



Miyelani Maluleke	+27 11 895 5655	miyelani.maluleke@absa.co.za	Absa, South Africa	Completed: 17-Apr-19 14:42 GMT
Peter Worthington	+27 21 927 6525	peter.worthington@absa.co.za	Absa, South Africa	Released: 17-Apr-19 14:42 GMT

South Africa March CPI

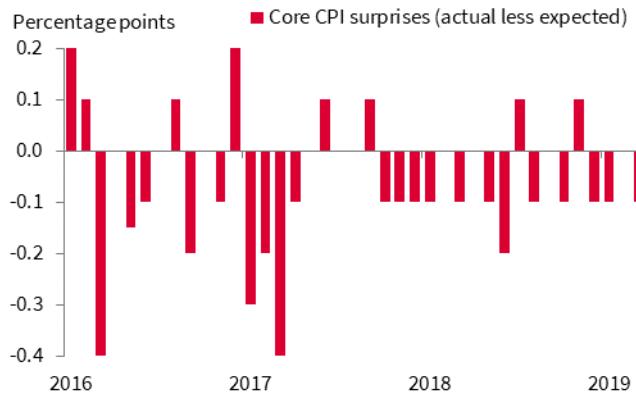
Headline inflation lower than expected on housing costs

Headline CPI inflation increased by 0.4pp to 4.5% y/y due to fuel prices, while core CPI inflation was unchanged at 4.4% y/y in March. Both these prints were lower than our and consensus expectations, with the main downside surprise coming from the quarterly rentals inflation, which eased markedly in March. The lower-than-expected headline print could reinforce FRA market expectations of a SARB rate cut this year, but the source of the downside surprise is narrowly based and we believe the MPC will remain forward-looking.

South Africa's headline CPI inflation rises to exactly the mid-point of the SARB's target range. The March CPI data showed an increase in headline CPI inflation to 4.5% y/y, up from 4.1% y/y in February. The print was lower than our forecast (4.7%) and the Thomson Reuters consensus (4.6%). The increase in headline CPI inflation was largely driven by the increase in fuel price inflation, which surged to 8.8% y/y in March from 0.9% y/y in February due to a combination of the 4.3% m/m rise in fuel prices in March and adverse base effects. Meanwhile, core CPI inflation was unchanged for the fifth consecutive month at 4.4% y/y. We expected a marginal increase in core CPI inflation to 4.5% y/y (consensus: 4.5%) partly due to base effects, but these were entirely offset by lower housing costs.

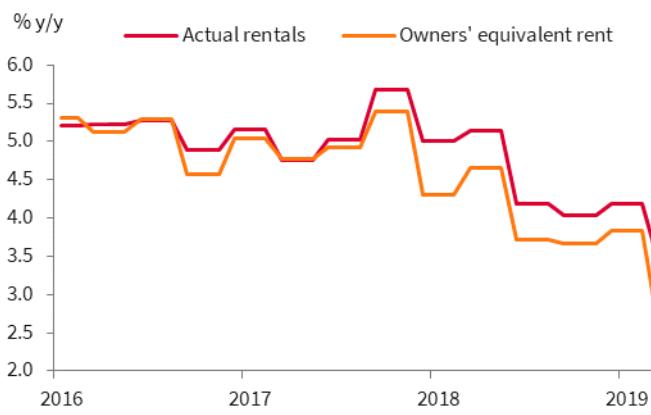
Rental costs were the main source of the downside surprise. The March CPI data included Stats SA's quarterly survey of housing costs, which showed a markedly lower pace of inflation. Inflation on 'actual rentals for housing' eased to 3.5% y/y in March from 4.2% in February, while 'owners' equivalent rent' inflation fell to 2.6% y/y in March from 3.8% in February. Falling rentals inflation is likely to be a reflection of the tougher consumer environment, in which landlords are battling to push through big rental increases and keep tenants. The sharply lower housing costs offset some increases in core goods inflation and other parts of services, such as public transport inflation, which rose to 10.1% y/y in March from 8.9% in February. However, across other parts of core services, there were still no generalised upside pressures, consistent with weak domestic demand and persistent slack in economic activity.

Figure 1: Core CPI inflation surprised to the downside again...



Source: Stats SA, Bloomberg, Absa Research

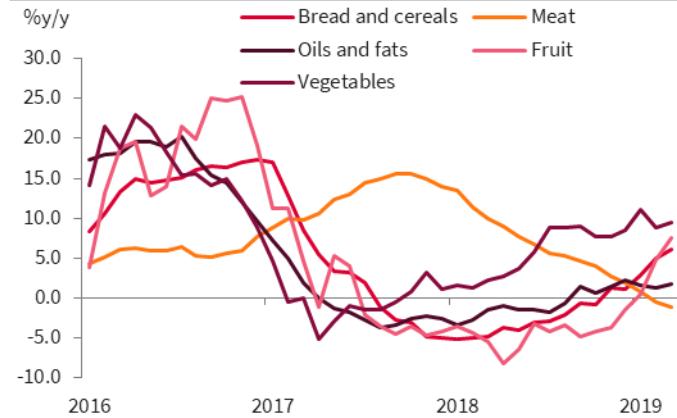
Figure 2: ...as rentals inflation eased sharply



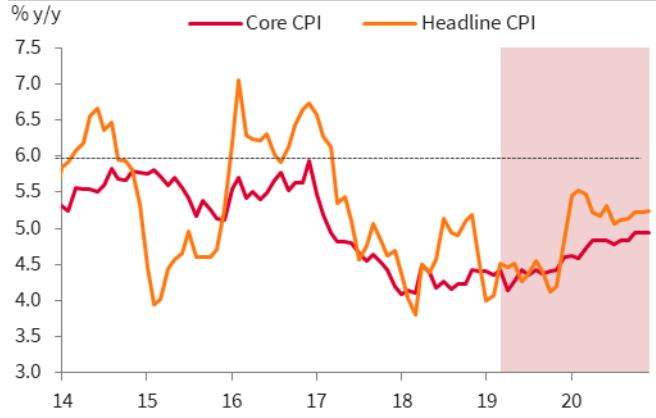
Source: Stats SA, Ahsa Research

Absa Research is produced by Absa Bank Limited acting through its Corporate and Investment Bank divisions, which is a part of Absa Group Limited (referred to as "Absa"). Absa and/or one of its affiliates does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. This research report has been prepared in whole or in part by FICC research analysts based outside the US who are not registered/qualified as research analysts with FINRA. PLEASE SEE ANALYST CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 3

Food and non-alcoholic beverages (NAB) inflation picked up slightly but underlying details were mixed. Food and NAB inflation increased for the first time in seven months to 3.1% y/y in March from 2.9% in February, driven by crop-related parts of the food basket and non-alcoholic beverages. Inflation on ‘bread and cereals’ rose further to 6.1% y/y (Feb: 4.9%), fruit price inflation surged to 7.6% y/y (Feb: 4.7%), while ‘oil and fats’ and vegetables inflation also edged higher in March. Meanwhile, non-alcoholic beverages inflation increased to 10.2% y/y (Feb: 8.6%). These increases more than offset a continued decline in meat price inflation to -1.1% y/y in March (Feb: -0.5%). We believe that the decline in meat price inflation is likely to hit a bottom in the short term as farmers rebuild herds after improved rainfall and the relaxation of red meat export restrictions to some countries (following the positive detection of food and mouth disease in Limpopo early in the year).

Figure 3: Most parts of the food basket increased in March

Source: Stats SA, Absa Research

Figure 4: Headline CPI to track around 4.5% in coming months

Source: Stats SA, Absa Research

Headline CPI inflation likely to track around the mid-point of the SARB target range over coming months. Looking ahead, the 9.1% m/m increase in fuel prices at the start of April will add notably to headline inflation, and another fuel price increase seems to be on the cards for May. However, we believe the likely upward impetus to headline CPI fuel prices in April will be completely offset by the favourable base effects after the 1pp increase in the VAT rate in April last year. Thus, headline CPI inflation is likely to remain unchanged at 4.5% y/y in April. Over the remainder of the year, we believe core CPI inflation is likely to track around 4.4% amid muted demand pull inflation. Meanwhile, food price inflation is likely to continue to rise steadily as meat prices stabilise and rising inflation in crop-related products begins to dominate. However, even as food price inflation rises and higher electricity tariffs kick in, we expect headline CPI inflation to continue to track mostly below the mid-point of the target range because base effects from the big fuel price hikes last year will have a strong dampening effect in the year-on-year percentage calculation of the inflation rate. Indeed, while today’s lower-than-expected CPI data and inflation prints around 4.5% over the coming months may reinforce market expectations of a possible interest rate cut this year, we believe the MPC will be aware that technical factors will be helping to keep headline CPI inflation low and will remain forward-looking in its approach. We, therefore, continue to see the likelihood of a rate cut in the near term as unlikely, although we would not completely rule this out, especially if economic activity weakens further over the remainder of the year. Our cautious view on the prospects for further monetary easing was, in our view, partly vindicated by SARB Governor Kganyago’s comments very recently, where he stressed that the SARB MPC still views its policy stance to be ‘accommodative’, and he reiterated the MPC’s desire to see inflation expectations firmly anchored at the mid-point of the target range.

ANALYST (S) CERTIFICATIONS (S):

I / We, Miyelani Maluleke, Peter Worthington hereby certify (1) that the views expressed in this research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

IMPORTANT DISCLOSURES

Absa Research is produced by Absa Bank Limited acting through its Corporate and Investment Bank division, which is a part of Absa Group Limited and (referred to as "Absa").

All authors contributing to this research report are Research Analysts unless otherwise indicated. The publication date at the top of the report reflects GMT time and may differ from local time where the report was produced.

Availability of Disclosures:

For current important disclosures regarding any issuers which are the subject of this research report or for enquiries regarding Research Dissemination Policies and Procedures and Absa's Conflict Management Policy, or to view previous investment recommendations published by Absa FICC Research in the preceding 12 months please send a written request to Absa Research Compliance 15 Alice Lane, Sandton, 2196.

Absa does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that Absa may have a conflict of interest that could affect the objectivity of this report. Absa regularly trades, generally deals as principal and generally provides liquidity (as market maker or otherwise) in the debt securities that are the subject of this research report (and related derivatives thereof). Absa trading desks may have either a long and / or short position in such securities, other financial instruments and / or derivatives, which may pose a conflict with the interests of investing customers. Where permitted and subject to appropriate information barrier restrictions, Absa fixed income research analysts regularly interact with its trading desk personnel regarding current market conditions and prices. Absa fixed income research analysts receive compensation based on various factors including, but not limited to, the quality of their work, the overall performance of the firm (including the profitability of the Corporate and Investment Banking division), the profitability and revenues of the Markets business and the potential interest of the firm's investing clients in research with respect to the asset class covered by the analyst. To the extent that any historical pricing information was obtained from Absa trading desks, the firm makes no representation that it is accurate or complete. All levels, prices and spreads are historical and do not represent current market levels, prices or spreads, some or all of which may have changed since the publication of this document. The Absa Research Department within Absa Bank Limited operates independently Eligible clients may receive research reports from Absa, its affiliates or third party service providers approved by Absa.

Explanation of other types of investment recommendations produced by Absa FICC Research:

Trade ideas contained herein that have been produced by the Credit analyst within Absa FICC Research are valid at current market conditions and may not be otherwise relied upon.

Disclosure of previous investment recommendations produced by Absa FICC Research:

Absa FICC Research may have published other investment recommendations in respect of the same securities/instruments recommended in this research report during the preceding 12 months.

Legal entities involved in producing Absa Research:

Absa Bank Limited (Absa, South Africa)

Barclays Bank of Kenya Limited, a registered bank in the Republic of Kenya, a subsidiary of Absa Group Limited with company registration number C.18208 and with its registered office at The West End Building, Waiyaki Way, Nairobi, Kenya.

Disclaimer:

This publication has been produced and distributed by Absa Bank Limited (Registration No.: 1986/004794/06.) acting through its Corporate and Investment Bank division, a member of Absa Group Limited ("Absa"). Absa is an authorised financial services provider, a registered credit provider Reg No NCRCP7. Absa is regulated by the South African Reserve Bank. Absa distributes this material in South Africa. This publication is not, nor is it intended to be, advice as defined and/or contemplated in the (South African) Financial Advisory and Intermediary Services Act, 37 of 2002, or any other financial, investment, trading, tax, legal, accounting, retirement, actuarial or other professional advice or service whatsoever.

Where this publication states on the front page that it is intended for institutional investors, distribution to retail investors is strictly prohibited. Any other persons who receive this communication should not rely on or act upon it. Absa accepts no liability for use of the contents of this report by unauthorized recipients.

This document has been prepared for (i) professional clients or (ii) per se professional clients (together, "Professional Clients") as defined under Annex II of the MiFID II Directive. As such it is directed at Professional Clients and other persons to whom it may lawfully be promoted. Should you not be a Professional Client you should be aware that the products and services referenced herein are neither suitable nor appropriate for you.

This publication is being distributed by Absa Securities United Kingdom Limited which is authorised and regulated by the Financial Conduct Authority.

The information contained in this publication has been obtained from sources that Absa believes to be reliable, however, Absa does not represent or warrant that it is accurate or complete. Prices shown are indicative and Absa is not offering to buy or sell or soliciting offers to buy or sell any financial instrument. Absa is not responsible for, and makes no warranties as to the information or opinions contained in any written, electronic, audio or video presentations of third parties that are accessible via a direct hyperlink in this publication or via a hyperlink to a third-party web site ('Third-Party Content'). Any such Third-Party Content has not been adopted or endorsed by Absa, does not represent the views or opinions of Absa, and is not incorporated by reference into this publication. Third-Party Content is provided for information purposes only and Absa has not independently verified its accuracy or completeness.

The views in this publication are those of the author(s) and are subject to change, and Absa has no obligation to update its opinions or the information in this publication. If this publication contains recommendations, those recommendations reflect solely and exclusively those of the authoring analyst(s), and such opinions were prepared independently of any other interests, including those of Absa and/or its affiliates. This publication does not constitute personal investment advice nor does take into account the individual financial circumstances or objectives of the clients who receive it. The securities discussed herein may not be suitable for all investors. Investors must independently evaluate each issuer, security or instrument discussed herein and consult any independent advisors they deem necessary. Any South African person or entity wishing to effect a transaction in any security discussed herein should do so only by contacting a representative of Absa Bank Limited acting through its Corporate and Investment Bank division in South Africa, 15 Alice Lane, Sandton, 2196. Person or entities which are domiciled outside of South Africa wishing to effect a transaction in any security discussed herein must ensure that such transaction complies with the local regulations of its home jurisdiction. The value of and income from any investment may fluctuate from day to day as a result of changes in relevant economic markets (including changes in market liquidity). The information herein is not intended to predict actual results, which may differ substantially from those reflected. Past performance is not necessarily indicative of future results.

Absa or its employees may, from time to time, maintain a long or short position in securities referred to in this publication or in related futures or options; purchase or sell, make a market in, or engage in any other transactions involving such securities or issuers, earn brokerage or other compensation in respect of the foregoing; and provide investment banking, credit or other services to any party referred to in this publication. Absa may have acted as manager or co-manager of a public offering of securities discussed in this publication in the past three years.

We disclaim any liability for any direct, indirect or consequential damage or losses that you may suffer from using or relying on the information on contained in this publication even if notified of the possibility of such damage or loss and irrespective of whether or not you have obtained independent advice.

Absa Research reports are distributed in the U.S. by Enclave Capital LLC, a U.S. registered broker dealer, on behalf of Absa, only to major U.S. institutional investors (as defined in Rule 15a-6 under the U.S. Securities Exchange Act of 1934 (the "Exchange Act")) pursuant to the exemption in Rule 15a-6 and any transaction effected by a U.S. customer in the securities described in this report must be effected through Enclave Capital LLC (19 West 44th Street, suite 1700, New York, NY 10036, 646-454-8600). All orders emanating from persons in the U.S should be effected through, Enclave, Absa's U.S. registered broker-dealer.

© Copyright Absa Bank Limited (2017). All rights reserved. No part of this publication may be reproduced or redistributed in any manner without the prior written permission of Absa. Additional information regarding this publication will be furnished upon request.