

**Sanisha Packirisamy**  
Chief Economist



**Tshiamo Masike**  
Economist



## February inflation relief but sharp spikes loom

**Headline inflation dropped to 3% y/y in February, in line with the inflation target, from 3.5% y/y in January.**

Similarly, core inflation eased to 3% y/y in February from 3.4% y/y in January.

**Inflation expectations decreased to a historic low of 3.6% across all time horizons in the first quarter.**

This indicated progress toward the new inflation target of 3%. However, progress could be stalled by the inflation risks stemming from the Middle Eastern conflict.

**The conflict has driven a surge in international oil prices, shipping costs and fertiliser prices.**

With the war now three weeks in (at the time of writing) and no clear end in sight, risks remain tilted to further upside pressure.

**Higher international oil prices pose an imminent threat to fuel and transport inflation.**

For food inflation, fuel drives near-term pressures, while fertiliser costs could cause broader, more persistent increases later via food costs, if the war persists.



## So what?



Had it not been for the ongoing Middle Eastern conflict, February's softer inflation outcome and historically low inflation expectations in the first quarter of 2026 would have strengthened the case for a March interest rate cut. However, as monetary policy targets future inflation, rising inflationary risks from the conflict clouds the inflation trajectory. The duration of the war will be key in determining whether inflation pressures are transitory

or more persistent and therefore, the appropriate response from the South African Reserve Bank (SARB). Our baseline is that the SARB holds the repo rate at 6.75% in the near term, with cuts only resuming in late 2026 or early 2027 if oil prices ease. However, prolonged tensions could even trigger interest rate hikes should inflation expectations rise significantly.

## Consumer lens

**Food inflation fell sharply to 3.7% y/y in February from 4.4% y/y in January.**



The average cost of a household food basket\* in February 2026 was R5 383.81, R17.63 less than a month ago but R70.59 more than a year ago.

**Transport fell deeper into deflation at negative 2.1% y/y in February.**



Current estimates\*\* point to a fuel price shock in April, with petrol (ULP 95) estimated to rise by R4.54/l and diesel (0.05%) by R7.40/l, the largest monthly increases on record.

\* 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 March 2026.  
The petrol cost of an average car (45 litres) is R913.50 in March 2026, R9.00 more than in February 2026.

## Inflation and inflation expectations moderated

According to data from Stats SA, the inflation rate decreased from 3.5% y/y in January 2026 to 3% y/y in February. This marks the second month in a row of declining inflation, with the February figure coming in just below the Reuters median forecast of 3.1% y/y.

The decline in headline inflation was not broad-based but concentrated in categories with large CPI weights. Inflation in only five of the 13 main categories fell.

The largest falls were in transport (negative 2.1% y/y in February from negative 0.2% y/y in January), insurance and financial services (4.7% y/y from 6.8% y/y) and food and non-alcoholic beverages (3.7% y/y from 4.4% y/y), together accounting for 42.5% of the CPI basket. Health (4.4% y/y from 5% y/y) and personal care and miscellaneous services (2.8% y/y from 3.2% y/y) also decreased.

**Table 1: 2026 Average weighted medical aid increases mostly lower than 2025**

Medical aid scheme	2025	2026
Bestmed	12.75%	6.80%
Bonitas	10.20%	8.80%
Discovery	9.30%	7.20%
Gems	13.40%	9.50%
MediHelp	10.80%	8.46%
Momentum	9.40%	9.90%

Source: Moneyweb, Juta MedicalBrief, Momentum Group

Core inflation also eased from 3.4% y/y in January to 3% y/y in February, beating the Reuters median consensus of 3.2% y/y. The reduction in core inflation can be attributed to lower increases in medical aid premiums for 2026 compared to 2025 (see table 1) by

major providers, as well as Discovery Health's decision to postpone its price adjustments until April 2026. Furthermore, Stats SA noted that the cost of medical services, including dentists, paediatricians, general practitioners, physiotherapists and optometrists, rose at a slower rate (4.4% y/y in February 2026) compared to 5.3% y/y in February 2025.

Goods inflation eased to 1.9% y/y in February from 2.7% y/y in January, while services inflation (previously highlighted as a concern by the SARB) slowed to 3.8% y/y after trending in the 4% range for four months.

Inflation expectations, as surveyed by the Bureau for Economic Research, have reached a historic low of 3.6% across all projected time horizons (2026, 2027, 2028 and the five-year average).

Additionally, inflation expectations among all categories of respondents (including analysts, business people and trade union officials) declined for each forecast period, apart from trade unions maintaining a steady rate of 3.8% for 2027.

This is the second survey since the inflation target was reduced to 3% and expectations decreased in both surveys, indicating progress toward the new inflation target. However, the ongoing conflict in the Middle East could stall this progress. The first quarter survey was conducted from 16 February to 5 March, covering only one week of the conflict. The escalation of the war has negatively affected the rand and increased international oil prices, which is likely to stall the recent downward trend in inflation expectations as inflation spikes.

## Food price increases cooled and transport dipped sharply in February

Food inflation slowed to 3.7% y/y in February, after three consecutive months of printing at 4.4% y/y. Six of the

nine food categories moderated, two remained unchanged and only one (vegetables) accelerated but

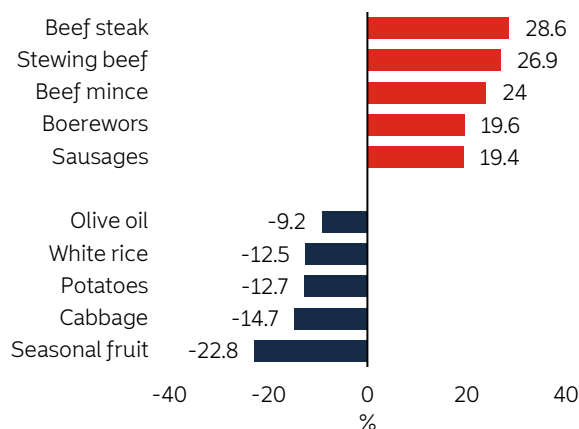
remained in deflation territory. Meat inflation eased to 12.2% y/y in February from 13.5% y/y in January. However, meat still dominated the top five food and beverage price increases in February 2026 (see chart 1). Furthermore, the inflation rate for the second largest food group, cereal products, fell to negative 0.5% y/y in February from 0.6% y/y in January.

Transport fell deeper into deflation at negative 2.1% y/y in February from negative 0.2% y/y in January, driven by private transport (negative 5.9% y/y from negative 1% y/y) and vehicle purchases (0.5% y/y from 0.8% y/y).

Fuel prices fell by 65c/l petrol (both grades) and 50c/l for diesel (0.05%) in February, contributing to the drop in private transport inflation but this will reverse in the next two readings.

Chart 1: Meat leads the top five food price rises

The biggest changes in food and beverage prices (February 2026 vs February 2025)



Source: Stats SA, Momentum Group

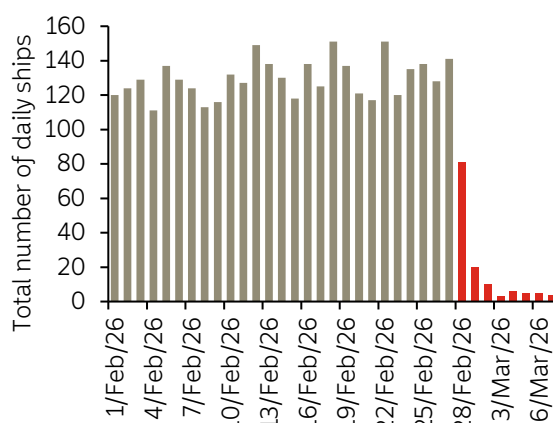
## The Middle East conflict increases oil, freight and fertiliser prices, introducing inflationary pressure in the coming months

The global economic backdrop became increasingly volatile in March due to heightened geopolitical tensions in the Middle East on the back of military strikes by the United States (US) and Israel on Iran, followed by Iranian retaliation.

Since the start of the conflict (28 February 2026), oil prices have surged by 38% from US\$72.48/bbl on 27 February to US\$100.21/bbl on 16 March, fertiliser costs have increased by more than 30% and shipping costs have spiked.

This reflects elevated risk premia and supply disruptions following the closure of the Strait of Hormuz (see chart 2). According to the United Nations (UN), average flows through the Strait of Hormuz in the week prior to the escalation accounted for approximately 38% of global crude oil supply, 19% of refined oil products and 13% of chemicals (including fertilisers), among other products.

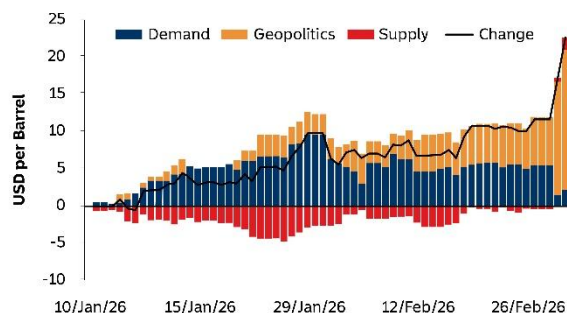
Chart 2: Ship traffic in the Strait of Hormuz has come to a near halt



Source: UN, Momentum Group

Chart 3 shows that geopolitics now drives Brent crude oil price increases, with supply shifting from a detractor to a contributor to the international oil price change.

**Chart 3: Geopolitics now the primary driver of Brent crude price changes**



Source: SARB, Momentum Group

With Brent crude oil trading above US\$100/bbl since the second week of March and the rand weakening to above R16.50/US\$, from averages of US\$69.37/bbl and R16.18/US\$ in February, respectively, SA is expected to face a significant fuel price shock in April.

Early data from the CEF suggests a potential increase of around R4.54/l for petrol (ULP 95) and R7.40/l for diesel (0.05%). This follows price increases in March of 20c/l for petrol (ULP 95) and 62c/l for diesel (0.05%).

The fuel price increases mean transport inflation will accelerate in March and April, putting upward pressure on headline inflation.

According to the Agricultural Business Chamber of SA (Agbiz), SA’s agricultural sector is entering a period of elevated fuel use from late April, driven by land preparation for the 2026–27 winter crop and the start of the citrus harvest and the early harvest of 2025–26 summer grains and oilseeds in May. With fuel accounting for roughly 13% of production costs for the average grain farmer, there is significant cost pressure from the production side in the near-term. These pressures extend beyond the farm level, as approximately 80% of grain and oilseed volumes are transported by road, exposing agribusinesses and logistics providers to higher fuel costs. As such, near-term risks are skewed toward rising fuel-related costs during the harvest period.

While fertiliser prices pose an additional upside risk to the agricultural sector, the immediate impact on winter crops may be limited for farmers who have already secured inputs according to Agbiz. However, if elevated oil prices persist, fertiliser cost pressures are likely to intensify, particularly for input-intensive crops such as grains, oilseeds and sugarcane, ahead of the 2026–27 summer planting season from October.

This suggests near-term upside pressure on food inflation through fuel-intensive supply chains, with more broad-based and persistent pressures likely to emerge later through fertiliser-driven input cost increases, if the war persists.

### Interest rate cut hopes pushed further out

In the absence of the war in the Middle East, the decrease in February’s inflation rate, softer services inflation and lower inflation expectations for the first quarter of 2026 would have increased the chances of an interest rate cut in March 2026. However, given that monetary policy decisions are aimed at managing future price pressures rather than immediate outcomes, the inflation risks stemming from the conflict mean the volatile environment is not conducive for an interest rate cut.

Typically, in an environment of higher inflation pressures, the SARB would respond with interest rate hikes, similar to 2021 when Russia invaded Ukraine. However, food prices have not yet surged and the duration of the conflict is not known yet. The duration of the conflict will determine whether the impact will be transitory (short-lived) therefore requiring limited (if any) monetary policy intervention or more permanent, necessitating a stronger policy response to anchor inflation expectations.

“ Our baseline scenario is that the SARB will keep interest rates steady at 6.75% in the short term (including the March interest rate setting meeting) and could resume cutting rates again towards the end of 2026, or early 2027, if the oil price subsides in the third and fourth quarter of the year.

”

However, if tensions continue and oil prices stay high while fertiliser costs rise, anticipated interest rate cuts could be taken off the table, with the possibility that the cycle might shift to interest rate hikes, should inflation expectations become unhinged and second-round inflationary pressures escalate meaningfully.

The information used to prepare this document includes information from third-party sources and is for information purposes only. Although reasonable steps have been taken to ensure the validity and accuracy of the information contained herein, Momentum Metropolitan Life Limited does not guarantee the accuracy, content, completeness, legality or reliability of the information contained herein and no warranties and/or representations of any kind, expressed or implied, are given to the nature, standard, accuracy or otherwise of the information provided.

Neither Momentum Metropolitan Life Limited, its affiliates, directors, officers, employees, representatives or agents (the Momentum Parties) have any liability to any persons or entities receiving the information made available herein for any claim, damages, loss or expense, including, without limitation, any direct, indirect, special, incidental, punitive or consequential cost, loss or damages, whether in contract or in delict, arising out of or in connection with information made available herein and you agree to indemnify the Momentum Parties accordingly. For further information, please visit us at [momentum.co.za](http://momentum.co.za). Momentum Investments is part of Momentum Metropolitan Life Limited, an authorised financial services and registered credit provider, and rated B-BBEE level 1.