

# Bimonthly Economic Outlook

July 2022 Last updated on 01/07/2022



**BFA**

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## INTERNATIONAL

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- **PMI indices are showing weakness in emerging economies, which could be on the brink of recession, after a downward revision of the IMF's forecasts for growth in 2022;**
- **The Dollar is gaining against the main currencies, in particular against the Euro, Pound and Rand;**
- **American and German debt yields continue to rise, and the equity markets recorded a semester of historic declines, in the various geographies;**
- **The recession and slow-reacting monetary policy have been hurting the Euro, with the probability of recession becoming much higher in Europe than in the US.**

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## ANGOLA

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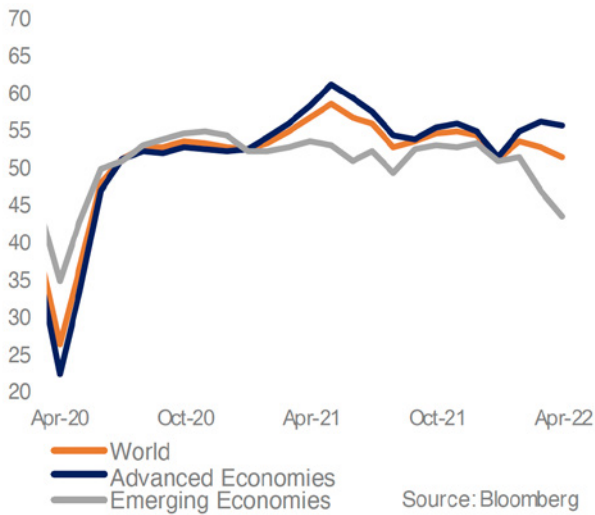
- **In the 1st Quarter of 2022, the Angolan economy registered an expansion of 2.6% compared to the same period in the previous year; grew 0.7% in 2021, after 5 years of recession;**
- **In the first five months of 2022, oil production is increasing by 2.9 yoy, according to data collected by OPEC;**
- **International Reserves ended Q2 2022 at USD 14.3 billion representing an increase of USD 1.1Bn since the beginning of the year;**
- **Year-on-year inflation has been falling over the last 4 months, settling at 24.4% in May;**
- **In the 2nd quarter of 2022, the Kwanza is worth 52.5% more than in the same quarter of 2021, against the Dollar. On the side of the informal market, which is increasingly less liquid, the same trend has occurred.**

## INTERNATIONAL

### ECONOMIC ENVIRONMENT

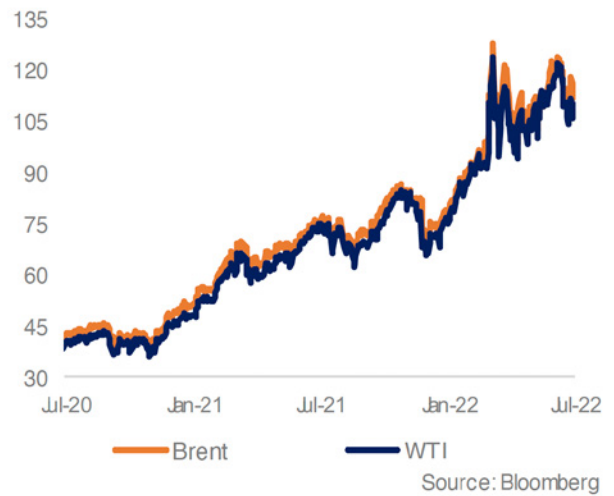
#### The PMI indices point to a drop in activity in emerging markets since March

Markit PMI Index



#### Brent has been averaging above USD 100 since late February

USD



- As of March, Markit's PMI indices for emerging countries show a particular impact on activity, with some economies potentially in economic decline. The decrease in activity will be the result of greater risk, associated with the environment of higher interest rates, together with the impact of the war between Russia and Ukraine on already high food prices.
- The IMF has lowered its forecasts for economic growth in 2022, as a result of the impacts of the war in Ukraine. The Fund expects activity to increase by 3.6% this year, with growth of 3.3% in developed economies and 3.8% in emerging economies.
- In the oil market, prices remain quite high, above USD 100, which is driving inflation in many economies around the world.

#### For 2022, economic growth was revised down to 3.6% (4.4% prev.)

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

Source: IMF Forecast

## INTERNATIONAL

### FOREX

Since the beginning of the year, the Dollar has been gaining ground against the Euro

EUR/USD



Pound maintains trend of losses in recent months and is now at minimums

GBP/USD



Rand has lost ground after months of some appreciation against the Dollar

USD/ZAR

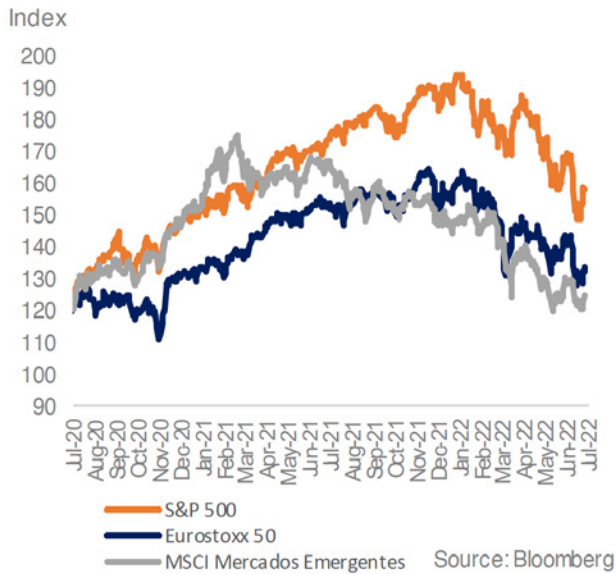


- The Euro continues to register important drops, being now quite close to parity, which results from the impact of the war, the deterioration of the European trade balance due to energy prices, and also from the less restrictive monetary policy compared to the US. The EUR/USD pair has been trading around 1.05, threatening to price at the same value as the Dollar.
- Likewise, the Pound also continues on a downward trend, also affected by the war, together with political tensions, with pressure for the resignation of Prime Minister Boris Johnson. In recent months, the currency has even traded around from 1.20 GBP/USD, multi-year lows.
- In the case of the Rand, after a period of significant appreciation, the impact of the war on the price of energy and food is severely damaging the South African currency, together with higher perceived risk of emerging economies.

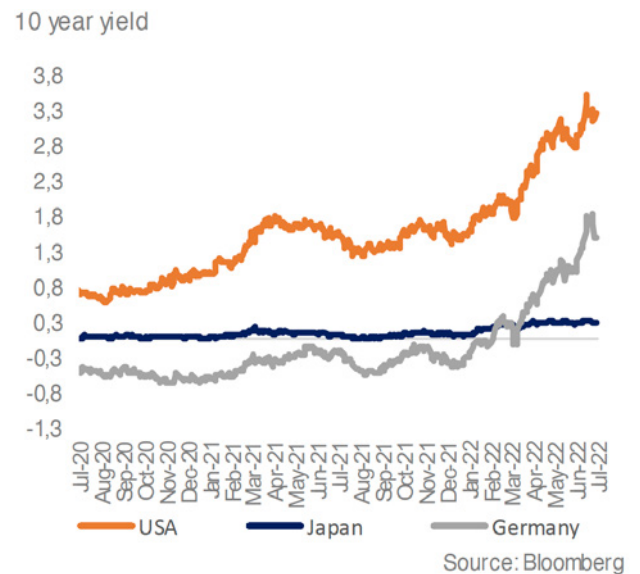
## INTERNATIONAL

### EQUITIES AND DEBT

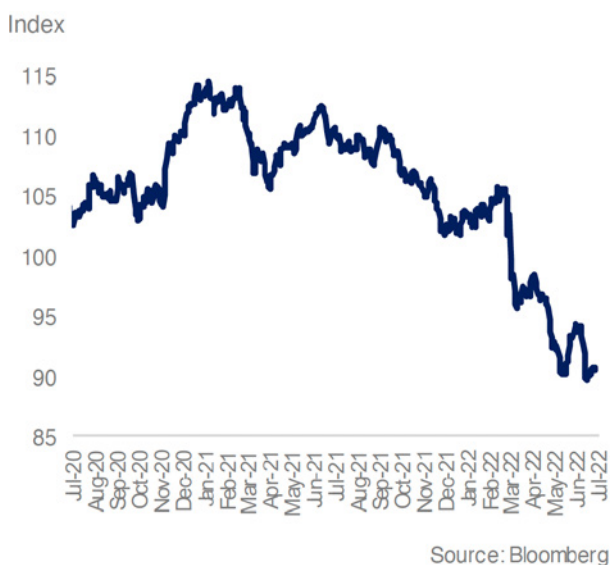
**Stock markets have tumbled in recent months with one of the worst semesters on record**



**German and US debt yields have increased significantly since early March**



**Emerging bonds continue to fall in the face of the conflict between Ukraine and Russia**



- **Equity markets have continued with gradual but consistent losses, registering one of the worst semesters, in the case of the S&P 500, for example.** The emerging equity index has taken a stronger hit, with many countries suffering greatly from rising food and energy prices, adding to this an increased risk-averse environment due to the Federal Reserve's interest rate hike.
- **The US and German debt yields have accelerated their upward trend in recent months, also as a result of the Federal Reserve's interest rate hike and the prospect of similar moves by the European Central Bank.** Japan's debt has maintained similar levels, also because the Bank of Japan has not shown any signs of tightening monetary policy.
- **Bonds in emerging countries particularly show the impact of this new, more risk-averse environment.** JP Morgan's emerging debt index continues to experience very significant declines.

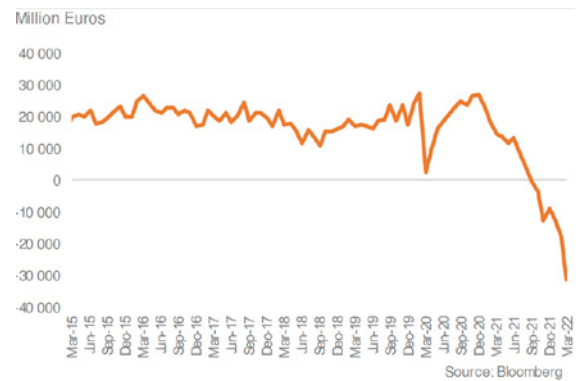


## INTERNATIONAL

### HIGHLIGHT: RECESSION AND SLOW-REACTING MONETARY POLICY HURT EURO

- **The Euro has registered very important drops, having reached EUR/USD 1.028 on the 5th of July, the lowest value since December 2002, the year of the entry into circulation of the single currency.** The accumulated drop this year has already reached 8% and the European currency is thus approaching parity with the Dollar. One of the main fears in the markets is the likelihood of a recession, caused by the huge increase in energy prices, as a result of restrictions on gas imports from Russia, together with the increase in the price of oil, also a result of the war between Ukraine and the Russia.
- **At the same time, these recession concerns make a faster rate of interest rate hikes by the European Central Bank less likely, a possibility – assumed by the market but tempered by the ECB's statements – that could mitigate the Euro's loss in value.** Thus, the more advanced and accelerated path of rate hikes by the Federal Reserve will also have an effect of a gain of the Dollar against the European currency. It should be noted that, in the European case, the market forecast in mid-June, on the part of the market, was for an interest rate on the ECB deposit rate possibly above 2% already sometime in 2023, while the new perspectives expect this rate does not exceed 2% before 2026.
- **The higher prices of energy and food goods, which were already beginning to be experienced before the war, with problems in the logistics of production chains in the post-pandemic recovery, became even more pressured with the current scenario.** These factors are being reflected in the very rapid deterioration of the Eurozone's trade balance, which turned into a deficit in October 2021, and particularly in the case of Germany, which registered a deficit in its trade balance of goods in May for the first time in 30 years.

**Trade balance of goods in the Eurozone started to register a deficit as of October 2021**



**The European currency is suffering from great fragility with rising energy prices, along with the impact of the war**

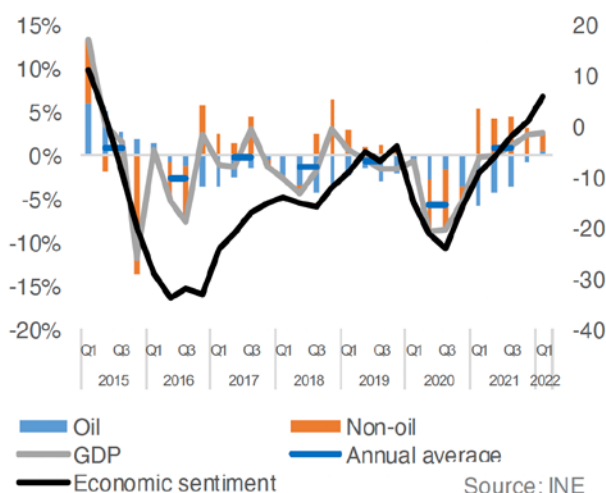


## ANGOLA

### REAL ECONOMY

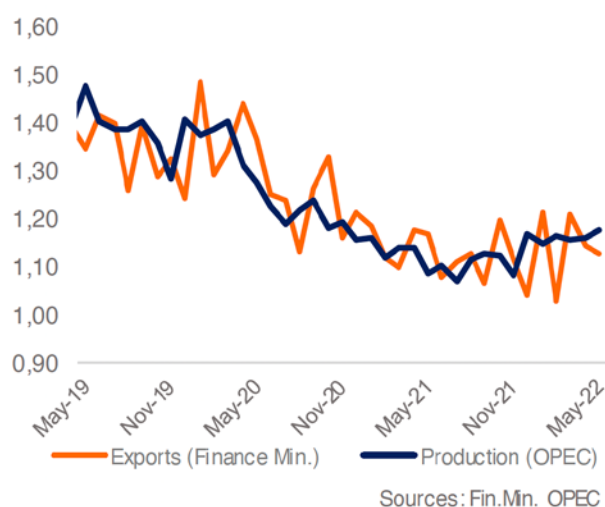
The non-oil economy has slowed down, but economic sentiment points to further acceleration

Yoy change; Index



Between January and May, exports dropped 0.5% yoy, but production rose 2.9% yoy

Million barrels per day



Since the beginning of the year, the average price of Brent Angola has been around USD 97

USD



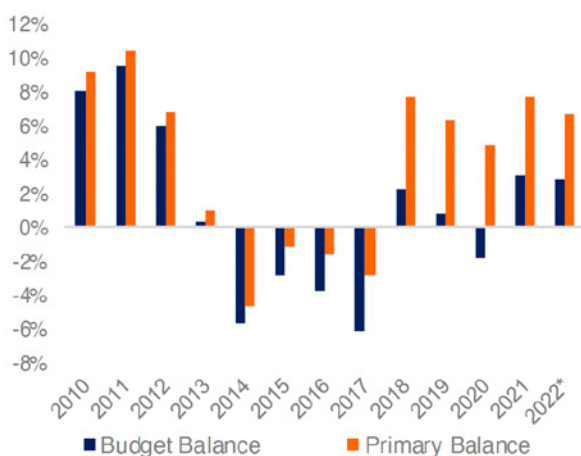
- In the 1st Quarter of 2021, Angolan GDP grew 2.6%, compared to the same period last year – 3rd consecutive quarter of year-on-year increase and the highest value since Q4 2018. The non-oil economy slowed down again, growing 2.8% (compared to +4.3% in Q4 2021 and +6.6% in Q3 2021); at the same time, the oil economy grew by 1.9%, the first year-on-year increase since Q1 2016 – in the previous quarter, the drop had been 2.8% yoy.
- In the first five months of 2022, the national average oil production stood at 1.17 million barrels a day, a year-on-year increase of 2.9%. Data provided by the Ministry of Finance indicate that in the first 2 months of 2022, Angola had an average daily export of 1.14 mbd, a drop of 0.5% compared to the same period last year.
- Since the beginning of the conflict between Russia and Ukraine, Brent has registered a significant increase: as a result, Angolan crude exports were sold at an average of USD 96.7 per barrel in 2022.

## ANGOLA

### INTERNAL & EXTERNAL EQUILIBRIUM

**Budget and primary balance should be slightly lower in 2022**

Percentage of GDP

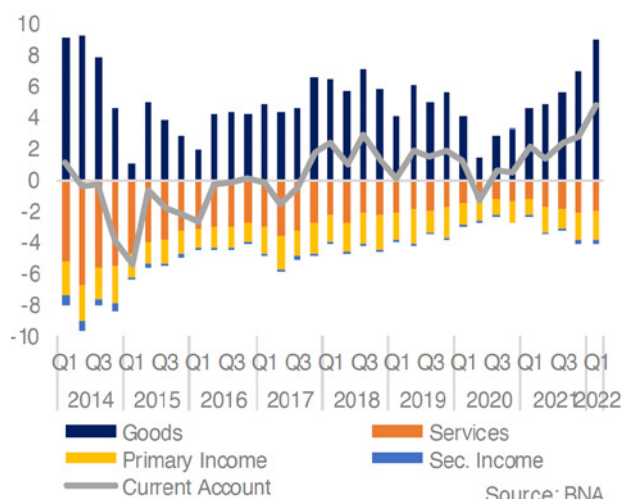


\*BFA Forecast

Sources: MinFin, BFA calc.

**In Q1 2022, the current account balance stood at 4.7Bn (vs 2.1 Bn in Q12021)**

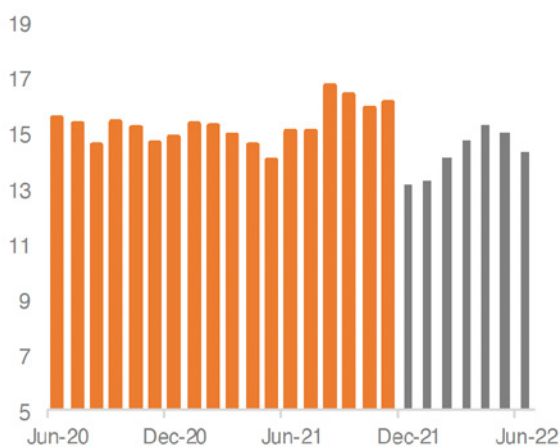
USD Billion



Source: BNA

**International Reserves closed June at 14.3 billion (USD +1.1Bn ytd)**

USD Billion



Sources: BNA, BFA calc.

- **The current account recorded a surplus of USD 4.7 billion in Q1 2022, the highest in the last 10 years.** On the one hand, exports of goods rose 80.1% compared to the same quarter of 2021, totaling USD 12.6bn – the highest since Q3 2014: crude oil sales increased 66.5%, while gas sales nearly tripled to USD 1.7Bn, the highest value ever. At the same time, imports of goods rose by 50.8%, and purchases of services abroad increased by 54.5% - both returned to levels similar to 2019. That is, among the main components of the current account, exports increased USD 5.6Bn, while the growth in imports of goods and services totaled USD 2.0Bn; the deficit in the income balance also grew, with greater repatriation of dividends, an increase of USD 0.8Bn. For the entire year, we will significantly revise our forecast upwards, now expecting a surplus of more than USD 12Bn, representing more than 8% of GDP.
- **International Reserves closed June at USD 14.3 billion representing an increase of 1.1 Bn since the beginning of the year.**

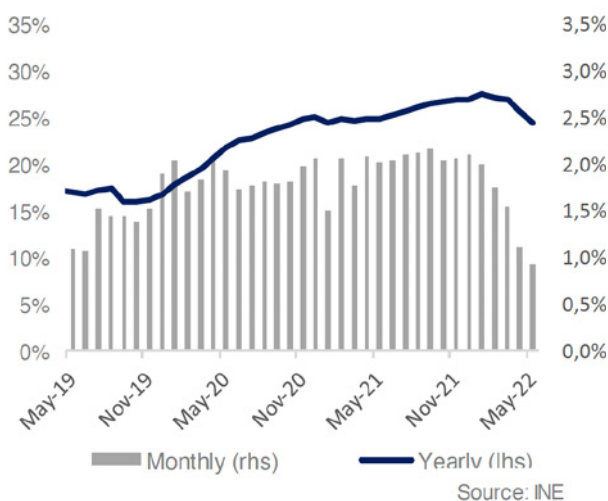


## ANGOLA

### INFLATION & FOREX

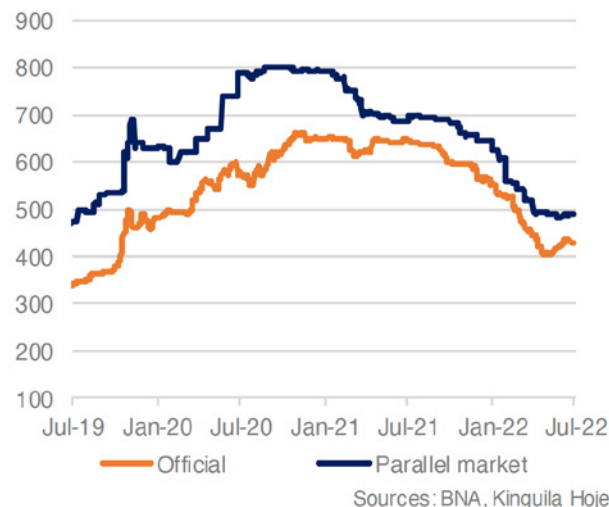
**In 2022, year-on-year inflation has already recorded the 4th consecutive month of decline**

yearly change; monthly change



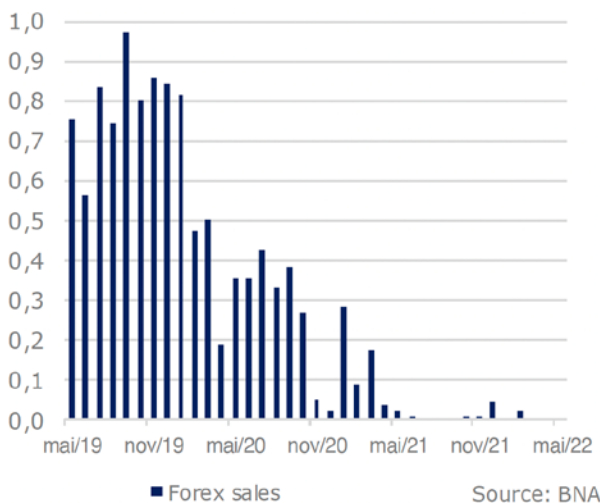
**Since the beginning of the year, the Kwanza has already appreciated 29.3% against the Dollar**

USD/AOA



**The BNA has continued to sell foreign exchange to retail banks at a very low amount**

USD Billion

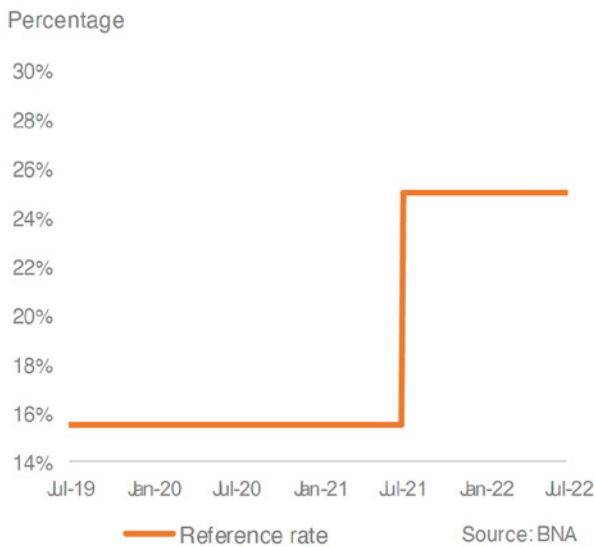


- In May, national year-on-year inflation stood at 24.4%, the fourth consecutive month of decline, after 11 months of growth. Monthly inflation was 0.93%, significantly below the value in December 2021 (2.10%), and the lowest since 2015.
- Since the beginning of the year, the Kwanza has appreciated by around 29.3% against the Dollar and 41,1% against the Euro to USD/AOA 455.62 and EUR/AOA 501.9 respectively. In the 2nd quarter of 2022, the Kwanza is worth 52.5% more than in the same quarter of 2021, against the Dollar. On the informal market side, which is increasingly less liquid and with fewer transactions, the exchange rate has followed the same trend as in the official market.
- The BNA continues to make few sales to retail banks, making only occasional interventions to avoid too sudden changes in the exchange rate.

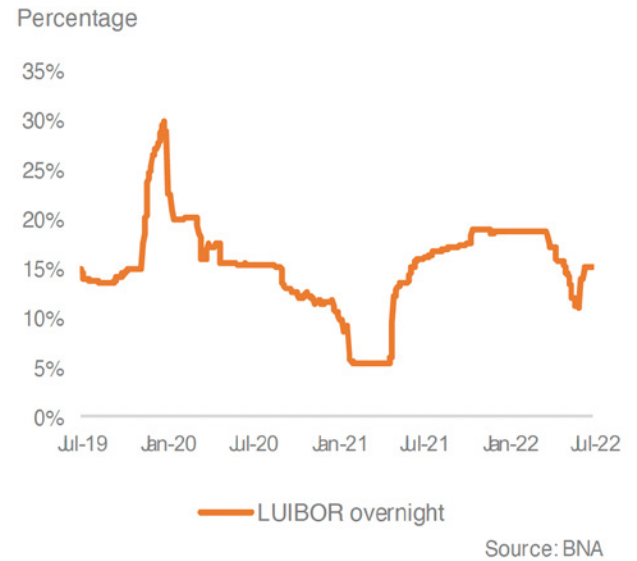
## ANGOLA

### INTEREST RATES

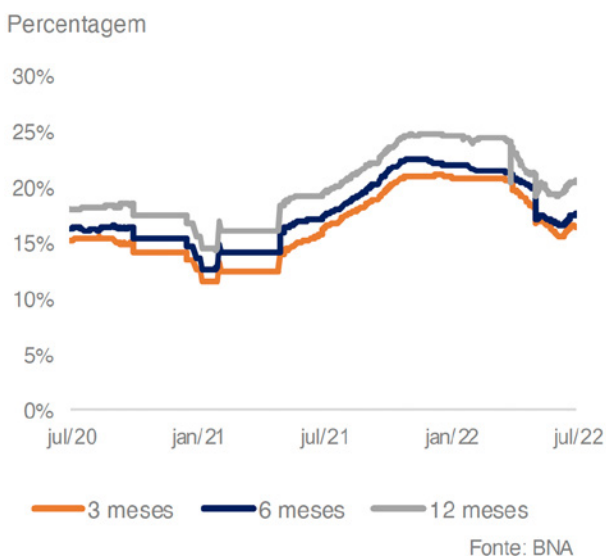
The BNA is keeping the reference rate unchanged at 25%



Luibor O/N corrected to close to 15%, after 2 months of decline



After a period of stability, other LUIBOR rates have been falling since March

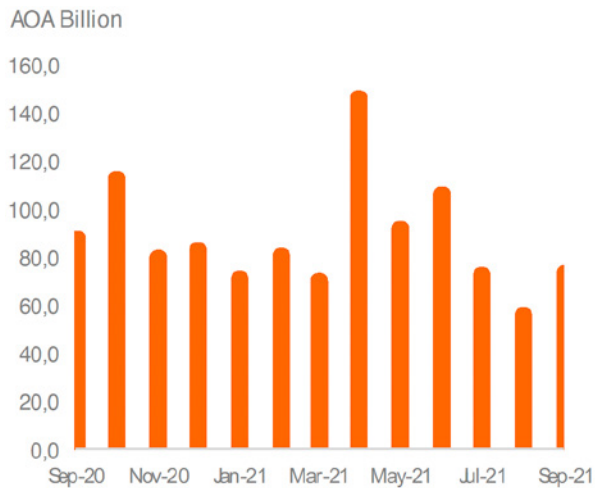


- At the meeting of the Monetary Policy Committee held at the end of May, the BNA decided to reduce the mandatory reserve ratio in local currency from 22% to 19%. According to the Central Bank, the reduction of the coefficient will be done gradually to reach 17% at the end of July. This slight easing of monetary policy follows the downward trend in inflation, allowing the BNA to inject more liquidity into the economy, stimulating activity. The remaining instruments remained unchanged.
- The LUIBOR rates registered very significant declines, reaching minimums at the beginning of June, with the overnight rate at 11.05%. Subsequently, the introduction of new rates in the BNA's open market operations led to a further increase in rates, with the overnight rate now settling around 15-16%.

## ANGOLA

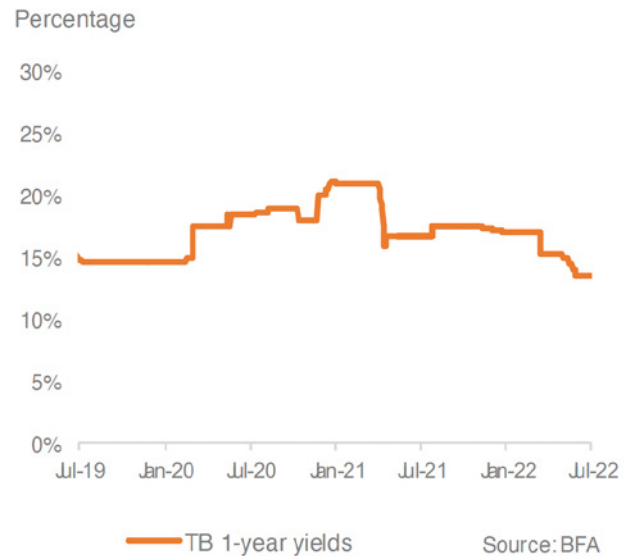
### FINANCIAL MARKETS

Between January and June, around AOA 429.8 billion were traded



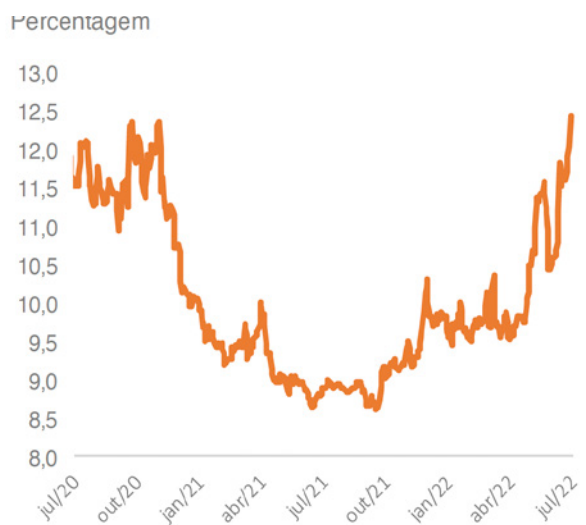
Source: BODIVA

364-day Treasury Bill interest rates are being issued at 13.5%



Source: BFA

2028 eurobond yield is rising sharply, on par with Fed rate hike and higher risk



Fonte: Bloomberg

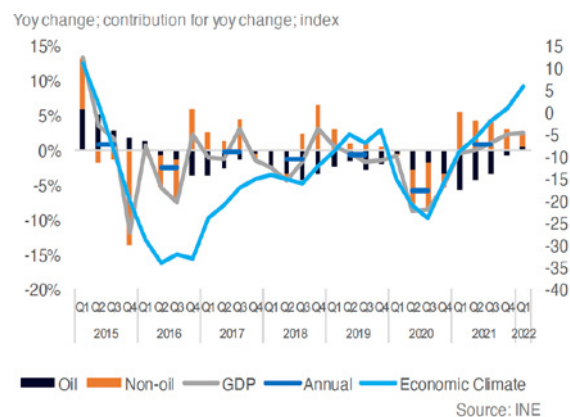
- BODIVA data show that in the first 6 months of 2022, around AOA 719 Bn in securities were traded, almost exceeding the amount traded in the total of 2021, AOA 797 Bn. In May, AOA 139Bn was traded, a 12-month high. The most negotiated maturity was 2023, amounting to AOA 147Bn, followed by 2024, with AOA 132Bn.
- The local currency debt yields have remained at recent levels, after a significant decline – in the case of 1-year debt, the rate is now at 13.5%.
- The yield of the Angolan Eurobond maturing in 2028 has risen significantly in recent times, with the rise in interest rates on American debt and an increase in the perception of market risk in emerging countries. In general, all yields for the various Angolan Eurobond maturities are above 12%.

## ANGOLA

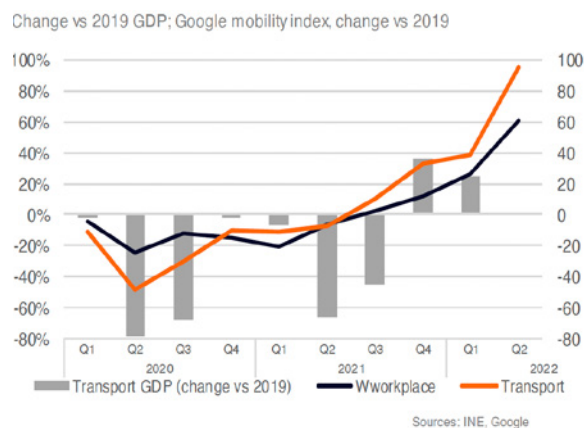
### HIGHLIGHT: ECONOMY ACCELERATES IN Q1 2022, SUPPORTED BY OIL

- In the 1st Quarter of 2021, Angolan GDP grew 2.6%, compared to the same period last year – 3rd consecutive quarter of year-on-year increase and the highest value since Q4 2018.** The non-oil economy slowed down again, growing 2.8% (compared to +4.3% in Q4 2021 and +6.6% in Q3 2021); at the same time, the oil economy grew by 1.9%, the first year-on-year increase since Q1 2016 – in the previous quarter, the drop had been 2.8% yoy.
- The Transport sector grew significantly, with moderate growth in all other sectors, with the exception of Retail, where activity rose by only 1.9% yoy, and the Mining and Financial Intermediation sectors, which recorded decreases, respectively, of 28.3% yoy and 14.7% yoy.** The oil and construction sectors remain significantly below their pre-pandemic level in the same quarter of 2019. In the same vein, the Mining and Financial Intermediation sectors are also below the pre-pandemic level – all other sectors are already above 2019 levels, in particular Fisheries, Transport and Retail.
- The non-oil economy will have grown, according to our calculations, by 2.8%, decelerating from the 6-8% increases seen in the first 9 months of 2021.** This is a rate below our expectations, between the 4.2-4.7%; however, the slowdown is consistent with the behavior of imports and EMIS's withdrawals, purchases and payments for services. The increase in non-oil activity added, together, 2.09 percentage points (pp) to the growth rate of the economy as a whole, which stood at 2.8%.
- In the oil sector, there was the first year-on-year growth since Q1 2016, as a result of the slight increase in oil production.** Activity in the sector increased by 1.9% compared to the same period in 2021, after a 2.8% drop in the last quarter of 2021 and year-on-year average decreases of 13.4% in the 4 quarters prior to that – growth is higher to our estimate of an increase between 0.8%-1.3%. As can be seen in the chart below, using data obtained independently by OPEC, the 6-month moving average of production is gradually rising since the last quarter of last year, from a low of 1.10 million barrels a day (mbd) in October and November 2021, to 1.16 mbd in May this year.

#### Non-oil economy continues to grow while oil economy increased activity for first time since 2016



#### Mobility rates at transport stations and workplaces are well above 2019





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