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A soft inflation reading before the war shock bites

Headline inflation (CPI) edged up slightly from 3% y/y in February 2026 to 3.1% y/y in March 2026.

The increase was driven by higher fuel, housing and restaurant and hotels prices, while food and non-alcoholic beverage (NAB) inflation partly offset the rise.

Services inflation accelerated to 4.2% y/y in March from 3.8% y/y in February.

This was mainly due to a rise in housing inflation. Core inflation rose to 3.2% y/y in March from 3% y/y in February.

Oil prices remain a key upside risk to inflation amid ongoing geopolitical tension.

Even under a de-escalation scenario, Brent crude oil prices are expected to remain above pre-conflict levels as shipping through the Strait of Hormuz gradually normalises.

Food inflation remains contained but there are rising food inflation concerns.

Key risks include high energy costs, high fertiliser prices and the high probability of a shift from La Niña to El Niño weather conditions in the third quarter of 2026.



So what?



The slight increase in Statistics South Africa's (Stats SA) headline inflation rate to 3.1% year-on-year (y/y) in March is further proof that price pressures were contained before the Iranian conflict. Transport inflation pressure is expected to intensify in April, with broader impacts likely to filter through in the coming months. Global central banks have nevertheless responded more cautiously than in 2022 due to stronger macro fundamentals

and more favourable oil market conditions. While this gives the SA Reserve Bank (SARB) monetary policy space to assess the impact of the war, there is now a higher risk of interest rate hikes in 2026. The timing of the rate hikes will be dependent on the extent of second-round inflation effects and signs of inflation expectations becoming de-anchored.

Consumer lens

Food inflation decelerated from 3.7% y/y in February to 3.4% y/y in March.



The average cost of a household food basket* in March 2026 was largely unchanged at R5 328.53 relative to a year ago but R55.28 less than a month ago.

Transport deflation moderated to -1.6% y/y in March from -2.1% y/y in February



Estimates** point to further sharp fuel price increases in May of R2.25/l for petrol (ULP 95) and R6.59/l diesel (0.05%). Potential fuel levy relief from government could soften the rise.

* 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 21 April 2026. The petrol cost of an average car (45 litres) full tank is R1 051.2 in April 2026, R137.7 more than in March 2026.

Housing inflation continued to normalise

Headline inflation, published by Stats SA, rose marginally to 3.1% y/y in March from 3% y/y in February. Apart from transport deflation moderating, the price pressure came from services, with services inflation rising to 4.2% y/y in March after a temporary dip to 3.8% y/y in February. This reintroduces the SARB's concern around sticky services inflation.

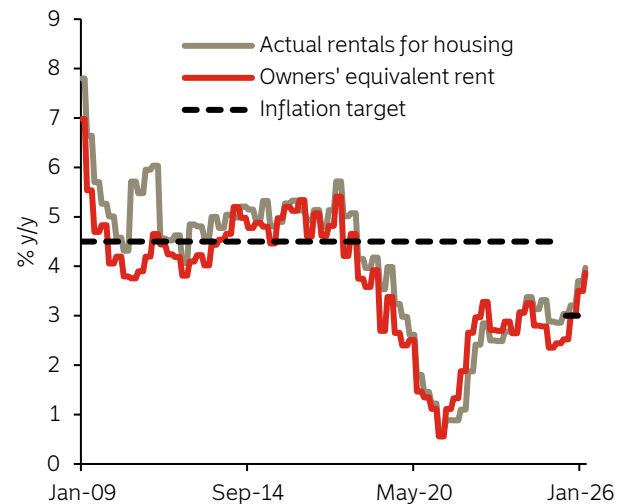
Breaking down services inflation, housing costs, which are surveyed quarterly, accelerated in March. Owners' equivalent rent rose to 3.9% y/y in March from 3.5% y/y in February while actual rentals increased to 4% y/y from 3.7% y/y over the same period.

This reflects a continued normalisation in housing costs from the pandemic-induced weakness (see chart 1). However, these levels are above the new 3% inflation target and are closer to the upper level of the tolerance band (4%) which may concern the SARB.

Further within services, restaurant inflation rose to 4.1% y/y in March from 3.6% y/y in February and

accommodation services inflation surged to 12.2% y/y from 4.2% y/y over the same period.

Chart 1: Housing inflation is above the 3% inflation target



Source: Global Insight, Stats SA, Momentum Group
Data until March 2026

Due to the rise in services inflation, core inflation rose to 3.2% y/y in March from 3% y/y in February. Overall, inflation was broadly contained in March but a spike is expected from April.

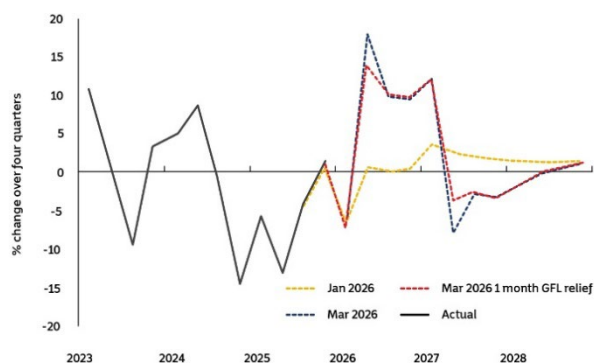
Oil price pressure persists as war continues

Transport deflation persisted in March but at a slower rate of negative 1.6% y/y from negative 2.1% y/y in February. This mainly reflects the March petrol (ULP 95) price increase of 20c/l and 62c/l increase for diesel (0.05%). April saw record-breaking monthly hikes of R3.06/l for petrol and R7.37/l for diesel due to rising international oil prices and a weaker rand on the back of the Middle East conflict. According to the CEF's estimates, May could see significant increases again, with petrol prices estimated to increase by R2.25/l and R6.59/l for diesel

The May fuel price estimates do not account for potential fuel levy relief, which the government alluded to when it implemented the R3/l relief in March, stating that this measure would be reviewed monthly over the next two months.

This suggests that there may be downside risks to the anticipated fuel price increases in May. If further fuel levy relief is announced, fuel inflation will likely peak at a lower level (see chart 2).

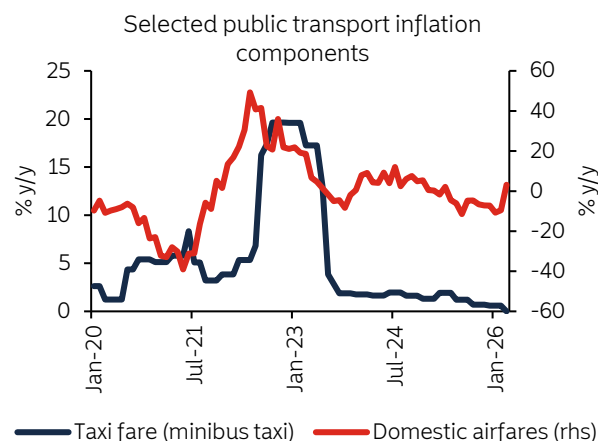
Chart 2: Fuel inflation is still set to rise sharply even with the fuel levy relief



Source: SARB, Momentum Group
GFL = General fuel levy and dotted lines indicate forecasts

Inflation pressures are already emerging in some public transport inflation categories, including domestic airfares (3.2% y/y in March from negative 9.5% y/y in February) as shown in chart 3. Taxi fares typically react with a lag.

Chart 3: Higher jet fuel prices have resulted in a sharp rise in domestic airfares inflation



Source: Global Insight, Stats SA, Momentum Group
Data until March 2026

The Middle East conflict, which began on 28 February 2026, has now extended to nearly two months, exceeding the initial expectation of a shorter-lived

conflict. A two-week ceasefire agreed on 8 April between the United States (US) and Iran was extended indefinitely on 21 April as negotiations continue, according to the *Financial Times*. The announcement of the ceasefire and its subsequent extension have provided some reprieve to oil prices. However, this has been partly offset by continued geopolitical tension, with Donald Trump indicating that the US would maintain its blockade of Iranian vessels attempting to exit the Strait of Hormuz.

Before the conflict, the US Energy Information Administration's (EIA) assessment and market consensus was that the global oil market was in surplus, with oil inventories building and oil prices trending lower.

This outlook has shifted materially post the conflict. The EIA now expects Brent crude oil prices to rise from an average of US\$81/bbl in the first quarter of 2026 to a peak of US\$115/bbl in the second quarter of 2026 before moderating to around US\$88/bbl by the fourth quarter of 2026. These estimates assume that the conflict does not extend beyond April and that flows through the Strait of Hormuz gradually resume, although not returning to pre-conflict levels until late 2026.

Due to the expected gradual normalisation of flows through the Strait of Hormuz in a de-escalation scenario, Brent crude oil is estimated to average around US\$76/bbl in 2027, about US\$23/bbl higher than the EIA's pre-conflict forecasts.

“ This is because even as physical supply improves, lingering disruptions to shipping routes, backlogs in tanker traffic and the risk of further escalation are expected to sustain a geopolitical risk premium in international oil prices. ”

The EIA also revised its oil demand outlook lower. This reflects fuel-saving measures by different countries, supply shortages and reduced refined product exports.

Food inflation is contained but risks are increasingly tilted to the upside

Food inflation eased from 3.7% y/y in February to 3.4% y/y in March. Notably, meat inflation moderated for a second consecutive month to 11.6% y/y in March from the recent peak of 13.5% in January. Cereal products, as well as fruit and nuts, fell further into deflation.

“ Current food inflation remains largely contained, with the SARB projecting that food and NAB inflation will average 3.6% this year and in 2027. Nevertheless, there is an increasing risk of upward pressure on food inflation. ”

While meat prices are moderating, the foot-and-mouth disease continues to pose a risk. However, the government is currently undertaking a nationwide vaccination campaign to address this issue.

Energy costs remain the most immediate pressure point. Elevated fuel prices directly affect agricultural input costs while also feeding into distribution and logistics.

Fertiliser costs present a delayed but potential material risk. Agriculture experts highlight that persistently high fertiliser costs could begin to weigh heavily on agricultural costs from the third quarter of 2026 when the local planting season begins.

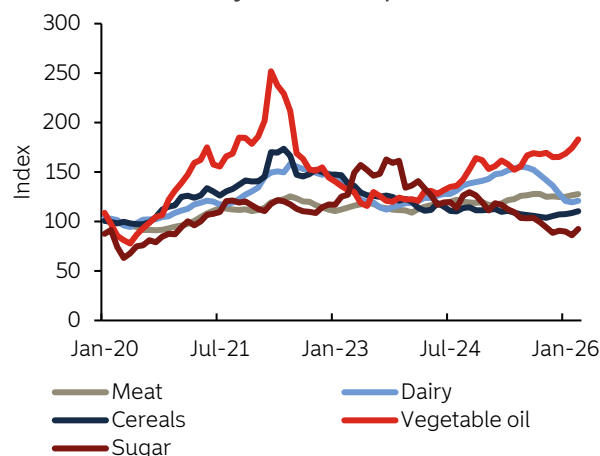
Weather risks are also intensifying. The National Oceanic and Atmospheric Administration currently assigns a 61% chance of an El Niño (hotter and drier weather conditions in Southern Africa) by the third quarter of 2026, with a 25% chance of a strong El Niño. The last strong El Niño was in 2015-2016 when local food inflation peaked at 12.1% y/y in December 2016. On the other hand, the most recent El Niño episode was during the 2023-2024 season with local food inflation reaching a higher peak of 14.3% y/y in March 2023, reflecting the compounding effect of a weather shock on already elevated global food and input prices following Russia's invasion of Ukraine in February 2022.

“ Taken together, these factors point to a rising risk of renewed food price pressures locally over the next six to 12 months. ”

Globally, food prices, as measured by the Food and Agriculture Organisation's (FAO) Food Price Index (FPI) are showing early indications that upside pressures are beginning to emerge. The FPI increased by 2.4% month on month (m/m) in March, taking the index 1% above its level a year ago, but still 19.8% below the peak reached in March 2022.

Increases were recorded across the categories (see chart 4) but larger increases were only recorded for vegetable oil (5.1% m/m) and sugar (7.2% m/m), though sugar remains below levels recorded a year ago.

Chart 4: Global food price sub-indices remain contained and broadly below 2022 peaks



Source: UN FAO, Momentum Group
Data until March 2026

The vegetable oil price index recorded its fourth consecutive monthly increase in March. The FAO attributes this upward trend to price rises in palm, soy, sunflower and rapeseed oils. International palm oil prices have reached their highest level since mid-2022, mainly due to higher crude oil prices and lower-than-anticipated production levels in Malaysia.

The increase in the sugar price index was mainly influenced by higher crude oil prices, which are expected to encourage Brazil, the world's largest sugar exporter, to divert more sugarcane towards ethanol production. However, the overall increase in sugar prices has been partly contained by a favourable global supply outlook for the 2025-2026 season, supported by good harvest progress in India and Thailand.

The Agriculture Business Chamber of SA indicated that major global agricultural exporters have responded differently to the current Middle East crisis than they did to previous shocks. In the past, increased uncertainty triggered immediate export restrictions on

key commodities and inputs, which pushed up global prices. However, nearly two months into the 2026 Middle East conflict, there has not been a general move toward such restrictions.

“ Leading global agricultural producers not imposing export restrictions is helping maintain global food security and keeping global food price increases contained. ”

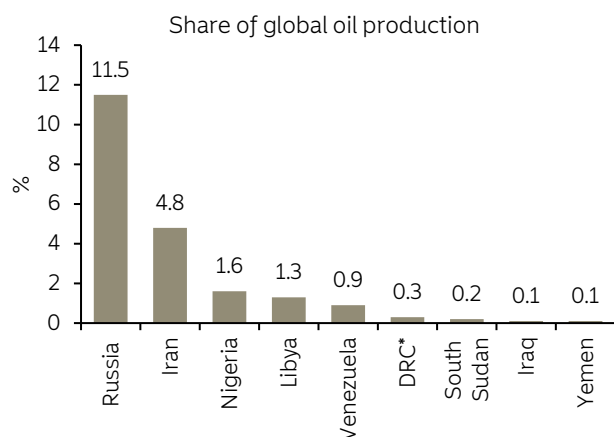
One major reason is the relatively abundant supply of agricultural products currently available globally.

A different starting point to 2022 affords more monetary policy room to wait and see

Russia's invasion of Ukraine is the closest comparison to the 2026 Middle East conflict but there are a few key differences that could help explain why central banks are taking a more cautious approach this time.

First, the nature of the shock is different. The 2026 conflict resulted in disruptions in the movement of oil through the Strait of Hormuz. In contrast, the 2022 shock was a direct supply shock, as sanctions reduced oil exports from Russia, a major oil producer accounting for 11.5% of global output (see chart 5).

Chart 5: Russia is a major oil producer



Source: Crystol Energy, Momentum Group
* Democratic Republic of Congo

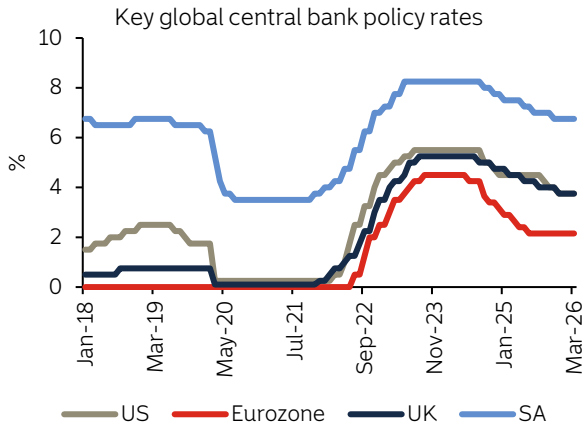
Secondly, the oil market was in a different position going into each shock. In 2022, global oil demand and supply were broadly balanced, leaving the market tight and highly sensitive to disruptions. In 2026, the oil market started from a position of surplus, which has helped absorb some of the geopolitical risk as indicated by *Crystol Energy*.

Thirdly, the inflation backdrop is more favourable now. In 2022, inflation was already rising as economies reopened after the COVID-19 pandemic. This meant higher oil prices filtered through more quickly into broader inflation. Currently, inflation is more contained and is coming off a lower base.

Lastly, the monetary policy stance is materially different. In 2022, interest rates were low and the policy stance was accommodative (real rates were negative in most regions). Now, the policy stance is restrictive or closer to neutral in most regions (see chart 6), which gives central banks more flexibility to respond to shocks.

Nevertheless, as indicated by the SARB governor during the April 2026 Monetary Policy Review release, while the current backdrop is more favourable and gives central banks room to assess the impact of the war, they should not be complacent.

Chart 6: Central banks' starting monetary policy stance aids flexibility



Source: Bloomberg, Momentum Group

As a result, we view the risk of interest rate increases in 2026 as elevated, although the timing will depend on how the conflict evolves, the extent of second-round inflation effects and whether there are signs of inflation expectations becoming de-anchored. In the March 2026 interest rate meeting, the Monetary Policy Committee unanimously decided to keep the repo rate unchanged at 6.75%. We expect a more hawkish tilt in the upcoming May 2026 interest rate meeting with an increase in members likely to favour an interest rate hike.

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