momentum investments

in the moment

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Repo rate held at 6.75%. No rate cuts expected in 2026

	South Africa	United States	United Kingdom	European Union	Japan	China
Current rate:	6.75%	3.50% - 3.75%	3.75%	2.00%	0.75%	3.00%
Previous meeting:	6.75%	3.50% - 3.75%	3.75%	2.00%	0.75%	3.00%
	Repo rate	Federal funds rate	Bank rate	Deposit facility rate	Key policy rate	Loan prime rate

So what?

The Monetary Policy Committee (MPC) unanimously decided to keep the repo rate unchanged at 6.75% given higher inflation risks stemming from geopolitical tensions in the Middle East. Headline inflation was revised higher for 2026 and 2027 but remains within the one percentage point tolerance band of between 2% to 4%. Given the emerging inflation risks, our view is that the South African Reserve Bank (SARB) will keep interest rates unchanged at 6.75% in 2026 and only resume cutting rates in early 2027 if the war does not persist for much longer. We acknowledge risks for interest rate hikes but we think this would be more likely should the war linger or oil prices remain elevated relative to pre-war averages and inflation expectations adjust upwards. In the SARB's adverse scenarios of a shorter conflict (two more months) inflation exceeds 4%, prompting one interest rate hike. A more prolonged war (over a year) could see inflation rise to around 5%, requiring a more aggressive hiking cycle to around 8.25%.

Consumer lens

Size*	Bond value	10.25% Previous monthly payment	10.25% New monthly payment	Monthly saving
S	≤ R1.6 million	R15 706.29	R15 706.29	-
M	R2.6 million	R25 522.73	R25 522.73	-
L	> R3.6 million	R35 339.16	R35 339.16	-

Size**	Vehicle value	10.25% Previous monthly payment	10.25% New monthly payment	Monthly saving
E	≤ R350 000	R7 574.40	R7 574.40	-
M	R525 000	R11 314.19	R11 314.19	-
L	> R700 000	R15 053.99	R15 053.99	-

* 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

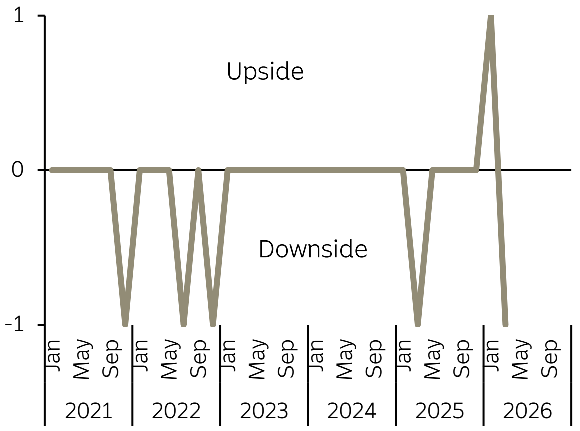
The repayment amounts for both home and vehicle finance are calculated on the prime lending rate with an assumption of no deposit or balloon payment. The assumption for a home loan repayment period is 20 years and five years for a vehicle loan.

Economic growth recovery could be delayed not derailed

> The SARB maintained its economic growth forecasts at 1.4% for 2026 and 1.9% for 2027 and 2028. According to the SARB, lower growth last year (1.1% versus the expected 1.3%) makes 2026 appear stronger, offsetting the effects of the current war shock.

For the first time since the COVID-19 pandemic, the SARB assessed risks to the growth outlook as tilted to the upside at its January interest rate setting meeting (see chart 1). This was supported by several improving domestic conditions such as easing structural constraints, sustained momentum in structural reforms, early signs of improving business and consumer confidence, favourable conditions for household consumption stemming from low inflation and declining interest rates, as well as improving credit dynamics.

Chart 1: The SARB's evaluation of economic growth risks has reverted to downside risks



Source: SARB, Momentum Group
0 = balanced risks

However, the ongoing conflict in the Middle East presents risks to both business and consumer confidence, as well as contributes to elevated inflation and interest rates.

> As a result, the SARB now view risks to the economic growth outlook as tilted to the downside.

The National Treasury is currently being urged to suspend the 21c/l fuel levy scheduled to take effect on 1 April, in response to sharp monthly fuel price increases anticipated from April. According to the Central Energy Fund's estimates on 24 March, petrol (95) is expected to rise by R5.72/l, while diesel (0.05%) may increase by R9.67/l. This fuel levy suspension request seeks to partially mitigate the impact of these fuel increases on consumers' disposable income. *BusinessDay* has reported that SA retailers are also exploring measures to limit the extent of fuel price increases being passed on to consumers in the retail space. Nevertheless, despite potential mitigating measures, consumers' spending ability will be impacted, weighing on economic growth.

Another factor in which the war could impact economic growth prospects is through exports. According to the Agricultural Business Chamber of SA (Agbiz), the Middle East represents approximately 8% of SA's agricultural exports. Currently, the SA is unable to export meat, fruits and nuts to the region. However, discussions have commenced with Singapore and other ASEAN (Association of Southeast Asian Nations) countries to assess their capacity to absorb these products.

> Although anticipated fuel price increases are considerable, the Department of Mineral and Petroleum Resources has confirmed that SA's fuel supply remains stable at present.

This is because vessels transporting cargo and supplies to SA are passing through the Strait of Hormuz without disruption or threat from Iran. Access through the Strait is vital for SA because SA has around two to three weeks of fuel reserves, much less than the 90-day global benchmark. The current pressures on fuel supply are attributed to panic buying and some fuel stations withholding supply in anticipation of the April fuel price increases.

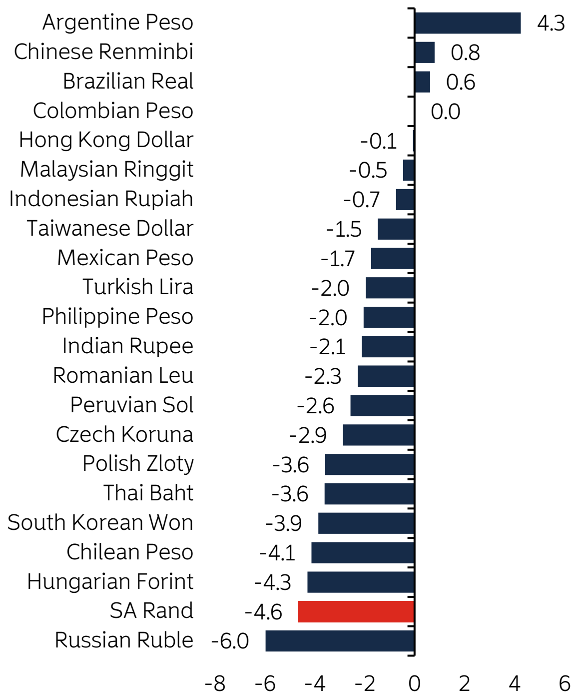
Other countries are experiencing fuel shortages and have implemented mitigation measures. For instance, South Korea is grouping cars by licence plate and prohibiting certain groups from driving on certain days. Pakistan and the Philippines have introduced a four-day week for public servants and others are limiting air travel.

Our and the Reuters median consensus economic growth projection for 2026 has been revised lower to 1.5% (previously 1.6%) but is higher than the SARB's. We also attach downside risks to this outlook (on the back of pressure on the consumer and a further delay in investment) and will revisit when there's more clarity regarding the duration and impact of the war. For 2027, our growth forecast remains at 1.8%, matching Reuters' median consensus.

Inflation shock more significant in 2026, though still within the inflation target tolerance band

In the past three weeks, the conflict in the Middle East has noticeably affected several important factors that influence inflation, such as international oil prices, the rand exchange rate (see chart 2), fertiliser prices and shipping fees.

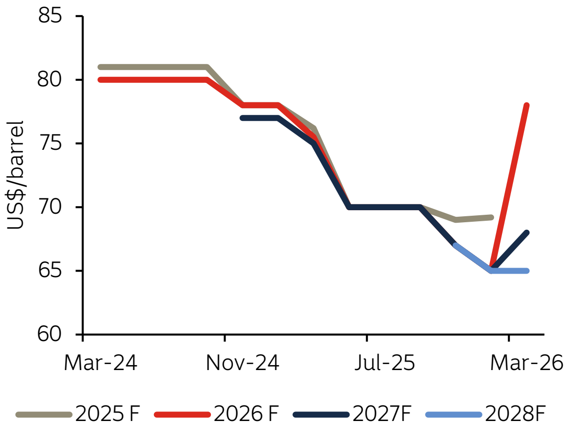
Chart 2 Rand was the second worst performing EM currency against the dollar since the January MPC*, (%)



Source: Bloomberg (25 March 2026), Momentum Group
** 30 January 2026 to 25 March 2026. EM = Emerging market*

The SARB is now expecting Brent crude to average at a higher US$78/bbl in 2026, up from its previous estimate of $65/bbl (see chart 3). The Brent crude forecasts for 2027 and 2028 have been revised upward slightly.

Chart 3: Revisions to SARB's Brent crude oil price estimates



Source: SARB, Momentum Group

> Fuel inflation in 2026 is projected at 7.4%, a significant increase from the previous estimate of negative 1.4%. This is driven by higher international oil prices and a weaker rand.

Fuel inflation is expected to peak at 18.3% in the second quarter of 2026, before easing to about 9%. Because of base effects, forecasts for fuel prices in 2027 and 2028 show deflation at negative one and negative 0.1, respectively, indicating that the SARB's baseline scenario assumes the war and its influence on oil prices will be short-term.

> The food and non-alcoholic beverages inflation forecast remained at 3.6% for 2026 and was raised from 3.2% to 3.6% for 2027.

This aligns with Agbiz's view that high fertiliser prices will be a concern for the agriculture outlook if the war continues post June 2026 and illustrates the six-to-seven-month lag between producer and retail prices.

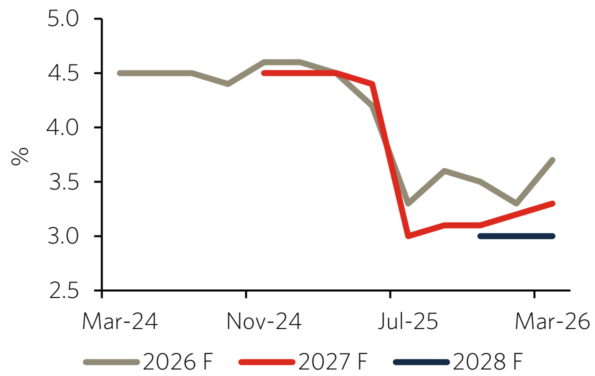
> The headline inflation rate for 2026 was adjusted up from 3.3% to 3.7% and from 3.2% to 3.3% for 2027. These projections show inflation remaining within the SARB's one percentage point tolerance band (2% to 4%), with inflation expected to peak at 4% in early 2027.

Despite the current supply shock, the SARB expects to reach its 3% target during the next two years.

Core inflation was revised slightly higher to 3.3% in 2026 (previously 3.2%) and 3.3% in 2027 (previously 3.1%) but remained unchanged at 3% in 2028. This suggests that the SARB sees limited second-round effects but indicated that they will monitor wage developments and inflation expectations to see if broader inflationary pressures start building.

Risks to the inflation outlook were assessed to the upside.

Chart 4: Revisions to SARB's annual headline inflation estimates



Source: SARB, Momentum Group

Unanimous decision to keep the repo rate unchanged at 6.75%

The decision to keep the repo rate unchanged at 6.75% in the March meeting was unanimous among the remaining five MPC members. Chris Loewald, resigned from the SARB effective 1 March 2026, taking the committee from six to five members.

Of the 28 analyst responses in the March Reuters poll, 75% expected interest rates to remain unchanged at 6.75% while 25% expected a 25-basis point cut.

Table 1: Shift in MPC member preferences at the scheduled March 2026 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
27 March 2024	-	-	5	-
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	-
20 November 2025	-	6	-	-
29 January 2026	-	2	4	-
26 March 2026	-	-	5	-

Source: SARB, Momentum Group

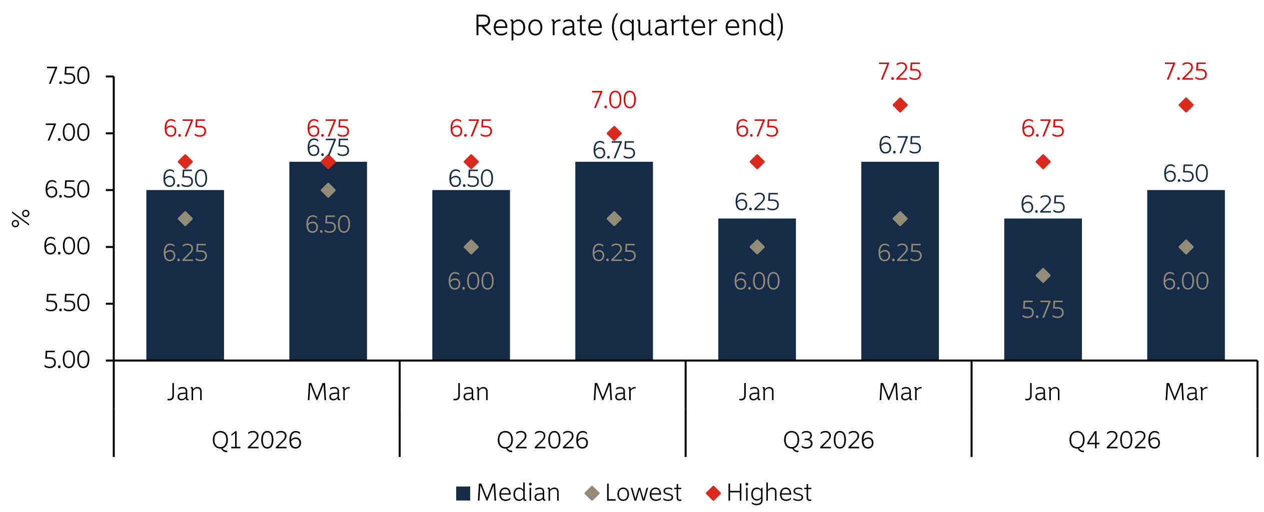
Interest rate expectations have shifted higher

Interest rate expectations have increased following the Middle Eastern conflict. According to the Reuters median consensus from the March survey, interest rates are anticipated to remain steady at 6.75% until the third quarter of 2026, with a split view between a hold and a 25-basis point cut in the fourth quarter of 2026. The interest rate cut projection is later than the January survey's forecast, which expected a reduction as early as the first quarter of 2026. Additionally, the March poll includes some analysts who foresee potential interest rate hikes from the second quarter of 2026 (refer to chart 5).

Our interest rate outlook is in line with the Reuters median consensus in that the SARB will likely keep the repo rate unchanged at its current level this year while evaluating the effects of the ongoing conflict and its duration. Should the conflict conclude earlier, our expectation is that the SARB may implement interest rate reductions in 2027. Should the war linger or oil prices remain elevated relative to pre-war averages, the risk that inflation expectations adjust upwards becomes substantially higher. In this event, the SARB's hand would likely be forced to raise interest rates to defend the new inflation target on a forward-looking basis. The forward-rate agreement market has moved from pricing in two cuts in the next year to pricing in three hikes in the next year. Given the potential negative hit to growth from that extent of tighter monetary policy, we view this as being too aggressive.

In the SARB's first adverse scenario where the conflict lasts for another two months, oil prices are projected to average close to US$100/bbl during this period and the rand depreciates by 5% against the US dollar. Under these conditions, inflation is expected to surpass 4%, prompting a single interest rate increase. The second adverse scenario assumes the war lasts for over a year, oil prices stay above US$100/bbl and the rand depreciates by 10% against the dollar. Here, inflation is expected to reach 5%, necessitating further interest rate hikes to levels comparable with the previous tightening cycle peak of 8.25%.

Chart 5: Fewer interest rate cuts expected, with some expecting rate hikes in the Reuters poll



Source: Reuters, Momentum Group

Globally, most major central banks held interest rates steady in their March meetings but market expectations have shifted. Expectations for US rate cuts have been dialled back to just one 25-basis point cut, down from two before the conflict. The European Central Bank is expected to increase rates by two quarter-point increases and the Bank of England to increase by three quarter-point increases by the end of 2026. A weaker growth profile would nonetheless likely limit the extent of interest rate tightening in these regions.