a moderately cautious stance in pursuit of the 3% inflation target.

Comments made by the SARB governor at the World Economic Forum, that SA may hit 3% inflation in 2026 as reported by *News24*, as opposed to the previous estimates that had projected this milestone for 2027, implies that the SARB is likely to revise its inflation forecasts downward during the January meeting. Recent rand strength is likely to play a significant role in this adjustment.

Consequently, the likelihood of an interest rate cut in January has increased in our view. While the timing of the first interest rate cuts in 2026 remains uncertain, our expectation for two 25-basis point cuts for 2026 remain at this point, given the expected trajectory for headline and core inflation and the recent moves lower in inflation expectations as surveyed by the Bureau for Economic Research.

The SARB's November inflation forecast for 2026 was 3.5%, in line with our and the Reuters median consensus.