momentum investments

in the moment

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Moderating inflation points to gradual rate cuts

Headline inflation (CPI) eased to 3.5% y/y in November 2025 while core inflation inched higher to 3.2% y/y.

CPI beat the Reuters median consensus, while core inflation was in line with expectations.

The moderation in transport inflation helped offset the rise in food inflation.

Doubts about the feasibility of the announced national rollout of vaccines to combat foot-and-mouth disease leave the red-meat and dairy industries exposed to risk.

Price developments in the international oil market and the rand are positive for the local inflation profile.

Brent crude oil dipped below US$60/bbl on 16 December 2025 on optimism around a potential Russia-Ukraine peace deal and the rand dipped below R17/US$.

Inflation expectations encouragingly decreased toward 3% but remain some distance from it.

The Bureau for Economic Research's (BER) survey indicates that inflation expectations declined across all time horizons and respondent groups.

So what?

The moderation in November's inflation, along with a notable decline in inflation expectations (especially among price-setting agents) supports our view that South Africa (SA) remains on an interest-rate cutting path.

However, with expectations still above the 3% target (3.8% for 2026 and 3.7% for 2027), SA Reserve Bank (SARB) caution over cutting rates too soon before inflation is firmly anchored and the lagged effects of prior rate cuts, we expect the repo rate to be maintained at 6.75% at the January 2026 meeting, though a cut remains possible. We anticipate two 25-basis points cuts during 2026 and forecast inflation at 3.3% in 2025, 3.5% in 2026 and 3.3% in 2027, lower than the BER's inflation expectations.

Consumer lens

Food inflation accelerated to 4.4% y/y in November from 3.9% y/y in October.

The average cost of a household food basket* in November 2025 was R5 413.5 which increased by 1% y/y or R52.49.

Transport inflation eased to 0.7% y/y in November from 1.5% y/y in October.

Petrol (ULP 95) and diesel (0.05%) prices are estimated to decline by around 17c/l and 94c/l, respectively, in January 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 15 December 2025.
The petrol cost of an average car (45 litres) is R963.5 in December 2025, R13.05 more than in November 2025.

Headline inflation lower than expectations

As reported by Statistics (Stats) SA, SA's inflation rate eased marginally to 3.5% y/y in November 2025 from 3.6% y/y in October. This outcome was better than the Reuters median consensus which predicted inflation would remain steady at 3.6% y/y.

> The moderation in transport inflation helped offset the rise in food inflation. Housing and utilities remained the largest contributor, accounting for 1.1 percentage points (pps) of headline inflation as shown in chart 1.

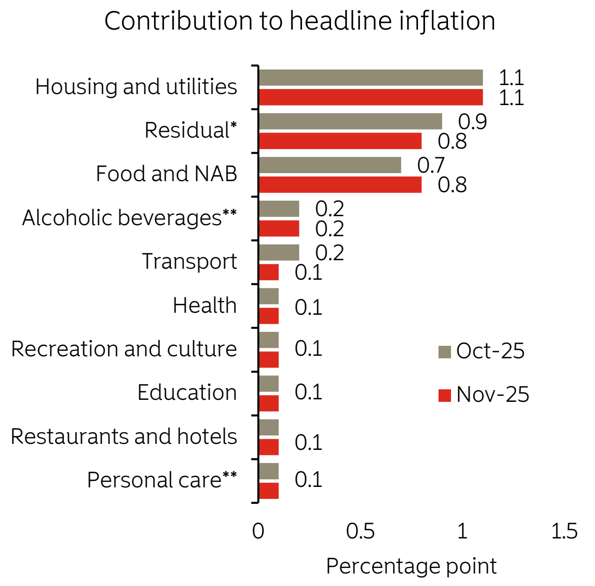
Of the 13 main inflation categories, five rose by more than 3% in November, with health showing the highest rate at 4.9% y/y. Seven categories were below 3%, with furnishings, household equipment and routine maintenance inflation at just 0.2% y/y.

Even as SA's inflation moves closer to the new 3% inflation target, the split in the basket, with some categories sitting above the target and others trending below, is likely to remain a feature.

Core inflation accelerated slightly to 3.2% y/y in November (3.1% y/y in October), in line with the Reuters median consensus. This was primarily due to the rise in alcoholic beverages and tobacco inflation (4.6% y/y from 4.5% y/y).

Goods inflation dipped below 3% at 2.9% y/y in November from 3.1% y/y in October, while services inflation accelerated to 4.1% y/y from 4% y/y.

Chart 1: Housing and utilities remain largest contributor to the headline rate of inflation



Source: Stats SA, Momentum Investments
** Includes insurance and financial services (a new series from the CPI basket and weight update exercise which does not yet have a year-on-year comparison)*
*** Alcoholic beverages and tobacco, personal care and miscellaneous services*

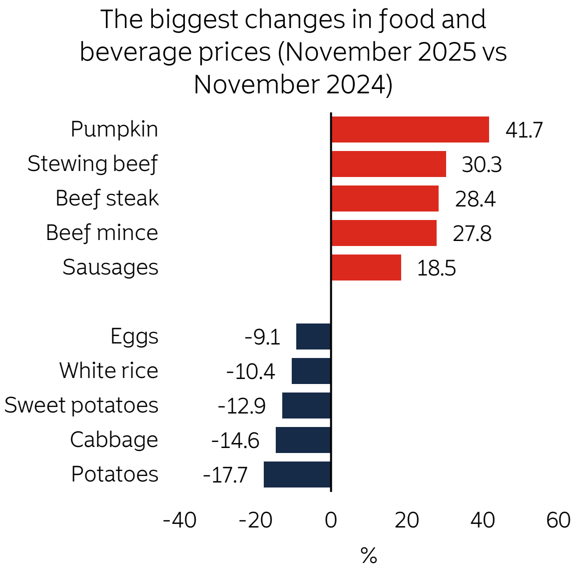
Food inflation accelerated while transport inflation eased

Food and non-alcoholic beverage (NAB) inflation increased to 4.4% y/y in November, up from 3.9% y/y in October.

Specifically, the rise in food inflation to 4.4% y/y in November offset the improvements seen in the previous month. NAB inflation also rose, reaching 3.7% y/y from 3.3% y/y in October.

> Within the food category, the increase was broad-based with six of the nine food categories recording increases. Vegetables deflation eased from 4.4% y/y in October to 2.3% y/y in November and meat inflation accelerated from 11.4% y/y to 12.2% y/y.

Chart 2: Meat dominated the highest food and beverage increases in November 2025



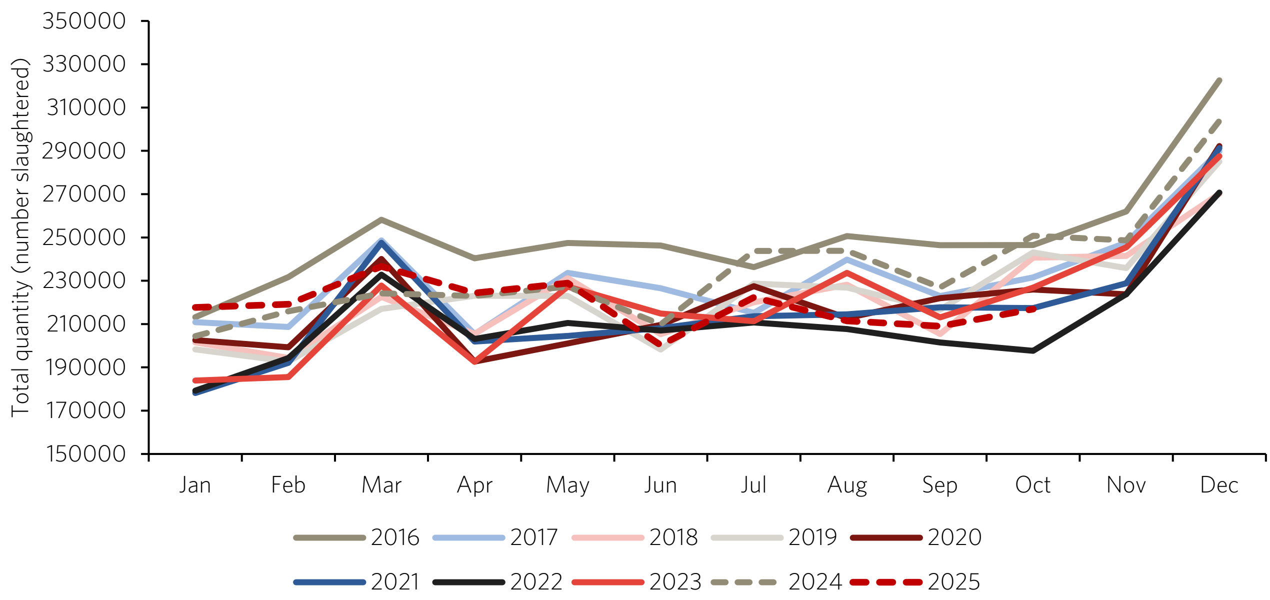
Source: Stats SA, Momentum Investments

According to *BusinessDay*, SA's planned mass vaccination campaign against foot-and-mouth disease is facing scepticism from farmers and veterinarians, who argue it is unlikely to be achieved due to limited vaccine supplies and regulatory barriers that block the private production of vaccines. Furthermore, the description of 'mass vaccination' is said to be misleading and is rather a limited extension of vaccination zones. This is because the two million imported doses expected to be received by February 2026 falls far short of what is needed for the country's 14-million cattle herd. Between August and October, only 931 200 animals were vaccinated.

The doubts raised about the feasibility of the national rollout leaves the red-meat and dairy industries exposed. 'The beef industry has already lost R1.5 billion in the past six months due to export suspensions and domestic price suppression'.

The number of cattle slaughtered between January and October 2025 is tracking 3.7% lower than a year ago.

Chart 3 Lower cattle slaughtering from mid-2025 relative to recent years



Source: Red meat levy admin, Momentum Investments

> Following a notable rise that ended a 13-month deflationary period and lifted transport inflation to 1.5% y/y in October, transport inflation eased to 0.7% y/y in November.

Lower fuel prices, down 51c/l for petrol and 21c/l for diesel, in November contributed to this outcome.

In December, motorists experienced an increase in fuel prices, with petrol rising by 29c/l and diesel by 65c/l. Nonetheless, preliminary data from the CEF indicates potential relief in January 2026, forecasting decreases of 17c/l for petrol and a more significant reduction of 94c/l for diesel.

In November, the average price of Brent crude oil remained below US$70/bbl for the fourth month in a row as supply continued to outpace demand. Brent crude averaged US$63.8/bbl in November, a decrease of approximately US$1/bbl compared to October and marked the lowest monthly average since February 2021.

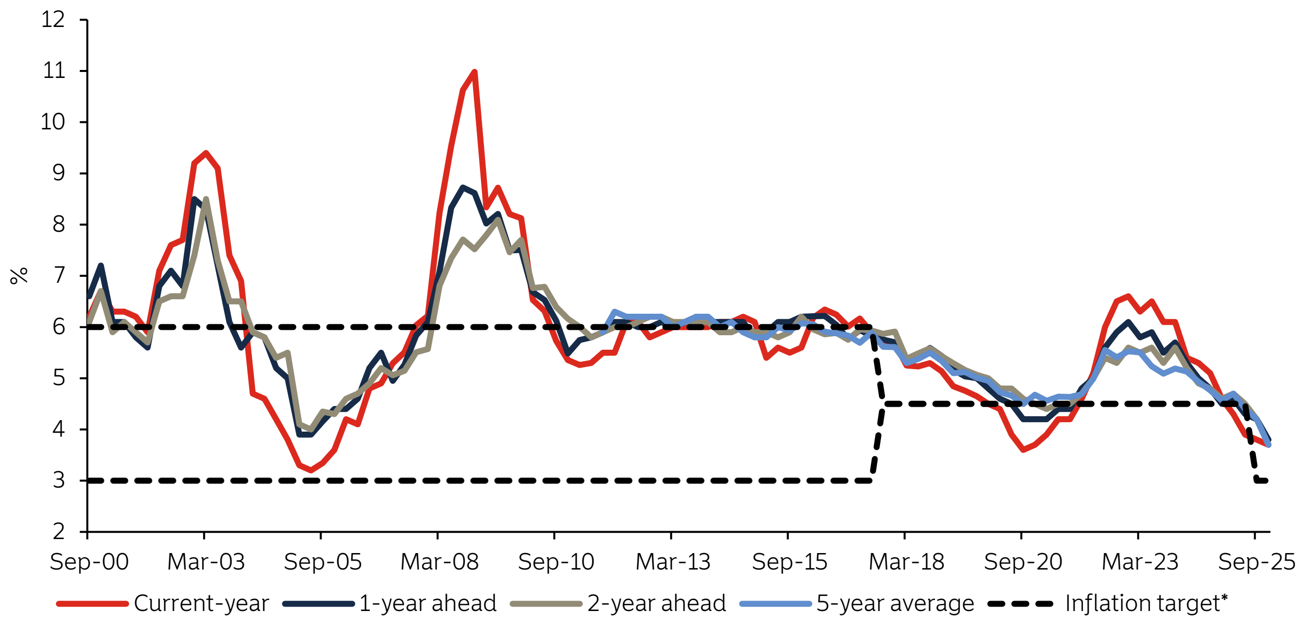
Optimism around a potential Russia-Ukraine peace deal saw Brent crude dip below US$60/bbl on 16 December, while the rand also strengthened, trading below R17/US$ at the time of writing. Both developments, if sustained, are supportive of SA's inflation outlook.

Car services inflation surged to 12.1% y/y in November from a high of 9.3% y/y in October.

Inflation expectations are trending down towards the 3% target but remain some distance from it

According to BER data, inflation expectations eased across all time horizons in the fourth quarter of 2025 (refer to chart 4) despite inflation ticking higher in October, suggesting that inflation expectations may be becoming more forward looking in nature.

Chart 4: Inflation expectations have fallen to record lows, except for current-year expectations



Source: Global Insight, BER, Momentum Investments

** 4.5% between July 2017 and June 2025 was the implicit target with the official target being 3% to 6%*

One-year-ahead expectations fell by 0.4pps to 3.8%, while both the two-year-ahead measure and the five-year expected average declined by 0.5pps to 3.7%, respectively. Furthermore, all respondents (analysts, businesses and trade unions) adjusted their inflation expectations downward across all time horizons.

> The significant drops in inflation expectations signal that respondents see the shift to a lower inflation target of 3% as credible, particularly following the formal adoption of the new target in the 2025 medium-term budget.

However, with expectations hovering around 3.7% and 3.8%, there is still progress to be made.

The two-year-ahead expectation (used in the SARB's monetary policy model) recorded its steepest quarterly drop since March 2018. Moreover, the fourth quarter outcome was in line with the SARB's 3.7% forecast.

Among the various economic agents, analysts anticipate that inflation will stabilise at 3.4% in two years (2027), trade unions project 3.8% and businesses estimate 4%. Although businesses continue to express the highest expectation, their outlook moderated the most, by 0.5pps. Trade union expectations also decreased notably by 0.4pps. The notable decline from both businesses and trade unions is particularly relevant, given their influential roles as price setters.

More interest rate cuts expected in 2026

The moderation in November's inflation rate, alongside the substantial decline in inflation expectations across the time horizons, particularly by price-setting agents, reinforces our assessment that SA remains on an interest-rate cutting trajectory.

However, given that inflation expectations remain above the new 3% target (3.8% for 2026 and 3.7% for 2027), the caution expressed by the SARB regarding reversal risk (i.e. cutting rates too soon before inflation is firmly anchored within target) and the fact that the full effects of recent interest rate reductions have yet to be fully reflected in the real economy, we anticipate that the SARB will likely maintain interest rates at 6.75% at the January 2026 interest setting meeting, though the possibility of a January cut remains. Nevertheless, we expect two 25-basis point cuts during 2026.

Our inflation forecasts are lower than the BER's average inflation expectations at 3.3% in 2025, 3.5% in 2026 and 3.3% in 2027. In our opinion, the exchange rate and soft Brent crude oil prices are supportive of local inflation. Furthermore, while medical aid and electricity tariff increases are expected to be elevated in 2026, the increases are seen to be lower than those in 2025.