

Bimonthly Economic Outlook

September 2021 Last updated on 30/08/2021



PRIVATE BANKING

INTERNATIONAL

- In June, the IMF maintained at 6% its forecast for the global economy growth in 2021, having slightly revised upwards the forecasts for 2022;
- The Euro has been losing strength against the Dollar in recent months;
- Equity markets in emerging markets and advanced countries remain above pre-pandemic values;
- Brent prices have remained stable in recent months at around USD 72;
- The J.P. Morgan index of emerging sovereign debt has been falling in the last few months;
- Inflation has accelerated significantly lately, in particular in most advanced markets.

ANGOLA

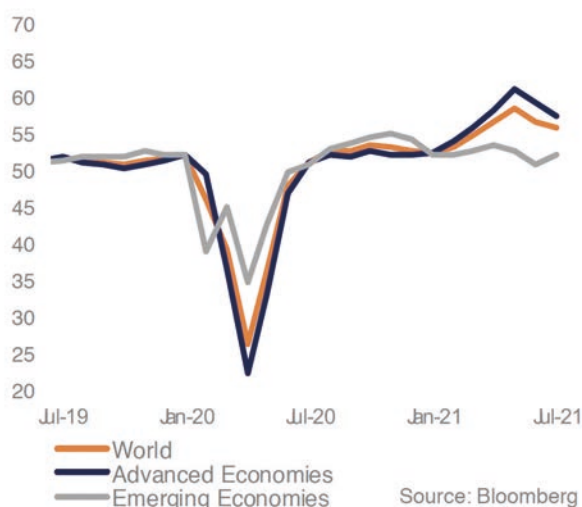
- In Q1 2021, the Angolan economy declined for the 7th consecutive quarter, having registered a yoy contraction of 3.4%;
- Oil production continues to fall, being heavily impacted by the lack of investment in the last years;
- In Q1 2021, the Current Account showed a surplus of USD 1,975 million, a yoy growth of 72%;
- In July, Net International Reserves ended at USD 8.3bn, USD 500 million below December 2020 levels;
- In July, the annual inflation rose to 25.72% representing the 4th consecutive month of increase;
- Since the beginning of the year, the Angolan currency has appreciated around 2.17% against the dollar and 6.7% against the Euro;
- Angola has managed to achieve significant external surpluses in the First half of the year, reaching external equilibrium.

INTERNATIONAL

ECONOMIC ENVIRONMENT

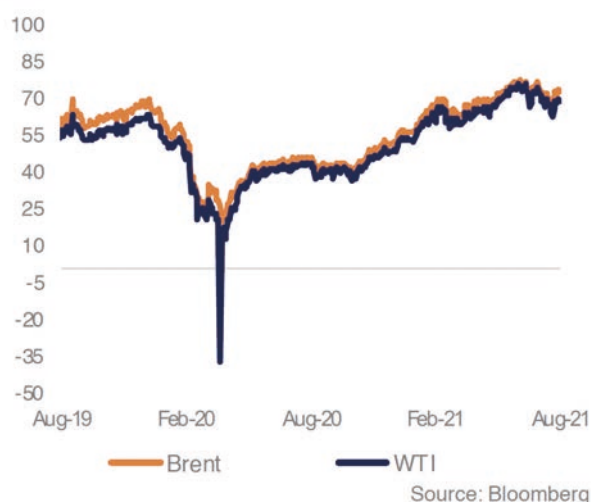
Advanced economies are benefiting from vaccination rollout

Markit PMI Index



Brent remained stable around USD 70 in the last few months

USD



- Markit's PMI indices have seen a mixed evolution in recent months; after a period of growth between the end of 2020 and May, in June and July there was a deceleration (but still in positive values, above 50 points) of the advanced economies, after a peak of growth pace in May. On the side of emerging economies, there was a slight recovery during the month of July.
- In June, the IMF maintained at 6% its forecast for the global economy growth in 2021, having slightly revised upwards the forecasts for 2022, now expecting an expansion of 4.9% against the 4.4% previously expected; the break in 2020 will have been slightly smaller, at 3.2% (vs. 3.3% previously). Forecasts for emerging economies have been revised downwards, with the IMF now expecting growth of 6.3% for 2021 (vs. 6.7% previously) while last year's decline is estimated at 2.1% (vs. 2.2% previously). For sub-Saharan Africa, forecasts for this year remained unchanged, at around 3.4%. Regarding advanced economies, the Fund revised upwards, forecasting an expansion of 5.6% (vs 5.1 previously), with emphasis on the US, which should grow 7% (vs. 6.4% previously).

- After having registered a period of growth, oil has remained stable in recent months at around USD 72, in the case of Brent. In July, OPEC+ reached an agreement to increase production from August and set the end of 2022 as the deadline to return to the production levels of the beginning of the pandemic.

In 2021, global economy is expected to grow 6.0%

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

Source: Bloomberg composite forecasts

INTERNATIONAL

FOREX

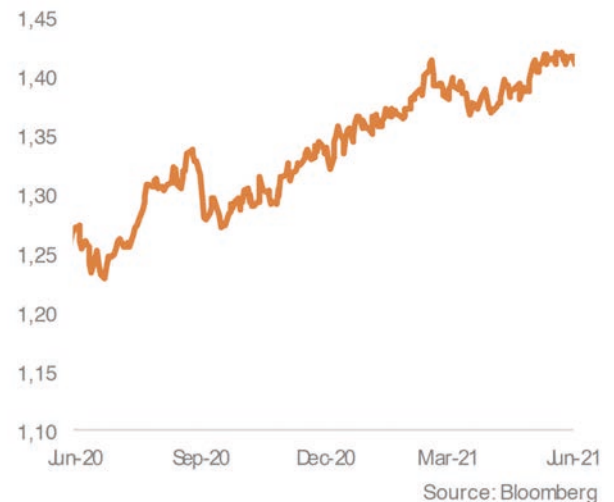
In the last few months, the Dollar recovered against the Euro

EUR/USD



After reaching its peak since 2018, the Pound has lost ground against the dollar in recent months

GBP/USD



The Rand has been losing strength against the Dollar returning to March levels

USD/ZAR

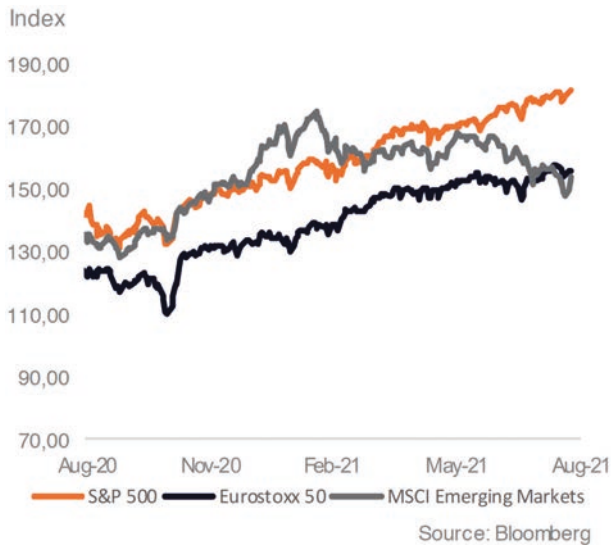


- The European currency has been losing strength against the Dollar in recent months due, on the one hand, to the positive performance of the American economy, and on the other hand, to the less positive performance than initially expected from some economies in the Eurozone.
- The Pound lost ground against the Dollar after posting 3-year highs; however, it remains strong against the European currency: this is due to better than expected improvement in UK employment data. In early August, the British central bank kept its monetary policy unchanged and announced that it would only act when the interest rate reaches 0.5% (expected for 2023).
- After having witnessed a period of value gain, the Rand returned to March levels. This loss in value is on the one hand the result of the expected increase in Dollar interest rates, and on the other hand, of the increase in cases of the Delta variant of the Covid-19 in the United States and Asia.

INTERNATIONAL

EQUITIES AND DEBT

American and european markets continue to rise, emerging markets in decline



American and japanese debt yield falling



Sovereign bonds of emerging markets recorded a decrease in recent months



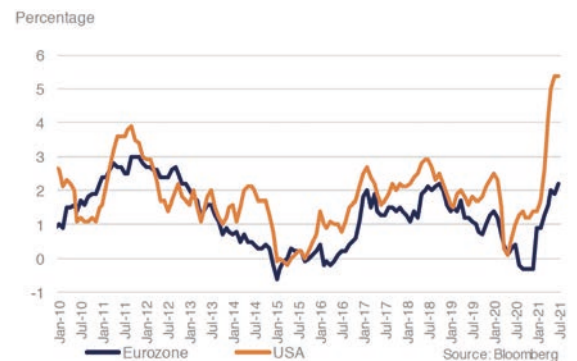
- **Equity markets in developing countries and advanced economies remain above pre-pandemic values;** in recent months, the S&P 500 maintained its growth trend while Eurostoxx 50 grew at a slower pace. The MSCI emerging markets index maintained its downward trend as a result of the high number of cases in some countries such as Brazil and India, and the weak pace of vaccinations against Covid-19.
- **The yield on US debt has decreased slightly in recent months; however, it remains above pre-pandemic levels. Regarding 10-year debt for Germany and Japan, these remain stable.** This decrease in American yields results, on the one hand, from the expansion of the Delta variant, and, on the other, from the purchase of public debt by the Federal Reserve. Japanese yield remains just above zero, while German yield has been declining slightly since June.
- **After recording a period of recovery in the 2nd quarter of the year, the J.P. Morgan index of emerging sovereign debt has been falling in recent months.**

INTERNATIONAL

HIGHLIGHT: NEW INFLATION, PERMANENT OR TRANSITORY?

- **Inflation has emerged as the current issue in international markets, and is now appearing in various parts of the world in a more significant way.** For context, the number of Google searches for the word inflation is at peak levels since 2008.
- **In fact, the most important central banks, from the Federal Reserve to the European Central Bank, among others, have taken measures in recent years to stimulate economic activity and indirectly increase the inflation rate;** in particular, this phenomenon has occurred after the Great Recession, which led to a generalized drop in the economic agents' confidence in the system.
- **Currently, the acceleration is due to a rapid recovery in demand in various locations, simultaneously with the breakdown of multiple supply chains, which has created shortages in some products and raw materials. duction of 2.1 million barrels per day between May and July alone;** In the Euro Zone, inflation in July was already above 2% (2.2%), while in the US the rate was at 5.4% for the same month.
- **Whether current inflation is temporary or permanent it remains to be answered, as the supply chains will likely be re-established, and demand is expected to stabilize again after this more sudden recovery.** This is the point that has been argued by the European Central Bank and the Federal Reserve; In addition to the previously mentioned reason related to logistics, there is also the particularly expansive fiscal policy in several countries, implemented to support the economy, such as the massive injection of liquidity by various Central Banks, but in particular by the Federal Reserve. **In this sense, it is very unlikely that this rise in inflation will lead to increases in key interest rates, which should remain at values close to zero until at least 2023, as indicated by those responsible.**
- **There are, however, those who argue that we will see a period of high and permanent inflation, which will last 2-3 years.** The rationale behind it is that there are also increases in raw materials and real estate, but also in wages, and there is currently some difficulty on the part of companies in finding workers in some markets, such as the United States.
- **Recent inflation also has another peculiarity, which is that it is followed by increases in food prices worldwide, at a level that has not occurred since 2011;** the trend seems to be fading, but this increase in food prices has also caused a rise in the prices of imported goods in Angola, according to our evaluation; in fact, inflation in Angola has been mainly due to food products, and mainly due to imported foodstuffs, whose increase in international markets is being greater than the effect of the current appreciation of the Kwanza.

Inflation is accelerating a lot in developed markets, leading to concern on the part of economic agents



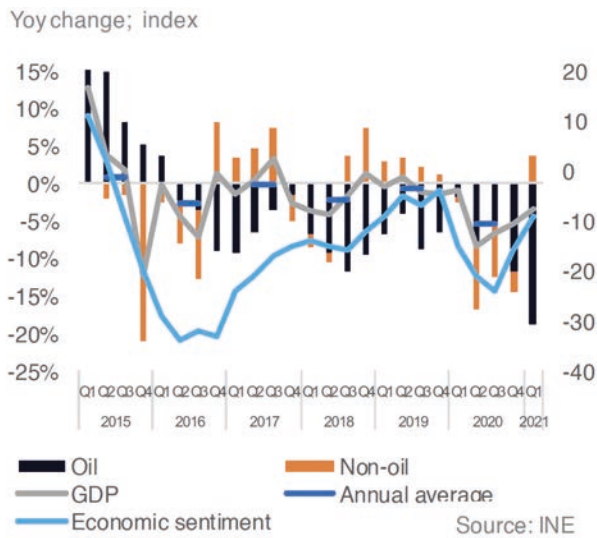
Global food prices are facing the biggest rise since 2011



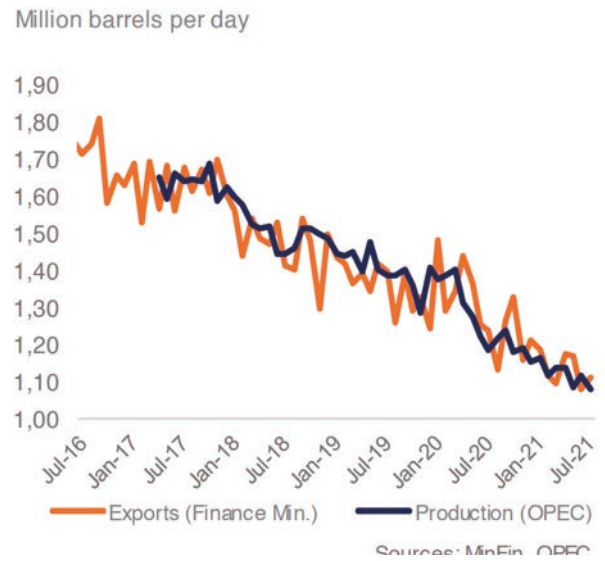
ANGOLA

REAL ECONOMY

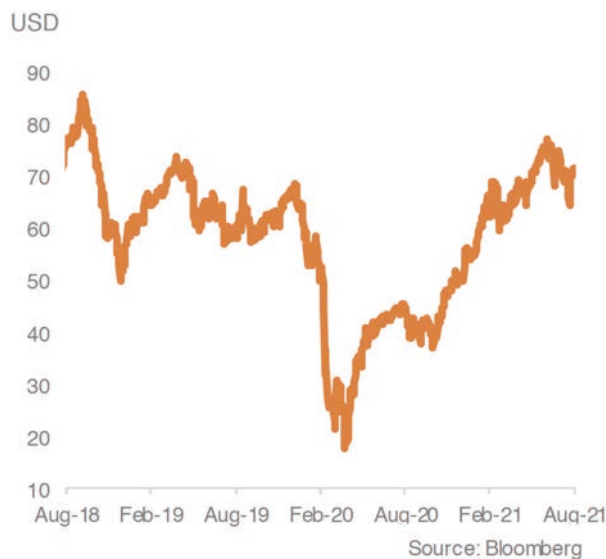
In Q1 2021, oil economy continue to fall; non-oil economy booming



In July, oil exports registered a slight increase compared to June



Oil prices fluctuated a lot in August, now remaining above USD 70



- **In Q1 2021, the Angolan economy declined for the 7th consecutive quarter, having registered a year-on-year contraction of 3.4%.** In the oil sector, there was a contraction of 18.6% yoy in activity, essentially due to the suspension of new investments planned for 2020 and the natural decline of some wells. Regarding the non-oil economy, it likely posted growth in Q1 of around 3.8%, strongly influenced by Retail (29.6%), Diamonds and Minerals (27.9%) and Agriculture (4.8%) sectors.

- **Oil production continues to fall, being heavily impacted by the lack of investment in 2020.** According to data collected by OPEC, Angola produced in July about 1.08 million barrels a day, the lowest production since the beginning of the statistical series. MinFin data point to a daily average export of 1.11 mbd in July, a drop of 10.1% compared to the same period last year.

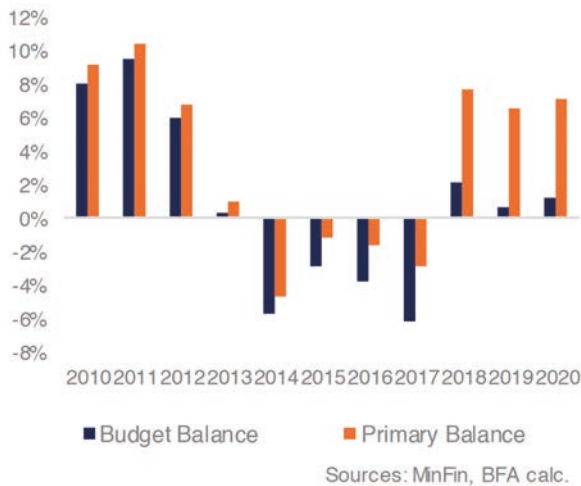
- **The price of Brent Angola has remained stable in recent months at around USD 72.**

ANGOLA

INTERNAL & EXTERNAL EQUILIBRIUM

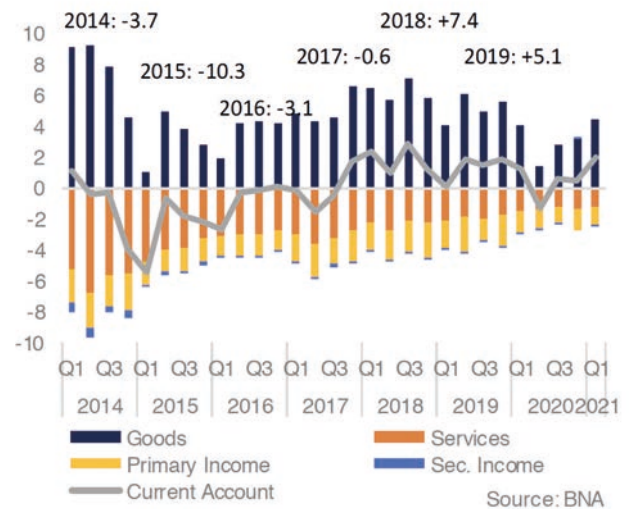
Primary Budget balance remained positive in 2020 and fiscal prudence will continue

Percentage of GDP



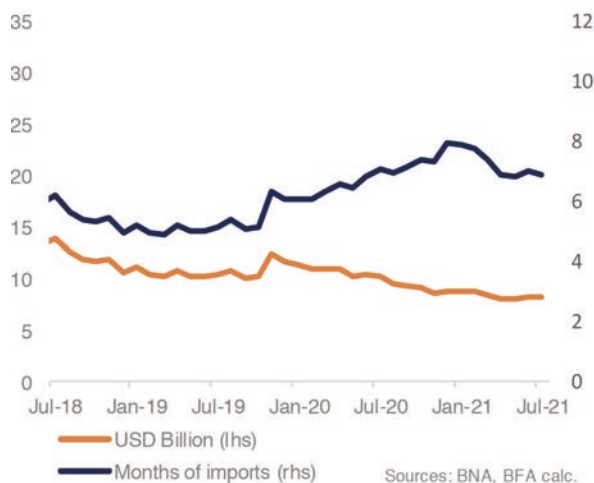
In Q1 2021, current account balance registered a USD 1,97 billion surplus

USD Billion



In July, Net International Reserves stood at USD 8,2 billion

USD Billion; months of imports



- In the 1st quarter of 2021, the Current Account showed a surplus of USD 1,975 million, a positive sign of recovery compared to the same period of the previous year, with growth of 72%. The value recorded in Q1 2021 represents the highest value since Q4 2018. In terms of exports, Angola exported the equivalent to USD 6,884 million in Q1 2021, an increase of 5.69% over the same period of the previous year. On the oil exports side, there was a slight increase of 5.67% compared to Q1 2020, as a result of higher prices in international markets. With regard to non-oil exports, Angola recorded growth of 1.2% to USD 346.6 million. In Q1 2021, imports of goods increased slightly by 2% yoy to USD 2.5Bn: imports of consumer goods decreased by 3.4% yoy while imports of intermediate goods and capital goods increased by 1.5% and 16.4 %, respectively.
- In July, Net International Reserves ended at USD 8.3bn, a similar amount to June, and only USD 500m below December last year. In August, it is likely that these increase, although there are still no final numbers; NIR were very close to USD 10.0Bn on the 30th of August.

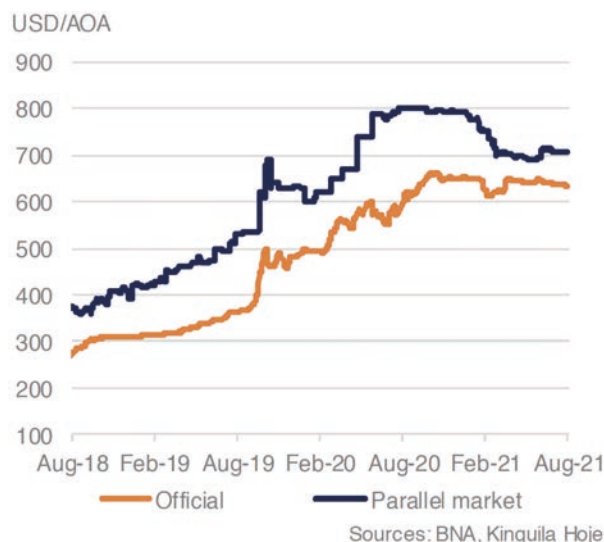
ANGOLA

INFLATION & FOREX

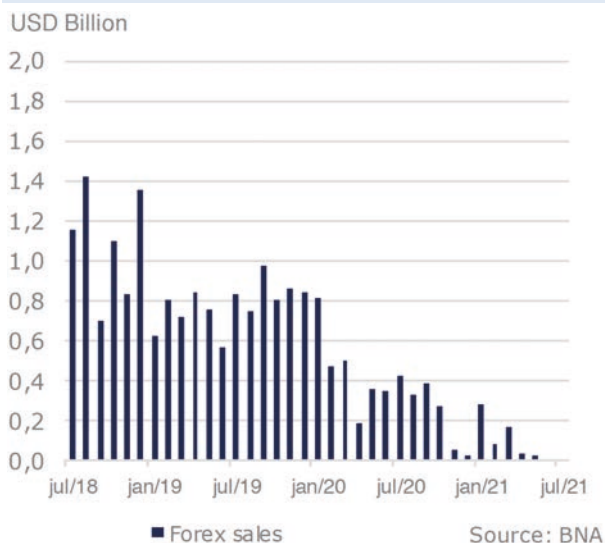
Annual inflation continued to accelerate in July to 25,72



Kwanza appreciated around 2.2% against the Dollar; gap with parallel market increased to 11%



In July, for the first time, BNA did not sell FX to retail banks

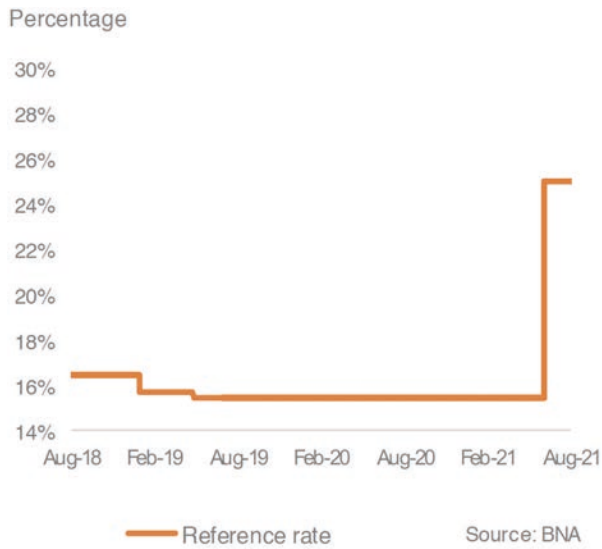


- In July, the annual inflation rose to 25.72% representing the 4th consecutive month of increase. The BNA revised upwards its year-on-year inflation forecast for the end of 2021 by 0.8pp to 19.5%. The BNA, through the last meeting of the MPC, decided to change the instruments of monetary policy, restricting liquidity in order to control the growing pace of inflation.
- Since the beginning of the year, the Angolan currency has appreciated around 2.17% against the dollar, now standing at USD/AOA 635; against the European currency, the Kwanza appreciated by around 6.7%. On the parallel market, the Kwanza appreciated substantially and is now trading around USD/AOA 700/710 leading to the range for the benchmark rate around 11%; the range is lower considering the sales rates of commercial 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 July 2021, for the first time, the BNA did not sell foreign currency to commercial banks. In the first 7 months of the year, the BNA sold USD 609 million to commercial banks, a year-on-year drop of 80%.

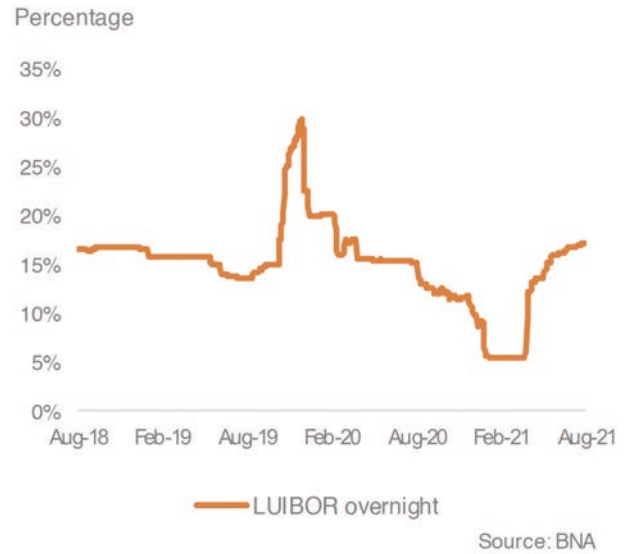
ANGOLA

INTEREST RATES

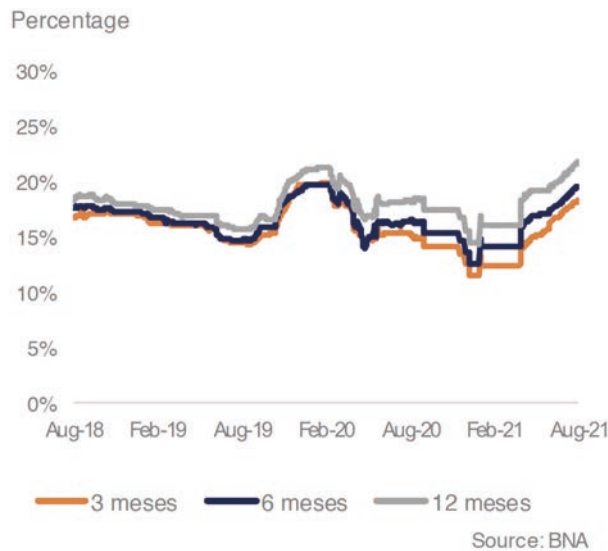
In the end of June, BNA increased the reference rate to fight rising inflation



Since July, LUIBOR 0/N has been increasing significantly, now standing at 17,11%



LUIBOR other rates have maintained a growth trend in recent months



- **At the last meeting of the Monetary Policy Committee, 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 various rates: absorption increased to 15%, the BNA rate to 20% (compared to 15.5%), and the provision of liquidity to 25%; in addition, the coefficient of mandatory reserves in foreign currency had previously been changed from 17% to 22%, having also ended the obligation of partial compliance in national currency; finally, it began to require mandatory reserves of 100% of the value of government deposits in banks since May, which also caused a significant squeeze on liquidity.

- **Since mid-April, LUIBOR Overnight has registered significant growth, now standing at 17.15%.** In longer rates, the last two months were marked by increases for all maturities, with emphasis on Luibor 9 and 12 months, which had a joint increase, to 21.03% and 21.85%.

ANGOLA

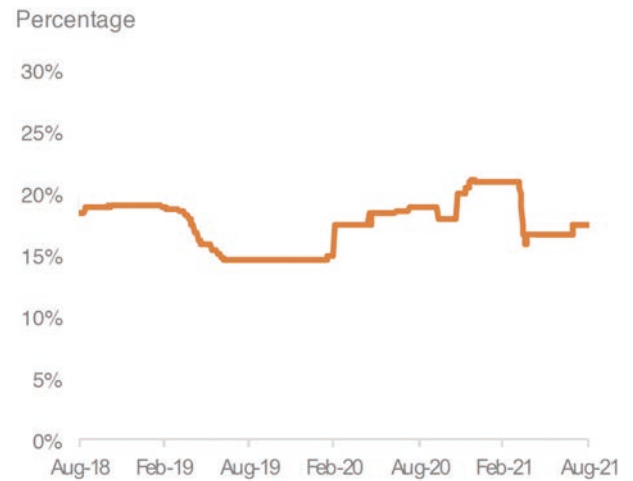
FINANCIAL MARKETS

Between January and July around AOA 639 Bn in public debt were traded (13% yoy)



Source: BODIVA

Treasury Bill rates registered a slight increase in the end of July to 17,5%



— TB 1-year yields

Source: BFA

2028 Eurobond yield remain stable around 9%



Source: Bloomberg

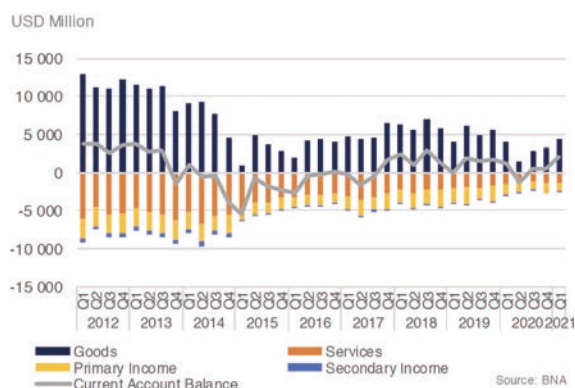
- According to BODIVA data, around AOA 639Bn in securities were traded in the first 7 months of the year, a drop of 13% compared to the same period of the previous year. On average, AOA 91Bn were traded per month (AOA 7,6Bn below the 2020 average).
- In July, Treasury bill rates for all periods remained at their previous levels having increased in the end of the month to 17,5%.
- 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 the Brent price around USD 70.

ANGOLA

HIGHLIGHT: ECONOMY REACHES EXTERNAL BALANCE, WITH SIGNIFICANT SURPLUSES

- The Angolan economy is now in a much healthier situation in terms of external balance – we estimate that the current account has seen a surplus ranging from USD 3.6-4.0Bn in the first half of the year. In fact, this is the largest surplus since 2013.** The performance is due, in large part, to the huge reduction in imports that has taken place; for comparison, in 2013 an average of USD 6.6Bn per quarter in goods were imported; in the 1st half of 2021, the average likely stood at USD 2.7Bn, just over 1/3. On the other hand, crude exports recovered significantly compared to 2020, due to the increase in oil prices in international markets. For the entire year, we expect a surplus close to USD 7.0bn, above 9% of GDP, which would be the highest value since 2012, when there was a surplus of 10.8% of GDP.
- The current account surplus was likely in tandem with a similar deficit in the financial account, leading the International Reserves to rise only USD 0.3Bn in the 1st half, to USD 15.1Bn in Gross International Reserves(GIR);** in Net International Reserves, the amount dropped from USD 8.8bn to USD 8.3bn, a slight drop, which is due to the fact that the IMF loans are not accounted for in NIR, unlike in GIR. However, the latest figures point to a USD 1.9bn GIR rise by the end of August to USD 16.8bn; in fact, there were two very positive recent transactions, a USD 0.7Bn loan from the World Bank, and an increase in IMF reserves, which resulted in an increase in the amount held by Angola in Special Drawing Rights, totaling USD 1,0Bn; the NIR are now close to USD 10Bn. We expect continued positive evolution, although probably gradual, that could allow the year to end with GIR above USD 17Bn and NIR again above USD 10Bn. It should be noted that, with the reduced amount of imports, the NIR will represent at the end of August a little more than 8 months of imports, a maximum since April 2017, according to our calculations.
- The more balanced situation externally has also resulted in greater availability of foreign currency, which in turn puts pressure on the Kwanza to appreciate against international currencies.** Against the Dollar, the currency gained 2.4% since the end of December last year and appreciated 6.0% against the Euro during the same period. The stability of the parallel market also reveals sustainable evolution, taking place in parallel with the full availability of foreign currency in banks. We expect the appreciation to continue gradually until the end of the year, assuming Brent remains around USD 68-75.

Current account returned to surplus, after a brief period of deficit in 2020



Imports of goods have been declining significantly in recent years





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