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South African MPC

22 July 2026

Executive summary

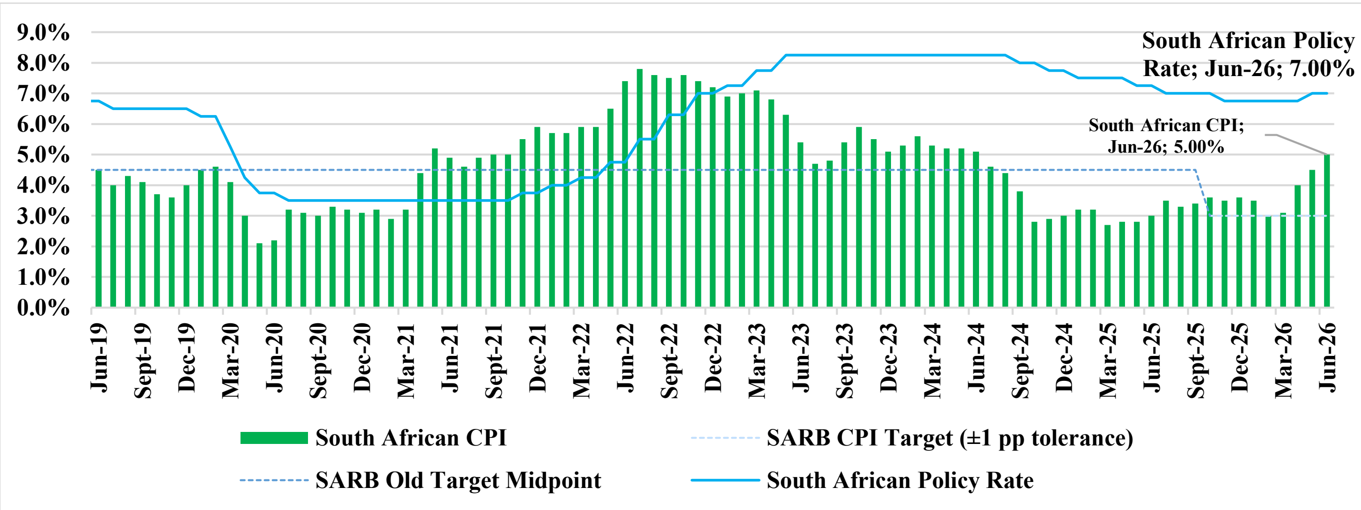
South Africa enters the July 2026 MPC meeting with headline inflation at 5.0% and the repo rate at 7.00%, following the 25-basis point increase in May. Inflation remains largely supply-driven: transport inflation rose sharply, producer inflation accelerated to 7.8%, and services and core inflation also edged higher, although food inflation and domestic demand remain subdued.

Since May, oil prices and the rand have improved intermittently, but renewed conflict around the Strait of Hormuz has kept energy and foreign-exchange markets volatile. This leaves the MPC balancing the risk of persistent second-round inflation against weak growth, high unemployment and limited wage pressure.

The July decision is therefore finely balanced, but the combination of elevated inflation, **elevated producer-price pressures** and renewed external volatility **shifts the assessment marginally towards at least a further 25 basis point increase to 7.25%, while a hold at 7.00% remains a credible alternative.**

Analysis

Figure 1: South Africa Repo Rate vs Inflation Rate



Source: SARB & StatsSA

As shown in Figure 1, headline consumer inflation increased to 5.0% in June 2026 from 4.5% in May 2026 and 4.0% in April. The increase followed the rapid transmission of higher international oil prices into domestic fuel and transport costs[1]. In response to the deterioration in the inflation outlook, the SARB raised the repo rate by 25 basis points to 7.00% at its May meeting.

[1] Transport inflation rose to **12.7% in June** from **9.4% in May**, while goods and services inflation increased to **4.8%** and **5.2%**, respectively. This suggests broader pass-through beyond fuel, although subdued food inflation and weak demand indicate that a broad-based inflation cycle has not yet taken hold.

Producer-price[2] data indicate that inflationary pressures were considerably stronger further up the production chain. Headline inflation for final manufactured goods rose to 7.8% year-on-year in May from 4.8% in April, while the index increased by 2.6% month-on-month. The principal driver was the coke, petroleum, chemical, rubber and plastic products category, which increased by 22.0% annually and contributed 4.7 percentage points to headline producer inflation. On a monthly basis, this category rose by 9.0% and contributed 2.0 percentage points.

The scale of the energy shock is evident in producer prices: petrol rose by 28.1% year-on-year, diesel by 66.7%, and coal and petroleum products by 40.3%. Intermediate-goods[3] inflation also accelerated to 13.7%, while electricity and water inflation remained elevated at 12.3%. These increases raise the risk that higher energy and input costs will pass through to transport, production and consumer prices.

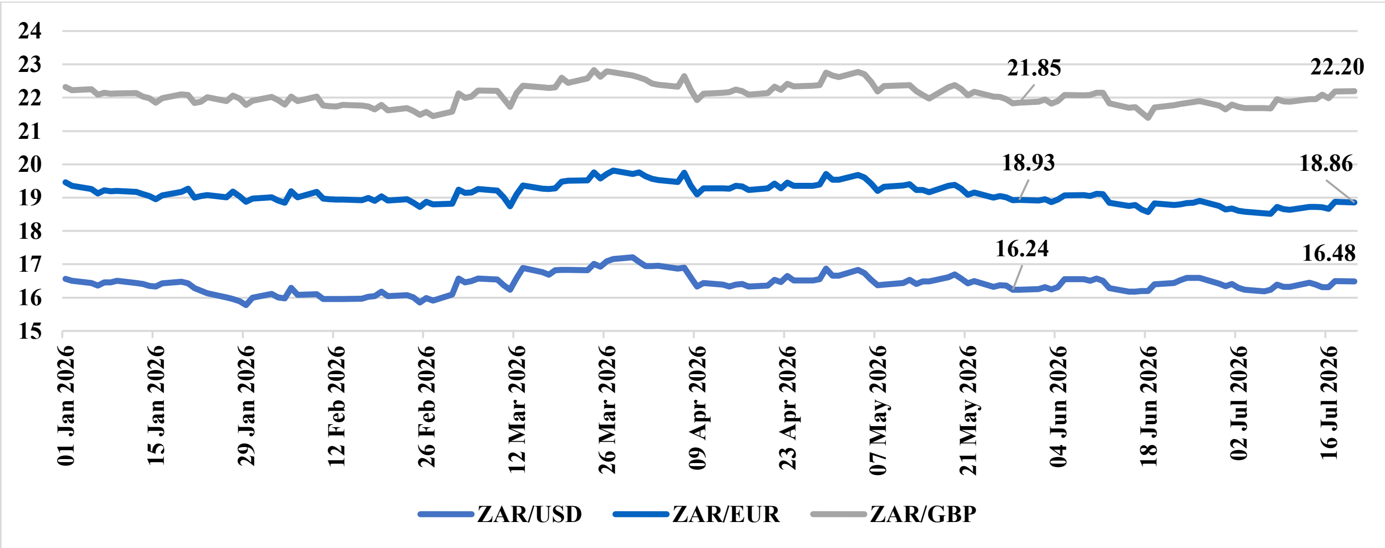
Producer-price pressures remain concentrated rather than broad-based. Final manufactured-goods inflation excluding petroleum was 3.9%, food producer inflation was 0.9%, and agricultural producer prices declined by 7.4%. The policy question is therefore whether the energy shock is beginning to generate persistent second-round effects[4] or remains severe but concentrated.

SOUTH AFRICAN ECONOMIC PERFORMANCE

South Africa's economy expanded by 0.5% quarter-on-quarter in the first quarter of 2026, but household consumption remained weak and manufacturing activity subdued. The unemployment rate rose to 32.7%, with employment declining by 345,000. Wage and unit-labour-cost growth also remained contained, limiting evidence of a domestic wage-price cycle. The recent increase in inflation therefore appears to be driven predominantly by external cost pressures rather than domestic demand.

Credit extension also points to limited household-demand pressure. Household borrowing remained subdued, while stronger corporate credit largely reflected general loans and working-capital requirements. The composition of credit growth therefore does not indicate broad consumer overheating.

Figure 2: ZAR vs Major Currencies January 2025- July 2026*



Source: HEI Research

As shown in Figure 2, the rand strengthened against the US dollar, euro and pound during the opening months of 2026, reaching its strongest average levels in February. This trend reversed in March as the escalation around the Strait of Hormuz increased global risk aversion, lifted oil prices and strengthened demand for safe-haven assets. Between February and March, the average rand exchange rate weakened from approximately R16.02 to R16.73 per US dollar, from R18.95 to R19.35 per euro and from R21.75 to R22.33 per pound.

[2] Producer-price inflation measures changes in the prices received by domestic producers and can provide an early indication of cost pressures that may later pass through to consumer prices.

[3] Intermediate goods are products used as inputs in the production of other goods, such as chemicals, metals, paper and components. Higher prices can raise firms' production costs before affecting final consumer prices.

[4] Second-round effects refer to the process through which an initial supply shock, such as higher fuel prices, spreads into wages, services prices and broader inflation expectations.

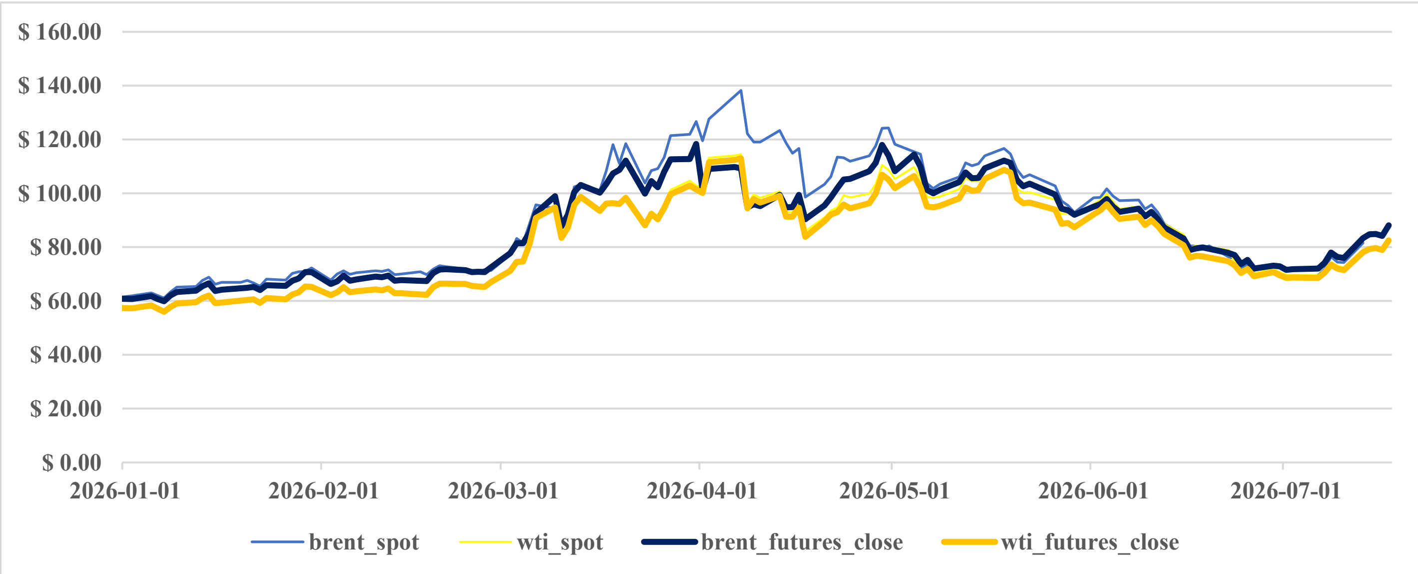
The rand subsequently recovered part of its March losses, although the improvement was not uniform across currencies. By the first half of June, it had strengthened by approximately 2.0% against the US dollar, 1.9% against the euro and 1.6% against the pound relative to its March average. More recent levels also show the rand stronger against the dollar than around the 29 May MPC meeting, while remaining comparatively weaker against the euro and pound. This suggests that part of the improvement in USD/ZAR reflects periods of US dollar weakness rather than a broad-based appreciation of the rand. Renewed geopolitical escalation therefore leaves the currency vulnerable despite the apparent dollar-based recovery.

Exchange-rate movements remain important for the inflation outlook because international oil is priced in US dollars. A simultaneous increase in crude prices and depreciation in the rand raises the domestic cost of fuel more sharply than either shock would in isolation. Currency weakness can also increase the prices of imported machinery, chemicals, intermediate goods and consumer products. Although the rand's partial recovery may limit some future pass-through, the exchange rate is likely to continue amplifying movements in international oil prices rather than providing a stable offset.

GLOBAL CONDITIONS

Since the May MPC meeting, the external environment has remained characterised by persistent energy-market volatility rather than a sustained improvement in conditions. Oil prices initially moderated as expectations of a ceasefire and improved shipping conditions through the Strait of Hormuz reduced some of the geopolitical risk premium. This contributed to lower average oil prices during June and briefly strengthened the case that the direct inflationary effects of the earlier shock might begin to ease.

Figure 3: Daily Brent Spot vs Futures Price Jan 2026– July 2026



Source: U.S. Energy Information Administration (EIA), via FRED & Market Data, via Yahoo Finance

That improvement proved temporary. Renewed fighting between the United States and Iran in July again increased uncertainty around regional oil production, shipping routes and energy infrastructure. Brent crude rose to around USD90 per barrel ahead of the July MPC meeting, while WTI traded near USD83 per barrel. Although these levels remained below the peaks recorded earlier in the year, the renewed increase demonstrated that oil markets remained highly responsive to developments in the conflict.

Market attention has continued to centre on the volume of vessels moving through the Strait of Hormuz, attacks on energy and transport infrastructure, and the risk of a broader regional escalation. Reduced shipping activity and damage to oil, power and refining facilities have increased the possibility of renewed supply disruptions. At the same time, lower global inventories and reduced Russian refining capacity have tightened supplies of transport fuels, particularly diesel, leaving markets more vulnerable to further shocks.

South Africa has responded to the disruption by increasing fuel imports from Europe and the United States. While this reduces dependence on Gulf supply, longer shipping routes and higher freight, insurance, storage and financing costs may keep domestic diesel prices elevated even if crude prices moderate. The changing composition of imports has also raised questions about whether the existing diesel basic fuel price formula adequately reflects current supply costs.

The movement in both spot and futures prices is important for the South African inflation outlook. Higher spot prices raise the immediate cost of crude oil and increase the likelihood of further domestic fuel-price adjustments. Futures prices, meanwhile, indicate that markets continue to assign a premium to the risk of prolonged supply constraints. The renewed increase across both markets suggests that investors are responding not only to current disruptions but also to the possibility that energy prices may remain elevated for longer.

June's lower average oil price therefore cannot yet be treated as a durable disinflationary development. Continued volatility complicates fuel-price forecasting and may delay the easing of transport and production costs. Cautious global monetary policy could also support the US dollar and renew pressure on the rand.

Outlook

The July meeting presents a finely balanced choice between allowing the May tightening more time to operate and taking additional pre-emptive action against persistent inflation risks.

At the same time, the inflation environment has deteriorated since the previous meeting. Headline inflation has risen to 5.0%, final manufactured-goods inflation to 7.8% and intermediate-goods inflation to 13.7%, while core and services inflation have edged higher. Renewed escalation around the Strait of Hormuz has also reversed part of the earlier improvement in the external outlook and increased the risk of another rise in fuel prices and rand weakness.

Medium-term food-price risks also warrant monitoring, although they remain secondary to current energy-related inflation pressures. The development of El Niño conditions could place upward pressure on agricultural output and food inflation with a lag, although this is more relevant to the 2027 outlook than to the immediate July decision. It therefore adds to the balance of risks but does not independently justify another rate increase at this meeting.

Ahead of the SARB's 23 July 2026 MPC announcement, the decision remains finely balanced. Elevated headline inflation, firmer core inflation and substantial producer-price pressures, together with renewed oil and exchange-rate volatility, shift the assessment marginally towards at least a further 25 basis point increase to 7.25%. However, a hold at 7.00% remains a credible and closely matched alternative, given the May tightening, subdued demand, contained labour-cost growth and the still concentrated nature of the inflation shock.