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## Iran conflict halted, but inflation passthrough continues

### According to Statistics South Africa (Stats SA), headline inflation rose further to 4.5% y/y in May.

The main driver of the acceleration was transport inflation while food and non-alcoholic beverages (NAB) inflation helped to partially offset the increase.

### Elevated underlying and services inflation will prompt continued caution from the SARB.

While the spillover from the conflict has been more evident in goods inflation, core inflation rose to 3.8% y/y in May and services inflation remains elevated.

### The announced United States (US)-Iran agreement has pushed oil prices below US\$80/bbl.

A gradual reopening of the Strait of Hormuz should ease pressure on oil prices in the second half of the year, provided it is sustained.

### El Niño conditions started developing in May 2026.

The probability of a strong El Niño during the July to September period is 36%. The SA Reserve Bank's (SARB) El Niño scenario suggests that food inflation could peak at around 8% in the fourth quarter of 2027.



## So what?



The rise in inflation to 4.5% y/y in May marked the second month of inflationary pressure stemming from the conflict in the Middle East. We expect a further increase in June, driven mainly by higher fuel prices and a likely rise in housing inflation. As such, inflation is expected to remain elevated in the second quarter before moderating in the second half of the year, assuming the 60-day ceasefire

extension holds, international oil prices continue to ease and the rand remains relatively strong. We maintain our forecast for average inflation of 4.3% in 2026 and 3.5% in 2027, although an El Niño event poses upside risk. For now, we expect the SARB to keep interest rates unchanged for the remainder of 2026, given easing geopolitical tensions and a subdued growth outlook.

## Consumer lens

### Food inflation eased to 1.6% y/y in May from 2.8% y/y in April.



The average household food basket\* cost R5 479.26 in May, up marginally by 0.2% y/y, or R12.67 more relative to a year ago.

### Transport inflation accelerated to 9.4% y/y in May from 4.9% y/y in April.



Estimates\*\* point to a R2.65/l decrease in petrol (ULP 95) prices and a R4.33/l decline in diesel (0.05%) prices in July. However, the full withdrawal of the temporary fuel levy relief in July will partially offset these decreases.

\* 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 June 2026.  
The petrol cost of an average car (45 litres) full tank is R1 262.7 in June 2026, R329 higher than at the start of 2026.

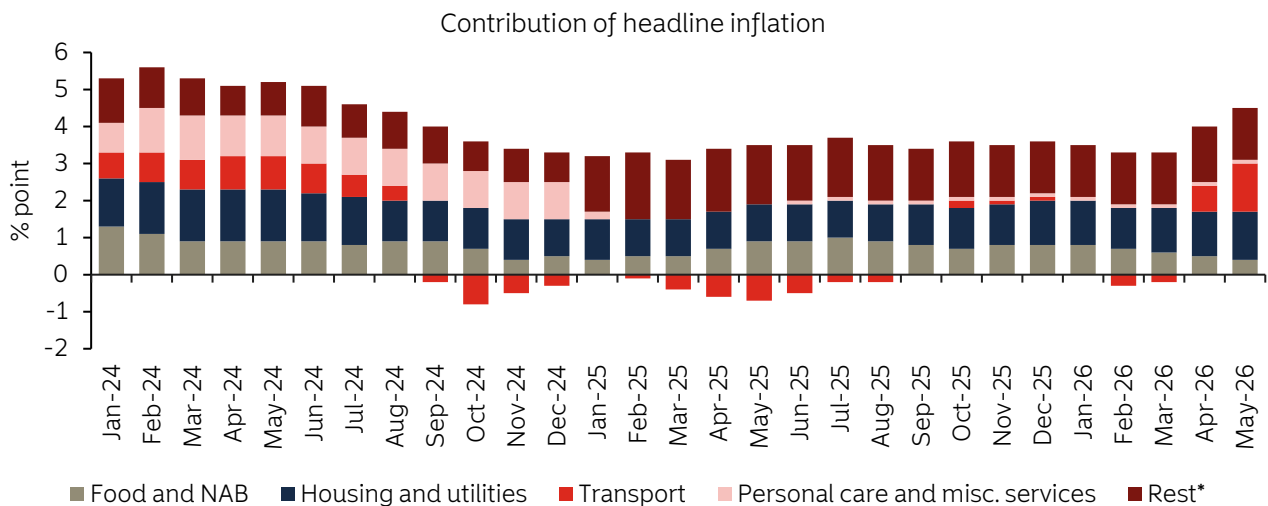
## Inflation accelerated further in May as oil shock bites

Following a spike in the inflation rate from 3.1% y/y in March to 4% y/y in April, SA's inflation rate accelerated further to 4.5% y/y in May, breaching the SARB's tolerance band of 2% to 4% for the first time since the new inflation target of 3%. Furthermore, this is the highest level since July 2024.

This reflects the sharp rise in fuel prices during May. Petrol (both grades) and diesel (0.05%) prices increased by R3.27/l and R5.27/l, respectively, due to the surge in international oil prices amid heightened geopolitical tensions in the Middle East (see chart 2).

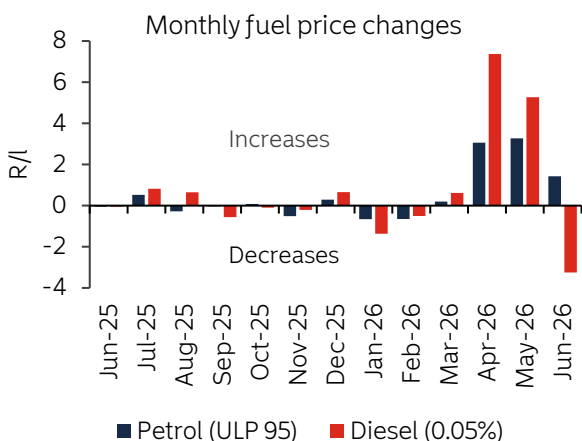
According to Stats SA data, the main driver of the acceleration in inflation was transport prices (see chart 1) which rose from 4.9% y/y in April to 9.4% y/y in May.

Chart 1: Transport inflation returns as a key inflation driver



Source: Stats SA, Momentum Group \* Includes alcoholic beverages and tobacco, clothing and footwear, furnishings, household equipment, health, information and communication, recreation and culture, education, restaurants and hotels, insurance and financial services, residual

Chart 2: Fuel prices rose sharply from April 2026



Source: CEF, Momentum Group

Four other categories also accelerated between April and May, including information and communication (from 0.9% y/y to 1.7% y/y), recreation, sport and culture (2.7% y/y to 3.3% y/y), restaurants and accommodation services (5.2% y/y to 5.8% y/y) as well as housing and utilities (5.2% y/y to 5.3% y/y).

Food and NAB inflation decelerated for a fourth consecutive month to 1.9% y/y in May, mainly due to favourable base effects in meat and vegetable prices. Meat inflation slowed from 9.4% y/y in April to 7.3% y/y in May, while vegetable inflation fell from negative 1.3% y/y to negative 6% y/y over the same period.

Alcoholic beverages and tobacco, furniture and equipment as well as health inflation also eased in May, while clothing and footwear, education services and insurance inflation were unchanged.

Core inflation edged higher to 3.8% y/y in May, from 3.6% y/y in April, mainly driven by higher transport and restaurant costs. Additional upward pressure came from energy-related items such as gas and paraffin, as well as increases in car spare parts and accessories.

The negative spillover from the conflict has mostly affected goods inflation. Goods inflation accelerated to 4.4% y/y in May from 1.8% y/y in March, marking a notable uptick over a short period.

In contrast, services inflation edged up slightly to 4.7% y/y in May, from 4.6% y/y in April and 4.2% y/y in March but remains elevated, which is a concern.

## Oil prices tumble on progress towards an extended ceasefire

After more than 100 days of the Middle East conflict and disruptions to shipping through the Strait of Hormuz, US President Donald Trump announced that a deal had been reached between the US and Iran, with formal signing expected on Friday, 19 June.

### Key elements of the deal are reported to include:

- Extending the 8 April ceasefire by a further 60 days.
- Reopening the Strait of Hormuz. This will be gradual as Iranian forces clear mines during the first 30 days.
- Lifting of the US naval blockade.
- Sanctions relief to allow Iran to resume oil exports during the extension period.
- An agreement on a framework for negotiations on Iran's nuclear programme.
- End broader regional hostilities, including the conflict between Israel and Hezbollah in Lebanon.

Following the announcement of the deal, Brent crude oil price fell by 9.6% to below US\$80/bbl by 16 June 2026 (see chart 3). If the agreement holds and the Strait of Hormuz reopens, oil prices are likely to decline further as additional oil supply gradually returns to the market. However, oil supply disruptions will not be reversed immediately. Consequently, oil prices are

likely to remain above the average of US\$69/bbl recorded during the first two months of the year, before the conflict escalated. Importantly, substantial uncertainty remains regarding what happens once the 60-day extension expires, particularly given that key issues such as Iran's nuclear programme remain unresolved. As a result, geopolitical risk premia in oil markets remain vulnerable to renewed escalation.

Chart 3: Brent crude oil prices fell on the ceasefire announcement but remained above pre-crisis levels



Source: Iress, Momentum Group  
Daily data up to 16 June 2026

The rand reacted positively to the announcement, recovering some lost ground and appreciated to R16.19/US\$ by 16 June 2026.

Petrol prices (both grades) already increased by R1.43/l in June and this increase will still be reflected in the

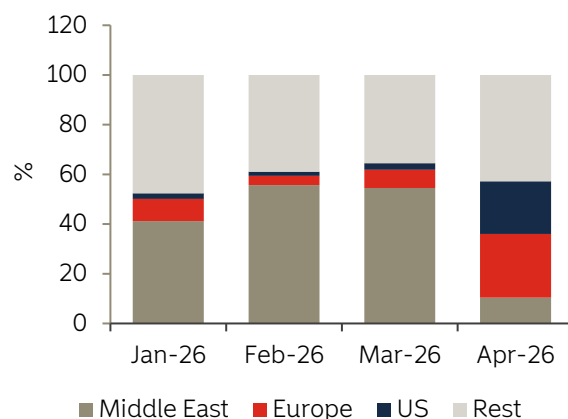
June inflation data released in July. Lower oil prices, if sustained, together with a stronger rand should help ease inflationary pressure from the July inflation rate onwards through lower fuel prices. The CEF's over-recovery data points to a sizeable fuel price reduction in July, with petrol (ULP 95) prices potentially declining by R2.65/l and diesel (0.05%) by R4.33/l. While the full withdrawal of the fuel levy relief in July, following the partial reduction in June, will partly offset these decreases, fuel prices are still expected to decrease by around R1.15/l for petrol and R2.37/l for diesel.

**In response to disruptions in the Strait of Hormuz, SA increased fuel imports from Europe and the US (see chart 4).**

While this diversification has helped strengthen energy security, it has prompted the Department of Mineral and Petroleum Resources (DMPR) to review the diesel Basic Fuel Price (BFP) formula. The BFP is based on import parity pricing and benchmarked against refined fuel prices from the Mediterranean, Arab Gulf and Singapore. According to the DMPR, the existing

benchmark remains heavily weighted towards Gulf supply and no longer adequately reflects SA's actual diesel import sources or the associated freight, insurance, storage and financing costs. As a result, the current methodology may understate the true cost of importing diesel, contributing to pricing mismatches and the introduction of diesel surcharges. The review applies only to diesel, with no changes currently being considered for the petrol pricing formula. However, no timeline for implementation has been provided yet.

**Chart 4: SA started importing more fuel from Europe and the US**



Source: ABSA, Momentum Group

## El Niño is underway, increasing food inflation risks

**Food inflation remains low at 1.6% y/y in May from 2.8% y/y in April, but weather conditions could put upward pressure on prices over the next two years.**

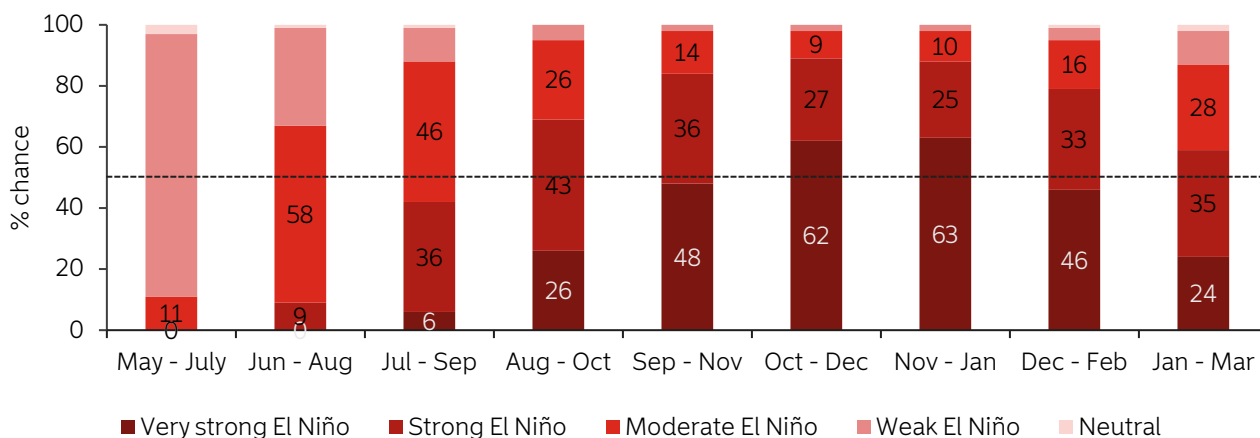
According to the National Oceanic and Atmospheric Administration (NOAA), El Niño conditions developed in May, raising concerns about agricultural production at a time when inflation risks have already increased due to the conflict in the Middle East.

The previous El Niño event in 2023/24 was one of the strongest on record and contributed to drought conditions across Southern Africa. The NOAA expects

the probability of a very strong El Niño to increase from September (see chart 5). According to the NOAA, while stronger El Niño events do not always lead to the same outcomes, they increase the likelihood of hotter and drier conditions in parts of Southern Africa, which can affect crop production and livestock farming.

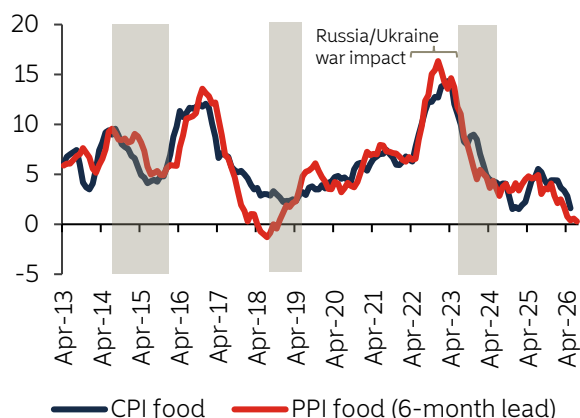
The impact on food prices is usually not immediate. Lower crop yields and higher farming costs typically take time to filter through the supply chain, meaning the effect on consumer food inflation often emerges with a lag of several months and can be most noticeable in the year after the event begins (see chart 6). Staple foods such as maize, as well as meat products through higher feed costs, are usually the most affected.

Chart 5: Chance of a strong El Niño is rising



Source: Financial Times, NOAA, Momentum Group. \*Issued June 2026

Chart 6: Food inflation accelerates with a lag following an El Niño event



Source: Global Insight, Stats SA, Momentum Group  
Shaded area = El Niño years

Although food inflation is currently well contained due to favourable agricultural conditions and base effects, the SARB’s modelling suggests it could rise to around 8% by the fourth quarter of 2027 in the event of an El Niño.

## Inflation to remain elevated in the second quarter before moderating

The rise in the May inflation rate to 4.5% y/y marked the second month of inflationary pressure stemming from the conflict in the Middle East. We expect a further acceleration in June, mainly due to higher fuel prices.

June is also a high survey month as it includes the quarterly survey for housing costs, which account for 15.53% of the CPI basket, and this component has shown a gradual increase over the past four survey rounds. As a result, we expect inflation to remain elevated during the second quarter (April to June 2026) before moderating in the second half of the year. This

outlook assumes that the ceasefire agreement is sustained, oil prices continue to decline and the rand remains relatively strong. Lower fuel prices in July, even after the removal of the fuel levy relief, should also help to reverse some of the recent upward pressure on inflation.

We maintain our forecast for average inflation of 4.3% in 2026, moderating to 3.5% in 2027. However, risks to the 2027 outlook remain tilted to the upside, particularly if the El Niño event results in higher food prices.

For now, we continue to expect the SARB to keep interest rates unchanged for the remainder of 2026, particularly given signs that a prolonged ceasefire could reduce recent inflation pressures. This limits the

need for further monetary tightening in our view, especially in light of a pedestrian growth outlook for the year.

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