Bimonthly Economic Outlook

September 2020 Last updated on 14/09/202

INTERNATIONAL

- According to the IMF, the global outlook is for a sharp drop of 5% in the world economy, caused by the Covid-19 and the effects of confinement and preventive actions worldwide;
- In the foreign exchange markets, the Euro has maintained its gains against the Dollar, which came as a result of a harsher blow to the US by the pandemic;
- Stock markets show a recovery, with greater emphasis on the S&P 500, which has surpassed pre-Covid levels;
- In the oil market, prices are now back at levels close to USD 40, as worries mount on the next phase of the pandemic;
- Although vaccines are at an advanced stage of testing, their mass distribution should still be delayed.

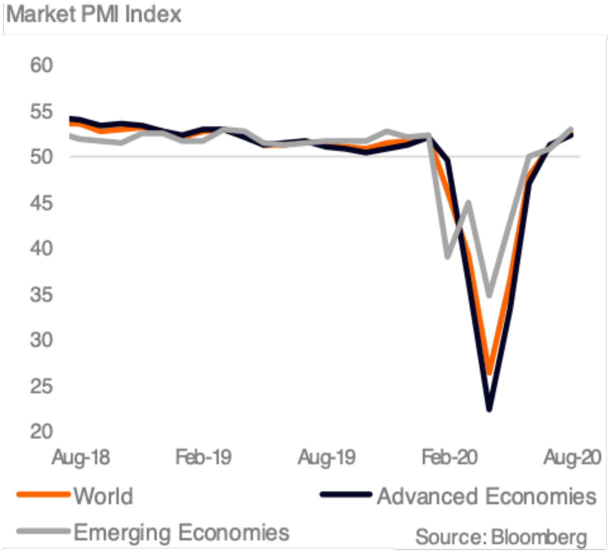
ANGOLA

- Oil production continues to drop, declining to historical lows in July;
- The Current Account balance recorded in Q12020 a surplus of USD 1.2 Bn - on average the surplus was USD 1.3 Bn in 2019;
- Annual inflation had the 10th consecutive month of increase, reaching 23.4% in August; our expectation is that it will continue to rise in the coming months averaging around 25% in 2020;
- Since the beginning of the year, interbank rates have dropped, with the overnight rate tumbling more than 13pp;
- Domestic short-term yields declined in 2019, but are rising in 2020; the one-year rate rose to 19%;
- The ratings assigned by the top 3 agencies deteriorated considerably with the significant oil market crash, and there is now a considerable risk of default.

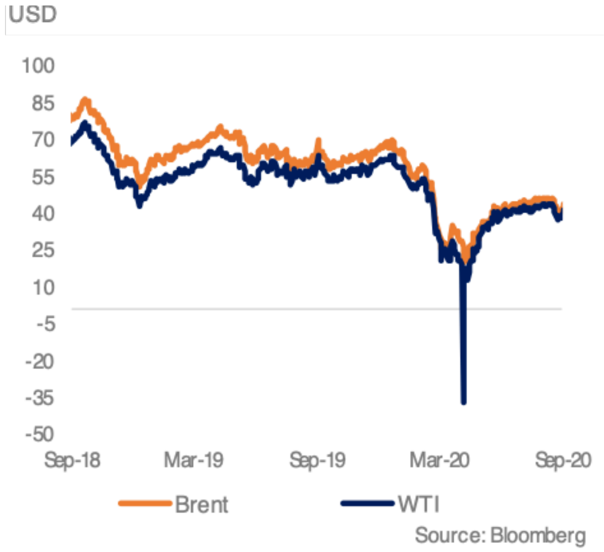
INTERNATIONAL

ECONOMIC ENVIRONMENT

Global Economy showing slight recovery signs after a steep fall



Oil prices have recovered, trading around USD 40 since June



Global recession is expected in 2020

GDP change	2018	2019	2020
Global	3,6	2,9	-4,9
Developed Economies	2,3	1,7	-8,0
USA	2,9	2,3	-8,0
Eurozone	1,9	1,3	-10,2
Germany	1,5	0,6	-7,8
Emerging Economies	4,5	3,7	-3,0
China	6,7	6,1	1,0
South Africa	0,8	0,2	-8,0

IMF forecast

- **Markit's PMI indexes recovered, showing signs of a recovery in the global economy after very substantial declines.** Note that the PMI indices point to changes compared to the previous month. In the Eurozone, GDP fell by 12.1% yoy in Q2, while the American economy fell by 31.7% in annualized terms;

- **In June, the IMF revised its growth estimates for this year, worsening its forecasts and pointing to a strong economic recession with world GDP falling by almost 5%.** Among the revisions, the IMF now predicts drops of 10.2% and 8%, respectively, in GDP of the Eurozone and the United States, for this year; however, one should note that the scenario does not account for a more serious wave of infections that may occur in the next few months in the Northern hemisphere.

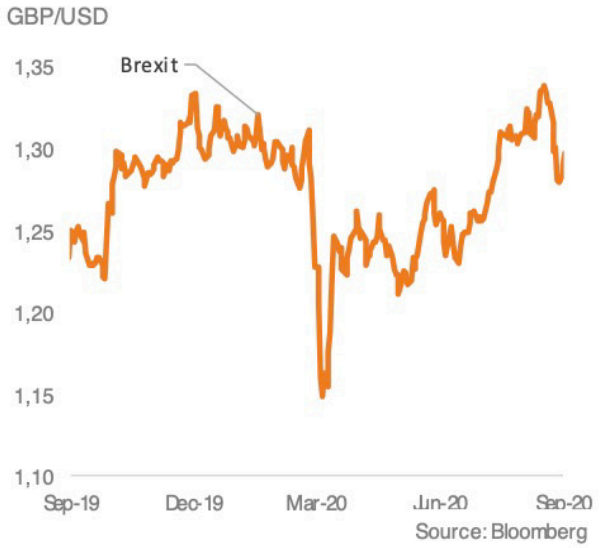
- **Oil has been recovering since the lows recorded in March, with the new OPEC + agreement having an effect on supply: the price has stabilized around USD 40 since June;** the maintenance of this recovery is pending on the evolution of demand in the coming months.

INTERNATIONAL

FOREX

The Euro is holding to the gains maed in the first semester of 2020

The Pound is under pressure as Boris Johnson has put some strain in EU-UK trade negotiations



The Rand has now recovered some of the losses made until April

- **In recent months, the Euro has maintained gains against the Dollar, having appreciated by about 5.8% since the beginning of the year, with the pandemic being controlled more quickly in the Euro Zone than in the United States;** the pair is expected to continue to reflect the evolution of the disease, at the same time that the news of growth in several geographies is confirmed as discouraging;

- **After a very sharp drop in March due to the serious situation of the pandemic in the United Kingdom, the Pound has gradually recovered;** it fell again in September after a new setback in negotiations with the European Union, having been losing just under 3% against the Dollar since the end of 2019;

- **The Rand remains much weaker than at the beginning of the year (-14.6% against the Dollar), reflecting the risk aversion affecting emerging markets, but has already recovered 16.4%** from the lows recorded in April; this recovery is due to a relatively less serious situation than anticipated.

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EQUITIES AND DEBT

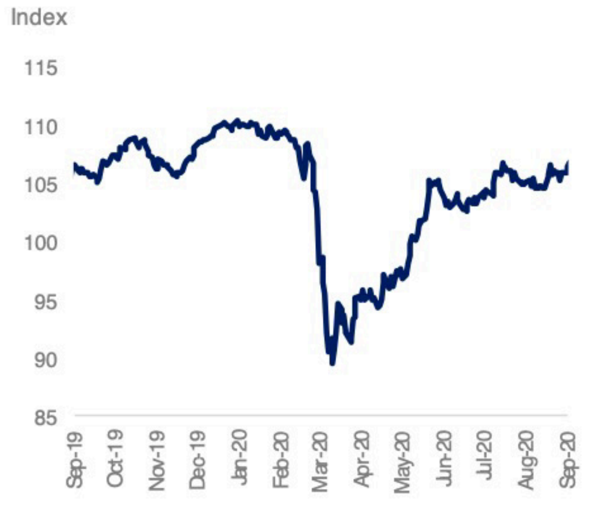
American stocks have surpassed pre-pandemic levels; other equities recovered at a slower pace

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 recovered significantly from their lowest point in March, with the S&P 500 outpacing pre-pandemic data;** the MSCI Emerging Markets index has performed similarly to the American one, recovering faster that the Eurostoxx 50, as the European stocks seemed to have suffered more due to the pandemic.

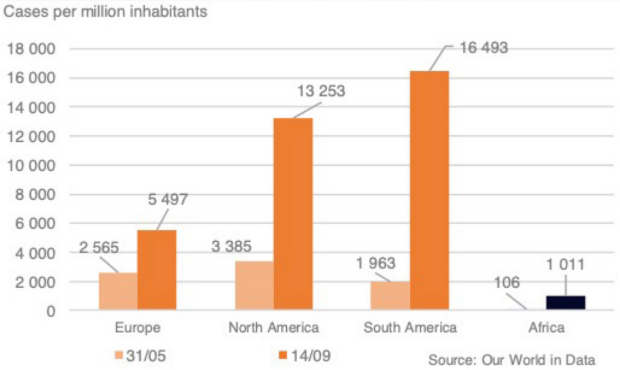
- **10-year debt yields remained stable at very low levels, an indicator of the recession that is already manifesting itself worldwide, despite the support of monetary and fiscal policy in many locations.** The Japanese yield remains just above zero while the American yield has been varying between 0.6-0.8%.

- **J.P. Morgan's emerging sovereign debt index has recovered sharply since the crash in March, supported by improved solvency prospects for many developing economies.** OOn the one hand, there was a series of multilateral support (in particular, from the IMF) promoted during the period; at the same time, some sovereign debt restructuring or moratorium mechanisms (including the G20 Initiative) did materialize.

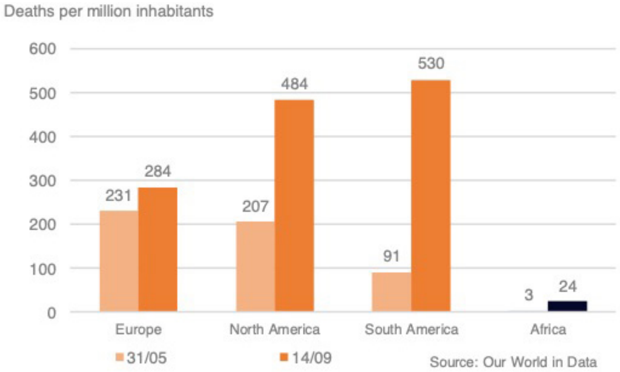
INTERNATIONAL

HIGHLIGHT: WHEN WILL WE HAVE A VACCINE?

South America is now the continent with the highest incidence, with about 1.6% of the population with confirmed infection



Also in deaths registered by COVID-19, South America is the continent most affected



- **In an unprecedented effort in the pharmaceutical world, scientists and companies from around the world are in a race to get a vaccine for Covid-19 as quickly as possible, so that life can more or less go back to normal.** According to the New York Times tracker, there are 40 vaccines in clinical trials: of these, 9 are in a last test period, known as Phase 3, in which vaccines are tested on tens of thousands of people, in order to gauge their effectiveness and security. In addition, although there are no definitive results, 5 of these vaccines have received authorizations for limited use in Russia, China and the United Arab Emirates.

- **Even so, the widespread use of vaccines should still take some time:** using the example of one of the most advanced vaccines, from AstraZeneca and the University of Oxford, statements by company officials pointed to the first results of Phase 3 clinical trials during this month, with production possibly starting sometime in Q4 2020, a scenario not without uncertainty. Note that the objective would be to produce 3 billion doses, which would be administered to 1.5 billion people, as a double dosage is expected to be necessary. **On the one hand, this means that even in the best of cases, more vaccines would need to be approved, and other vaccines are not necessarily going to yield such a large output.** In the case of Moderna, the company plans to produce 0.5-1.0 billion doses, enough for 250-500 million people. Most likely, not all of these vaccines ahead in testing phases will be approved, which suggests that their distribution is likely to be very uneven in the first few months. **On the other hand, according to vaccination experts, the bar for what is an effective vaccine is being lowered:** while in a normal scenario a vaccine would aim to completely prevent infection, approval is being contemplated for vaccines that are able to "just" reduce the severity of the disease and prevent deaths - thus, it is possible that, for the geographies in which vaccination is applied, mortality will be reduced but the rate of infection will increase, making containment measures necessary despite the existence of vaccines.

- **In this sense, economic sentiment will thus be highly dependent on the quantity and quality of vaccines that are approved, as well as on the amount and speed of production of the doses.**

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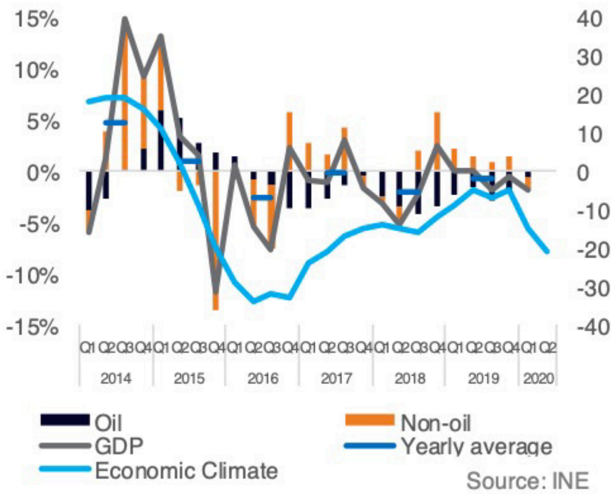
REAL ECONOMY

Economic sentiment is pointing towards a sharper drop in GDP in Q2 2020

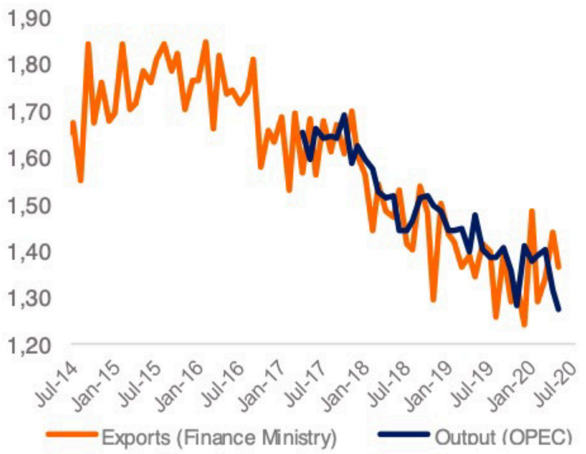
Yoy change; contribution to yoy change; index



Source: INE

Output reached a historical low in July, in keeping with OPEC+ quotas

Million barrels per day



Fonte: MinFin, OPEC

Brent saw a mild drop in September, now trading close to USD 40

USD

Fonte: Bloomberg

- **Economic sentiment points to a very sharp drop in GDP in Q2 - the economy fell 1.8% yoy in Q1 2020.** This was the 3rd consecutive quarter of decline. On the side of the oil sector, the drop was the smallest since the end of 2017, with the sector falling 1.7% yoy. On the non-oil economy, our data points to the first drop since the 2nd quarter of 2018, at around 1.8% yoy. For the entire year, the IMF predicts that Angola's GDP will contract 4%.

- **Oil production remains under pressure, both due to compliance with the OPEC + agreement and the lack of investment - in July, the production volume registered a minimum of 1.19 million barrels per day, according to OPEC secondary sources.** On average, production stood at 1.34mbd from January to July, down 3.7% yoy according to MinFin data. Brent prices are undergoing a slight correction in September, now trading just under USD 40.

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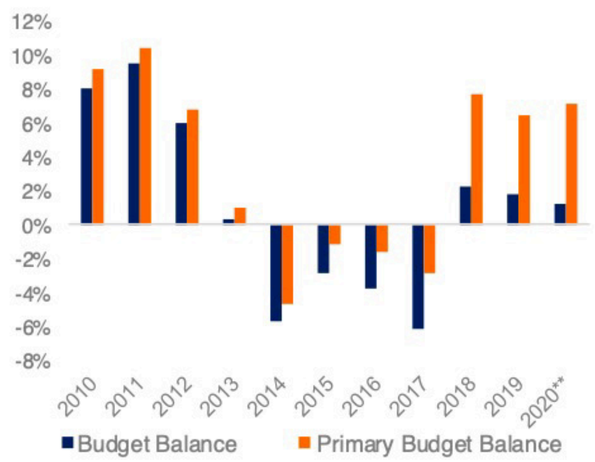
INTERNAL & EXTERNAL EQUILIBRIUM

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

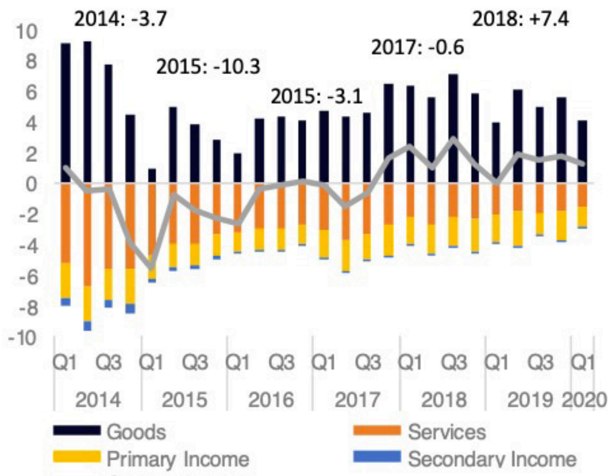
Percentage of GDP



Source: MinFin, BFA calc.

Current account saw a surplus of USD 1.2Bn in Q1 2020

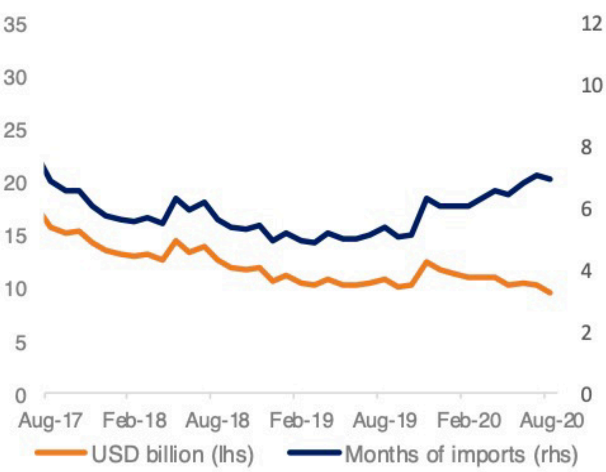
USD Billion



Source: BNA

Net International Reserves dropped about 18.2% between December 2019 and August 2020

USD Billion; months of imports



Sources: BNA, BFA calc.

- **In Q1 2020, the current account balance had a surplus of USD 1.2 Bn - on average the surplus was USD 1.3 Bn in 2019.** On the trade balance of goods, oil sales were reduced by 25.3% yoy, while non-oil exports dropped 21.8% yoy; in imports, there was a decrease of 48% yoy to USD 23.45Bn, the lowest level since the beginning of the statistical series in 2012. On the services side, the deficit in the trade balance decreased by USD 0.57 Bn (-27.2%). The numbers are expected to worsen for the rest of the year, which will contribute to a current account deficit in 2020, even though imports of goods and services are falling very significantly;

- **Net International Reserves closed at USD 9.58 billion in August, the lowest value since the beginning of the series at the end of 2011.** Since the beginning of the year, Net International Reserves have lost around USD 2.13 Bn (-18.22% ytd); the need to contain the decline in NIRs justifies the muted BNA intervention in the forex market, allowing a sharp depreciation.

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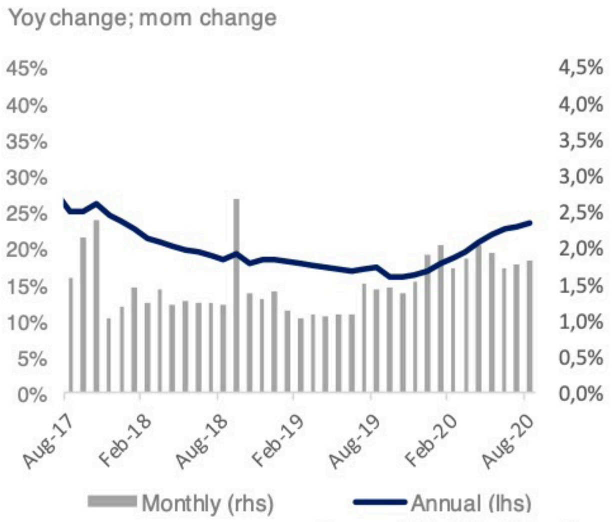
INFLATION & FOREX

Inflation reached its highest value since end-2017 in August

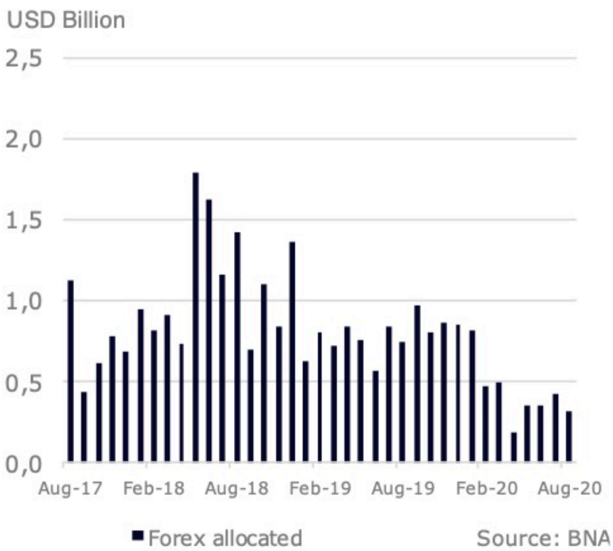


Sources: INE, BNA, BFA calc.

Since the beginning of the year, the Kwanza has depreciated about 22.3%

Sources: BNA, Kinguila Hoje

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



Source: BNA

- **Annual inflation continues to accelerate, reaching 23.4% in August, the 10th consecutive month of increase, and the highest value since December 2017;** we expect to see continued growth in inflation over the next 4 months, with average annual inflation close to 25% in 2020;

- **The Kwanza has continued to lose value, trading above USD/AOA 600 in the last few weeks, as forex availability is much lower, with decreased oil revenue;** in the parallel market, the evolution was similar, with the Kwanza trading at USD/AOA 800 for the first time, according to the websites consulted - the gap against the official market is around 30%, and closer to 25% if retail banks selling rate is considered. The Kwanza's performance is expected to reverse somewhat following the inflow of external financing (which comes in foreign currency) due to the positive review from the IMF.

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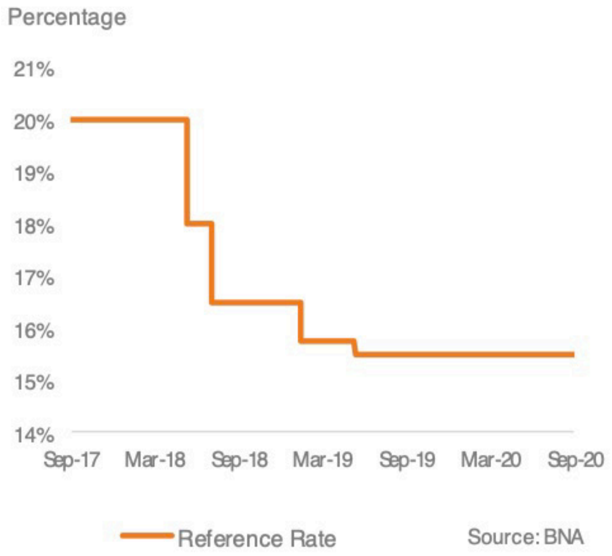
INTEREST RATES

Despite the stability of the reference rate, monetary policy has promoted use of 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 strengthening the availability of overnight lending, making the BNA Rate effective as a market regulator;** in addition, BNA enlarged the line to provide liquidity to companies (via Quantitative Easing) to AOA 100Bn, buying treasury bills held by these firms – the line is already almost entirely spent; more recently, the BNA has implemented a custody rate to be charged for excess liquidity that banks deposit with the central bank, thereby encouraging banks to use that extra liquidity;

- **After a first decline of the LUIBOR overnight with liquidity support related to overnight lending, the introduction of the custody rate led to a further drop in the rate to values well below the BNA rate (15.5%), trading around 13%; the longer rates showed a relatively more restrained response;**

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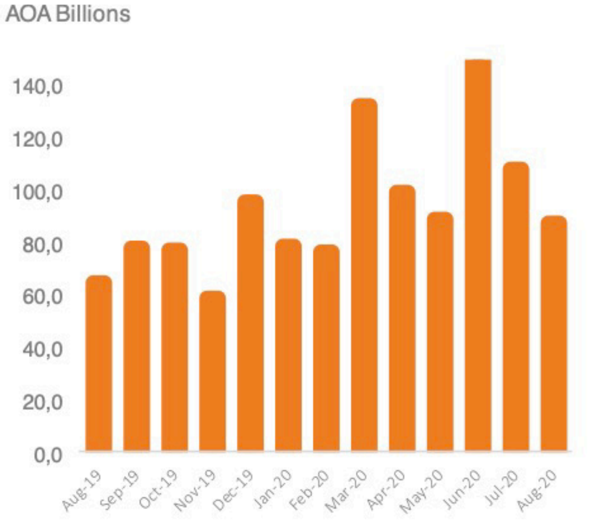
FINANCIAL MARKETS

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

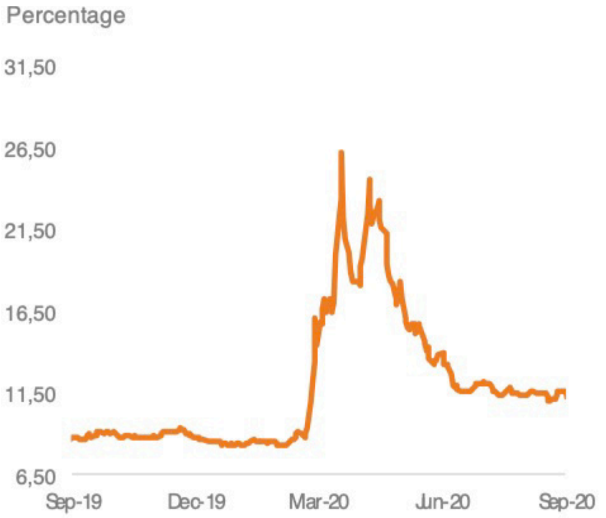


Source: BODIVA

One-year domestic debt yields have increased considerably, now at 19,0%

Source: BFA

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



Source: Bloomberg

- **According to BODIVA data, a total of AOA 87.8 Bn in securities was traded on the market in August.** On average, AOA 102.8 Bn were traded per month in 2020 (30 Bn above the same period in 2019).
- **In 2020, short-term domestic debt rates increased, having showed some stability after settling at current levels: yields on 1-year Treasury Bills are currently at 19%, more than 4 pp above the average last year (14.68%);** the longest rates have also risen in recent months, being in the range of 22.5-24.75%.
- **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.**

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HIGHLIGHT: ANGOLAN CRUDE PRODUCTION

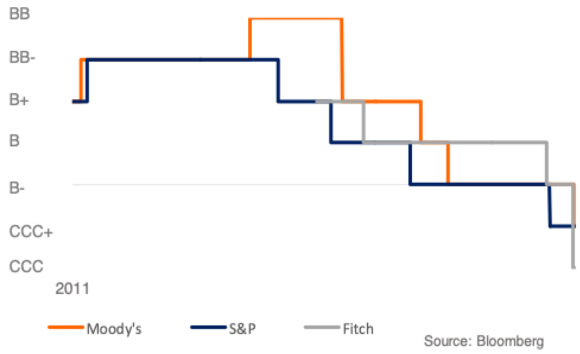
The debt solvency prospects were severely affected by the pandemic, reflected in the Eurobond 2028 yield

Eurobond Yield maturing in 2028, as a percentage

Source: Bloomberg

According to Fitch, Angola is only 1 degree above the default, with the 3 agencies considering this risk substantial

Rating notations



Source: Bloomberg

- **SFitch lowered Angola's sovereign rating by two levels to CCC, just one notch above default.** This decrease is a result of indications of a possible default on financial obligations, given the significant increase in the weight of public debt on GDP and the deterioration of public finances. The evident reduction in the flexibility of external financing, with the sharp increase in debt yields, and the decreasing external currency liquidity, lead the agency to estimate that debt will remain above 120% of GDP until 2022. This figure represents around 850% of government revenue, twice above the average for B-rated countries (356%). Even with the expected debt moratorium agreements and additional funds from multilateral institutions, the agency expects a recession, for the fifth consecutive year, of 4%, and an increase in inflation to 24%. The expected drop in oil production to 1.3 million barrels per day in 2020 and 2021 is a clear indication of the difficulties that the country will face in terms of liquidity, given the still very high level of oil dependence, which will contribute for restrained economic growth and the vulnerability of public finances. **In the same line of argument, Moody's downgraded Angola's sovereign debt rating to a level on par with S&P, at Caa1, one notch above Fitch.** Following that move, the agency reviewed the ratings on long-term deposits of Banco Angolano de Investimento (BAI), Banco de Fomento Angola (BFA), in tandem with the country rating - Caa1, with a stable outlook. Banco Económico (BE) is down one more notch, at Caa2. According to the rating agency, this was caused by a degradation of the Base Credit Rating (BCR) of the banks; moreover, other causes include the expectation of a weakening individual credit profile in banks, during the coronavirus pandemic, and a lesser fiscal capacity to support BE (from the Government) in case of need.

- **On the other hand, the IMF is expected to decide on the EFF Programme evaluation (with subsequent disbursement if positive) on September 16th.** There are still details to be defined with Chinese entities, regarding the debt moratorium agreements. However, according to statements by the Minister of Finance and BFA calculations from the Revised State Budget, we assume that a debt moratorium agreement with China Development Bank, which is the creditor of about 1/5 of the debt, is already closed.

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.

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