



Drop in inflation signals further interest rate cuts ahead

Headline inflation eased slightly to 3.5% y/y in January 2026 from 3.6% y/y in December 2025.

The inflation number, published by Statistics SA (Stats SA), was marginally higher than the Reuters median consensus, which had anticipated a larger decline to 3.4%.

Goods inflation eased to 2.7% y/y from 3% y/y while services inflation remained at 4.2% y/y.

Sticky services inflation is a concern given its correlation with inflation expectations.

The stronger rand offset January's higher global oil prices, cushioning the impact on local fuel costs.

Higher oil prices in January were due to supply disruptions and increasing geopolitical tensions. However, oil supply is expected to continue outpacing demand in 2026.

Progress in tackling the foot-and-mouth disease outbreak is underway.

One million vaccines are expected to arrive in SA on 21 February, with more expected subsequently. Private vets can now register to administer vaccines.



So what?



The moderation in January's inflation rate supports our view of contained inflation in 2026. We revised our 2026 inflation forecast to 3.2% in January 2026, slightly below the 3.3% forecast by the SA Reserve Bank's (SARB) and latest Reuters median consensus.

The SARB is scheduled to announce the second interest rate

decision for 2026 in March after keeping the repo rate steady in the January meeting. We expect the March meeting to be a close call on the interest rate decision given re-emerging pressure in international oil prices and persistent services inflation. However, we anticipate two 25 basis points cuts in 2026 and one more 25 basis point cut in 2027.

Consumer lens



Food inflation held at 4.4% y/y in January 2026 for the third month.

The average cost of a household food basket* in January 2026 was R5 401.44, R67.99 more than a month ago but R32.26 less than a year ago.



Transport inflation dipped to negative 0.2% y/y in January 2026.

Current estimates** point to a potential 1c/l increase in petrol (ULP 95) in March, leaving price changes finely balanced, while diesel (0.05%) is showing a larger 43c/l increase.

* 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 16 February 2026.
The petrol cost of an average car (45 litres) is R904.5 in February 2026, R29.2 less than in January 2026.

Headline inflation eased while core inflation ticked up

The year started off with inflation easing marginally to 3.5% y/y in January 2026 from 3.6% y/y in December 2025. While analysts polled by Reuters anticipated a moderation, the consensus had pointed to a slightly larger decline to 3.4% y/y, leaving the outcome marginally above expectations.

According to Stats SA's contribution table, the slight decline in headline inflation was driven by lower transport inflation, with its contribution easing between December and January, while the contribution from other major categories remained broadly unchanged.

Goods inflation eased from 3% y/y in December to 2.7% y/y in January, largely reflecting lower fuel prices.

“ In contrast, services inflation was unchanged at 4.2% y/y as stronger price pressures in restaurants and accommodation (3.5% y/y from 2.9% y/y) and personal care and miscellaneous services (3.2% y/y from 2.6% y/y) were offset by a moderation in insurance and financial services inflation (6.8% y/y from 7% y/y). ”

Chart 1: Services inflation continues to prove sticky



Source: Stats SA, Momentum Investments

Core inflation ticked up to 3.4% y/y in January from 3.3% y/y in December.

The transport category re-entered deflationary territory

International oil prices increased by US\$4.1/bbl to an average of US\$66.6/bbl in January 2026, offsetting most of the past three consecutive monthly decreases. The International Energy Agency (IEA) attributes this increase to a rise in geopolitical tensions between Iran and the United States (US) as well as lower supply. Oil supply was affected by snowstorms and extreme temperatures in North America, disruptions in Kazakhstan's key export terminal and power outages in one of the country's largest fields as well as lower supply from Russia on the back of increased pressure from Washington on its key customers and broader European Union sanctions.

However, the IEA notes that global oil supply is expected to rebound in the coming months from the drop in January particularly because OPEC+ (Organisation of the Petroleum Exporting Countries) producers have reconfirmed their plan to maintain current production quotas through March. Overall, global oil supply is still expected to rise in 2026 but by less than in 2025.

The IEA revised its global oil demand growth estimate lower for 2026 due to economic uncertainties and higher oil prices weighing on consumption. On net, oil supply is expected to continue outpacing oil demand in 2026.

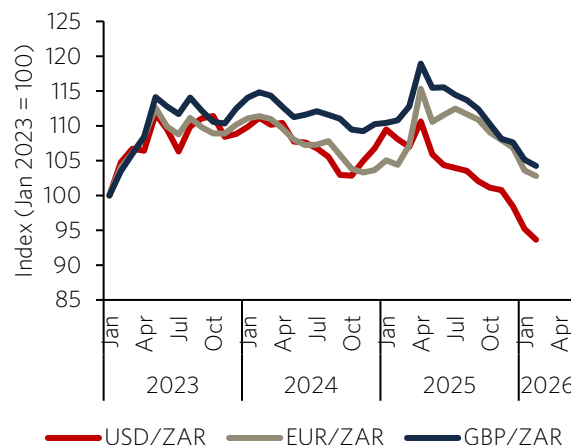
Higher global oil prices in January were offset by a 3.3% stronger rand month-on-month (m/m), cushioning the impact on local fuel costs. As a result, fuel prices declined in February by 65c/l for petrol (both grades) and 50c/l for diesel (0.05%). These decreases followed sizeable cuts in January (66c/l for petrol (ULP 95) and R1.37/l for diesel). However, early indications for March point to a potential 43c/l increase in diesel, while petrol remains finely balanced at around a 1c/l increase.

The sizable fuel price cuts in January were reflected in fuel inflation slowing from 0.6% y/y in December to negative 3.7% y/y in January.

As a result, transport shifted back into deflation, printing negative 0.2% y/y in January after three consecutive months of increases. Further fuel price

cuts in February should continue to exert downward pressure on headline inflation.

Chart 2: The rand has strengthened materially against the US dollar, partly owing to US dollar weakness

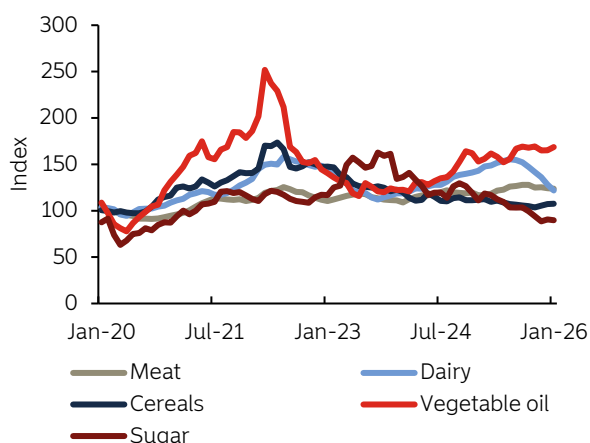


Source: Iress, Momentum Investments
Data until 17 February 2026

Food inflation was steady but elevated meat prices remain a concern

Global agricultural commodity prices eased in January 2026, supporting SA's food inflation outlook.

Chart 3: Global food price indices easing



Source: FAO, Momentum Investments

The global food price index, published by the Food and Agriculture Organisation (FAO), declined by 0.4% m/m in January, representing the fifth consecutive monthly decline. Comparatively, the January print was 22.7%

below the peak in March 2022 following Russia's invasion of Ukraine. The decrease in January was driven by meat (down 0.4% m/m), dairy (down 5% m/m) and sugar (down 1% m/m). Cereals and vegetable oil increased by 0.2% m/m and 2.1% m/m, respectively. Despite the increase in cereal prices, the index was below a year ago (see chart 3). Within the cereal category, the FAO notes that wheat (one of SA's key import commodities) is facing downward price pressure due to ample global supply. The increase in the cereals category was due to the price of rice on the back of firmer demand. The elevated vegetable price index, which is higher than a year ago, is a concern.

Locally, food inflation remained steady at 4.4% y/y for the third consecutive month in January. However, underlying food inflation categories reveal that inflation accelerated in six out of the nine food groups. Notably, meat inflation rose to 13.5% y/y in January from 12.6% y/y in December.

In addition to easing global agricultural commodity prices combined with a stronger rand contributing to moderate food inflation expectations locally, La Niña-linked rainfall has helped local agricultural conditions. According to the Crop Estimate Committee's preliminary 2026 area-planted data, summer crop planting for 2025/26 is up 2.3% y/y with the maize area up 2.98% y/y, soybeans up 2.95% y/y and sunflower seed up 0.92% y/y relative to the 2024/25 season. Some minor crops like groundnuts, sorghum and dry beans are smaller than last year. However, upside food

inflation risks remain including the impact of the foot-and-mouth disease outbreak on meat prices and higher electricity prices. The Minister of Agriculture announced that one million vaccines to fight the foot-and-mouth disease are set to arrive in SA on 21 February, with further consignments expected from suppliers in Botswana and Turkey. Furthermore, private veterinarians are now permitted to register to administer vaccines as part of the national rollout. These announcements mark good progress toward addressing the disease outbreak.

Benign inflation leaves the door open for further interest rate cuts

The moderation in inflation in January supports our view of contained inflation in 2026. In January 2026, we revised our inflation estimate lower to 3.2% for 2026 on the back of favourable inflation outcomes and the expected outlook. This is slightly below the 3.3% forecast by the SARB in January and the February Reuters median consensus.

The SARB is scheduled to announce the second interest rate decision for 2026 in March after keeping the repo rate steady in the January meeting. The March meeting is also likely to be a close call on the interest

rate decision given re-emerging pressure in international oil prices and sticky services inflation (with an update on rental inflation expected in the March CPI release in April).

“ However, we believe that the SARB is likely to reduce rates twice this year by 25 basis points and by once more (25 basis points) in 2027. ”

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