



Headline inflation undershot the 4.5% midpoint in August 2024

Highlights

- The inflation rate eased to 4.4% year-on-year (y/y) in August from 4.6% y/y in July according to Statistics South Africa (Stats SA). The moderation in headline inflation was largely underpinned by a sharp decrease in transport inflation (2.8% y/y in August from 4.2% y/y in July) and lower housing and utilities inflation (4.8% y/y from 5.3% y/y over the same period). This countered the upward price pressures stemming from food and non-alcoholic beverages (NAB) and alcoholic beverages and tobacco.
- Core inflation eased to 4.1% y/y in August from 4.3% y/y in July.
- Transport inflation has played a significant role in bringing the headline inflation rate lower thanks to the decrease in international oil prices and a stronger rand against the United States (US) dollar.
- The price of Brent crude oil decreased to an average of US\$80.4/bbl in August, almost US\$10 lower than in April (US\$89.9/bbl). Oil prices decreased further to the lower US\$70s/bbl in the first two weeks of September and temporarily dropped to just below US\$70/bbl on 10 September 2024.
- Petrol prices decreased by R1.07/l over the past two months. The Central Energy Fund's (CEF) estimated over-recovery (17 September) is pointing to an even larger petrol price (ULP 95) drop of R1.23/l in October, which means transport inflation will continue to place downward pressure on inflation in September and October.
- Food and NAB ticked up to 4.7% y/y in August (4.5% y/y in July) due to a broad-based increase in food prices.
- Total summer crops for 2024 are estimated to be 22% smaller than in 2023 according to the Crop Estimates Committee's (CEC) latest forecast. Maize production, which makes up over 80% of summer crops, is expected to decrease by 20.5% y/y in 2024, reflecting the impact of El Niño. The estimated maize production remains sufficient to meet domestic demand but the maize crisis in Southern Africa could potentially lead to even higher maize prices.
- The Agricultural Business Chamber of SA (Agbiz) notes that the 2024-25 agricultural season will likely be in a recovery period with the possibility of La Niña (wetter conditions in SA) building momentum. La Niña would benefit crops, horticulture and livestock.
- The third consecutive deceleration in inflation in August and the broad-based decrease in inflation expectations in the third quarter reaffirm our view of a 25-basis point interest rate cut in September 2024.
- However, there are still upside risks to inflation (higher maize prices, elevated electricity prices and the two-pot retirement reform impact on consumer spending) and the oil market remains subject to uncertainty. As such, we expect the SA Reserve Bank (SARB) to proceed with caution by implementing smaller cuts of 25-basis points each. In total, we expect 100 basis points of cuts leaving the terminal rate at 7.25% in 2025.

Broadly contained inflationary pressures

Headline inflation, published by Stats SA, decelerated to 4.4% y/y in August 2024 from 4.6 y/y in July. This was slightly better than the Reuters median and Bloomberg consensus of 4.5% y/y (see chart 1).

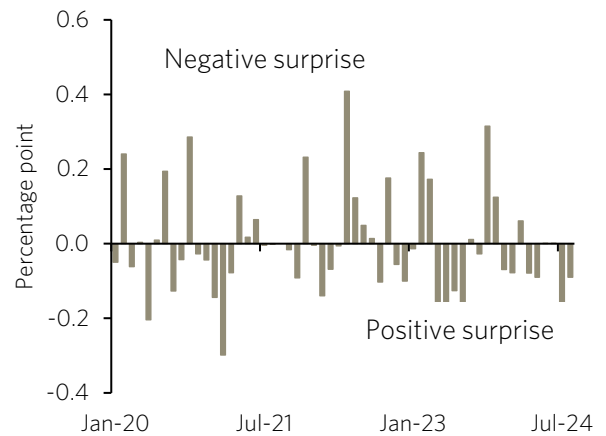
Core inflation also surprised positively, easing to 4.1% y/y in August from 4.3 y/y in July, against the Reuters median consensus of 4.2% y/y. This is the first time since April 2021 that both headline and core came in below the mid-point of the inflation target range at the same time.

The drop in headline inflation was largely driven by lower transport inflation as well as lower inflation in housing and utilities. These two categories countered upward inflation pressures stemming from food and alcoholic beverages.

Housing and utilities inflation moderated notably to 4.8% y/y in August from 5.3% y/y in July. The culprit

was the survey of residual municipal tariff hikes. Water and other services inflation was lower at 5.5% y/y in August from 8% y/y in July and electricity and other fuels also came in lower at 11.5% y/y from 12.1% y/y.

Chart 1: Five of the eight inflation prints in 2024 surprised Bloomberg's median consensus positively

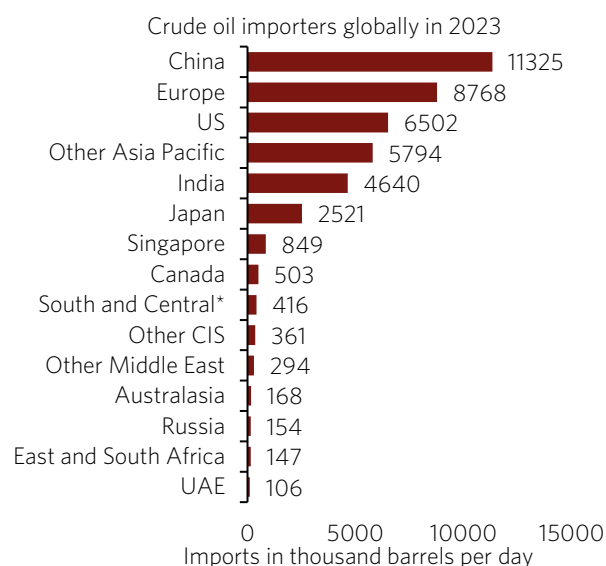


Source: Global Insight, Stats SA, Momentum Investments
Data until August 2024

Brent crude oil prices fell on weak oil demand from China

China is the world's largest importer of oil (see chart 2), and the ongoing slowdown in China's economy is weighing on Brent crude oil prices.

Chart 2: China is the world's largest oil importer



Source: Statista, Momentum Investments
* South and Central America

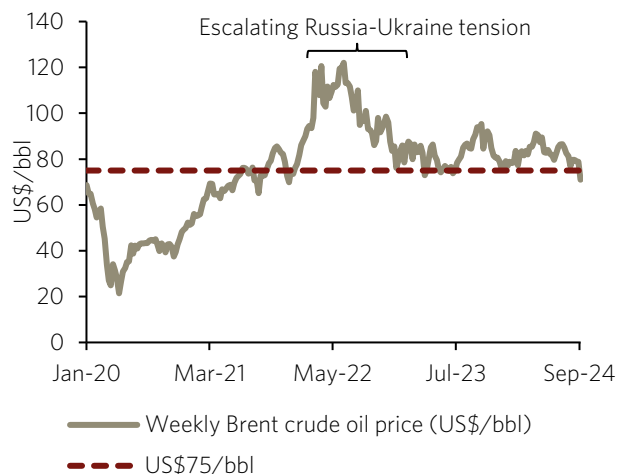
According to the International Energy Agency (IEA), China's oil demand contracted by 1.7% y/y in July 2024, marking the fourth consecutive month of contraction. Consequently, China's oil demand is expected to grow by a mere 1.1% in 2024 compared to 9.6% in 2023.

Due to China's weaker oil consumption, global oil demand growth has decelerated. In September, the IEA published its revised 2024 global oil demand growth forecast of 0.9%, down from 2.1% in 2023. The agency noted that oil demand outside of China is also weak. A moderation in oil demand has contributed to the notable drop in oil prices.

The price of Brent crude oil fell to an average of US\$80.4/bbl in August from US\$85.2/bbl in July. Oil markets remained weak in September with the Brent crude oil price decreasing to the lower US\$70s/bbl in the first two weeks of September (see chart 3). Moreover, we witnessed a temporary drop to just below

US\$70/bbl (US\$69.19/bbl) on 10 September 2024, the lowest level since May 2021.

Chart 3: Brent crude oil price dropped below US\$75/bbl



Source: Bloomberg., Momentum Investments
Data until 13 September 2024

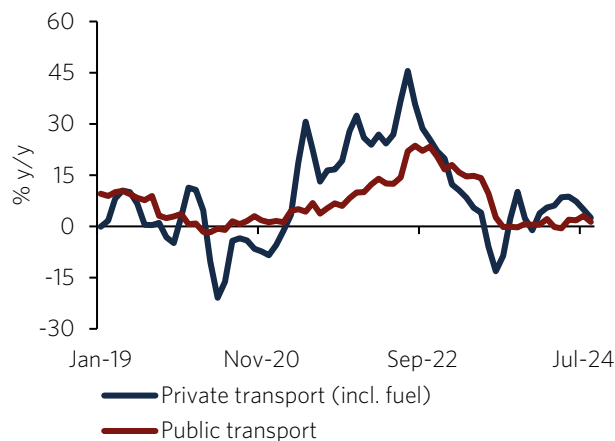
In terms of oil supply, Libya’s crude oil exports have resumed following weeks of a stoppage since the end of August 2024 and this has contributed to lower oil prices. On the other hand, the IEA reported that Saudi Arabia and the Organisation of the Petroleum Exporting Countries (OPEC) + have postponed their planned unwinding of extra voluntary cuts by two months in an attempt to raise oil prices.

The decrease in international oil prices has been supportive of domestic petrol prices and consequently transport inflation. The exchange rate has also been favourable, strengthening to an average of R18.05/US\$ in August from R18.25/US\$ in July. The rand strengthened further to an average of R17.85/US\$ in the first two weeks of September.

The price of petrol (both grades) decreased by R0.15/l in August. A larger petrol price cut of R0.92/l (both grades) was implemented in September and this will drive a further deceleration in transport inflation. Furthermore, the CEF’s estimated over-recovery (17 September) is pointing to an even larger petrol (ULP 95) price drop of R1.23/l in October which will provide reprieve for consumers. Diesel (0.05%) could also decrease by R1.12/l in October.

The drop in transport inflation from 4.2% y/y in July to 2.8% y/y in August translated to the contribution from transport to headline inflation being lower at 0.4 percentage points from 0.6 percentage points in the previous month. The decrease in transport inflation was broad-based but given fuel price cuts, private transport recorded the biggest drop of 2.4 percentage points to 2.6% y/y in August (see chat 4). Public transport also decreased notably by 1.7 percentage points to 1.3% y/y in August. The inflation rate of vehicles moderated by 0.4 percentage points to 3.6% y/y in August.

Chart 4: Lower fuel prices have aided lower transport inflation



Source: Global Insight, Stats SA, Momentum Investments
Data until August 2024

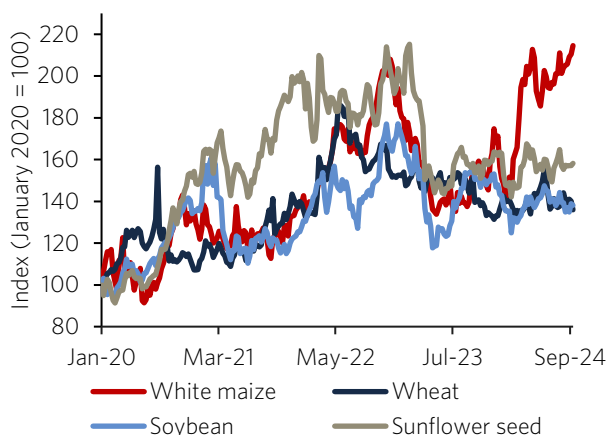
Broad-based food inflation pressure in August but food inflation remained low

Food and NAB beverages inflation ticked up to 4.7% y/y in August from 4.5% y/y in July. This was predominantly due to food inflation (4.1% y/y from 3.9% y/y) as NAB inflation moderated to 9.8% y/y in August from 10.1% y/y in July.

On food inflation, the acceleration was broad-based with six of the nine food categories registering an increase. Bread and cereals inflation accelerated for the third consecutive month to 5.8% y/y in August (5.6% y/y in July) likely due to higher maize prices (see chart

5). Although still low, meat inflation accelerated to 1.4% y/y in August from 1% y/y in July.

Chart 5: Maize prices are elevated



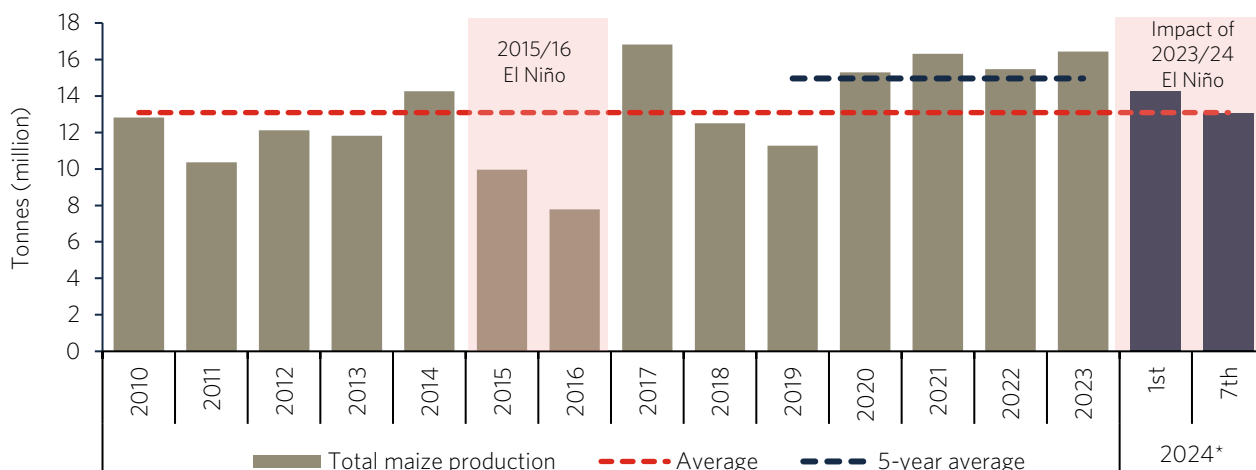
Source: Bloomberg, Standard Bank Research, Momentum Investments

The CEC revised its production forecast (7th revision) for 2024 summer crops down by 1.7% from its previous production forecast. At an estimated 15.69 million

tonnes in 2024, total summer crops are estimated to be 22% smaller than in 2023. A big part of this downward revision comes from a 20.5% y/y decline in maize production and a 35.8% y/y decline in soybean production. These decreases reflect the impact of El Niño.

The latest downward revisions take the estimated total maize production for 2024 down to the long-term average of 13.1 million tonnes (see chart 6) but the estimated production is still better than the harsh impact from the 2015/16 drought. The forecasted maize production remains sufficient to meet domestic demand (approximately 12 million tonnes) but there is less maize available for exports which introduces further upward pressures on already elevated maize prices, especially given the maize crisis in Southern Africa. The CEC is scheduled to publish two more summer production estimates before the final production is published in November.

Chart 6: Summer crops forecast for 2024 declined to the average achieved between 2010 and 2023



Source: CEC, Momentum Investments

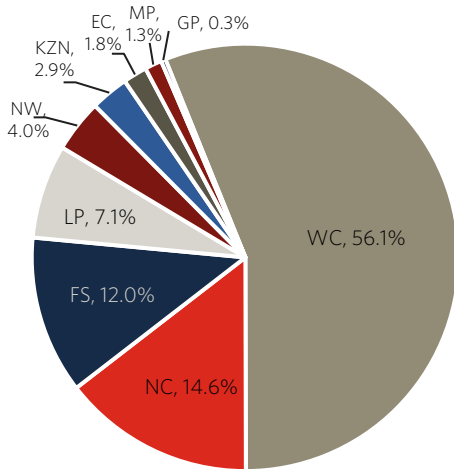
* 2024 = Forecasts

Agbiz notes that the 2024-25 agricultural season will likely be in a recovery period with the possibility of La Niña (wetter conditions in SA) building momentum. La Niña would benefit crops, horticulture and livestock.

The CEC’s first winter production forecast shows a 1.8% y/y decrease in production to 2.67 million tonnes in 2024. The decrease is mainly due to wheat

production (7.2% y/y less) which accounts for 71.2% of total winter crops in 2024. This is the lowest estimate in five years. Agbiz notes that the estimated wheat production points to a high import requirement for wheat but there is enough supply globally and global wheat prices are “relatively moderate”.

Chart 7: Share of winter crop production in 2024



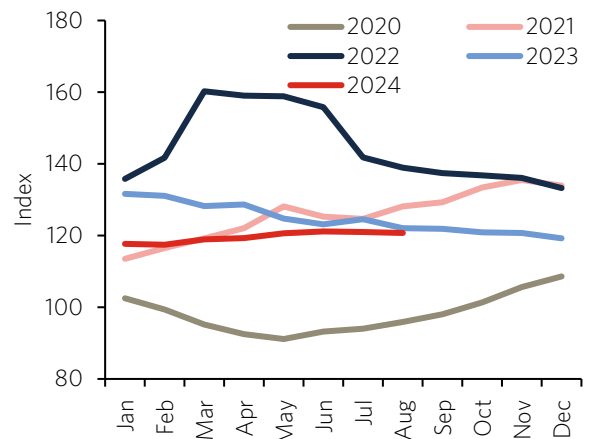
Source: CEC, Momentum Investments

The Western Cape is an important region for winter crops as it accounts for 56.1% of the total forecasted winter crops in 2024 (see chart 7). In September 2024, Agbiz reported that the Western Cape had experienced significant rainfall so far. Some areas in the Western Cape experienced more rain than required and this has led to “fears of possible poor yields”, but it is still too early to ascertain.

Internationally, the Food and Agriculture Organisation (FAO) Food Price Index has been stickier in 2024. In August 2024, the index decreased slightly by

0.3% month-on-month (m/m) to 120.7. At this level, the index was higher than at the start of the year but lower than the past three years (see chart 8). The slight decrease in August was due to the decrease in the price index for sugar, meat and cereal which outpaced the increases in dairy and oil prices. Sugar prices decreased the most in August (4.7% m/m) due to an improved production outlook for 2024/25 in Thailand and India as well as lower international oil prices according to the FAO. However, the fires in sugarcane fields in Brazil limited the decrease in sugar prices.

Chart 8: 2024 international food price index lower but stickier

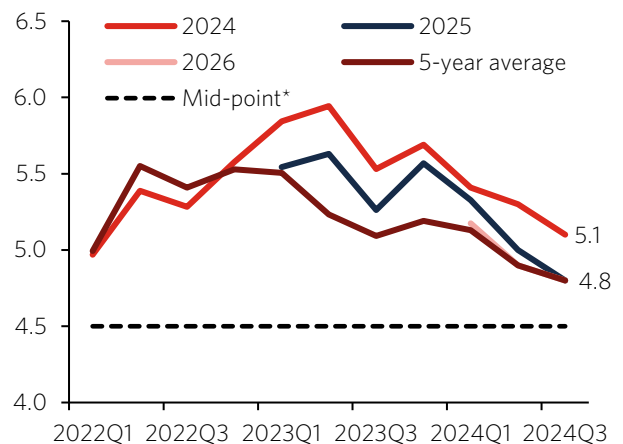


Source: FAO, Momentum Investments

Interest rate cuts are around the corner

The deceleration in the inflation rate for the third consecutive month in August reaffirms our view of a 25-basis point interest rate cut in September 2024. The SARB will likely welcome the sustained moderation in inflation and inflation undershooting the midpoint of the inflation target range in August. Furthermore, inflation expectations, reported by the Bureau for Economic Research (BER), moderated across the different time horizons in the third quarter of 2024 (see chart 9). The expectation of inflation next year, two-years ahead and the five-year average all converged to 4.8%, closer to the midpoint. The moderation in inflation expectations is supportive of an interest rate cutting cycle.

Chart 9: Longer-dated inflation expectations moved closer to the implicit target (4.5%), %



Source: BER, Momentum Investments

The lower international oil prices, dampened by weak global demand, will exert downward pressure on transport and food inflation. However, the oil market remains uncertain and risks to inflation (including higher maize prices, elevated electricity prices and the two-pot retirement reform) remain. This means the SARB will likely proceed with caution.

Post the September 2024 interest rate meeting, we expect three more 25-basis points cuts to be implemented by the end of 2025. As such, our estimated terminal interest rate in 2025 is 7.25%.

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