

Bimonthly Economic Outlook

June 2021 Last updated on 07/06/2021



BFA

PRIVATE BANKING

INTERNATIONAL

- **Advanced economies are now recovering at a faster pace, benefitting from vaccine rollout**
- **In the forex markets, the Euro is again up against the Dollar, while the Pound is on 30-month highs;**
- **Stock markets are still going up, particularly in the USA and emerging markets;**
- **The price of oil has been steadily increasing, benefitting significantly from recovering demand, while also gaining from OPEC's discipline in keeping with its agreement; likewise from the US producers apparently lessened flexibility.**

ANGOLA

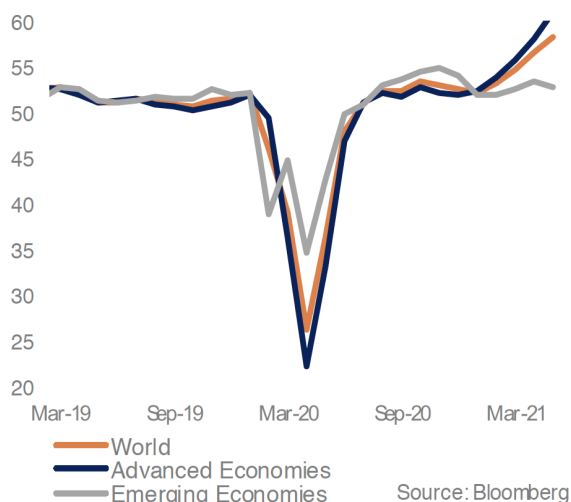
- **In 2020, the Angolan economy was in recession for the 5th consecutive year, having registered a contraction of 5.2%;**
- **Oil production continues to decline, heavily impacted by the lack of investment in 2020;**
- **In the 4th quarter of 2020, the current account showed a surplus of USD 464 million, posting a positive balance of USD 894 million for the entire year;**
- **In May, Net International Reserves registered a drop of just under USD 3 million, to USD 7.98Bn;**
- **In April, the national annual inflation rose slightly to 24.82% after having registered a slight fall in the month of March.**

INTERNATIONAL

ECONOMIC ENVIRONMENT

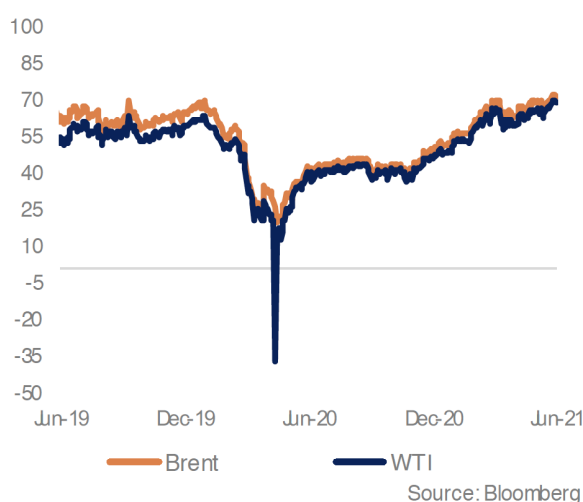
Advanced economies are benefiting from vaccination rollout

Markit PMI Index



Brent registered 3 year high and is trading at USD70

USD



In 2021, global economy is expected to grow 6.0%

GDP change	2020	2021	2022
Global	-3,3	6,0	4,4
Developed Economies	-4,7	5,1	3,6
USA	-3,5	6,4	3,5
Eurozone	-6,6	4,4	3,8
Germany	-4,9	3,6	3,4
Emerging Economies	-2,2	6,7	5,0
China	2,3	8,4	8,1
South Africa	0,2	-7,5	2,8

Source: Bloomberg composite forecasts

- **Markit's PMI indexes remain positive, having accelerated significantly in advanced economies, signaling a positive but slower evolution on the part of emerging economies.** The difference is mainly due to the impact of vaccination in more developed countries, with effects on real activity (with fewer restrictions) and on optimism for future growth.
- **In April, the IMF revised upwards its forecasts for the economic recovery in 2021, now expecting a 6.0% growth in the world economy, against the 5.5% expected before; the decrease in 2020 should have also been slightly smaller, at 3.3% (3.5% prev.).** Emerging economies are expected to grow 6.7%, after a 2.2% decline in 2020; in Sub-Saharan Africa, growth is expected to be more modest, around 3.4%. Advanced economies are expected to grow 5.1%, with the United States recording a 6.4% increase in GDP.
- **Oil is benefiting from the vaccination rollout, with Brent above USD 72, the highest level in the last 2 years.** The relative discipline in complying with the production agreement between OPEC and its allies is also supporting prices.

INTERNATIONAL

FOREX

Euro recovered ground in the last 2 months and is now close to December levels

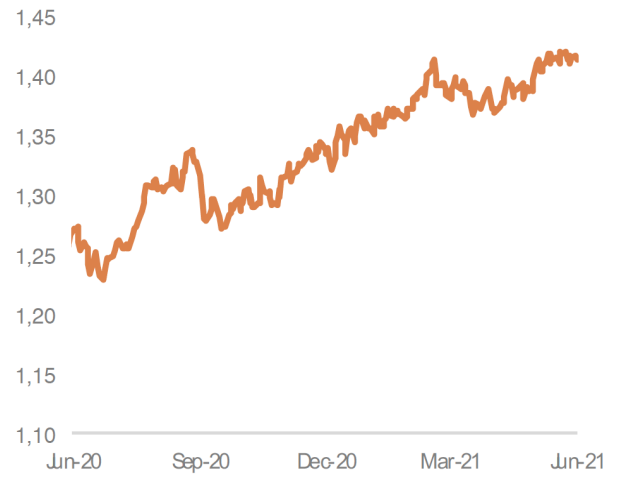
EUR/USD



Source: Bloomberg

The pound is at peaks since 2018, benefiting from successful vaccination rollout

GBP/USD



Source: Bloomberg

Rand continues to benefit from the prospect of greater risk appetite

USD/ZAR



Source: Bloomberg

- **The European currency has regained ground against the Dollar since April as a result of the improvement in Eurozone indicators, together with the apparent lower relevance that the Federal Reserve is ascribing to price increase peaks, classifying those as temporary, which leads to the belief that there will be no change in monetary policy soon;** the currency pair's progress will be largely determined by the outlook for future monetary policy in the near future.
- **The Pound returned to record highs of the last 3 years against the Dollar, greatly influenced by the success and speed of its vaccination campaign, whose analysts believe will greatly boost the economic recovery in the country;** still, the currency has seen further stagnation in recent days due to some concern about the Indian strain of the virus.
- **The Rand continues to gain value, benefiting from the prospect of increased risk appetite in world markets;** The South African currency is used by many investors to gain exposure to emerging markets, so it has been mainly driven by a decrease or increase in risk appetite.

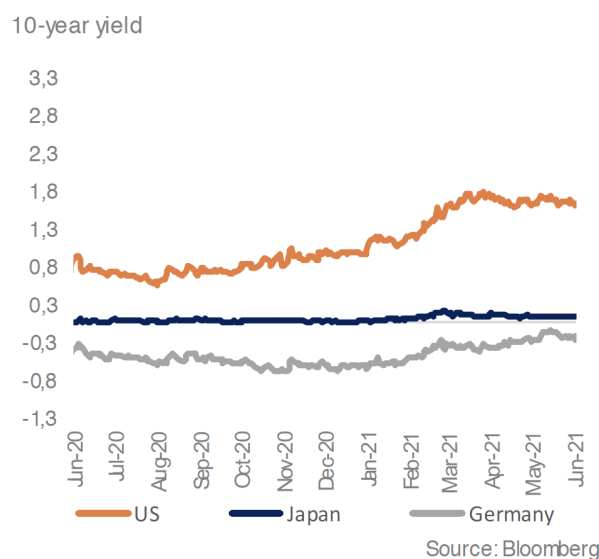
INTERNATIONAL

EQUITIES AND DEBT

Equities markets still high; highlight to the american equities market



American debt yield is increasing supported by Biden's public spending plans



Sovereign bonds of emerging markets returned to recover value in the last 2 months



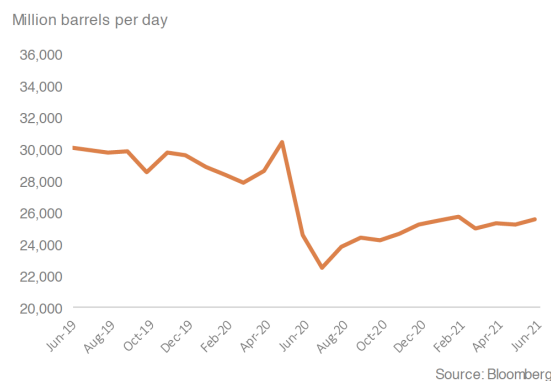
- **Equity markets in emerging markets and the US continue to grow;** on the other hand, despite the continued recovery, the European index has not gained the same pace as the American and emerging markets. In the last 4 months, the emerging markets index was the only one that suffered a slight drop due, in part, to the slow rollout in vaccinations and the impact that the pandemic had on some economies.
- **US yields remain above pre-pandemic levels while 10-year debt yields for Japan and Germany remained stable.** The rise in American yields is related to the greater prospects for economic growth, as part of new public spending. The Japanese yield remains just above zero while the German yield has grown slightly since February.
- **JP Morgan's emerging sovereign debt index has rebounded since mid-April, but is still below the highs seen around the end of last year.**

INTERNATIONAL

HIGHLIGHT: WHY ARE OIL PRICES RISING IN THE LAST FEW MONTHS?

- **The price of oil on international markets has gradually increased, particularly from November last year onwards, when it became clear that there would be vaccines in a few months' time; more recently, Brent crossed the USD 72 mark for the first time in more than 2 years, and the mood within the OPEC cartel became cautiously optimistic.** There are several factors that justify this recovery, which was also seen in the American benchmark: WTI was above USD 70 a few days ago.
- **The main reason for the rise in oil prices is the effective recovery from the pandemic, and the significantly improved prospects for recovery in the coming months, with the proven success of existing vaccines, and progressively faster deployment of vaccination campaigns, particularly in developed countries. In the first 2 months of the year, vaccines reached only 1.9% of the world's population; in the following 2 months, the pace accelerated, vaccinating (at least with one dose) 7.7% of the population; and in May alone, this number increased to 10.8%, with the latest figures pointing to 11.6% of the population vaccinated. Even taking into account the huge inequalities in access to vaccines (in North America vaccines already reached 38.6% of the population, while in Africa they reached only 1.9%), the improvement in optimism and the relaxation of some restrictions in some geographies it is leading to an increase in demand; in fact, according to the Executive Director of the International Energy Agency, demand is expected to return to pre-pandemic levels "within a year"**
- **This increased demand allowed OPEC and its allies to remain firm in the decision to maintain a gradual recovery in production, which forecasts an increase in production of 2.1 million barrels per day between May and July alone; the consensus in the organization was such that the last meeting of the cartel lasted just 20 minutes, the shortest in the entire history of the organization. Note that even Russia, which has not always complied with the agreements, has been maintaining discipline in oil production volumes; this discipline, observed in general, has also supported the market's faith in OPEC, being positive for the environment of rising prices; moreover, after some expectation that Iran could return to the oil market, it became clear that this is unlikely to happen any time soon.**
- **Furthermore, non-OPEC+ producers are not responding to increased demand with the expected flexibility, particularly in the case of the United States; whereas before it was taken for granted that the lower fixed cost structure of shale oil producers allowed them to rapidly vary production and meant that the price could never persistently rise above a certain level, the same phenomenon is not yet occurring, and it is not certain that it will happen again with the same dimension, as there are new considerations in US environmental and fiscal policy that are making producers ponder their decisions a little more.**

OPEC's output has been gradually increasing since mid-2020, following a very significant decrease



Oil prices have recovered their ground and reached highs as vaccination campaigns progress around the World

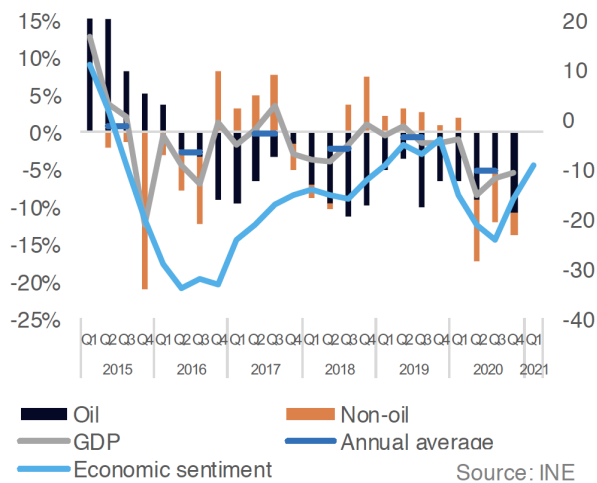


ANGOLA

REAL ECONOMY

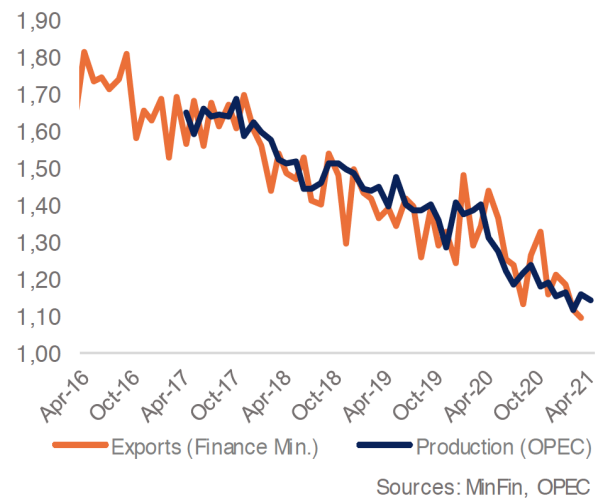
Angola economy falling for the 5th consecutive year; Economic Sentiment recovered in Q12021

YoY change; index



In March, crude exports reached the lowest value of the last decade

Million barrels per day



Since the beginning of June, Brent Angola has been stable above USD 70

USD



- **In 2020, the Angolan economy was in recession for the 5th consecutive year, having registered a contraction of 5.2% yoy.** On the oil sector side, there was an 8% decrease in activity, essentially due to the suspension of planned new investments, natural decline of some wells and production restrictions imposed by OPEC+. As far as the non-oil economy is concerned, our calculations point to a year-on-year contraction of around 4%; the decrease in non-oil economic activity is the result of measures applied related to the pandemic, as well as the effect of the drop in oil revenues that resulted in a lower government availability for public investments.

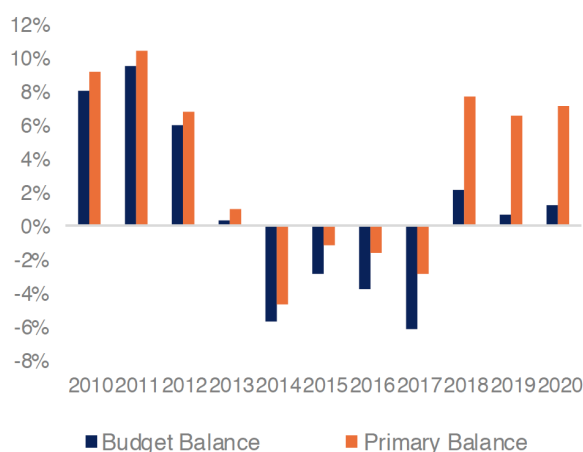
- **Oil production continues to decline, heavily impacted by the lack of investment in 2020.** According to data collected by OPEC, Angola produced in April about 1.14 million barrels a day, having recovered slightly after the historic lows of February. On the export side, MinFin data points to a daily average export of 1.133 mbd in the 1st quarter of 2021, a drop of 17.3% compared to the same period last year. Brent Angola price continues its recovery trend and is now just below USD 70.

ANGOLA

INTERNAL & EXTERNAL EQUILIBRIUM

Primary Budget balance remained positive in 2020 and fiscal prudence will continue

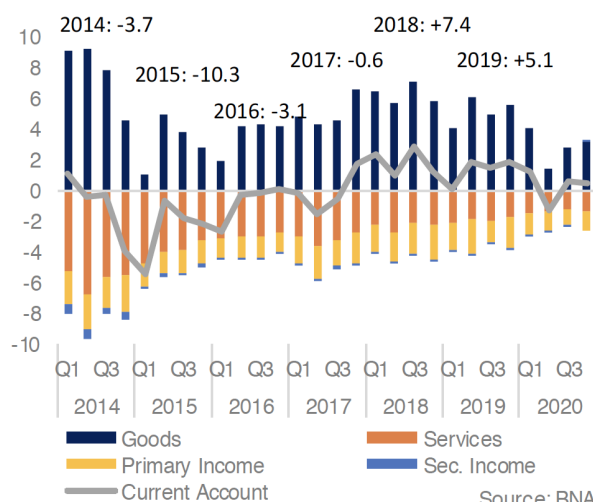
Percentage of GDP



Sources: MinFin, BFA calc.

Current account posted a USD 894 surplus in 2020

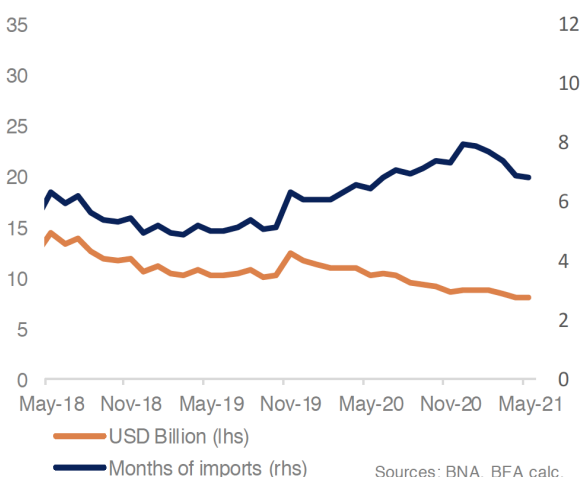
USD Billion



Source: BNA

Net International Reserves registered a 8.9% decline compared to the end of December 2020

USD Billion; months of imports



Sources: BNA, BFA calc.

- In the 4th quarter of 2020, the current account showed a surplus of USD 464 million, having had a positive balance of USD 894 million for the entire year. In 2019, the balance showed a surplus of USD 5.14 billion (Bn). In terms of exports, Angola exported the equivalent of USD 20.9Bn in 2020, a drop of almost 40% compared to 2019. In terms of oil exports, there was a year-on-year drop of 41.3% as a result of the drop in prices and volume exported. With regard to non-oil exports, Angola registered a slight drop of 0.5%, with the diamond sector registering a year-on-year growth of 60.1% in the 4th quarter of 2020. In 2020, imports of goods fell by around 32.5% yoy to USD 9.5 Bn: imports of consumer goods fell 26.9% yoy while imports of intermediate goods and capital goods decreased by 16.6% and 46.9% respectively.

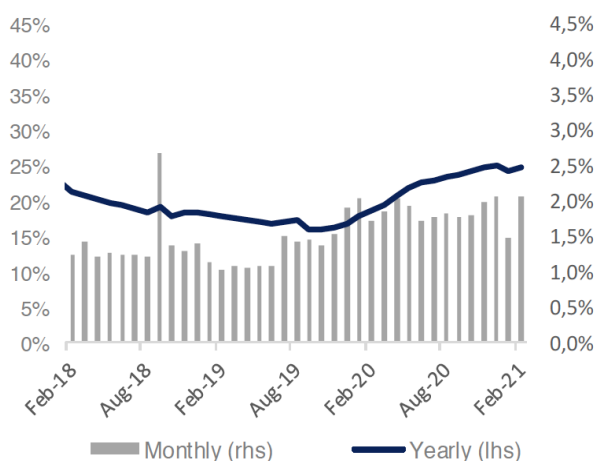
- In May, Net International Reserves posted a drop of just under USD 3 million, to USD 7.98Bn. In the first 5 months of the year, reserves decreased by USD 0.7Bn, now representing 6.8 months of imports.

ANGOLA

INFLATION & FOREX

Annual inflation of the last few months below December levelsT

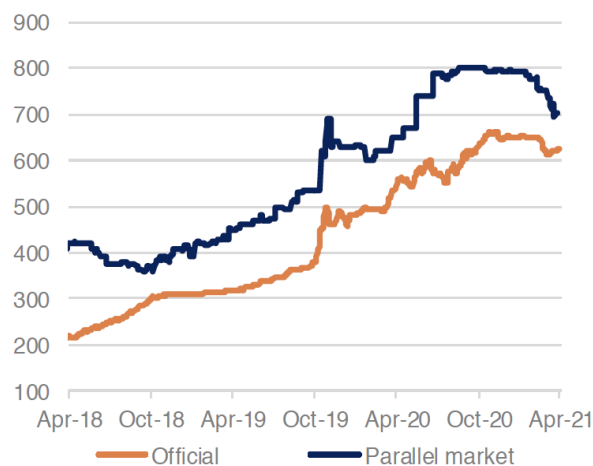
yearly change; monthly change



Source: INE

Kwanza appreciated around 1.23% against the Dollar; gap with parallel market reduced to 8%

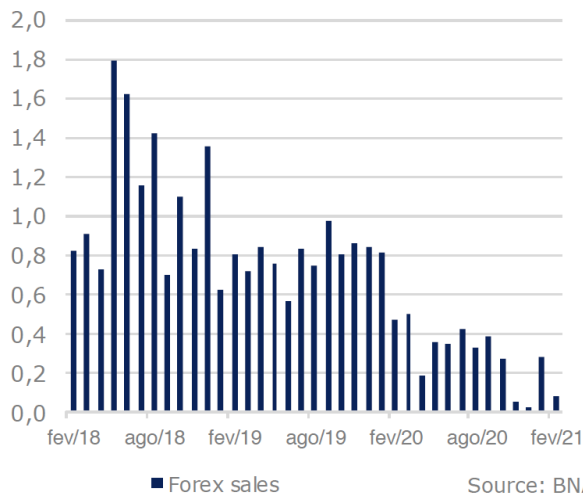
USD/AOA



Sources: BNA, Kinguila Hoje

BNA FX sales to retail banks in April were the lowest of the year

USD Billion



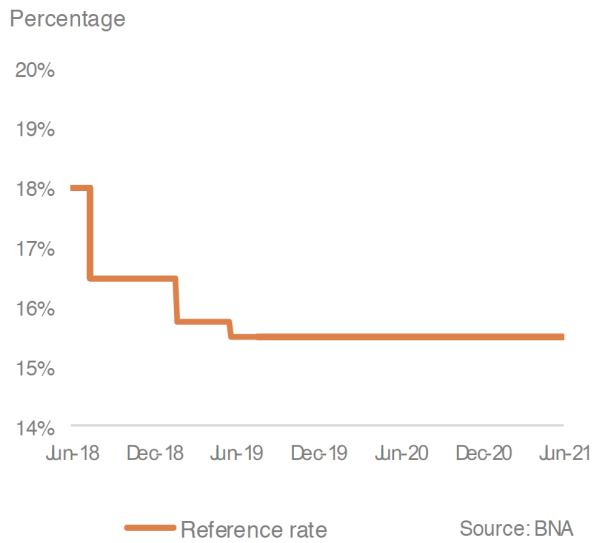
Source: BNA

- In April, annual inflation rose slightly to 24.82% after slightly falling in March. The BNA revised its annual inflation forecast for the end of 2021 upwards by 0.8pp to 18.7%. We expect that for the rest of the year, the BNA will continue to implement a restrictive monetary policy to control inflation.
- Since the beginning of the year, the Angolan currency has appreciated around 1.23% against the dollar, now standing at USD/AOA 642; against the European currency, the Kwanza appreciated by around 1.82%. On the informal side, the Kwanza appreciated substantially and is now trading around USD/AOA 690/700 leading to the range for the benchmark rate around 7-8%; the range is lower considering the sales rates of retail banks. For the entire year, the behavior of the Kwanza against foreign currencies will depend on the evolution of the Brent price in international markets.
- In the first 4 months of the year, BNA sold close to USD 581 million to commercial banks, a year-on-year drop of almost 71%.

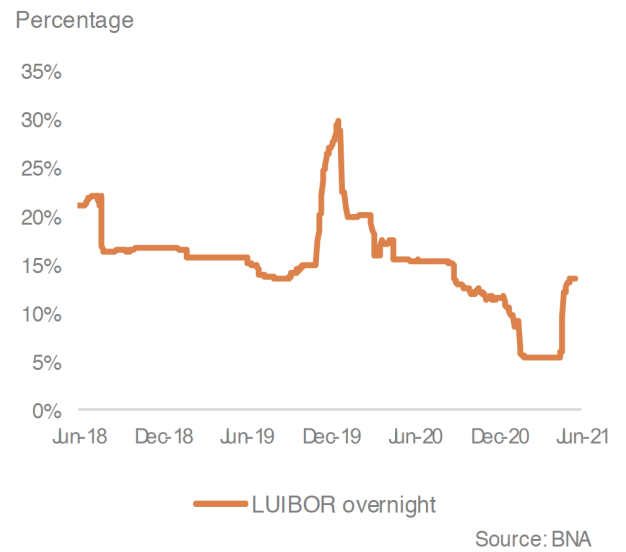
ANGOLA

INTEREST RATES

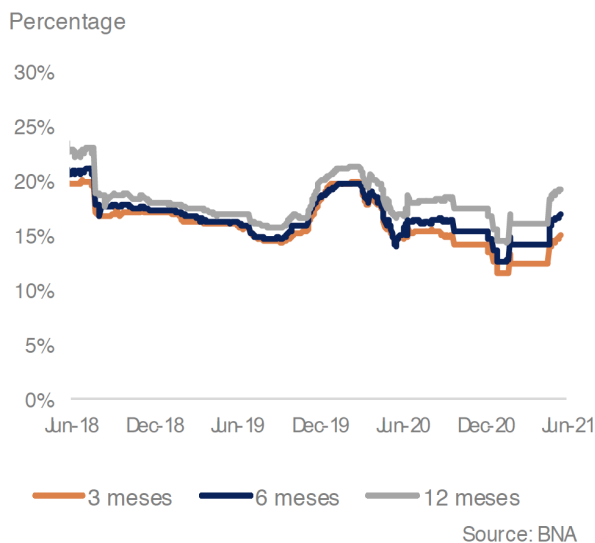
Monetary policy was easing however the increase in reserves stagnated liquidity



In April, LUIBOR O/N increased significantly and is now around 14%



LUIBOR other rates registered increased of at least 2.8pp in the last 2 months

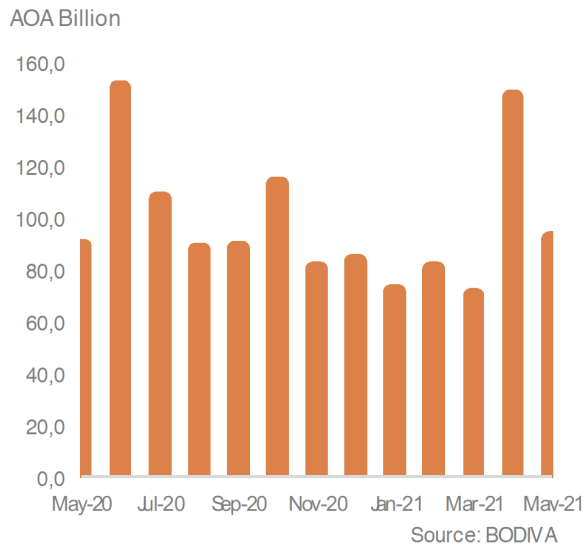


- At the last meeting of the Monetary Policy Committee held at the end of May, the BNA adjusted some instruments to restrict liquidity in the market and revised upwards its forecast for year-on-year inflation at the end of the year. The regulator decided to increase the coefficient of mandatory reserves in foreign currency from 17% to 22%, having also ended the obligation of partial compliance in national currency; in addition, it started to require mandatory reserves of 100% of the value of government deposits in banks, which caused a significant squeeze on liquidity;
- Since mid-April, LUIBOR Overnight has registered significant growth, now standing at 14.61%. In longer rates, the last two months were marked by increases for all maturities, with emphasis on the 12-month Luibor, which had an increase of more than 3pp to 19.2%.

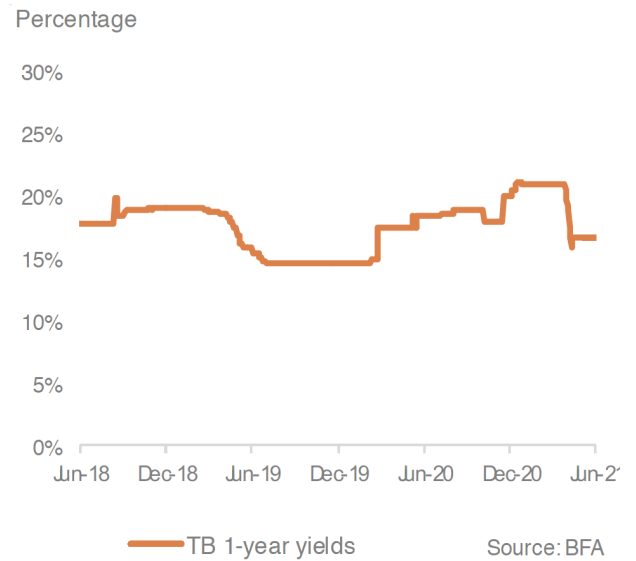
ANGOLA

FINANCIAL MARKETS

Between January and May, around AOA 461 Bn in public debt were traded (-3.3% yoy)



Treasury Bill rates remained stable around 16.7% for the last 2 months



In 2021, 2028 Eurobond yield stabilized around 9%

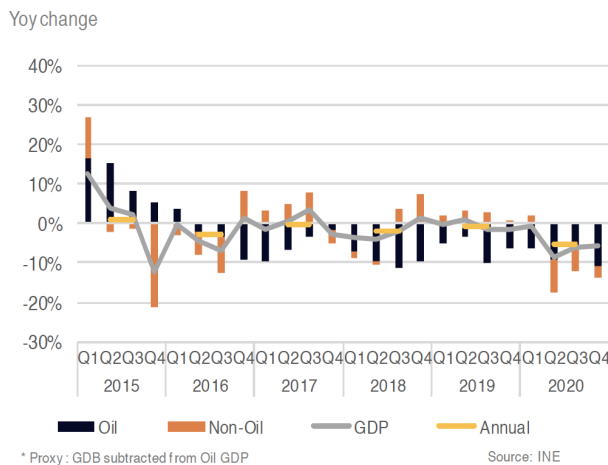


- According to BODIVA data, around AOA 461Bn in securities were traded in the first 5 months of the year, a drop of 3.3% compared to the same period of the previous year. On average, AOA 92Bn were traded per month (AOA 6.8Bn below 2020 average).
- In April, 1-year Treasury bill rates dropped by 3.3 pp to 16.7%, having remained at these levels since then.
- Yields on the Angolan Eurobond maturing in 2028 remain stable at around 9%, making a default scenario less likely, which is justified by the stabilization of Brent price around USD 60-70.

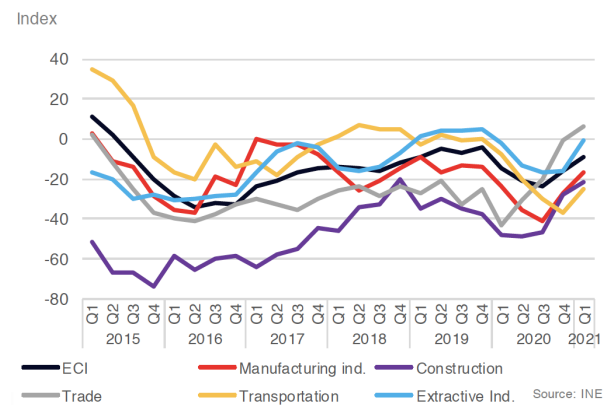
ANGOLA

HIGHLIGHT: 2020 5TH YEAR OF RECESSION, Q1 2021 SHOULD STILL SEE A DROP

Angolan Economy fell for the 5th consecutive year



Economic Climate Index recovered in Q12021 however remains negative



- In 2020, the Angolan economy shrank 5.2% yoy, the 5th consecutive year of recession, following decreases of 2.6%, 0.2%, 2.1% and 0.6% between 2016 and 2019. The oil sector contracted by 8%, while the non-oil economy likely declined by around 4%, according to our estimate.** On the side of the oil economy, the downturn was due, on the one hand, to a natural decline of oil wells, and on the other, to the suspension of investments scheduled for 2020 due to the pandemic and its effect on the price of oil. OPEC estimates that in 2020 Angolan production stood at about 10.1% less when compared to 2019, from 1.40 million barrels per day (mbd) to 1.26 mbd – this evolution is more or less in line with our own latest expectation, which pointed to a production around 1.29 mbd; according to the Ministry of Finance, exports fell to an annual average of just around 1.29 mbd. For Q12021, data already published point to a more accentuated decline in production: the Finance Ministry points out that the volume of crude exports should have dropped 18.3% yoy, while OPEC estimates a decline close to 17% – the latter entity points out for an average daily production of 1.15 mbd (0.07 mbd below the average estimated in the 2021 State Budget).
- With regard to the non-oil economy, economic activity likely contracted by 4% in 2020; for the last quarter of the year we estimate the drop to have been the smallest since the pandemic hit, around -3.0% yoy – the decrease was likely close to 8.2% and 6.5% in the 2nd and 3rd quarters.** The fall recorded in 2020 is due to the triple impact that the pandemic had on economic activity: on the one hand, the Kwanza depreciated in 2020 around 25.8%, which contributed to the decrease in the purchasing power of Angolans; on the other hand, the drastic fall in oil prices in international markets led the State to have less revenue to be able to allocate to public investment; and, finally, the logistical constraints on economic activity due to Covid-19 significantly restricted several economic sectors. In the 1st Quarter, we estimate that the non-oil economy likely still decreased year-on-year, despite the expected increase in tax revenues during the year, and the greater exchange rate stability observed. Additionally, the Economic Climate Indicator for Q12021 pointed to an improvement in the economic environment of companies in Angola, while remaining in negative territory: on a positive note, the 1st quarter of this year was marked by an increase in all economic climate indicators which happened for the first time since 1Q2017.



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