Bimonthly Economic Outlook

June 2020 Last updated 23/06/2020

INTERNATIONAL

- The outlook for the world economy is fairly negative, due to the economic shock from the COVID-19 pandemic and the impact of confinement strategies, causing a global stop of economic activity;
- In the forex markets, an initial flee to Dollar safety is now being corrected, and volatility remains high;
- Stock markets are still suffering a large impact, but recovery has taken hold in US stocks; likewise, emerging sovereign bonds are being heavily punished by fears of default in several countries, while investors take refuge in secure debt, such as the USA;
- The pandemic is now progressing at an alarming rate – particularly in South and North America -, and renewed confinement strategies are still a possibility, although not certain, for various reasons.

ANGOLA

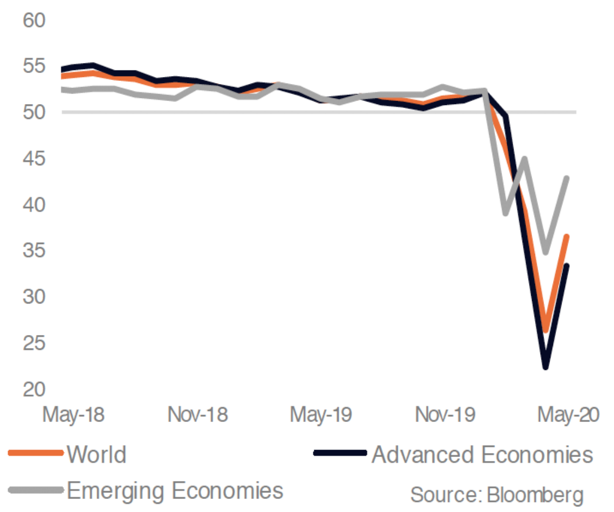
- The pandemic will have a drastic effect on the Angolan economy, whether through lower oil revenues and also a lower output volume;
- Both fiscal and current accounts were positive in 2019, but are to become fairly negative in 2020, as the pandemic cuts through oil export revenues;
- Inflation is accelerating, now at 21.8% yoy – pronounced depreciation will continue to support an increase throughout the year;
- The Angolan central bank is supporting liquidity both through overnight operations with banks and an asset purchase programme for firms;
- Domestic short-term yields are rising in 2020; the 1-year tenor is at 18.5%;
- Oil production is expected to drop further from May onwards due to the OPEC+ agreement.

INTERNATIONAL

ECONOMIC ENVIRONMENT

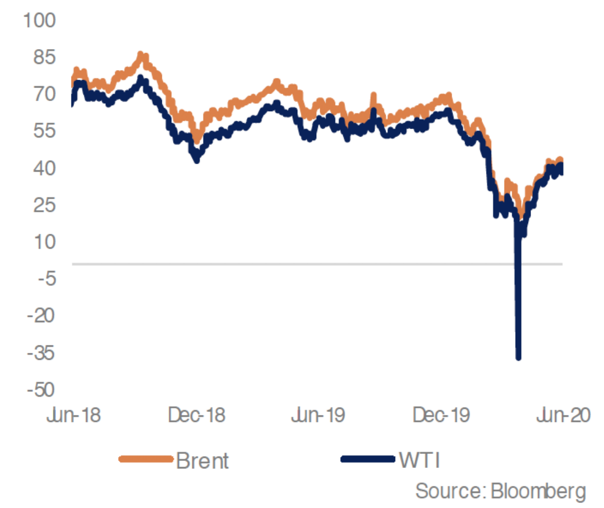
Global Economy showing slight recovery signs after a steep fall

Market PMI Index



Oil prices recovered some of the losses with na improved economic outlook

USD



Global recession is expected in 2020

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

Bloomberg composite forecasts

- **Markit's PMI indexes recovered in May, but remain heavily affected, pointing to a pronounced economic recession, both in advanced and emerging economies.** The Eurozone saw a 3.1% yoy drop in GDP in Q1, while the American economy fell 4.8% in annualized terms; the drop is expected to be more severe in Q2 2020;

- **Current forecasts are for a deep global economic recession with world GDP falling 3%.** For example, the IMF predicts GDP drops of 7.5% and 5.9%, respectively, in the Eurozone and the United States, for the year 2020; however, one should notice that this scenario assumes away a strong second wave of infections which, could significantly worsen forecasts.

- **In the last two months, oil prices rose as the new OPEC+ agreement effectively reduced supply and demand slowly recovered;** as other markets, the path of oil prices depends on whether or not a significant second wave materializes, and on whether this is accompanied by a renewed confinement strategy.

INTERNATIONAL

FOREX

After a volatile period, the Dollaris is losing ground against the Euro in 2020

EUR/USD

Source: Bloomberg

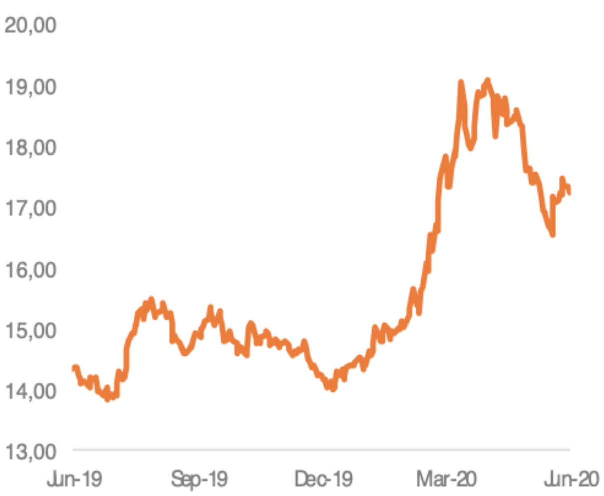
After reaching historical lows in March, the Pound has been recovering against the Dollar

GBP/USD

Source: Bloomberg

The Rand has increased at par with the improving risk outlook

USD/ZAR



Source: Bloomberg

- **After initial volatility, the Euro gained strength against the Dollar in recent weeks, with Europe getting a tighter grip on the pandemic compared to the US;** the pair is expected to continue to reflect the evolution of the disease, as current perspectives continue to reflect a grim outlook for economic growth in both geographies;

- **The Pound continues to experience volatility, but has recovered significantly from its low at the peak of the UK pandemic;** the country is among the most affected in the world, with 628 deaths per million inhabitants, far above the USA (362) and the European union (296); accordingly, developments in the situation and the impact on the British economy are expected to continue to determine the future of the Pound.

- **The Rand continues to reflect changes in global risk appetite and its effect on emerging market assets;** thus, an improvement in expectations (against a more pessimistic view in April) led the currency to significantly recover, although still remaining at a much weaker level compared to February this year.

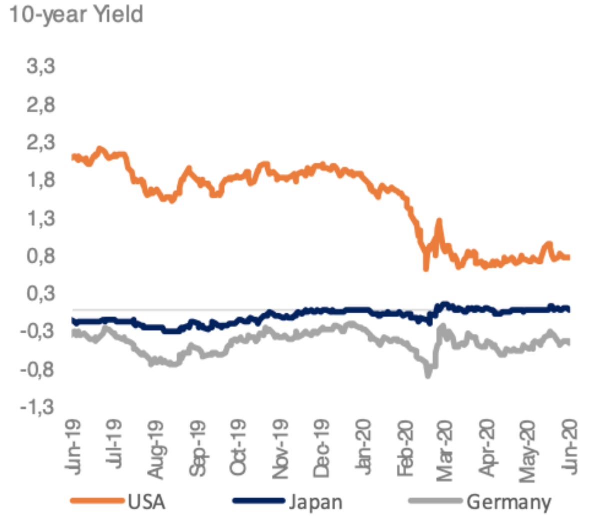
INTERNATIONAL

EQUITIES AND DEBT

Equity indexes recovered in part from the large Covid-19 tumble

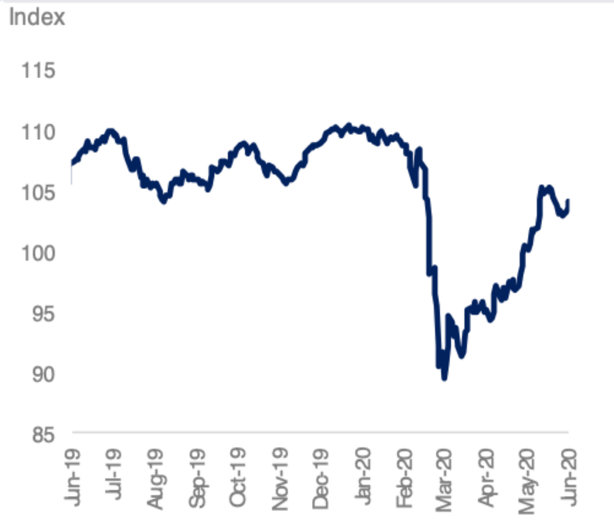
Source: Bloomberg

Yields for developed countries stabilized since the beginning of March



Source: Bloomberg

After some losses, emerging market sovereign bonds recovered somewhat



Source: Bloomberg

- **Stocks gained some of the ground lost until March, particularly in the case of American equities;** the Eurostoxx and emerging market stocks are still at a much lower level than in the end of 2019;

- **10-year debt yields remained rather stable at very low levels, an indicator of the already evident worldwide recession, despite the support of monetary and fiscal policy in several markets.** The Japanese yield is just above zero while the American yield has been varying between 0.7-0.8%.

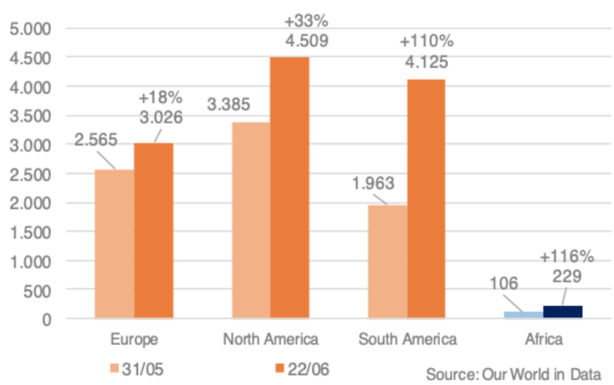
- **J.P. Morgan's emerging sovereign debt index has rebounded significantly since the crash in March, supported by improved solvency prospects in many developing economies.** On the one hand, there was a series of multilateral support (in particular, from the IMF) announced during the period; at the same time, some sovereign debt restructuring or moratorium mechanisms did materialize; finally, the relative improvement in perspectives also helped to provide some support; even so, a high-risk environment for emerging sovereign debt remains.

INTERNATIONAL

HIGHLIGHT: COVID-19 2ND WAVE?

North America has the highest incidence, with an extraordinary increase in South America since the end of May.

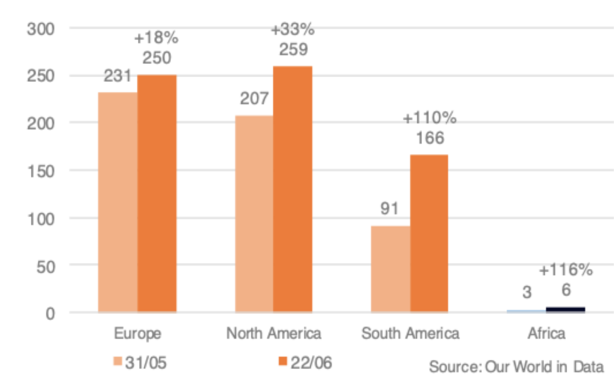
Cases per million people



Source: Our World in Data

North America has more deaths per capita, despite the aging population on the European continent

Deaths per million people



Source: Our World in Data

- **On June 19, the world saw the largest daily increase of Covid-19 cases, +178 thousand, according to John Hopkins University:** tehre was renewed acceleration in the USA (+32k), and no end in sight to growth in Brazil (+55k) and India (+15k), among other countries. In fact, Brazil, India, and parts of the USA with renewed growth (Florida, Arizona, Texas California and others) are not experiencing a 2nd wave; these zones are now going through similar situations as European countries in March/April - that is, they may have started their deconfinement strategies too soon, just as the spread has accelerated. **Thus, the pandemic is now having its largest impact in South America, in parts of the United States that were least affected in na initial stage, and may be growing significantly in areas such as India.** Bearing this in mind, economic optimism in financial markets may be exaggerated, only justified if this new phase is not similarly followed by activity constraints as tight as in March/April – the question remains whether this will be the case: on the one hand, there is a greater knowledge of the disease, with recognized effect of masks on transmission and at least one drug with an effect on mortality; in addition, there are countries where confinement fatigue will make it untebanle; still, some countries, like Chile, have reversed measures and gone back to strict confinement. **Moreover, complete normality will take long, as even the most advanced vaccine for Covid-19, in its final testing phase (there are 8 vacines in the previous testing phase), from AstraNezeca and Oxford University, should have its First doses available only at the end of 2020.**

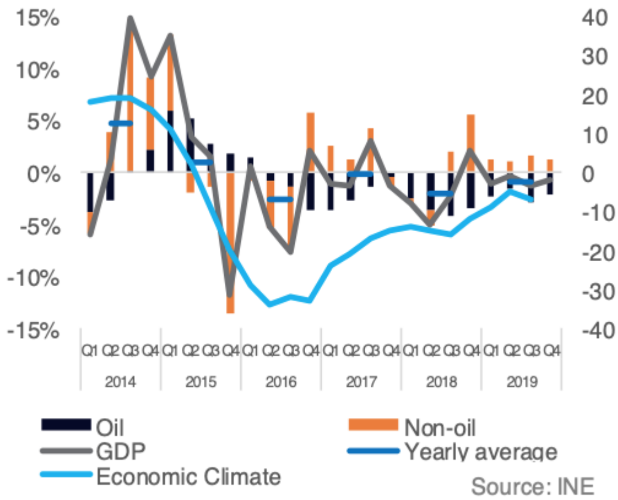
- **On the African continent, on June 23, there were 315 thousand cases and 8 thousand deaths; in comparison, Africa has 229 cases per million, far below Europe (3026) and North America (4509); there are only 6 deaths per million in the continet, also well below Euroope (250) and North America (259).** While doubts on testing capacity in parts of the continent remain, there are also reasons justifying a smaller impact of the pandemic in Africa so far (less connection to the global economy, younger population, tight and early border control measures). However, it is still quite possible that the disease affects the continent in a more pronounced way, considering the lagged impact in other geographies, such as South America - in fact, the numbers have grown very fast in recent weeks in some countries, albeit still hovering at relatively low levels.

ANGOLA

REAL ECONOMY

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

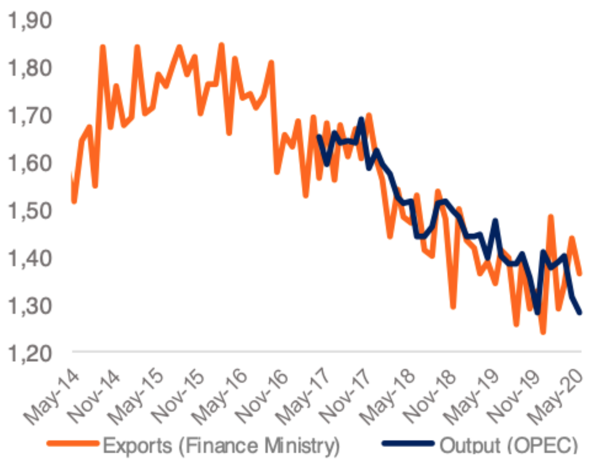
Yoy change; contribution to yoy change; index



Source: INE

Oil output saw a 16,4 % yoy fall in May, following months of stability close to 1.4mbd

Million barrels per day



Fonte: MinFin, OPEC

In the beginning of April, Brent Angola prices saw a historic low

USD

Fonte: Bloomberg

- **The outlook for the Angolan economy in 2020 is fairly negative; still, some sunrays pierce through the clouds as Brent prices recover and an apparent debt moratorium agreement with Chinese entities takes shape;** in 2019, GDP fell 0.9%, mainly due to the fall in oil production; in 2020, the economy will be dragged mostly by a huge drop in oil prices, impacting the non-oil economy, very much dependent on oil revenues (both through fiscal revenue and forex inflows to support economic activity). Additionally, the reduction in the volume of crude oil produced (in compliance with the OPEC+ agreement) will also cause a drop in the oil economy. The IMF forecasts a 1.4% drop in GDP, but we expect a harsher fall;

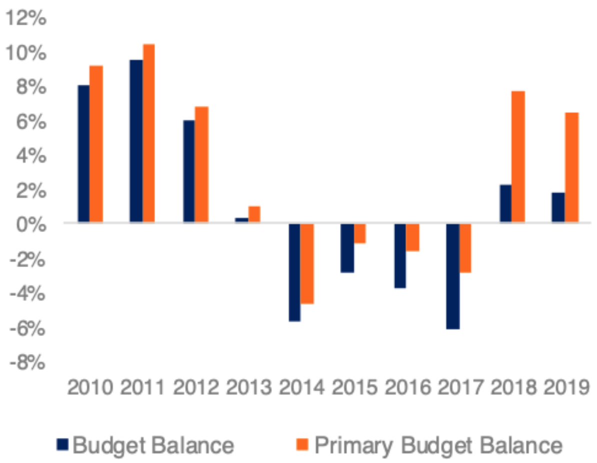
- **Crude production was just below 1.40mbd in the first months of 2020;** as of May, a decrease is already evident, with production between May and August settling somewhere between 1.20-30mbd.

ANGOLA

INTERNAL & EXTERNAL EQUILIBRIUM

The primary budget balance was positive at 6.5% of GDP in 2019

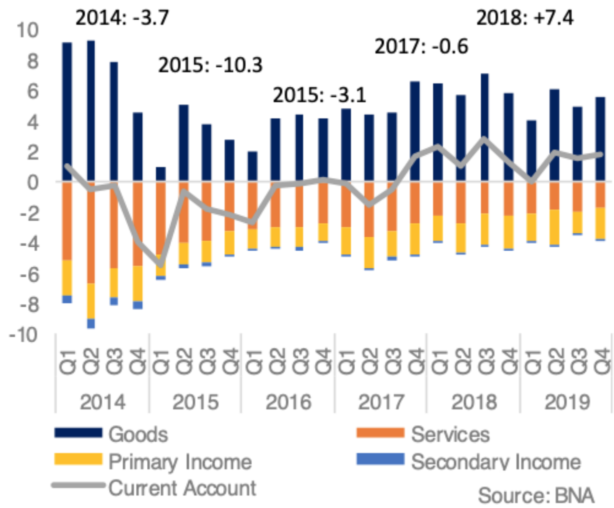
Percentage of GDP



Source: MinFin, BFA calc.

Current account posted a surplus in 2019 but will return to deficit in 2020

USD Billion



Source: BNA

Net International Reserves fell by 12.4% compared to December 2019

USD Billion; months of imports

Sources: BNA, BFA calc.

- **Angola posted a budget surplus for the 2nd year in a row in 2019, around AOA 0.6 trillion (1.8% of GDP).** The primary balance in 2019 was positive at 6.5% of GDP, also the second consecutive year of surplus, although slightly below the previous year (7.7%). In 2020, we expect a return to a deficit: the size of this deficit will depend on the existing slack on the amortization side, which in turn depends on the agreement still in negotiations with Chinese entities, for a payment moratorium;

- **The current account showed a surplus of 6.9% of GDP in 2019;** the current account is also expected to tumble back into the red in 2020, due to decreasing oil export revenues – 2021 numbers depend on how the oil market evolves; Q1 2020 numbers are likely to still show a surplus, possibly even higher than in 2019, contrarily to performance in the remainder of 2020.

- **Net International Reserves closed May at USD 10.2 billion, the lowest figure since October 2019.**

BFA
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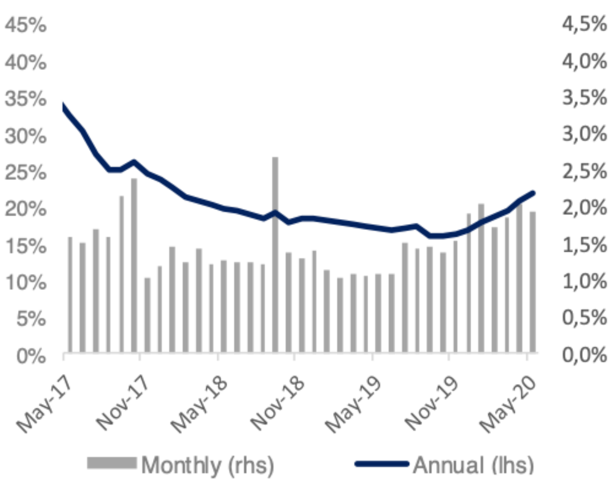
ANGOLA

INFLATION & FOREX

Yearly inflation increased for the seventh consecutive month in May

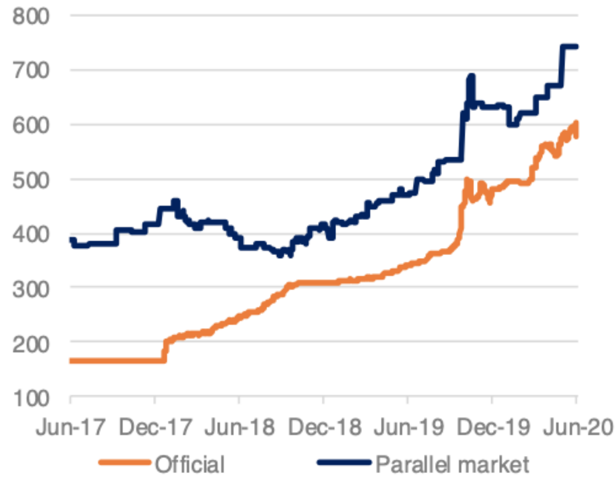
Yoy change; mom change



Sources: INE, BNA, BFA calc.

Since the beginning of May, the Kwanza depreciated 7% as forex inflows diminish

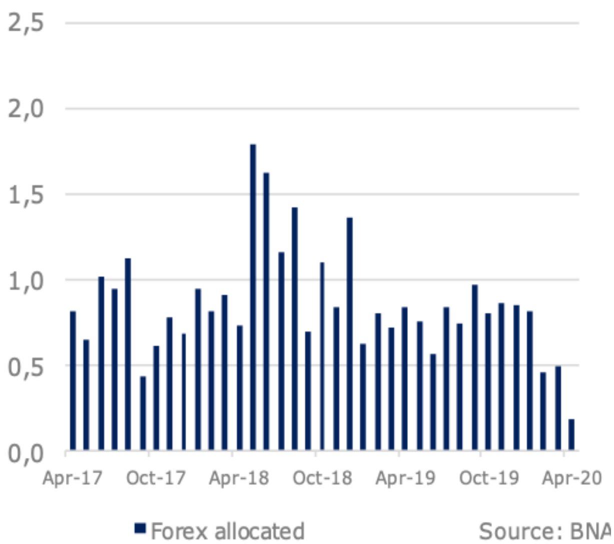
USD/AOA



Sources: BNA, Kinguila Hoje

Central bank forex sales to banks were the lowest since 2005 in April

USD Billion



Source: BNA

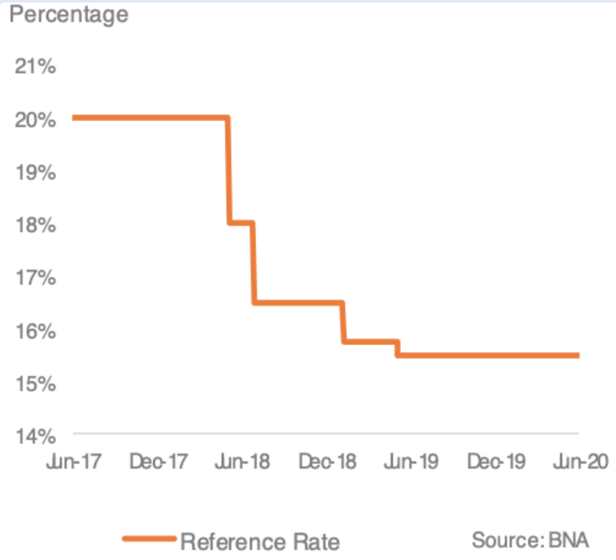
- **Annual inflation is accelerating again, reaching 21.8% in May, the 7th consecutive month of increase, and the highest value since January 2018;** we expect to see continued inflation growth in the coming months, with average inflation possibly close to 25% in 2020;

- **The Kwanza has continued to lose value, recently trading at levels close to USD/AOA 580-600, as forex inflows become scarcer, due to the drop in oil prices;** in the parallel market, the Kwanza followed a similar path, with the currency trading near USD/AOA 740, according to Kinguila Hoje - the gap between the parallel market and the reference rate is thus above 20%; compared to the sell rate of retail banks (which has been fluctuating around USD/AOA 610-630), the range is below this mark.

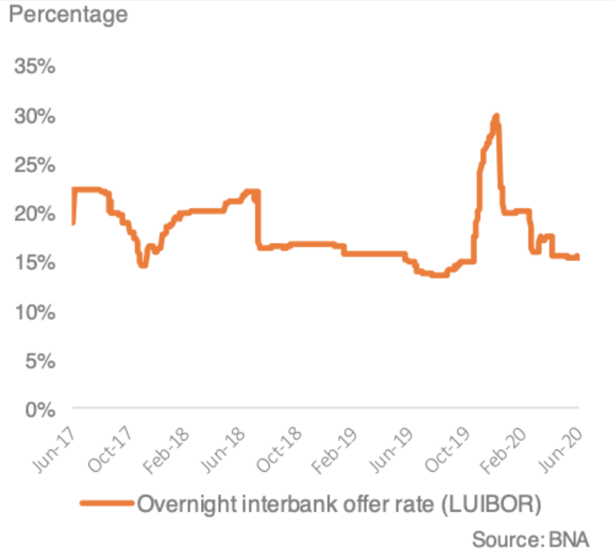
ANGOLA

INTEREST RATES

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



Since the beginning of the year, Luibor Overnight saw a 13 pp drop



Other Luibor rates are diminishing at a slower pace than the Overnight

- **Monetary policy in 2020 has supported liquidity, with the BNA increasing the availability of overnight lending, turning the BNA Rate into an effective high boundary for overnight rates;** in addition, BNA also created an AOA 100 Bn quantitative easing line to provide liquidity to companies, by buying domestic debt securities from them; 58.5% of this line has already been used up;

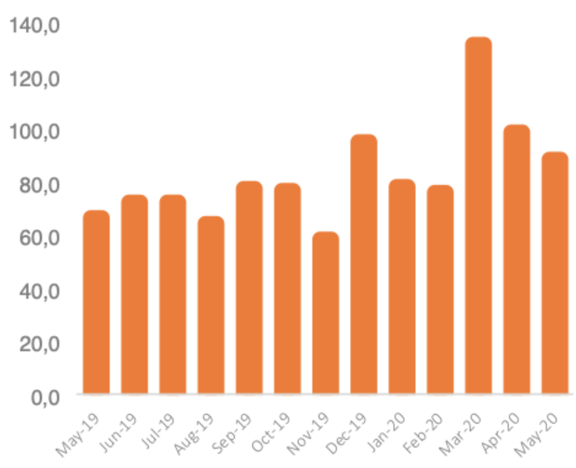
The strengthening of BNA's liquidity provision brought LUIBOR overnight to a level below the BNA rate (15.5%); at the same time, the longest rates also declined significantly, to levels closer to the shorter term.

ANGOLA

FINANCIAL MARKETS

Until May 2020, sovereign debt trading was AOA 476.7 billion (+34.5% yoy)

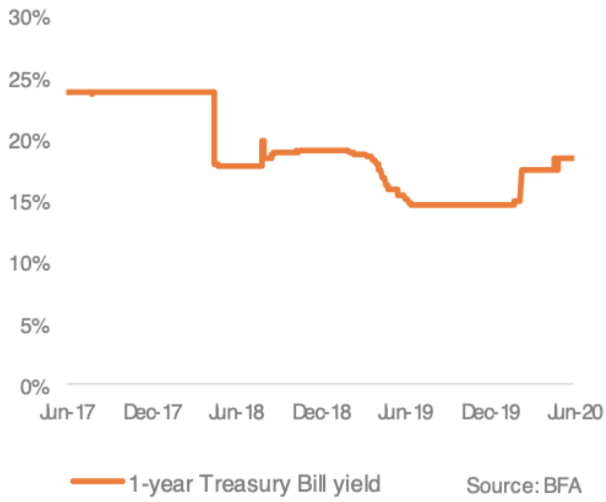
AOA Billions



Source: BODIVA

Since the beginning of the new BT issue, interest rates have already increased 3.5pp to 18.5%

Percentage



Source: BFA

The yield for the 2028 eurobond has been decreasing in tandem with rising oil prices

Percentage

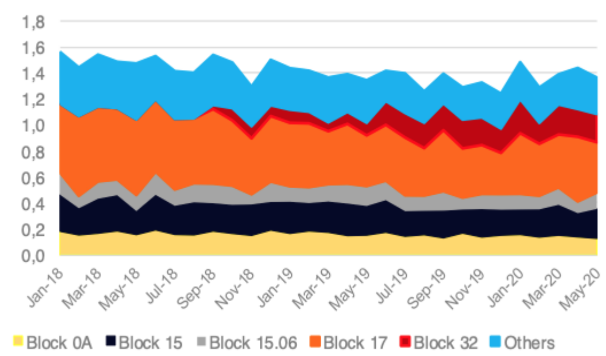
Source: Bloomberg

- **According to BODIVA data, a total of AOA 89Bn in securities were traded on the market in May.** On average, AOA 95Bn were traded per month in 2020 (24Bn above the same period in 2019);
- **In 2020, short-term domestic debt rates increased, having stabilized after setting at current levels:** 1-year Treasury Bill yields are now 18.5%, almost 4 pp above the last year's average (14.68%); the longer rates have gone up in the last 2 months, trading at a range of 22.5-24.5%;
- **Eurobonds yields declined again, reflecting a less likely default scenario, with rising Brent prices rising and a greater likelihood of a debt moratorium agreement with the Chinese authorities.**

ANGOLA

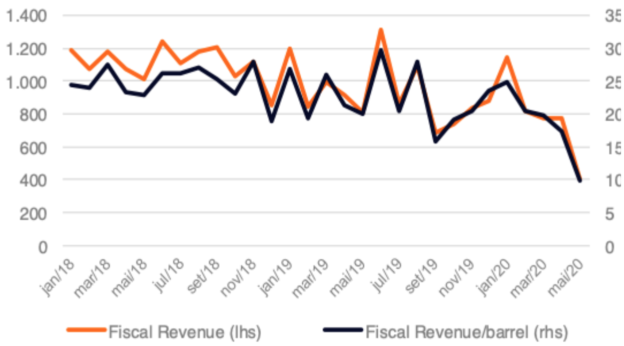
HIGHLIGHT: ANGOLAN CRUDE PRODUCTION

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



Source: Minfin

Different proxies indicate a similar trend, but different growth levels



Sources: Minfin, BFA calc,

- **Since the beginning of the year, the price of oil has seen a huge drop: initially due to trade tensions between China and the USA and then as a result of the global economic paralysis caused by the Covid-19 pandemic.** During this period, the price of Brent reached levels as low as USD 19, leading the Angolan Government to change the course of economic and fiscal policy; the 2020 State Budget revision process started, using an average price of USD 35 per barrel (USD 20 lower than in the initial Budget.

- **Regarding production volumes, the first months of the year showed some stability compared to the same period in 2019. Between January and May this year, exports of Angolan crude fell only -0.5% yoy, averaging 1.38 million barrels per day (mbd).** With the introduction of the new OPEC+ agreement, which provides for a joint reduction of almost 10mbd, Angolan production is expected to register a significant drop in the coming months. The June OPEC report confirmed a 0.122mbd redution between March and May to 1.280mbd (lowest figure since April 2017). According to Reuters, Angola is expected to export an average of 1.23mbd in August (0.02mbd below its quota for this period stipulated by OPEC +).

- **With regard to the investments planned for 2020, the global macroeconomic scenario, which according to the IMF predicts a recession of 3% in 2020, forced oil operators to review their investment strategies in the short and long term.** French oil company Total has already announced that it will not drill additional wells at the moment; the Italian ENI, which last year announced the discovery and drilling of additional oil in Block 15/06, should keep this project on standby; Chevron has decided to cancel several new investment contracts and will follow a cost management strategy in the existing fields. This suspension of oil investments in Angola, together with the natural decline in some blocks (notably Block 17), implies a significant drop in the volume produced. The impact will be felt in the short term, but also in the following years, as new investments are necessary to offset the level of reduction in the more mature blocks, which will see a significant decrease in any scenario.

- **At the fiscal level, the fall in oil prices will again put the accounts in the red: the Budget foresaw a suplus around 1.2% of GDP, but the impact of the crisis will turn that into a deficit between 4-5% of GDP.**

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