# Bimonthly Economic Outlook

February 2020 Last updated on 17/02/2020

## INTERNATIONAL

- Surveys and growth forecasts point towards a scenario of a global slowdown. Similarly to 2019, the world economy should decelerate considerably this year, in particular in China and the US;
- Oil prices dropped significantly since the beginning of the year due to COVID-19, which has toned down growth perspectives of the second largest economy in the World, China;
- Equities have shown resilience to the epidemic, with the S&P 500 and other indices reaching new highs in February;
- The trade war between China and the US has hurt growth prospects and will continue to be a relevant factor in markets in 2020.

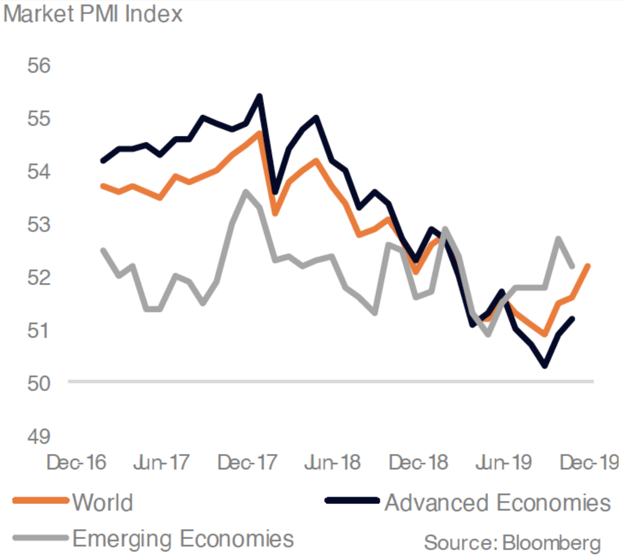
## ANGOLA

- The oil sector continues to drag the Angolan economy, as production falters; the harsh decline of the Brent will also put pressure on the non-oil economy, which is expected to grow at a modest pace;
- Latest figures show a likely surplus in both the current account and the budget balance in 2019;
- Inflation ended 2019 at 16.9%; 2020 should see an acceleration in the rise of prices due to the harsh depreciation in October 2019;
- Following a surge in overnight interbank rates due to scarce liquidity, LUIBOR overnight has dropped more than 8pp;
- Domestic short-term yields dropped ended 2019 at 14.68%; the first issue of 1-year Treasury Bills in 2020 saw a yield of 15%;
- Non-oil GDP is difficult to measure due to current statistical practice, but we estimate it has increased modestly in 2019.

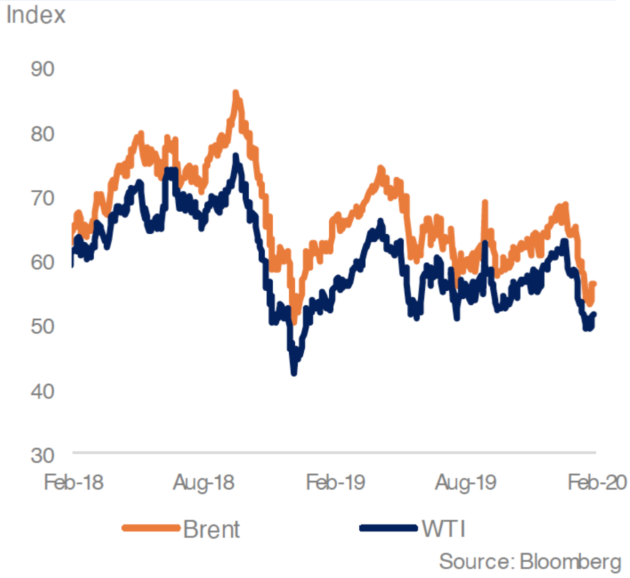
# INTERNATIONAL

## ECONOMIC ENVIRONMENT

**Global economy showing signs of slowing down**




**World economy growth is ecpected to slow down**




**World economy growth is ecpected to slow down**

| GDP change | 2018 | 2019 | 2020 |
|---|---|---|---|
| Global | 3,7 | 3,1 | 3,1 |
| Developed Economies | 2,3 | 1,7 | 1,5 |
| USA | 2,9 | 2,3 | 1,8 |
| Eurozone | 1,8 | 1,1 | 1,0 |
| Germany | 1,5 | 0,5 | 0,7 |
| Emerging Economies | 5,0 | 4,5 | 4,6 |
| China | 6,6 | 6,1 | 5,9 |
| South Africa | 0,7 | 0,5 | 1,3 |

Bloomberg composite forecasts

- **The Markit PMI indexes point towards contracting market conditions in both the Advanced and Emerging economics, since February 2018.** Notwithstanding, Emerging markets are showing some resilience as of late;
- **GDP growth expectations for 2019 are not inspiring.** Similarly to 2019, the World economy is expected to decelerate significantly this year, particularly in the case of China and the US;
- **Oil prices have tumbled since the beginning of the year, due to the evolution of COVID-19, which has toned down the outlook for growth on China, the 2nd largest economy in the World.** At the current date, Brent was trading somewhat above USD 56, following a drop to USD 53 in early February.

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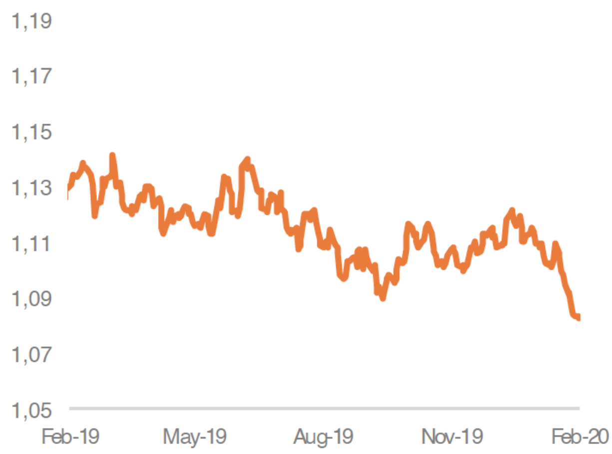
# INTERNATIONAL

## FOREX

**Dollar gained a lot of ground against the Euro in 2020**

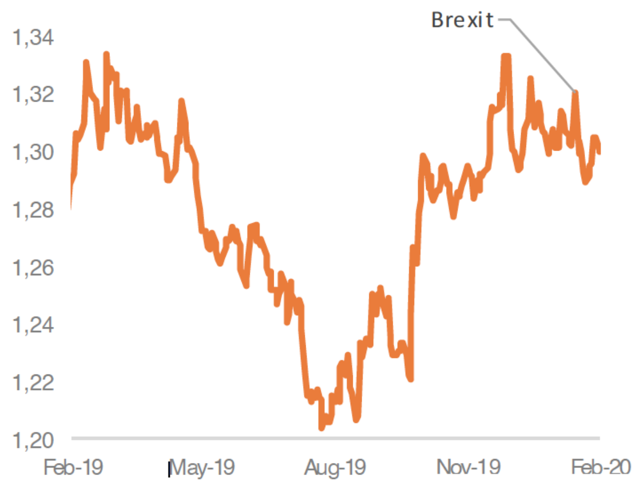
EUR/USD




Source: Bloomberg

**Since the UK left the EU, the pound is losing strength**

GBP/USD




Source: Bloomberg

**Rand has been gaining to the dollar since beginning of the year.**

USD/ZAR

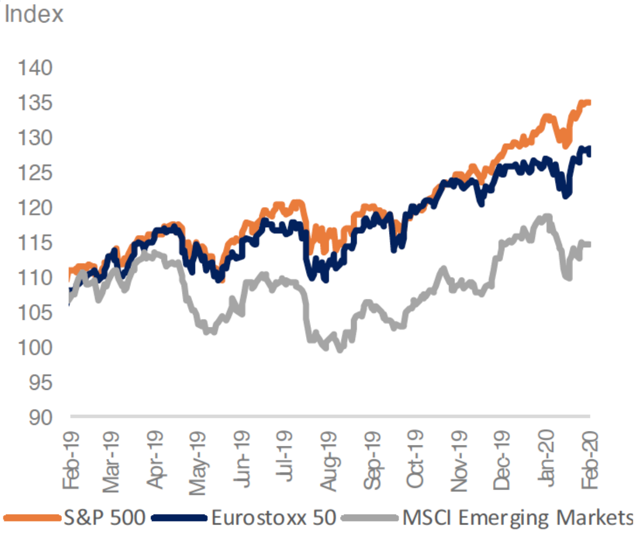

Source: Bloomberg

- **EUR/USD has been moving downwards in the last months, due to a refuge in the Dollar on the account of recession fears,** combined with negative news for growth in the Eurozone as of late;
- **Following a correction since the British elections, the Pound has largely kept much stronger than in mid-2019, as the immediate future of Brexit was cleared up and uncertainty surrounding the matter decreased;** Volatility is expected to remain high, as negotiations regarding the future relationship with the EU should still entail some level of uncertainty;
- **The Rand has strengthened against the Dollar since the beginning of the year, partly supported by measures announced by President Ramaphosa;** however, bearish pressures are still high as Moody's (the last rating agency still giving South Africa an investment rating) might downgrade SA's rating next month.

# INTERNATIONAL

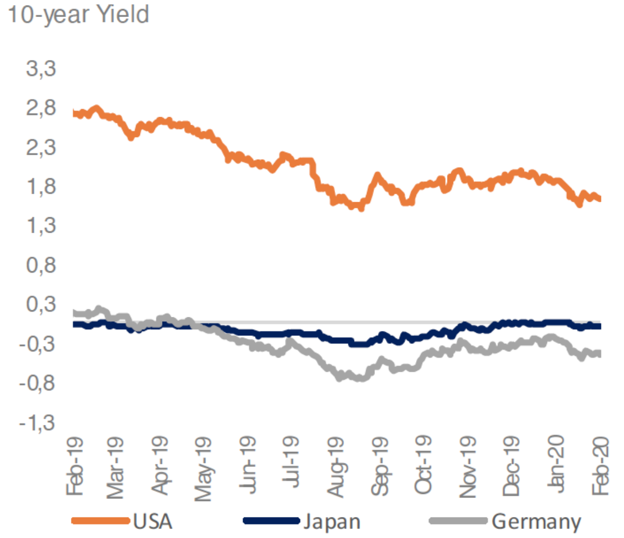
## EQUITIES AND DEBT

**Since the beginning of 2020, the stock indices of developed countries registered new highs**



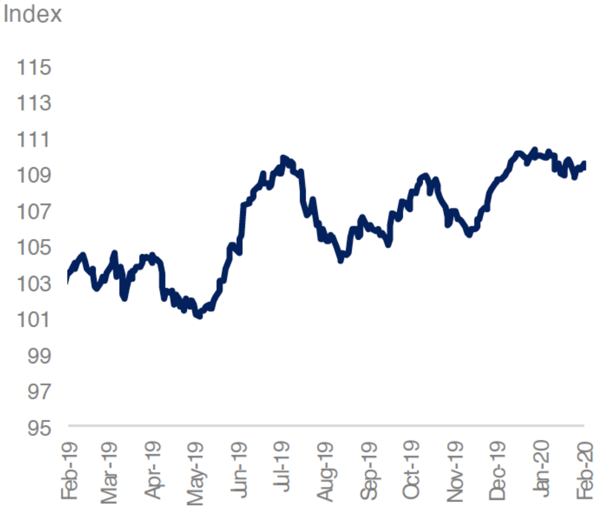

Source: Bloomberg

**Bond yields have showed some stability, with European and Japanese yields below zero**




Source: Bloomberg

**Emerging market bonds increased 9.9% in 2019**




Source: Bloomberg

- **Following a significant drop related to COVID-19 fears, equities in advanced economies posted new highs in February.** Emerging markets have suffered a greater deal from the epidemic (which turned the mood to risk-off), and have not yet recovered towards the level in the end of 2019;

- **10-year yields have returned to a negative trend, due to a reduced growth outlook and a possibly renewed easing of monetary policies due to COVID-19 impacts.** Japanese and European yields remain below zero or quite close to it, having showed significant stability in the last few months;

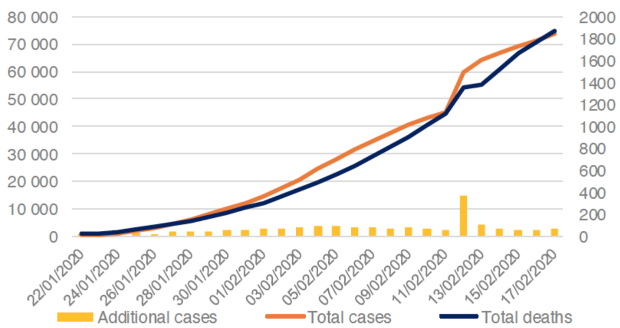
- **The J.P. Morgan Government Bond Index for Emerging Markets continues quite strong compared to the end of 2018, although somewhat weaker than in December 2019.** Although the increase might signal some better perspectives for some emerging market credits, the search for yield continues to play a relevant part.

# INTERNATIONAL

## HIGHLIGHT: COVID-19 AND ITS IMPACT ON THE WORLD ECONOMY

**According to data provided by the Chinese authorities, the number of additional cases has stabilized**

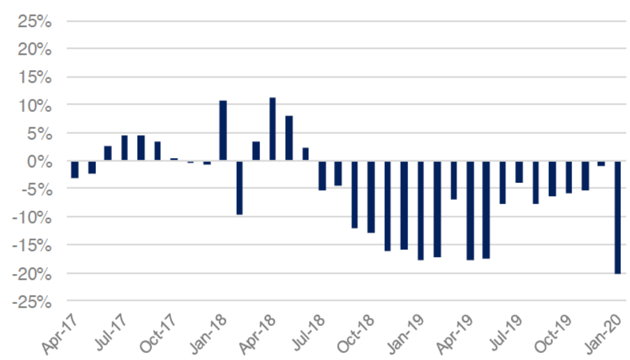
Total cases and deaths; Additional cases




Source: Bloomberg

**In January, car sales in China suffered the highest year-on-year decline in recent years, above 20%**

Year-on-year change in passenger car sales in China




Source: Bloomberg

- **The newly denominated COVID-19 (Corona Virus Disease 2019) is a new virus strain causing waves of repercussions in the World economy.** Despite its relatively low mortality rate (the numbers point towards 2%, compared to about 10% of the 2003 SARS epidemic), the long incubation period and the relatively high contagion rate (possibly asymptomatic), together with uncertainty on mutations, make this a very serious threat to the World economy. **According to reported numbers, on February 17th there were almost 74 thousand cases and 1873 deaths.**

- **Although the pace of the spread is slowing down (daily new cases are, as of now, just mildly above daily recoveries), the epidemic has already caused significant havoc in the Chinese economy:** about 780 million people are facing mobility restrictions and Wuhan residents (11 million) have been kept forcibly in their houses for 3 weeks now. Even in Shanghai, with "only" 333 cases, the subway is working at 20-30% capacity. This scenario should have a serious impact on the Chinese economy in Q1 but also for the full year of 2020, although it is not certain that Chinese authorities will reflect this in official figures; some estimates point to an actual decrease in GDP in January through March. On the other hand, the related factory stoppages should affect global chain values, in particular in the South East Asian region.

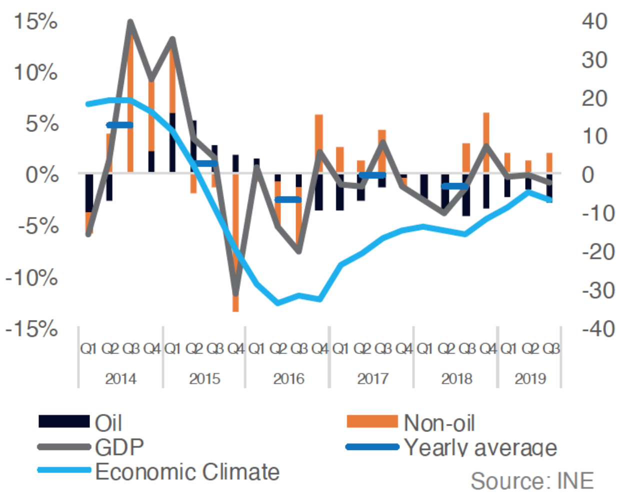
- **In financial markets, the initial reaction was sharply negative, but it was later smoothened out, particularly in the case of equity markets, with the S&P 500 and others posting record highs in the second week of February.** In the oil market, Brent fell from close to USD 70 to USD 53 in a relatively short amount of time, and is now trading close to USD 56; the harsh impact on oil is understandable taking into account that China represents half of the forecast growth in oil demand for 2020. In general, one must consider the possibility that markets are being too optimistic, and impacts of the epidemic are possibly harsher and last longer than expected.

# ANGOLA

## REAL ECONOMY

**Angolan GDP continues to fall due to a continuous decline in oil production**

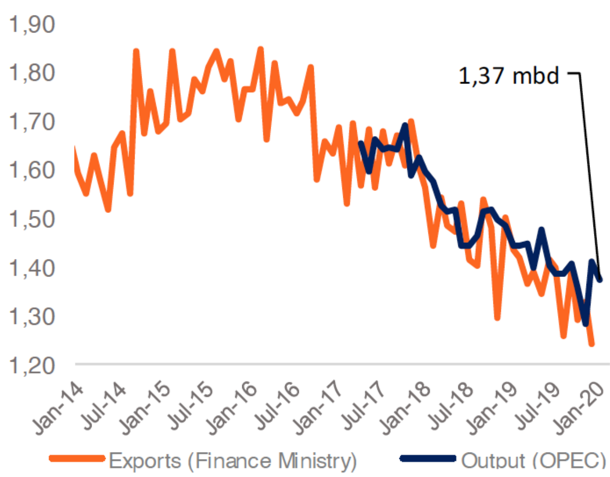
Yoy change; contribution to yoy change; index




Source: INE

**Oil output has been decreasing, and new production can only mitigate the fall**

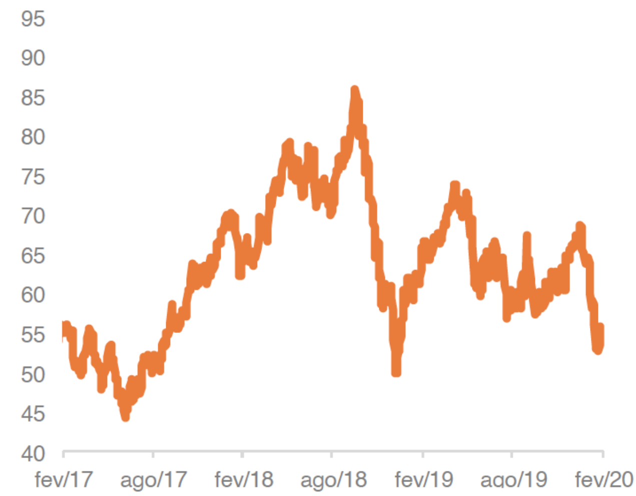
Million barrels per day




Fonte: MinFin, OPEC

**Brent Angola has been decreasing since the beginning of the year losing more than USD 10**

USD




Fonte: Bloomberg

- **The Angolan economy should decline for the 4th year in a row in 2019; in the first 9 months of last year, GDP dropped 0.4% due to a continuing decrease in the oil economy, as output keeps falling;** the remainder of the GDP (excluding the oil economy) contributed positively to GDP in the last three quarters; 2020 should bring a modest recovery, with a much milder drop in oil procution and a similarly modest growth in non-oil economy, conditional on the stability of the Angolan Kwanza;

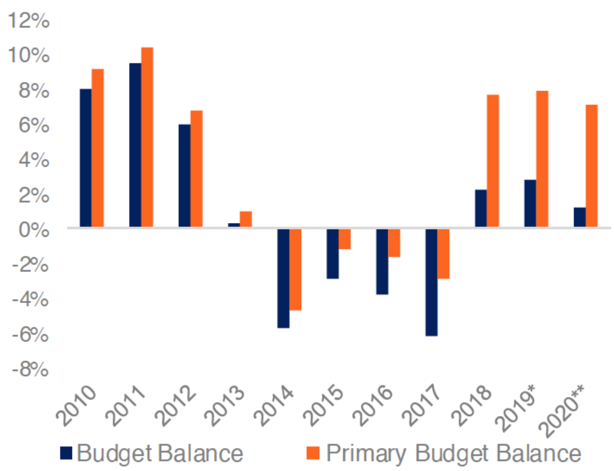
- **Production is slightly below 1.40 mbd, but should fall further;** Kaombo and other minor additions will only mitigate the decrease in output, particularly in Block 17, which represented about 30% of output in 2019; oil revenue are also likely to decline somewhat, given the effect of COVID-19 in oil prices.

# ANGOLA

## INTERNAL & EXTERNAL EQUILIBRIUM

**Primary balance returned to positive in 2018 and will have remained positive in 2019**

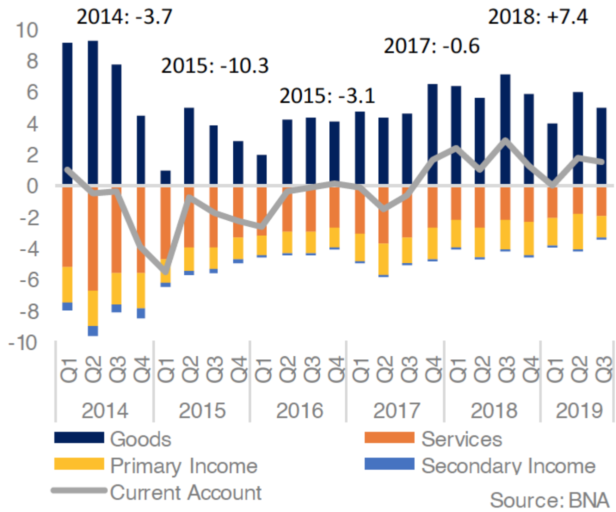
Percentage of GDP




*Preliminary **Projected Source: MinFin, BFA calc.

**The current account is expected to have a positive balance in 2019, but less than in 2018**

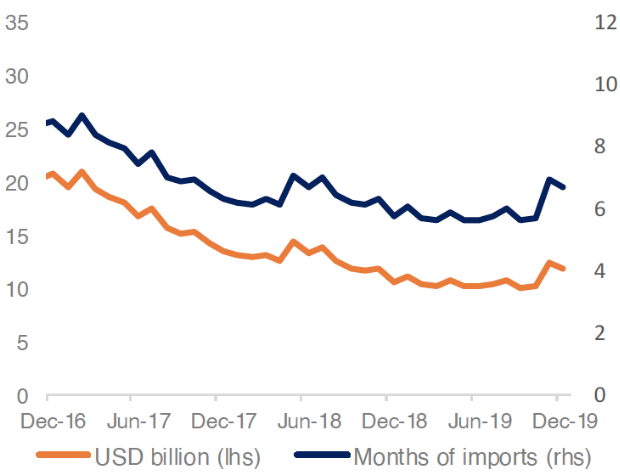
USD Billion




Source: BNA

**Net International reserves ended the year above USD 11.5 billion**

USD Billion; months of imports




Sources: BNA, BFA calc.

- **Angola posted a budget surplus in 2018 (2.2% of GDP) and should achieve the same goal in 2019.** Primary balance saw a surplus of 7.0% in 2018, showing the large weight of interest spending; the 2020 Budget also points towards a budget surplus, assuming a (nowadays) balanced price for Brent, at USD 55. Our expectation is that budget performance will be significantly conditional on oil prices, as the Executive will likely prefer to adjust spending according to its evolution;

- **The current account posted a surplus of 7.4% of GDP in 2018, and probably half this value in 2019;** this should continue to be the case in 2020 and 2021, with a possible return to deficits from 2022/23 onwards, due to the fall in oil exports;

- **Net International Reserves ended 2019 again above 6 months of imports, with this being the first yearly rise of reserves since 2013.**

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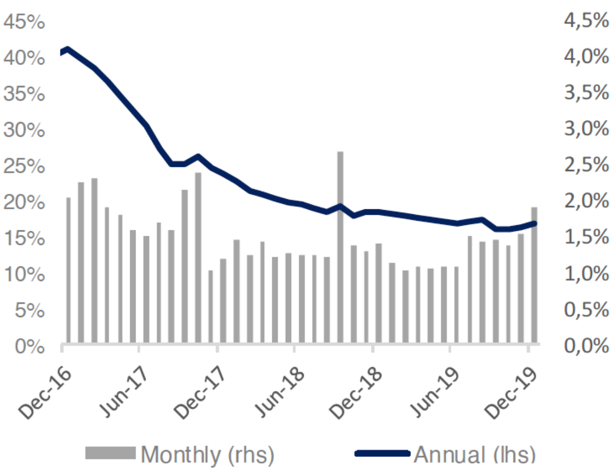
# ANGOLA

## INFLATION & FOREX

**Inflation accelerates again, after significant depreciation in October**

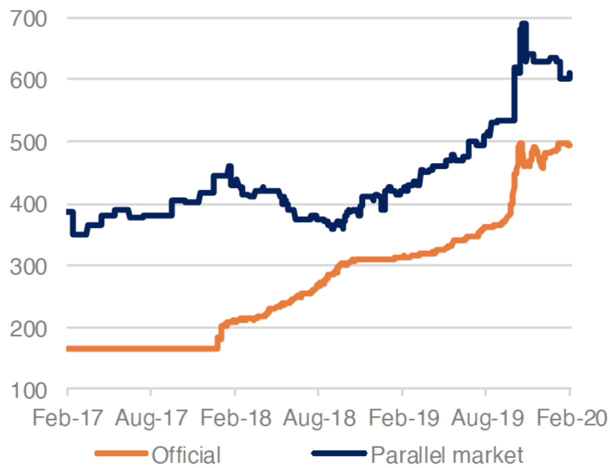
Yoy change; mom change




Sources: INE, BNA, BFA calc.

**Liberalization caused a Kwanza overshoot, which stabilized at the beginning of the year**

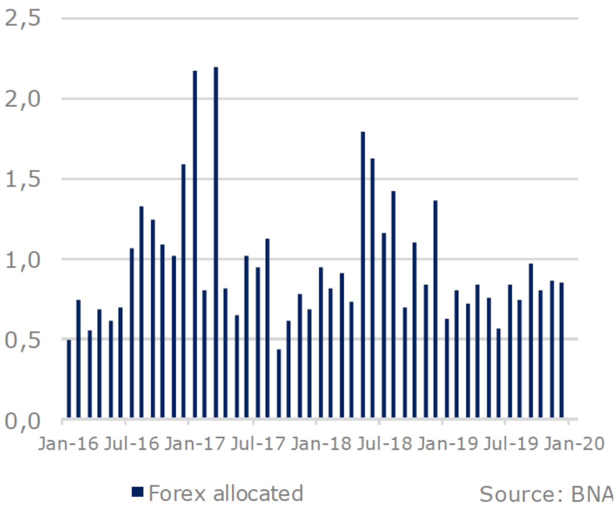
USD/AOA




Sources: BNA, Kinguila Hoje

**BNA sales to banks were significant in January, despite sales from oil companies**

USD Billion




Source: BNA

- **Inflation saw a peak above 40% in end-2016, decelerating after that, during 2017 and 2018 (despite the depreciation);** in the last months, monthly inflation increased, partly influenced by a one-off doubling in energy prices. Inflation should increase again in 2020 due to the efects of the sharp depreciation from October onwards;

- **With liberalization in October, the Kwanza saw an overshoot towards a level close to USD/AOA 500;** from that point onwards, there has been some volatility caused by scarce Kwanza liquidity; in 2020, the Exchange rate has remained broadly stable; the parallel market rate has come closer to the official market; in a more structural perspective, the Real Effective Exchange Rate is now at a much more sustainable level, whereas it previously pointed towards a very overvalued currency;

- **The central bank allocated around USD 750 million per month in forex to banks in 2019, well below the average in 2018 (1.1 bn).**

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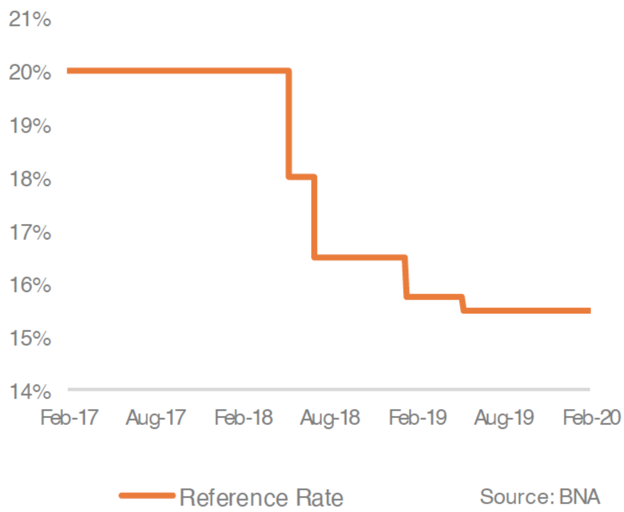
# ANGOLA

## INTEREST RATES

**Monetary policy was easing but a rise in mandatory reserves squeezed liquidity**

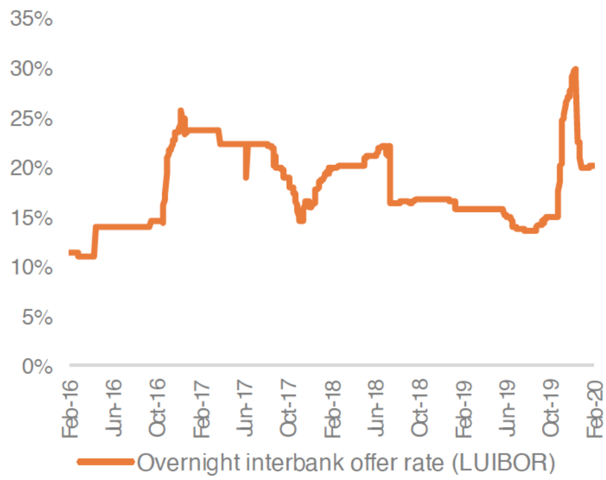
Percentage




Source: BNA

**Since the beginning of 2019, Luibor Overnight had more than 8 pp decrease**

Percentage




Source: BNA

**Other LUIBOR rates are rising at a slower pace compared to the overnight**

Percentage


Source: BNA

- **Monetary policy saw some flexibilization in 2019 – with two drops in the reference rate – up until the exchange rate liberalization:** the need to ease the fall of the Kwanza led to an increase in local currency mandatory reserves, from 17% to 22%;

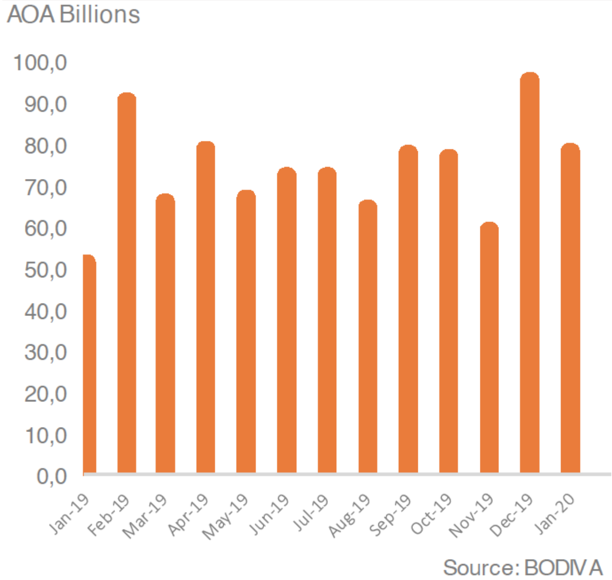
- **This move impacted liquidity, causing a spike in the overnight interbank rate (LUIBOR) towards almost 30%; it now stands slightly above 20%;** longer LUIBOR rates – used to índex retail loans – are also responding to the move;

- **Domestic debt interest rates have decreased only in short-term, but the first 2020 TB auction lifted the 91 days yield towards 15%:** 1-year treasury bill yields were slightly above 14.5% last year; longer rates are still significantly high, around 21-24%.

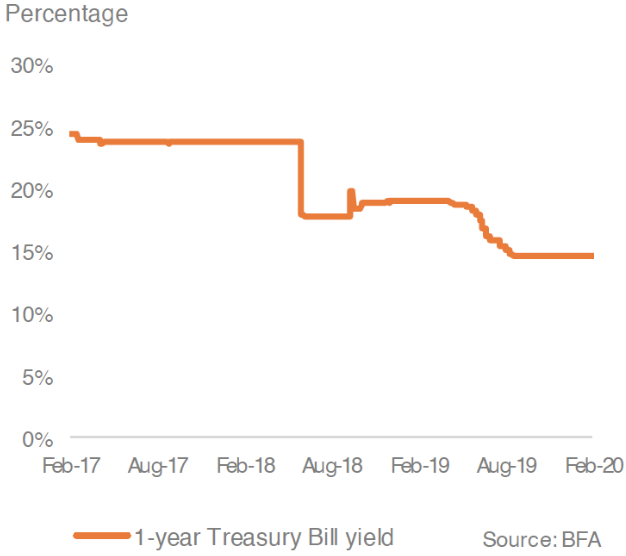
# ANGOLA

## FINANCIAL MARKETS

**The amount of Government debt traded in 2019 was AOA 874 Billion**




**Debt interest rates have started to fall, but may recover slightly in 2020**




**The yield for the 28 year Angolan Eurobond continues to fall in spite of Brent price falling**

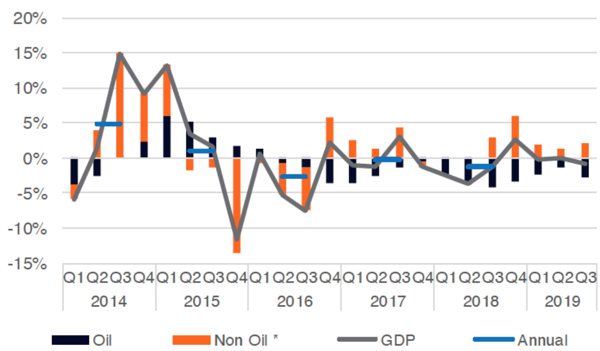

- **According to BODIVA data, a total of AOA 76.0 billion in public debt was traded in the secondary market in January.** On average, BODIVA traded AOA 72.8 billion monthly in 2019 – for a total of AOA 874.1 billion.
- **Market Bonds yields have decreased considerably in 2019. The first 1-year TB issue yielded 15% (the same as the 91-day yield), although the auction amount was rather insignificant.**
- **The Angolan 2028 Eurobond yield has gone down 0.65pp year-on-year.** Despite the fluctuations of the oil market, Angolan debt securities have proven to be extraordinarily resilient in 2020.

# ANGOLA

## HIGHLIGHT: MEASURING NON-OIL GDP

**GDP falls for the third consecutive quarter, aggravating the decline in 3Q 2019**

Yoy variation; contribution to year-on-year variation

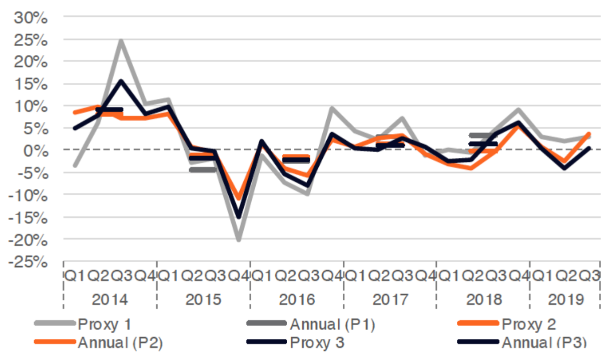



* Proxy : GDP substracted from Oil GDP

Source: INE

**Different proxies indicate a similar trend, but different growth levels**

Yoy variation; Annual growth




Source: INE

- **The oil economy continues to drag down Angolan GDP** – From January to September 2019, the oil economy contracted 6.6%, 2.8 percentage points (pp) below the drop in the same period of 2018. The two largest sectors outside hydrocarbons edged up: Retail grew significantly (+8.0% yoy) after a sharp drop (- 7.4% yoy) in the previous quarter; likewise, activity in the Construction sector increased for the 5th quarter in a row (+2.8% yoy), although decelerating compared to the previous three months. **Still, the non-additivity of INE data prevents us from drawing definitive conclusions about the progress of the non-oil economy as a whole.**

- **To get a better understand the non-oil economy, we calculate estimates for year-onyear change of three non-oil GDP proxies:** total GDP minus oil GDP; the sum of all sectoral GDPs with the exception of oil GDP; and the sum of all sectoral GDPs (except oil), together with part of Subsidies, Taxes, and Financial Intermediation Services Implicitly Measured.

- **As we can see, Proxy 1 increased 3.0% yoy in Q3, Proxy 2 was up 3.5% yoy, while Proxy 3 changed only 0.3% yoy.** More generally, the trend is similar in 2019 for all proxies: non-oil sector growth was modestly positive in the first 3 months of the year (following a solid quarter in the end of 2018), negative or weak growth in Q2, and a bounce again to positive ground in Q3. **In 2020, we expect a return to modest growth, probably below 1%, based on an equally modest recovery in the non-oil economy, and a very slight (or possible stagnation) of the oil economy.**

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