

# Bimonthly Economic Outlook

December 2020 Last updated on 24/11/2020



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## INTERNATIONAL

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- The IMF forecasts for 2020 a strong contraction of 4.4% of the world economy due to shutdowns generated by Covid-19;
- In the foreign exchange markets, the Pound lost its first half gains against the Dollar, reaching levels at the beginning of the year;
- Stock markets recovered, with the S&P 500 and MSCI Emerging Markets surpassing pre-pandemic levels;
- In the oil market, Brent's price returned to levels around USD 43;
- The macroeconomic scenario for 2021 is still highly dependent on the evolution of the pandemic, and on the pace of approval and distribution of the various vaccines with favorable results.

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## ANGOLA

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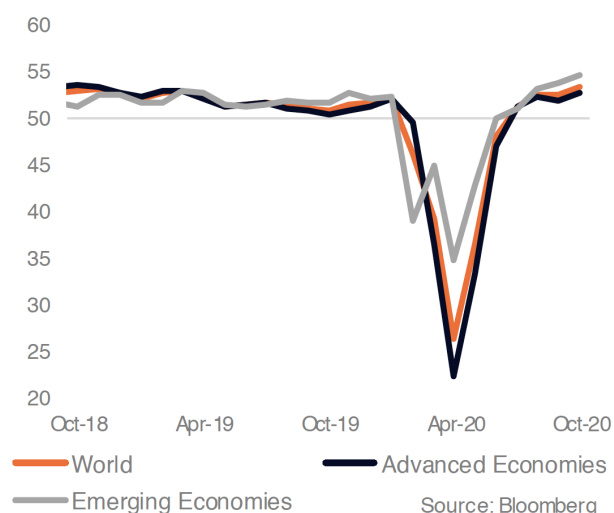
- The Angolan economy fell 8.8% yoy in 2Q 2020, being greatly affected by the confinement and the effects of the drop in oil prices on tax revenues and depreciation;
- Oil production remains under pressure, in particular with the increase in cases of COVID-19;
- Net International Reserves closed October at USD 9.17 billion, the lowest figure since the beginning of the series in late 2011;
- Annual inflation continues to accelerate, reaching 24.4% in October, the 12th consecutive month of increase, and the highest value since December 2017;
- According to BODIVA data, AOA 1.07 trillion in securities were traded on the market from January to November.

## INTERNATIONAL

### ECONOMIC ENVIRONMENT

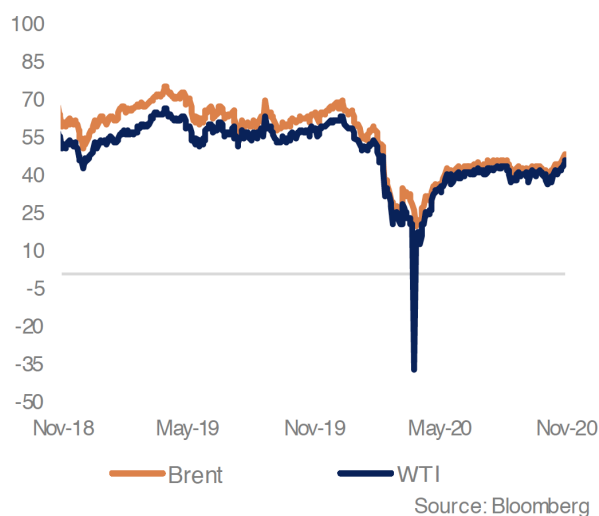
#### Global economy recovered to pre pandemic levels

Market PMI Index



#### Oil prices fluctuated slightly in the last 3 months, now set around USD 44

USD



#### A global economic recession is expected in 2020, with improvement in 2021

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

IMF Forecast

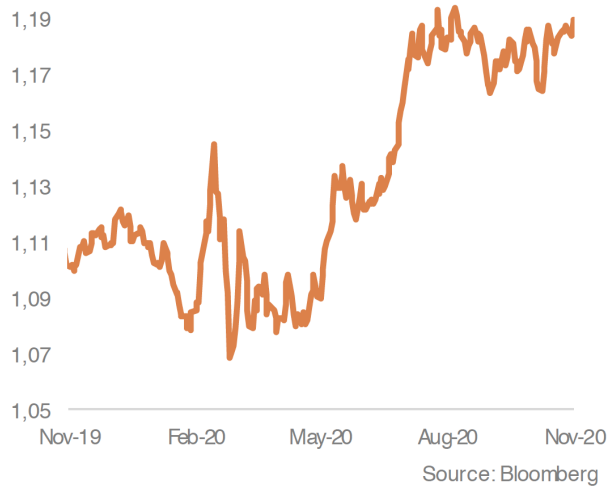
- **Markit's PMI indexes recovered, showing signs of a recovery in the global economy after very substantial declines.** Note that the indices indicate monthly variations, so values above 50 points do not mean annual growth, but monthly, that is, they now show positive variation compared to the most negative period;
- **In October, the IMF revised its growth estimates for this year, slightly improving its forecasts and pointing to a strong economic recession with world GDP falling 4.4%.** Among the revisions, the IMF revised the drop in GDP in the Eurozone and the United States to 8.3% and 4.3% respectively for 2020; For 2021, the IMF forecasts global economic growth of just over 5%.
- **Oil has recovered since the lows recorded in March and the announcement that the vaccine will be available soon will bring the price of Brent around USD 44 at the moment;** the evolution of the price of this commodity will depend on the advances in relation to the availability of the vaccine.

## INTERNATIONAL

### FOREX

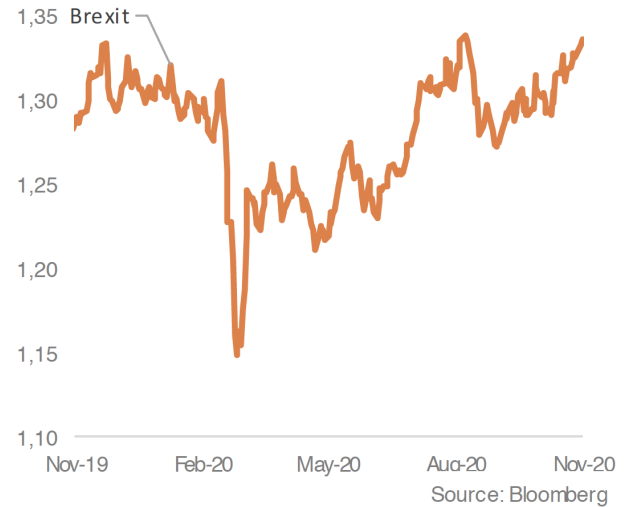
**Euro maintain gains against the Dollar obtained during the first half of 2020**

EUR/USD



**The Pound returned to early 2020 levels**

GBP/USD



**Rand little less depreciated now compared to the peak in April**

USD/ZAR

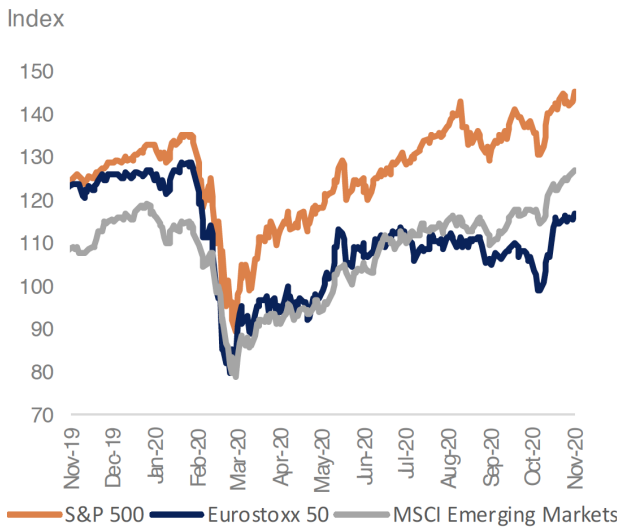


- **The Euro has had a relatively stable variation in recent months, having appreciated by around 5.7% since the beginning of the year;** the pair is expected to continue to reflect the evolution of the disease at a time when the United States is going through the worst phase of the pandemic while some EU countries are already in a lockdown;
- **After a period of gradual recovery, Libra has again broken down in recent months;** the drop during this period was due on the one hand to the difficulty of negotiating with the European Union and on the other to the significant increase in the number of cases during the autumn; At this moment, Libra returned to the levels recorded at the beginning of the year, varying only 0.1% until the publication of this report;
- **The Rand continues to be weaker than at the beginning of the year (10.3% against the Dollar), however it has been recovering, standing at the levels of the beginning of March;**

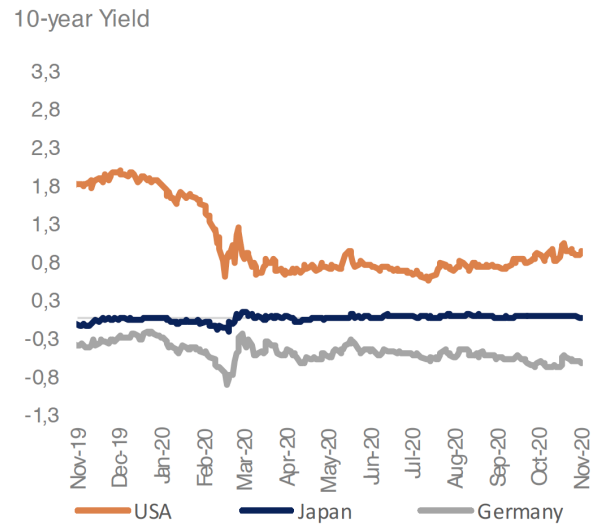
## INTERNATIONAL

### EQUITIES AND DEBT

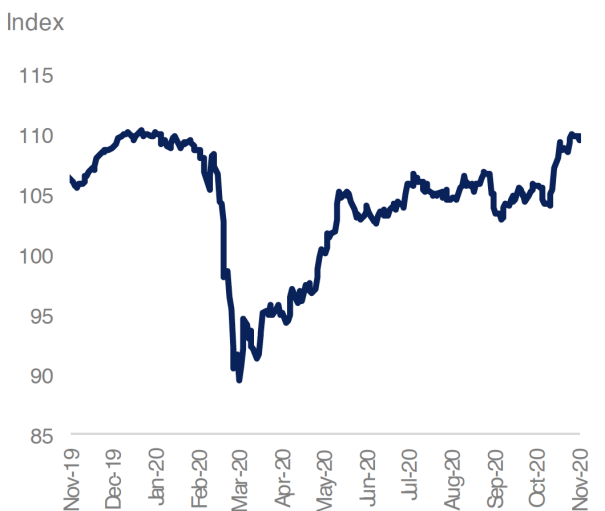
**American stocks have surpassed pre-pandemic levels; other equities recovered at a slower pace**



**Yields for developed countries stabilized since the beginning of March**



**Emerging market sovereign bonds recovered to pre-pandemic levels**



- **Stocks recovered significantly from their lowest point in March, with the US and emerging markets index outpacing pre-pandemic data; Eurostoxx 50 has been showing signs of recovery however it remains the only one of these three below the data for the beginning of the year.**
- **The 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 geographies. The Japanese yield remains just above zero while the American yield has been varying between 0.6-0.9%.**
- **J.P. Morgan's emerging sovereign debt index has rebounded significantly since the fall in March, returning to pre-Pandemic levels.**

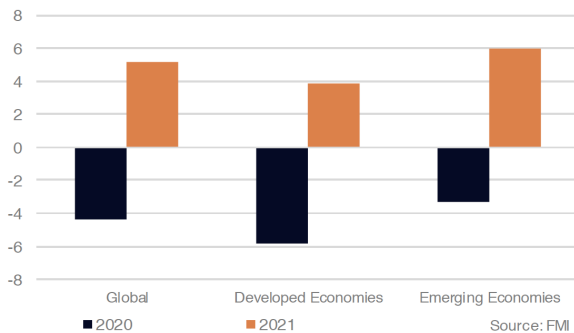


## ANGOLA

### HIGHLIGHT: WHEN WILL WE HAVE A VACCINE?

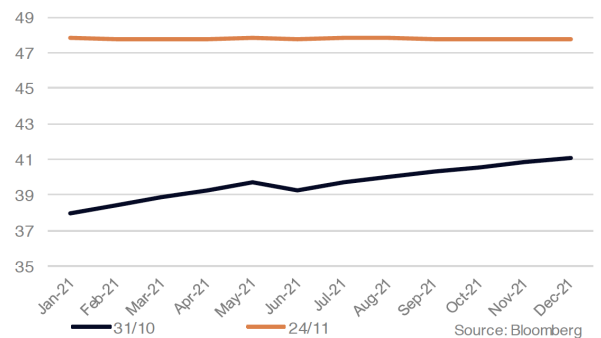
#### 2021 should be a year of recovery, but will not compensate for the "lost" activity of 2020

GDP Growth



#### Vaccine news has made prospects for the oil market much less pessimistic

Brent Future oil price in USD



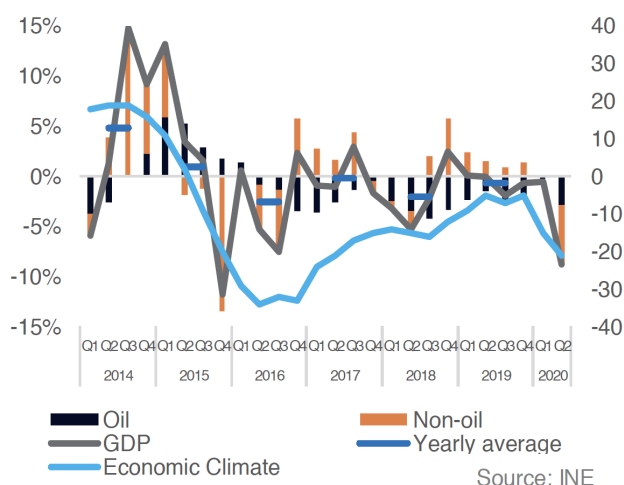
- **After a year of many economic struggles at the global level, 2021 will still be determined by the prospect of a recovery in the public health sector, with the global economy very dependent on the progress of the pandemic** The first quarter of the year will be the most affected, with the peak of the 2nd wave in the northern hemisphere expected between January and February, most likely surpassing the 2 million dead sometime during this period.
- **The economic impact will still be severe in the first quarter, but not as much as in the confinements enacted in March / April;** on the one hand, confinements will now be more targeted, and populations have already adapted many of their habits, allowing for many economic changes (work remotely, less social activity, online shopping, etc.). Even so, the scenario for some services (tourism, restaurants, social events) will be of a continued severe recession, as demonstrated by the most recent indicators from Europe and the United States. **For the entire year, according to the IMF, the world economy is expected to expand 5.2%, after a 4.4% drop in 2020 - by the end of 2021, global economic activity will be only 0.6% above 2019 levels.**
- **In this sense, recovery will be effectively dependent on the speed of a possible a return to normality, which depends on better treatments, but mainly, on the approval and distribution of vaccines.** There are already 3 vaccines with preliminary results published on the last test phase, from Pfizer, Moderna and AstraZeneca. However, the logistical difficulties will be very relevant, since the first two require freezing for preservation and transport, while the last one will only require normal refrigeration; even so, the expected production doses of these 3 vaccines would only reach less than ¼ of the world population, which implies a partial return to normality if no more viable candidates are found among the other 10 vaccines that are currently in the last stage of testing;
- **The performance of the oil market will also depend on the degree of "return to normality", with the last month serving as proof of that fact:** at the end of October, before any news about the vaccines, Brent was being traded at lows of several months, close to USD 37. On November 24th, the price was at least USD 10 higher, with futures trading at similar levels.
- **On the other hand, the election of Biden should also lead to another type of return to normality, in geopolitical terms, and the pandemic should still be the main economic factor in 2021.**

## ANGOLA

### REAL ECONOMY

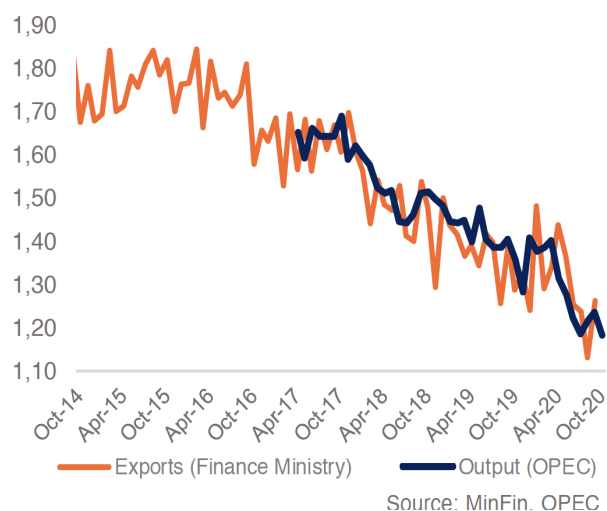
#### Economic sentiment is pointing towards a sharper drop in GDP in Q2 2020

Yoy change; contribution to yoy change; index



#### Even after OPEC agreement, production continued to fall and reached historic low in October

Million barrels per day



#### Brent Angola with slight recovery in November, trading close to USD 43

JSD



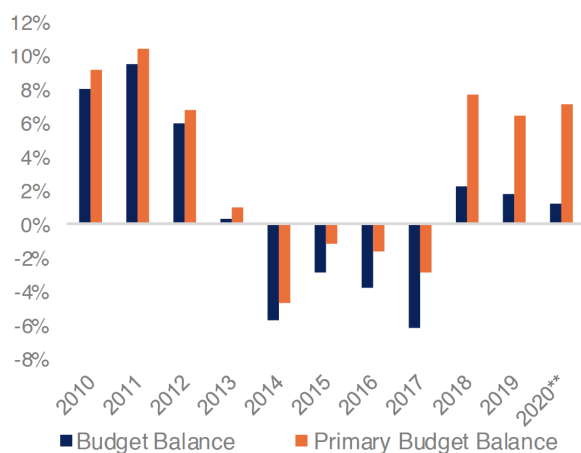
- **The Economic Outlook Indicator points to a sharp decline in GDP in the 2nd quarter of 2020- where the economy fell by 8.8% yoy registering the 4th consecutive quarter decline.** On the oil sector, there was a greater year-on-year decline since the end of 2017, with the sector falling 2.8% yoy. Regarding the non-oil economy, the data points to the second drop since the 2nd quarter of 2018, at about 6.0% yoy. For the entire year, the IMF forecasts that Angolan GDP will contract 4%.
- **Oil production remains under pressure.** In October, production volume registered a minimum of 1.18 million barrels per day, according to secondary sources of OPEC. On average, production stood at 1.31 mbd from January to September, a decrease of 5.0% yoy according to MinFin data. Despite COVID's second wave of infection, Brent Angola's price rebounded slightly in November, now just below USD 43.

## ANGOLA

### INTERNAL & EXTERNAL EQUILIBRIUM

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

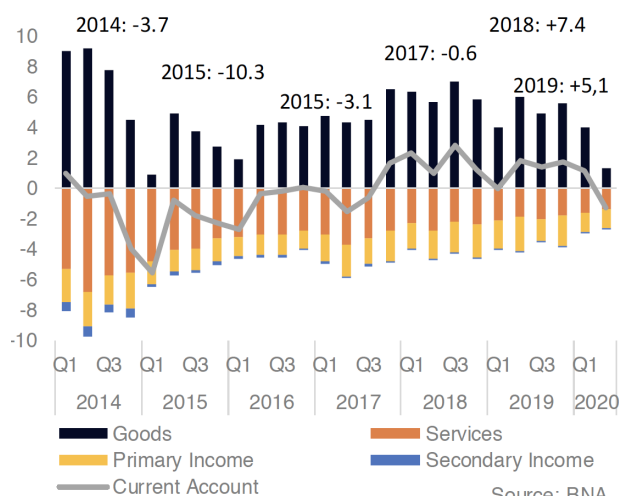
Percentage of GDP



Source: MinFin, BFA calc.

#### Current account saw a deficit of USD 1.3 Bn in Q2 2020

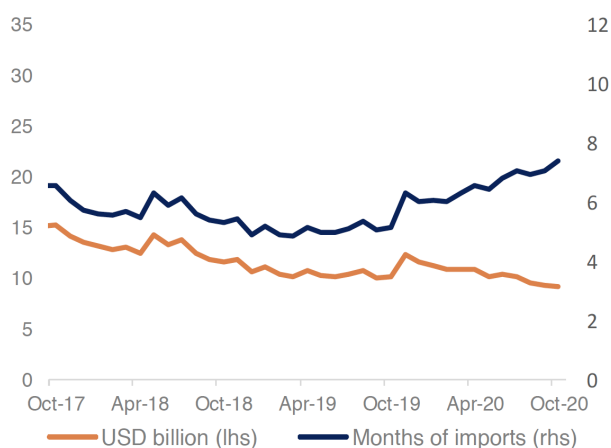
JSD Billion



Source: BNA

#### Net International Reserves dropped about 21.7% between December 2019 and August 2020

USD Billion; months of imports



Sources: BNA, BFA calc.

• In the second quarter of the year, the current account registered a USD 1,3 billion deficit (Bn), with the balance showing a slight deficit (USD 66.8 million) in the first half of the year. In 2019, the current account balance had a balance of USD 1.9Bn during the same period. On the export side, there was a 63.2% yoy decrease in sales of crude oil, as a result of reductions in the export price and volume exported. With regard to non-oil exports, there was a decrease of 36.4% compared to the same period last year, which was mainly due to the 38.2% decrease registered in the diamond sector. On the other hand, imports of goods fell 32.5% yoy to USD 2.11 Bn: in particular, imports of consumer goods fell 37.3%, while purchase of intermediate goods and capital goods from abroad decreased by 21.6% and 24.0%, respectively.

• Net International Reserves closed October at USD 9.17 billion, the lowest since the beginning of the series in late 2011. Since the beginning of the year, Net International Reserves have lost around USD 2.54 Bn (-21.69% ytd); the need to contain the decline in RILs justifies the lack of BNA intervention, allowing for a sharp depreciation.

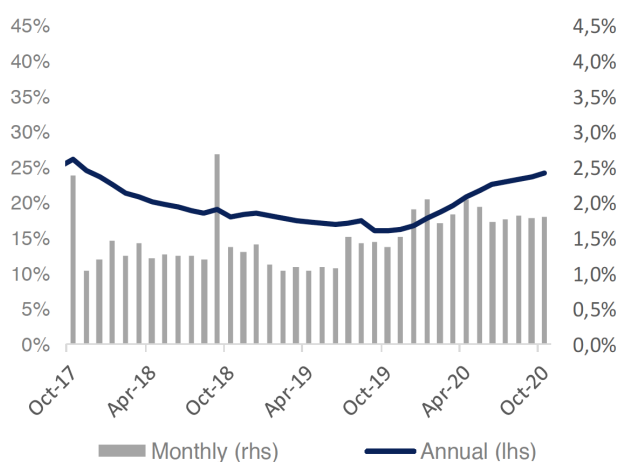


## ANGOLA

### INFLATION & FOREX

#### Year-on-year inflation continues to grow, reaching 2017 highs

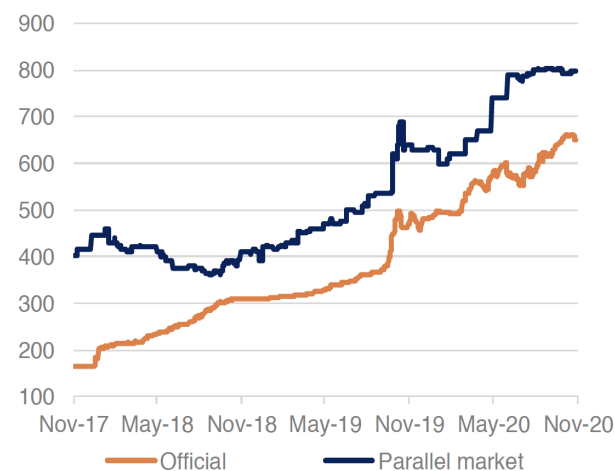
Yoy change; mom change



Sources: INE, BNA, BFA calc.

#### Since the beginning of the year, the Kwanza has depreciated about 25.7%

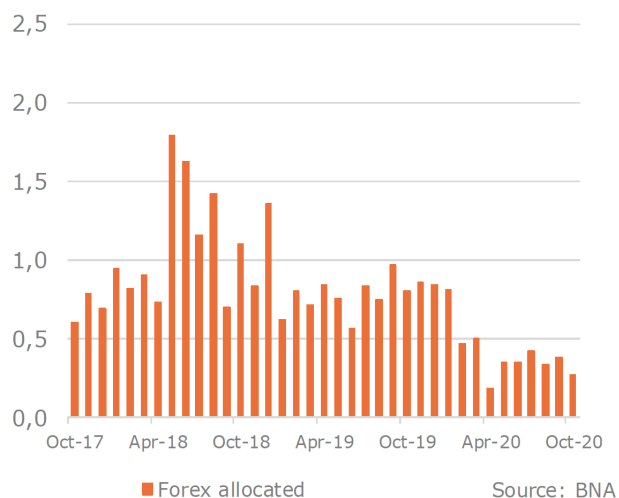
USD/AOA



Sources: BNA, Kinguila Hoje

#### BNA sale to banks in October was the lowest since April

USD Billion



Source: BNA

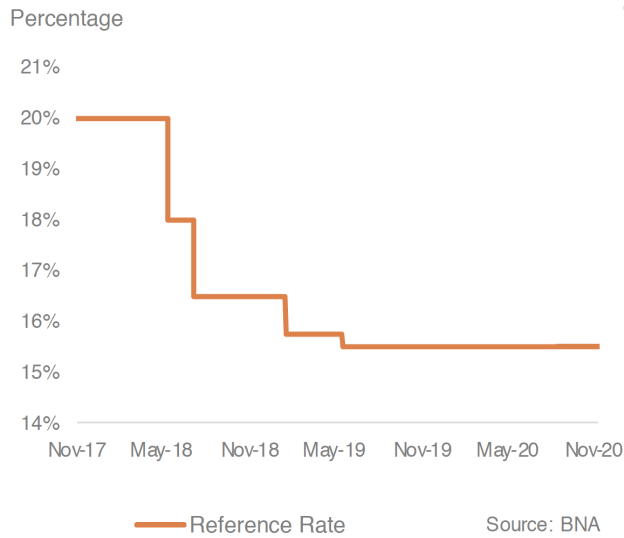
- **Annual inflation continues to accelerate, reaching 24.4% in October, the 12th consecutive month of increase, and the highest value since December 2017;** we expect to see continued inflation growth over the next 2 months, with average annual inflation close to 25% in 2020.

- **The Kwanza has continued to lose value, oscillating in recent times above USD/AOA 640, suffering from a much lower availability of foreign exchange, due to the drop in oil revenues;** in the parallel market, there was some stability, with the Dollar trading around USD/AOA 800 in the period; thus, the range for the reference rate is now 22.9% - the range is less than 20% considering the selling rates of commercial banks. The future of the Kwanza should be determined by the price of Brent, which in turn will depend on the evolution of the pandemic. In the event of a better-than-expected recovery in the oil market, some appreciation of the Kwanza is expected; however, the current scenario is relatively stable until the end of the year.

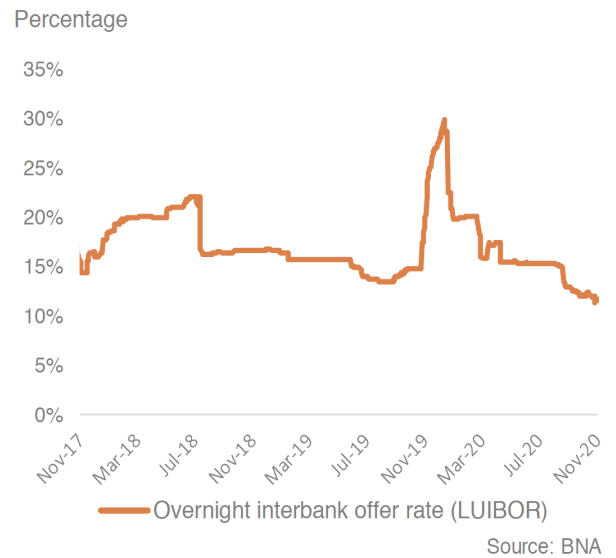
## ANGOLA

### INTEREST RATES

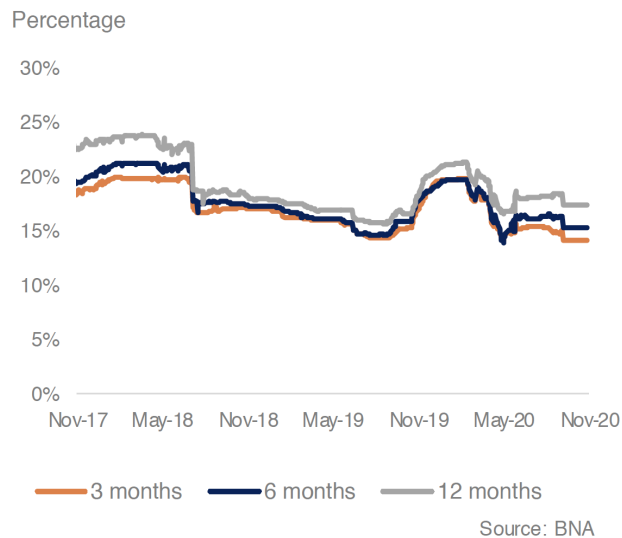
Despite the stability of the reference rate, monetary policy has promoted use of liquidity



LUIBOR overnight has been falling since the beginning of the year, being around 11.6%



Other LUIBOR rates have stagnated since mid-October



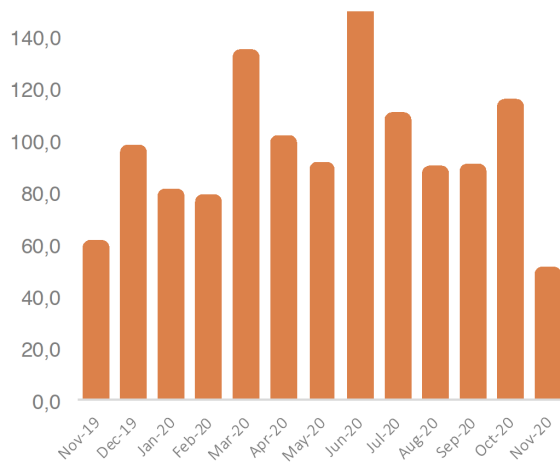
- **Monetary policy in 2020 has supported liquidity, with the BNA strengthening the availability of overnight lending, making the BNA Rate effective as a market regulator;** in addition, BNA increased the line by more AOA 100 Bn to provide liquidity to companies, buying treasury bills held by them, having already spent almost the entire line; **more recently, the BNA implemented a custody fee to be charged for the excess liquidity that banks deposit with the central bank, thus encouraging banks to circulate that money.**
- After a first break of 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 11.6%; the longer rates have responded more restrained and have stagnated since mid-October.

## ANGOLA

### FINANCIAL MARKETS

**Between January and November the sovereign debt traded was AOA 1.07 Trillion (37.8% yoy)**

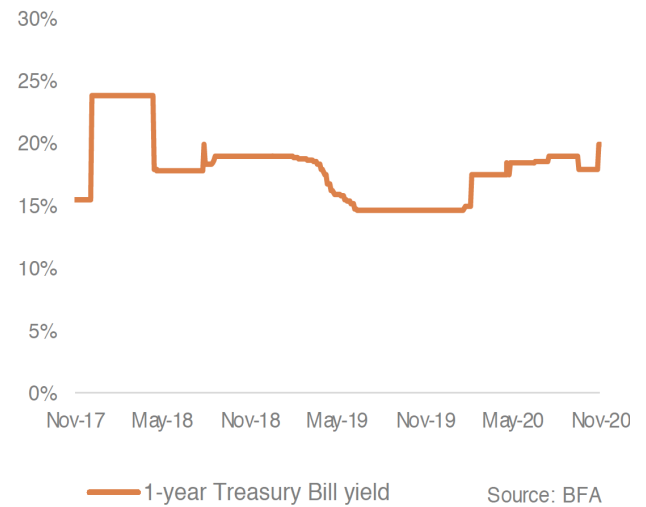
AOA Billions



Source: BODIVA

**Since the beginning of 2020 with new issues of BTs, the interest rate has increased 5.0 pp to 20.0%**

Percentage



— 1-year Treasury Bill yield

Source: BFA

**The yield for the 2028 eurobond has stabilized at around 11% since the beginning of July**

Percentage



Source: Bloomberg

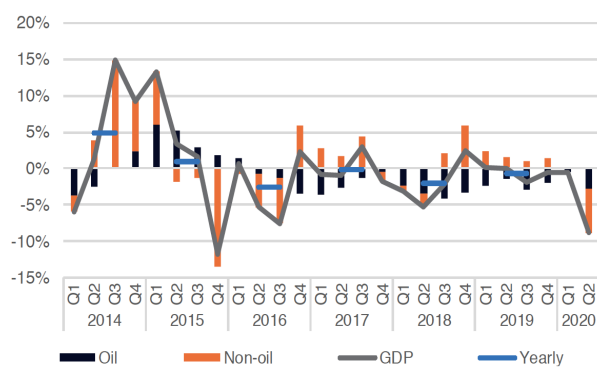
- According to BODIVA data, a total of AOA 1.07 trillion in securities were traded on the market from January to November. On average, AOA 97.5 Bn per month were traded in 2020 (26.7 Bn above the same period in 2019).
- In 2020, short-term domestic debt rates increased, having recorded some stability after settling at current levels. Yield on 1-year Treasury Bills are currently at 20%, more than 5 p.p. above last year's average (14.68%); for Treasury Bonds, rates have risen in recent months, being in the range of 22.5-24.75%.
- AEurobonds yields were stable between 11-12%, making the default scenario a little less likely, with an increase in Brent price and a greater probability of a debt default agreement with the Chinese authorities, and the expected approval of the IMF assessment.

## ANGOLA

### HIGHLIGHT: THE ECONOMIC DOWNTURN DUE TO THE PANDEMIC

#### Economic activity declined dramatically in the Q2, due to the effects of the pandemic

Yoy change; contribution to yoy change; index

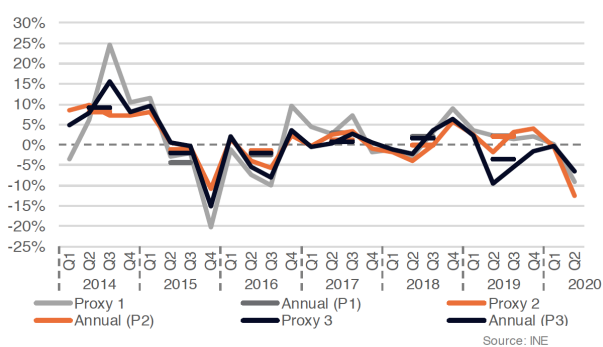


\* Proxy: GDP subtracted from oil GDP

Source: INE

#### Different non-oil GDP proxies indicate similar trend of significant downturn

Yoy change; Annual growth



Source: INE

- **After having recorded the smallest contraction in the first quarter - since the last quarter of 2017, the oil economy fell again (-8.2% yoy) in the second quarter of 2020.** This variation in oil GDP is due to the continued decline in oil production, which derives from the production quotas of the new agreement (signed in April) between members of OPEC+. According to data reported by Angola to OPEC, there was 11% yoy drop in production, which would have been around 1.27 million barrels per day (mbd) in the second quarter of 2020. Export data from the Ministry of Finance indicates a less steep decline of 2.3% yoy in the 2nd quarter, with the month of June registering a year-on-year drop of 11.6%. In the 3rd Quarter of 2020, the decline in the activity of the oil sector may have been greater, close to 10%: the data already published by the Ministry of Finance point to a volume of crude exports lower by 10.3% yoy in the period, still that there was a recovery in production in September. In the last quarter of the year, the oil economy is expected to remain in recession, albeit at a slower pace than in previous quarters.
- **The non-oil sector is expected to have contracted in the Q2 of 2020, with the two largest sectors outside hydrocarbons falling.** In general, the effects of the fall in oil revenues (less state investment and decreased purchasing power due to the more depreciated Kwanza) will have accumulated with the restrictions imposed on economic activity during the containment period. Trade (excluding oil, is the sector with the greatest weight in GDP) registered a slight contraction of 0.1% after a significant fall in the previous quarter (-5.9%). On the other hand, the construction sector (the 3rd largest component of GDP) recorded a year-on-year decline of 41%, having been the sector that most contributed negatively to the performance of the economy, removing 3.2 pp to the growth rate. The transport sector saw its activity drop by 78.9%, having made a significant contribution to the economic downturn (-2.2pp). Conversely, only the Agriculture (2.3%), Electricity and Water (4.4%), and Communications (7.3%) sectors had positive economic growth. The Agriculture Sector weighed 6.7% in quarterly GDP, for the first time above 6% in the statistical series. For the second half, the non-oil economy is expected to continue to fall for the rest of the year with the IMF predicting a 4% recession. At the moment, the oil economy will continue to fall with the cut in production and the postponement of new investments by operators, while the non-oil economy will have growth dependent on the stabilization of the Brent price.



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