momentum investments

in the moment

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Repo rate stays at 7% as SARB watches inflation risks

	South Africa	United States	United Kingdom	European Union	Japan	China
Current rate:	7.00%	4.00% - 4.25%	4.00%	2.00%	0.50%	3.00%
Previous meeting:	7.00%	4.25% - 4.50%	4.00%	2.00%	0.50%	3.00%
	Repo rate	Federal funds rate	Bank rate	Deposit facility rate	Key policy rate	Loan prime rate

So what?

The South African Reserve Bank (SARB) kept the repo rate steady at 7% in September after two consecutive 25-basis point cuts as well as the announcement to anchor inflation at its new 3% preferred level. The Monetary Policy Committee's (MPC) decision is warranted in the context of higher inflation projections across the forecast horizon due to risks from food, electricity and fuel. A stronger rand helped contain the upward inflationary impact from imports and will be a key factor to watch.

The higher inflation profile has resulted in slightly higher forecasted interest rates in the SARB's model, but their interest rate trajectory remains steeper than market pricing. We expect no further cuts in 2025 but risks are tilted toward one more 25-basis point reduction as early as this year. Should inflation expectations, however, decline more slowly than the SARB anticipates, interest rates will stay higher for longer, the path to 3% inflation will be slower and economic growth slightly weaker.

Consumer lens

Size*	Bond value	10.50% Previous monthly payment	10.50% New monthly payment	Monthly saving
S	≤ R1.6 million	R15 974.08	R15 974.08	–
M	R2.6 million	R25 957.88	R25 957.88	–
L	> R3.6 million	R35 941.68	R35 941.68	–

Size**	Vehicle value	10.50% Previous monthly payment	10.50% New monthly payment	Monthly saving
E	≤ R350 000	R7 617.82	R7 617.82	–
M	R525 000	R11 379.25	R11 379.25	–
L	> R700 000	R15 140.68	R15 140.68	–

* S = small, M = medium (mid-point of R1.6 mil to R3.6 mil), L = large

** E = entry level, M = mid-entry (mid-point of R350k to R700k), L = luxury segment

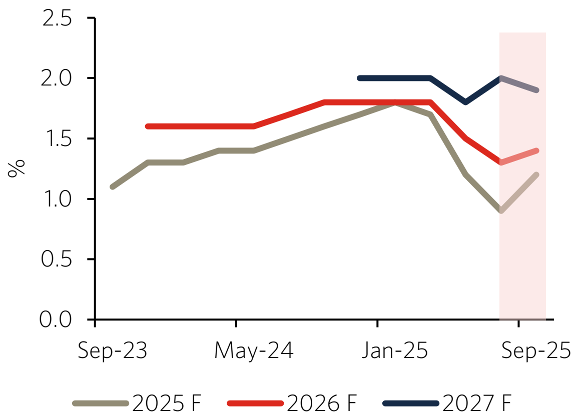
The repayment amounts for both home and vehicle finance are calculated on the prime lending rate with an assumption of no deposit or balloon payment. The assumption for a home loan repayment period is 20 years and five years for a vehicle loan.

Positive second-quarter economic growth surprise underpins lift in 2025 growth forecast

> Domestic economic growth in the second quarter picked up by more than anticipated at 0.8% q/q relative to the SARB's projection of 0.4% q/q.

This was due to a strong rebound in the mining industry and broad-based growth in the production side of the economy. On the expenditure side, economic growth was supported by household consumption, while fixed investment and exports detracted from growth.

Chart 1: SARB's real growth revisions



Source: SARB, Momentum Investments
Pink shading represents estimates modelled on the 3% preferred target, while the previous estimates were based on a 4.5% target

Due to the positive economic growth surprise in the second quarter, the SARB revised its 2025 growth forecast up to 1.2% from 0.9% (see chart 1). The growth projection for 2026 was lifted slightly to 1.4% from 1.3% and 2027 saw a downward revision from 2% to 1.9%. The SARB's revised forecast for 2025 is better than ours (1%) but aligns with our 2026 forecast.

Another positive development in the second quarter was the rebound in private sector fixed investment (5.6% q/q) which partially offset the first quarter decline of 6.3% q/q. Despite the rebound, private sector fixed investment still trailed last year's comparative figure by 1.1%. Sustained gains from the second quarter would provide much-needed support to the economy.

Strong growth of 5.6% y/y (non-seasonally adjusted) in July's real retail trade sales is an early sign of household consumption growth potentially holding up in the third quarter. Contained inflation alongside previous interest rate cuts are benefitting consumers.

The potential impact of trade tariffs, elevated municipal tariff hikes, weak employment growth, policy uncertainty and logistical bottlenecks remain headwinds to growth. Overall, the SARB sees risks to its growth outlook as balanced.

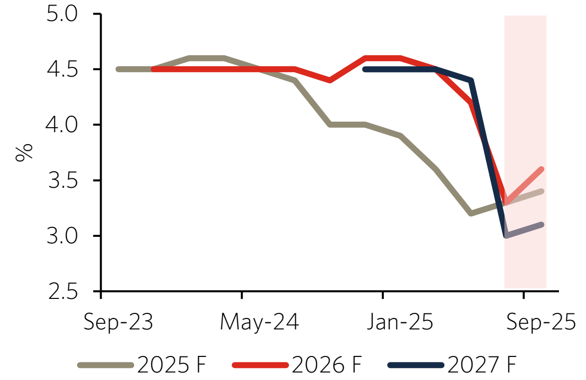
Food, electricity and a slower decline in fuel prices seen as key upside inflation risks

> Despite the downside surprise in August's headline inflation rate of 3.3%, the SARB revised its 2025 inflation projection up from 3.3% to 3.4%. The estimate for 2026 saw a sharper upward revision to 3.6% from 3.3% and 2027 was revised up to 3.1% from 3%.

Our inflation estimate for 2025 is slightly lower at 3.3% but is higher for 2026, at 4.1%.

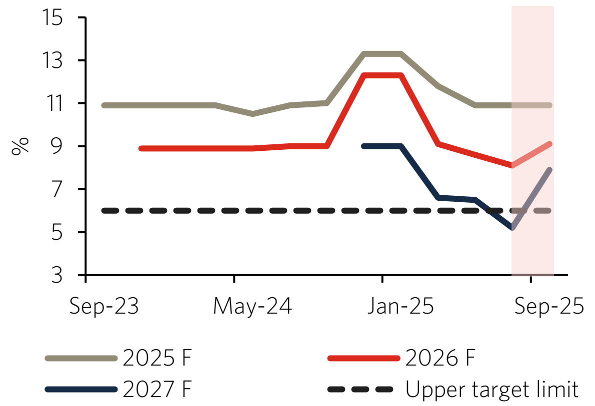
Key inflationary risks cited by the SARB included higher food prices, particularly meat and vegetables; higher electricity prices on the back of pricing corrections by the National Energy Regulator of SA (NERSA) and a slower decrease in fuel prices. The SARB noted that inflation forecasts would have been higher had it not been for the stronger rand.

Chart 2: SARB's annual headline inflation revisions



Source: SARB, Momentum Investments
Pink shading represents estimates modelled on the 3% preferred target, while the previous estimates were based on a 4.5% target

Chart 3: SARB's electricity inflation revisions



Source: SARB, Momentum Investments
Pink shading represents estimates modelled on the 3% preferred target, while the previous estimates were based on a 4.5% target

NERSA's miscalculation of Eskom's revenue requirements when finalising electricity tariff adjustments means South Africans will face steeper increases over the next two financial years (FY): notably 8.76% instead of 5.36% in FY2026/27 and 8.83% instead of 6.19% in FY2027/28. As a result, the SARB has revised its electricity inflation forecasts higher for the coming two years (see chart 3). This partly explains the sharper upward adjustment in next year's inflation rate.

Positively, inflation expectations in the third quarter fell across all horizons (current year, one-year, two-year and five-year) with forward-looking measures reaching record lows. This survey coincided with the announcement of the new 3% inflation preference, which likely helped lower inflation expectations and reflects positively on the SARB's credibility. Nevertheless, at 3.8% for 2025 and 4.2% for 2026, 2027 and the long-term average, inflation expectations remain above the 3% inflation preference, indicating that there is still progress to be made.

Acknowledging the possibility of inflation expectations adjusting slower than previously anticipated, the SARB modelled the implications of more backward-looking expectations which are less influenced by the SARB's communication.

> In the instance of slower adjusting inflation expectations, inflation takes longer to reach 3%, policy rates are higher (about one cut less than the baseline of four cuts by the end of 2027) and economic growth comes out slightly weaker.

The National Treasury is yet to make a formal announcement on the inflation target despite issuing a joint statement on its importance with the SARB.

The SARB assessed risks to the inflation outlook as balanced.

7% repo rate hold, MPC divided

Leading up to the September interest rate meeting, the market and analysts had split views on the interest rate decision. 15 of the 22 analysts surveyed in the September Reuters Econometer poll were expecting rates to be left unchanged (including us) and the remaining seven were expecting a 25-basis point cut to 6.75%. Mirroring the market, the MPC's vote was split 4-2 in favour of keeping the repo rate unchanged.

Table 2: Shift in MPC member preferences at the scheduled September 2025 meeting

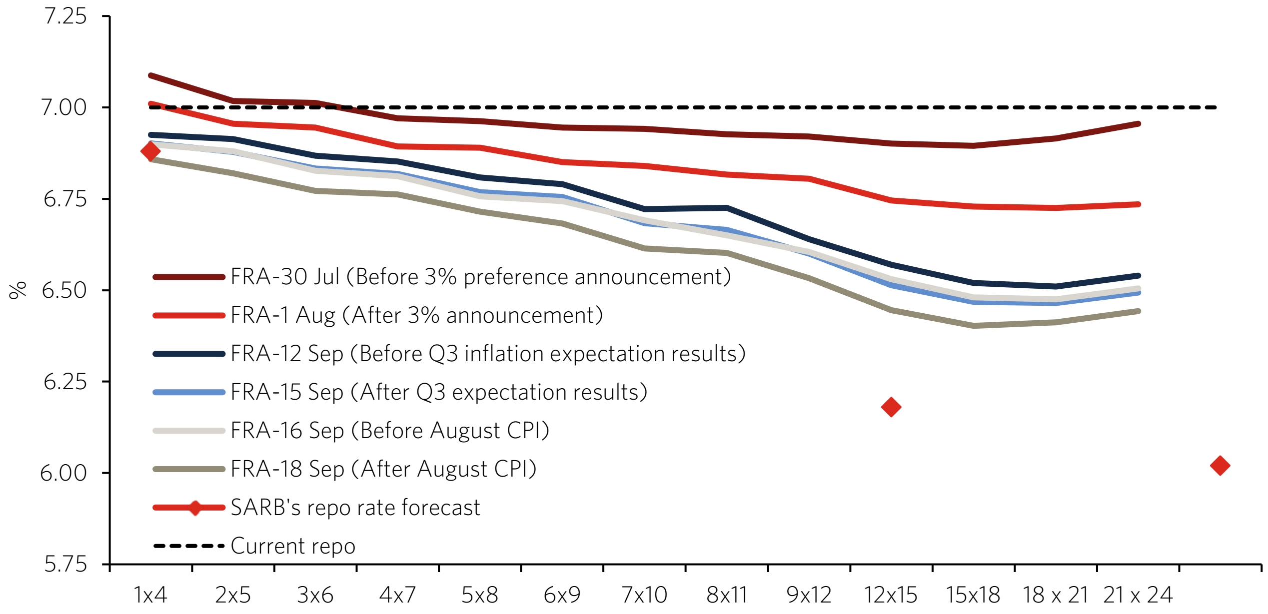
Number of committee members	Favoured a 50-basis point cut	Favoured a 25-basis point cut	Favoured no move	Favoured a 25-basis point hike
30 May 2024	-	-	6	-
18 July 2024	-	2	4	-
19 September 2024	-	6	-	-
21 November 2024	-	6	-	-
30 January 2025	-	4	2	-
20 March 2025	-	2	4	-
29 May 2025	1	5	-	-
31 July 2025	-	6	-	-
18 September 2025		2	4	

Source: SARB, Momentum Investments

A cautious hold

The pause in the repo rate in September comes after two consecutive 25-basis point cuts and the announcement to anchor inflation at a preferred 3% in the July 2025 meeting. The decision to hold rates steady is warranted in the context of higher inflation forecasts across the forecast period. At this point, the SARB noted that it will assess how the inflation risks identified (food, electricity and a slower decline in fuel prices) evolve. Given that their inflation forecasts would have been higher in the absence of a stronger currency, the rand will also be a key factor that is monitored. Moreover, the SARB highlighted that it would assess how the previous 125 basis points worth of cuts that have already been implemented since September last year will affect the economy. These factors, combined with the scenario analysis of a slower transition in inflation expectations, point to a more cautious SARB in our view.

Chart 4: FRA curve adjusted lower with each surprise event



Source: Bloomberg, Momentum Investments

> Due to the higher inflation forecast, the quarterly projection model (QPM) is estimating slightly tighter interest rates than before.

The estimated repo rate at the end of 2025 is 6.88% (previously 6.69%), 6.18% in 2026 (previously 5.98%) and 6.02% in 2027 (previously 5.84%). Nevertheless, the SARB's rate cut trajectory remains steeper than what the fixed income market is pricing in (see chart 4).

This interest rate meeting reinforces our view that no further cuts are likely this year (with only one meeting left in November). However, we note that risks are tilted toward one more 25-basis point cut in 2025. These risks include steeper interest rate cuts by the United States (US) Federal Reserve Bank, a more favourable oil price outlook, rand strength against the US dollar and inflation remaining broadly contained.