momentum investments

in the moment

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No interest rate cut, but the scissors are still on the table

	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%**	**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 Monetary Policy Committee's (MPC) decision to keep the repo rate steady at 6.75%, despite lower inflation forecasts, reflects the South African Reserve Bank's (SARB's) cautious stance. Risks to the inflation outlook are seen as balanced though there are issues of concern such as meat inflation, electricity prices, currency volatility, global market instability and geopolitical uncertainty. Encouragingly, scenario analysis suggests inflation should stay within the 2% to 4% tolerance range, even under adverse conditions. The SARB appears committed to maintaining policy credibility and anchoring expectations. Nevertheless, we still expect gradual rate cuts of two 25-basis points each by the end of 2026. The SARB's Quarterly Projection Model (QPM) and two MPC members voting for a 25-basis point cut in the January meeting also indicate that rate cuts are still firmly on the table.

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 estimates remain unchanged, with a gradual recovery intact

Economic growth in the third quarter of 2025 matched the SARB's expectations at 0.5% quarter-on-quarter (q/q). High-frequency indicators point to modest growth in the fourth quarter. This performance supports the SARB's decision to keep its 2025 growth forecast unchanged at 1.3%. Growth estimates for 2026 through to 2028 were also left unchanged.

> Across forecasts, there is a clear consensus that SA's growth outlook is gradually improving.

The SARB expects GDP to expand from 1.3% in 2025 to 1.9% in 2027 and 2028. The Reuters poll paints a similar picture, while our forecast is slightly stronger for 2027 (see table 1).

Table 1: Economic growth is improving

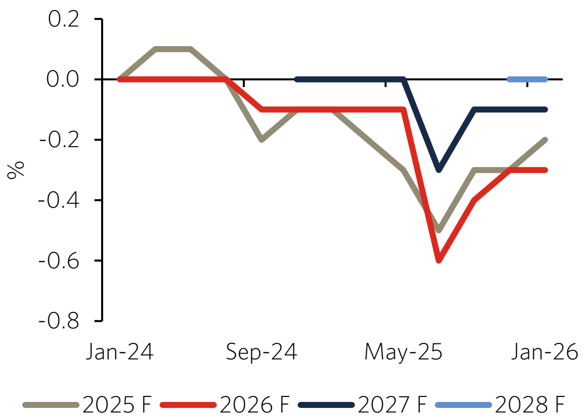
Real GDP growth	SARB	Reuters	Momentum
2025	1.3	1.3	1.2
2026	1.4	1.6	1.6
2027	1.9	1.8	2
2028	1.9	2	

Source: SARB, Reuters Econometer Poll (January 2026), Momentum Investments

For the first time since 2018, the SARB sees risks to its growth outlook as tilted to the upside.

The SARB's potential GDP estimate was also unchanged at 1.1% in 2025, rising gradually to 1.4% in 2026, 1.7% in 2027 and 1.8% in 2028. This implies that actual GDP growth is slightly above potential in 2027 and 2028. However, this is not because the economy is overheating but because potential growth itself remains subdued as capacity adjusted to lower demand in recent years. More meaningful progress on structural reforms is required to lift potential growth and prevent above-potential outcomes from translating into capacity constraints. The output gap, therefore, remains slightly negative in 2027 and only closes by 2028 (see chart 1). This reinforces the view that the improving growth trajectory is not expected to be inflationary.

Chart 1: SARB's output gap revisions



Source: SARB, Momentum Investments

Operation Vulindlela's progress report for the second quarter of 2025 shows that 44% of structural reform activities are on track, largely driven by digital transformation initiatives. A further 40% are delayed or off track, but with work underway, mainly in logistics and water. 13% of reforms face significant challenges and require intervention, while 3% have been completed but still require further work. No reforms under their second term are classified as completed with no further work required nor facing critical challenges.

Stronger rand helps near-term inflation outlook

Inflation moderated to 3.2% in 2025 from 4.4% in 2024, marking the lowest annual inflation rate recorded since 2004.

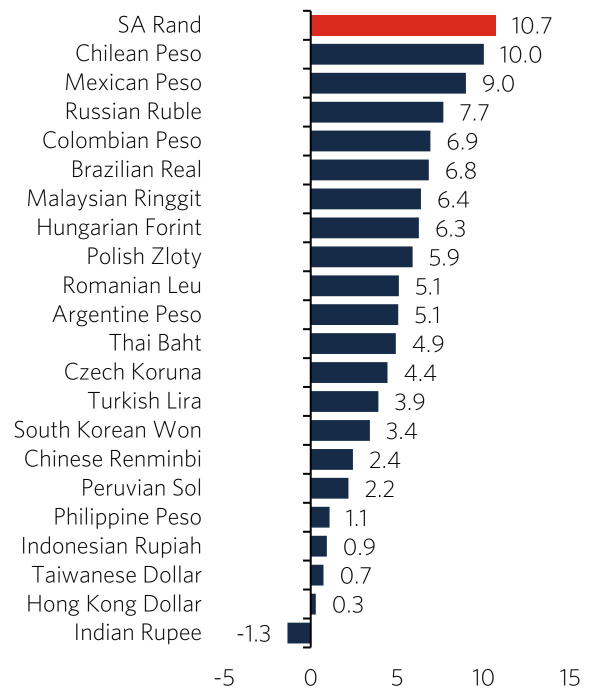
Key contributing factors to the disinflationary trend in 2025 included a stronger rand (12.25% strengthening against the dollar over the year) and lower Brent crude oil prices (a 15.3% decline over the year), which together exerted downward pressure on transport costs. Goods inflation, including categories such as clothing and footwear as well as furnishings, remained subdued, whereas services inflation, including housing and utilities, health and education, persisted at elevated levels.

> The stronger rand and lower oil prices are continuing to support a benign inflation outlook.

The SARB lowered its oil price assumption by US$2/bbl to US$65/bbl over the medium term. Furthermore, the rand has appreciated sharply against the dollar since the MPC's last meeting (see chart 2), with the rand trading below R16 at the time of writing. Factors driving ongoing rand strength include:

- The rally in precious metal prices, particularly gold, which breached US$5 000 per ounce in January.
- A weaker dollar on the back of threats to the United States (US) Federal Reserve's (Fed) independence, growing fiscal concerns and increasing global risk appetite.

Chart 2: Rand was the best performing EM currency against the dollar since the November MPC*, (%)

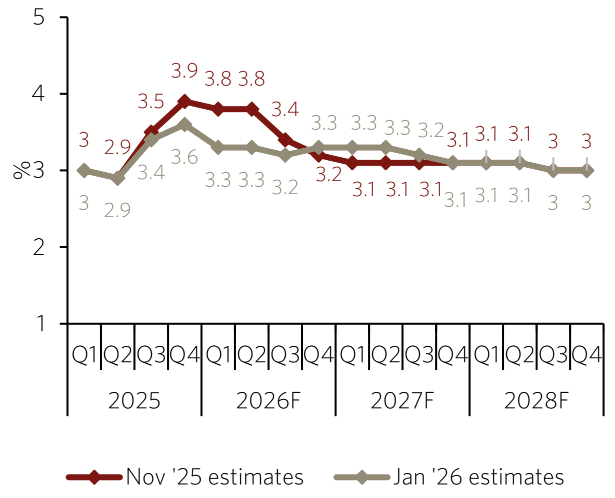


Source: Bloomberg (28 January 2026), Momentum Investments
** 21 November 2025 to 28 January 2026. EM = Emerging market*

> The SARB revised its 2026 inflation forecast down to 3.3%, from 3.5%. The inflation forecast is slightly higher for 2027 at 3.2% (from 3.1%), while the 2028 projection remains unchanged at 3%.

The quarterly breakdown of the data reveals that rand strength has predominantly helped lower the near-term inflation forecast (see chart 3).

Chart 3: Near-term inflation forecasts lowered notably



Source: SARB, Momentum Investments

These SARB's estimates are broadly aligned with our forecasts of 3.2% for both 2026 and 2027. In contrast, Reuters survey expectations are higher, at 3.4% for 2026 and 2027, easing marginally to 3.3% in 2028, but these could adjust lower in the months to come should rand resilience remain intact.

The risks associated with inflation were assessed to be balanced. The SARB is concerned about meat inflation on the back of the foot and mouth disease, electricity inflation and geopolitics, but acknowledges downward trending inflation expectations which will help keep inflation contained. Goods inflation remains subdued while services inflation remains elevated.

A divided committee, with the door still open to cuts

The MPC decided to keep the repo rate unchanged at 6.75% at the January meeting, with four members voting in favour of a hold and two preferring a 25-basis point cut.

The January 2026 Reuters poll showed that 19 out of 26 respondents expected the repo rate to stay at 6.75%, while seven anticipated a 25-basis point cut to 6.5%.

Table 2: Shift in MPC member preferences at the scheduled January 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
25 January 2024	-	-	5	-
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	-

Source: SARB, Momentum Investments

Caution prioritised but more rate cuts still on the table

The MPC's decision to keep the repo rate unchanged despite lower inflation estimates signals the SARB's intention to proceed cautiously. While the disinflation trend has created some space for policy easing, there remains a risk that favourable inflation dynamics could reverse. These risks stem primarily from currency volatility, volatile global financial conditions and heightened geopolitical uncertainty. Positively, the SARB's scenario analysis indicates that even in adverse conditions (i.e. rand weakens to R18.5/US$ and oil reaches US$75/bbl as in one of the scenarios), inflation is not expected to breach the tolerance range (2% to 4%).

In our view, the SARB remains focused on preserving policy credibility and anchoring inflation expectations, rather than reacting to near-term inflation outcomes.

Our expectation of gradual rate cuts, amounting to two 25-basis point reductions by the end of 2026, remains intact. The SARB's QPM and voting pattern of the MPC members in the January meeting also indicate that rate cuts are still firmly on the table.

Globally, monetary policy is also expected to remain cautious. The US Fed kept rates unchanged at its January meeting, describing the growth outlook as solid and noting signs of stabilisation in the labour market, reinforcing a gradual and cautious policy path. More aggressive easing than justified by the outlook for US inflation remains a risk, given the risk of political interference in monetary policy decision making.