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# The macro signal

South African inflation monitor

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## Fuel relief brings July inflation lower

**Headline inflation eased sharply to 4.3% y/y in July from a two-year high of 5% y/y in June.**

This outcome was lower than the 4.5% y/y consensus and was largely due to lower transport inflation following fuel price cuts in July, alongside lower food inflation.

**Municipal rate increases on 1 July 2026 were lower than last year.**

However, rates continued to rise faster than inflation, with homeowners in some metros reported to be paying over R3 000 more per month than if rates had kept pace with inflation over the past 20 years.

**Tighter global supplies are putting upward pressure on diesel prices.**

Refinery disruptions, lower inventories and export restrictions are widening the gap between diesel and crude oil prices.

**Food inflation continued to ease, driven mainly by lower meat prices.**

Foot-and-mouth disease (FMD) vaccination progress should support livestock supply, while higher fuel and fertiliser costs and El Niño weather patterns remain upside risks.

### So What?

1. While headline inflation moderated sharply in July, risks remain titled to the upside, particularly from the ongoing war in the Middle East, tighter diesel supply, higher fertiliser costs and El Niño.
2. Our inflation forecast remains unchanged at 4.2% in 2026 and 3.5% in 2027, with current food prices providing some near-term relief.
3. Softer-than-expected inflation supports our view that the SARB will keep the repo rate on hold at 7% in September, although the ongoing war and changes in inflation expectations remain key risks.

## CONSUMER LENS

**Food inflation eased to 0.6% y/y in July from 1.4% y/y in June.**

The average household food basket* cost R5 530.52 in July, increasing by 1.6% y/y, or R87.81 from a year ago.

**Transport inflation fell to 8.9% y/y in July from 12.7% y/y in June.**

Estimates** point to petrol (ULP 95) prices increasing by 79c/l and diesel (0.05%) prices by R2.75/l in September.

* 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 17 August 2026. The petrol cost of an average car full tank (45 litres) is R1 151.50 in August 2026, R23.40 lower than in July 2026.

## Headline inflation eased more than anticipated

According to Statistics South Africa (Stats SA) data, the average price of goods and services increased by 4.3% y/y in July. This was lower than the 4.5% y/y consensus and 5% y/y recorded in June. The moderation in headline inflation was mainly driven by lower transport inflation, which eased from 12.7% y/y in June to 8.9% y/y in July, following the R1.96/l decrease in petrol (ULP 95) prices and R3.14/l decrease in diesel (0.05%) prices in July.

Food and non-alcoholic beverages (NAB) inflation eased for the sixth consecutive month from 1.6% y/y in June to 0.9% y/y in July, providing further relief to headline inflation. Food inflation moderated, with the two largest food categories, meat and cereal products, both recording lower inflation. In contrast, non-alcoholic beverages inflation rose to an elevated 5.3% y/y in July from 5% y/y in June.

July's inflation data also reflect the annual adjustment to municipal charges. Stats SA surveys municipal charges once a year for water supply, assessment rates, electricity, sewage removal and refuse collection, which together make up 6.8% of the inflation basket.

***Electricity inflation eased from 10.4% y/y in the previous survey to 8.1% y/y in July, while water inflation declined from 12% y/y to 10.1% y/y over the same period, as major municipalities increased rates by less than they did a year ago (see table 1).***

Table 1: Moderate municipal rate increases relative to last year across major metros, %

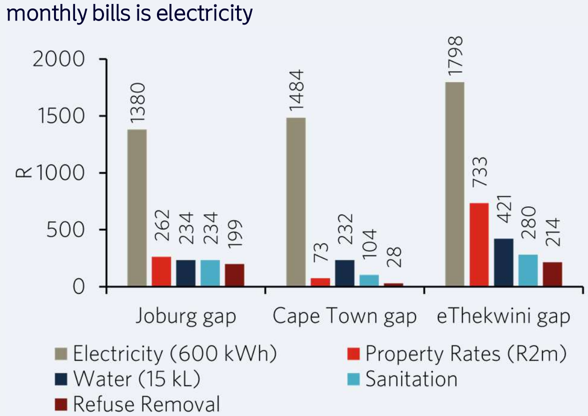
| Municipality | Electricity | Water | Sanitation | Refuse | Property |
|---|---|---|---|---|---|
| Johannesburg | 8.6 (12.7) | 12.5 (13.9) | 11 (13.9) | 6.2 (6.6) | 3.6 (4.6) |
| Ekurhuleni | 8.8 (13.4) | 11 (15) | 8.4 (10) | 3.4 (6) | 1.5 (0) |
| Cape Town | 6.6 (7.2) | 4.5* (6.8) | 4.5* (6.8) | 3.8 (7.4) | -2.1 (8) |
| eThekwini | 9 (12.7) | 12 (12.9) | 8 (11) | 9.5 (9) | 2 (5.9) |
| Tshwane | 8.8 (10.2) | 10 (13) | 5 (6) | 4.1 (4.6) | 5 (-4) |

*Source: City of Johannesburg, City of Tshwane, EWN, IOL, News24, The Citizen, The Star, Momentum Group*
** Grouped as one*
*2025/26 increase in brackets*
*Green = lower than the previous year and red = higher than the previous year*

Despite the moderation in municipal rate increases, these costs continue to rise faster than headline inflation and exceed the new inflation target of 3%, adding to the cumulative cost pressures faced by households. According to BusinessTech, homeowners in some metros are paying more than R3 000 per month above what they would have paid if municipal rates had increased in line with inflation over the past 20 years (see chart 1).

The persistent above-inflation increases reflect, among other factors, the financial pressures facing municipalities and the rising cost of maintaining and upgrading ageing infrastructure.

Chart 1: Biggest gap between the actual and inflation-linked monthly bills is electricity




*Source: BusinessTech, Momentum Group*
*Values are rounded to the nearest rand and include municipal fixed base charges, step-tariff usage structures and VAT (14% for 2006; 15% for 2026).*



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While headline inflation eased, core inflation edged up slightly from 4.1% y/y in June to 4.2% y/y in July. Both goods and services inflation moderated, with goods inflation declining from 4.8% y/y in June to 3.4% y/y in July and services inflation dropping from 5.2% y/y to 5% y/y over the same period.

## Diesel market under pressure

The July fuel relief extended into August for petrol users with petrol (ULP 95) prices decreasing by 52c/l. Diesel (0.05%) prices, however, increased by R1.38/l in August.

***The diesel market is facing tighter global supply, putting upward pressure on diesel prices. Several factors have contributed to this.***

According to Reuters, Middle Eastern refinery output remains below normal following the Iranian conflict and shipping disruptions in the Strait of Hormuz. Russian refinery output is close to a 20-year low following attacks on refineries, while Chinese refinery throughput fell sharply in July, due to tighter profit margins and government-ordered export bans on refined products to secure domestic energy supplies. Global refinery output in July was lower than last year by around five million barrels a day.

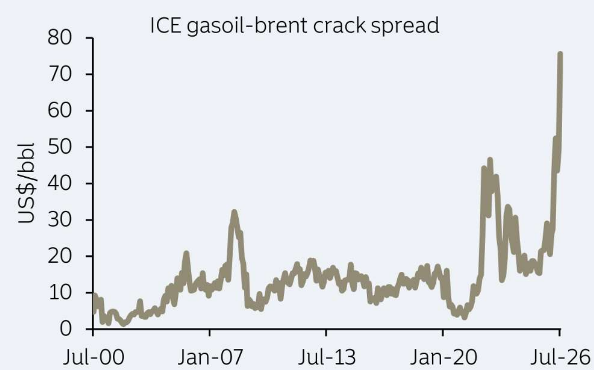
Supply has also been impacted by export constraints. Diesel exports from Russia, the Middle East and Asia were 1.3 million barrels a day lower than a year ago in July, equivalent to around 20% of global seaborne diesel trade, according to the International Energy Agency (IEA).

On 31 July, Russia extended restrictions on diesel exports until 31 August 2026 and on petrol exports until 31 January 2027 to support domestic fuel supply. At the same time, seasonal demand and lower inventories have added to the supply pressure, widening the gap between diesel and crude oil prices. (see chart 2).

***Importantly, the pressure on diesel prices is occurring despite lower crude oil prices. Brent declined from an average of US$117/bbl at its recent peak in April to US$83.8/bbl in July.***

The divergence between crude and diesel prices therefore largely reflects the global shortage of refining capacity rather than higher crude oil prices, signalling higher transport-related inflation down the line if supply pressures persist.

Chart 2: Diesel crack spreads* have surged




*Source: Bloomberg, Nedbank, Momentum Group*
** Price difference between the cost of crude oil and the market value of the diesel fuel produced from it*

Mid-month CEF data highlight the continued pressure on the local fuel market, with diesel prices estimated to increase by R2.75/l in September, while petrol prices are estimated to increase by 79c/l.

## Food inflation provides further relief

Food inflation has eased from 4.4% y/y at the start of 2026 to 0.6% y/y in July. The decline has largely been driven by a moderation in meat prices, while lower bread and cereals, fruit and vegetable prices have also contributed to the drop in overall food inflation (see chart 3).

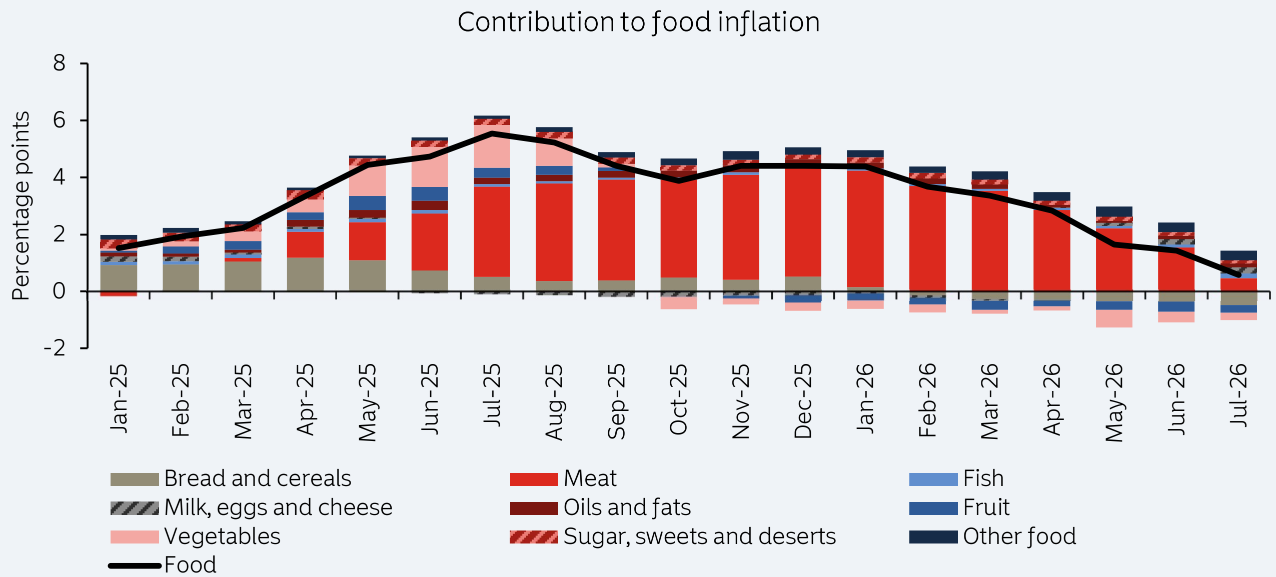
> ***The moderation in meat inflation partly reflects the fading impact of the sharp price increases following the outbreak of foot-and-mouth disease (FMD) last year.***

There has been progress in the rollout of FMD vaccinations, with just over half of the target to vaccinate 80% of SA's cattle herd already been achieved by July 2026. Private veterinarians have started receiving vaccine consignments, providing an additional channel for vaccinating livestock. However, industry leaders note that controlling the disease will take time.

Despite the significant increase in fuel and fertiliser costs following the Middle East conflict, there has been little evidence of a material impact on consumer food prices so far. Strong domestic agricultural production has likely helped offset higher input and transport costs, with the record summer crop and improved livestock supply keeping food prices subdued. The stronger-than-expected rand has also limited the impact of higher international input prices on domestic prices.

> ***The impact of the conflict could, however, take longer to appear in consumer prices. With fertiliser prices significantly higher than a year ago and diesel markets still under pressure, higher input costs remain an upside risk to food inflation alongside El Niño risks.***

Chart 3: Easing meat inflation drives moderation in food inflation




*Source: Global Insight, Stats SA, Momentum Group*
*2025/26 increase in brackets*

## SARB more likely than not to keep rates unchanged in September

Local headline inflation moderated in July, largely due to lower fuel prices, but the outlook remains exposed to upside risks from higher diesel prices and the possible wider impact of the Middle East conflict on SA's inflation basket, initially via transport and food prices, but with the risk of adding to second-round inflationary pressures. El Niño also poses a risk to the next agricultural season. However, the stronger-than-expected rand is providing some relief, while food inflation remains contained.

Our forecast remains unchanged, with headline inflation expected to average 4.2% in 2026 before easing to 3.5% in 2027. While we expect the SARB to keep the repo rate unchanged at 7% at its September meeting due to softer headline inflation and the expectation of lower inflation in 2027, the magnitude of changes in inflation expectations ahead of the September interest rate meeting and geopolitical developments in energy markets remain key upside risks to the policy rate.