

# Bimonthly Economic Outlook

September 2022 Last updated on 01/09/2022



PRIVATE BANKING

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## INTERNATIONAL

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- **PMI index 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;**
- **US's and German's debt yields continue to rise, equity markets continue to react to uncertainties relatively the global economy may not withstand higher inflation expectations and tighter monetary conditions;**
- **High of inflation hampering world's economic growth: Year-on-year inflation in the United States of America and the Eurozone reaching historic rates for decades.**

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## ANGOLA

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- **In the 1st Quarter of 2022, the Angolan economy recorded 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 seven months of 2022, the national average oil production stood at 1.16 million barrels a day, a year-on-year growth of 4.4%;**
- **International Reserves closed at USD 13.8 billion (bn) in August, representing an increase of USD 610 million since the beginning of the year;**
- **Year-on-year inflation in July stood at 21.40%;**
- **Since the beginning of 2022, the Kwanza appreciated around 29.0% against the Dollar and by 43.8% against the Euro.**

## INTERNATIONAL

### ECONOMIC ENVIRONMENT

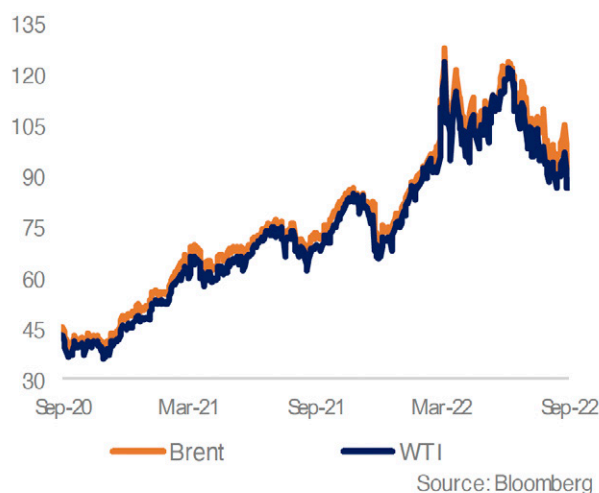
#### The PMI index points to a slowdown of the global activity in July

Markit PMI Index



#### Brent has been averaging below USD 100 since August

USD



- Since March, Markit's PMI index for emerging countries shows a particular impact on activity, with countries potentially in economic decline. The decline in activity will be the result of a greater risk, associated with the environment of higher interest rates, combined with the impact of the war between Russia and Ukraine, reflexes in the rise of food prices.

- In July, the IMF lowered its forecasts for economic growth in 2022, as a result of the impacts of the war in Ukraine. The Fund expects activity growth of 3.5% this year, with growth of 3.3% in developed economies and 3.8% in emerging economies.

- In the oil market, prices have been on a downward trend, being persistently below USD 100 since the beginning of August, the lowest prices since February 2022.

#### 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

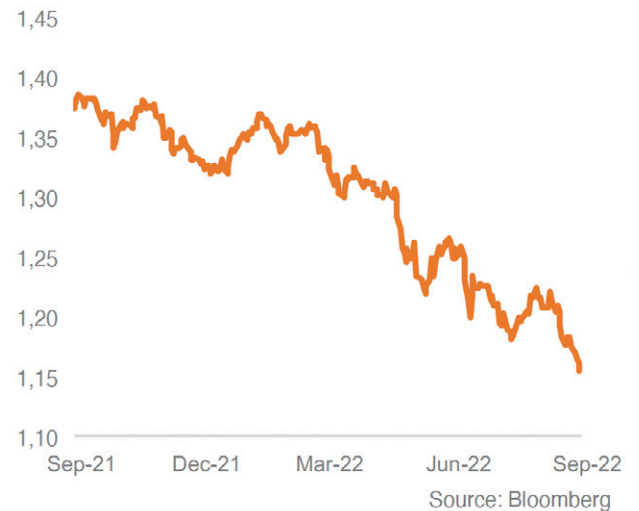
Since the beginning of the year, the Dollar has been gaining ground against the Euro

EUR/USD



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

GBP/USD



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

USD/ZAR

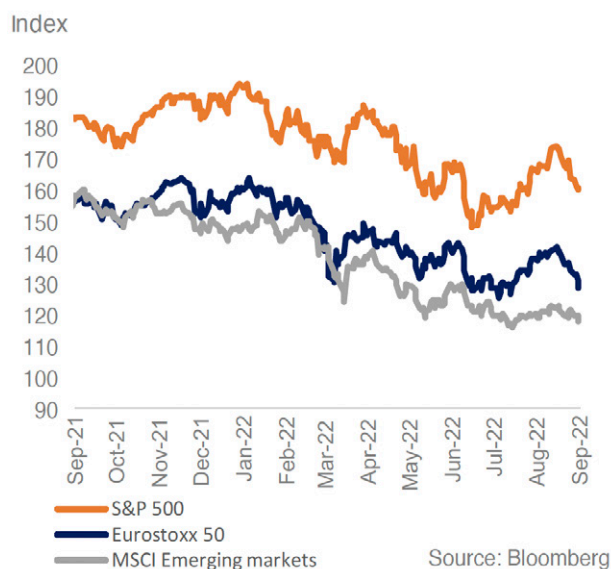


- The Euro continues to register important drops, being now quite close to parity, which results from the impact of the war, the deterioration of the European trade balance due to energy prices, and also from the less restrictive monetary policy compared to the US. The EUR/USD pair has been trading around 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.

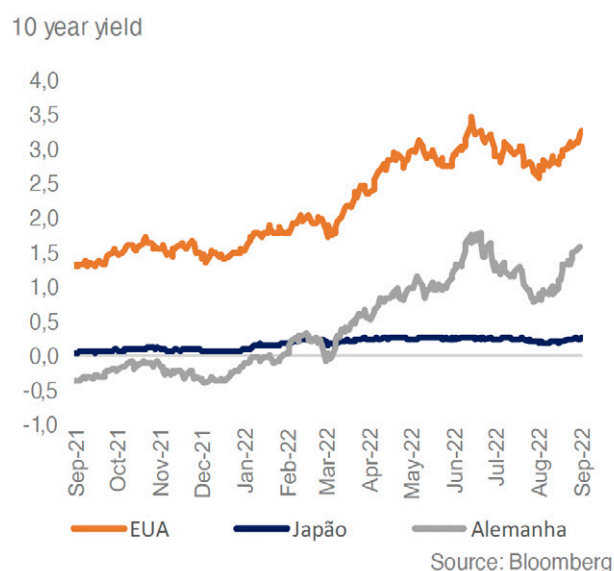
## INTERNATIONAL

### SHARES AND DEBT

#### Markets reacting negatively to expectations of high inflation rates



#### German and American debt yields recovering from the drop recorded in the last two months



#### Emerging bonds slightly above mid-summer lows



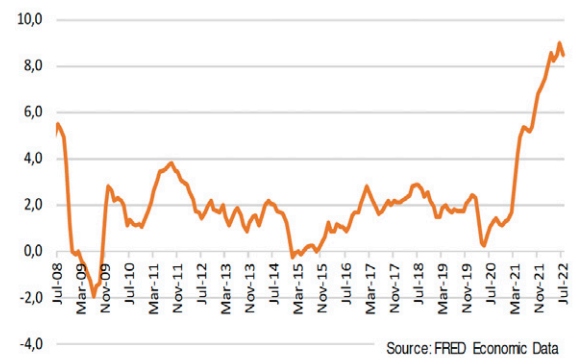
- **Equity markets continue to react to uncertainties over whether the global economy will withstand higher inflation expectations and tighter monetary conditions.** The S&P 500 has gained 6% over the past two months, having closed August trading at USD 3,955, still well below this year's peak (USD 4,796.56). The Eurostoxx 50 has gained 2% in the last two months and ended August trading at USD 3,517.25. On the other hand, emerging market stocks have lost 2% in the last two months. The war between Russia and Ukraine, the stronger dollar and tighter monetary conditions in the United States took their toll.
- **The US and German debt yields continued their upward trend in recent months and this performance is a result of the rise in interest rates from the Federal Reserve and the European Central Bank.** Japan's debt remains at the same level, without major fluctuations, as the Bank of Japan showed no signs of tightening monetary policy.
- **Emerging country bonds particularly show the impact of this new, more risk-averse environment.** JP Morgan's emerging debt index continues to show moderate.

## INTERNATIONAL

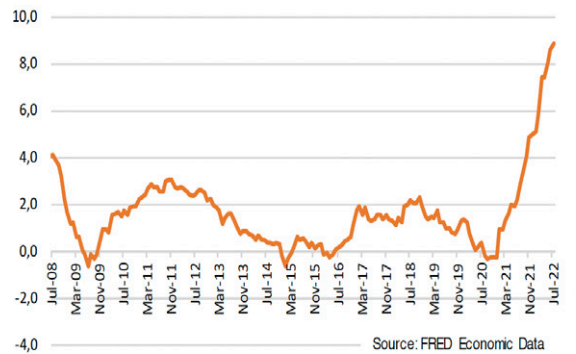
### HIGHLIGHT: HIGH ESCALATION OF INFLATION HAMPERING WORLD ECONOMIC GROWTH

- There is an economic relationship known and experienced in almost all countries, which links the inflation rate to unemployment and interest rates, especially in more developed economies:** generally, when the economy is overheated, unemployment is low and inflation starts to speed up; on the other hand, if the economy is below potential, inflation may be lower and unemployment higher; monetary policy is one of the tools to deal with this problem – interest rates are high to discourage consumption and thus reduce inflation, ideally without harming unemployment too much. In most economies (with Angola being one of the few exceptions, mainly due to the appreciation of the Kwanza), inflation accelerated significantly, as a result of constraints in the logistics of manufacturing production worldwide, together with the vertiginous rise in energy prices, which is not stranger to the war in Ukraine. In the US, year-on-year inflation was 8.5% in July, reaching 9.8% in the Eurozone, the highest levels since the 1970s.
- As a result of these concerns, the Federal Reserve has already raised interest rates, with several hikes up to the current range of 2.25%-2.50%, which the institution considers the neutral level of interest rates.** The current intention is to set above that level, in order to achieve a slowdown in inflation without causing a recession, or at least a significant recession, the so-called soft landing, an analogy that compares the economy to an airplane that needs to land softly. In this sense, the current consensus points to US monetary policy rates close to 4.0% until the end of the year, with, for example, a rise of 75 basis points in September, 50 basis points in October, and 25 basis points in December. The question that remains is how central banks will react to the first impacts of the more restrictive economic policy on consumption, facing a possible recession in 2023, and with the base effects of inflation causing a quite predictable deceleration and then a drop in the same already from the last quarter of this year. There, it is possible that there will be a pause, but it will already be a completely different financial markets environment than that observed between 2009-2021.

US homologous inflation



Eurozone homologous inflation

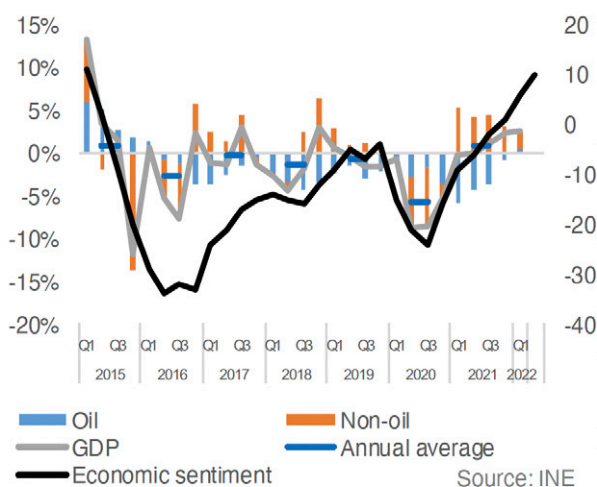


## ANGOLA

### REAL ECONOMY

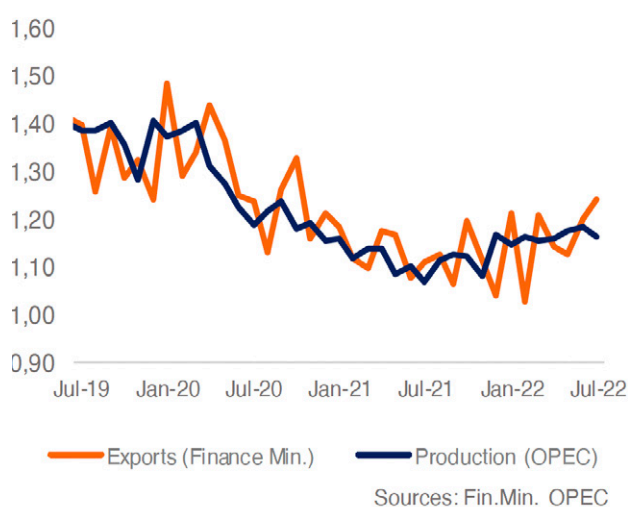
#### Economic climate points to further growth acceleration in Q2 2022

Yoy change; Index



#### From January to July, production and exports grew 4.4% and 2.8% yoy, respectively

Million barrels per day



- In the 1st Quarter of 2021, Angolan GDP grew by 2.6%, compared to the same period last year – 4th consecutive quarter of year-on-year increase and the highest value since 4Q 2018. The non-oil economy slowed down again, growing by 2.8% (compared to +4.3% in Q4 2021 and +6.6% in Q3 2021); On the other hand, the oil economy grew by 1.9%, the first year-on-year increase since 1Q 2016 – in the previous quarter, the drop had been 2.8% yoy. Meanwhile, data from the economic climate indicator and other indicators point to an acceleration of growth in Q2 2022.

- In the first seven months of 2022, national oil production recorded an average of 1.16 million barrels a day, a year-on-year increase of 4.4%. Data provided by the Ministry of Finance indicate that from January to July this year, Angola had an average daily export of 1.16 mbd, an increase of 2.8% over the same period last year.

- The price of a barrel of oil has devalued 15% on average in the last two months, having closed August trading at USD 96.49. The declarations of the maintenance of restrictive US monetary policy, the slowdown in the Chinese economy and the recent threat from Russia to cut off supplies to countries that limit Russian oil prices, justify the devaluation of this commodity.

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

USD

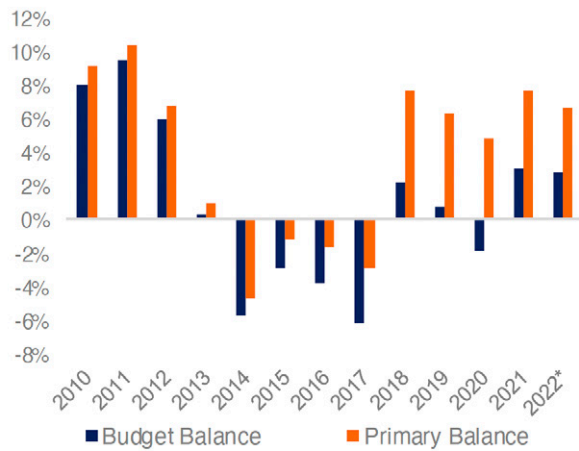


## ANGOLA

### INTERNAL & EXTERNAL EQUILIBRIUM

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

Percentage of GDP

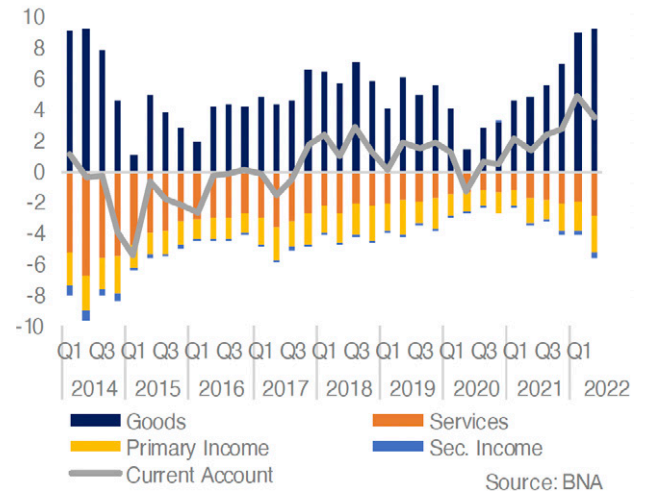


\*BFA Forecast

Sources: MinFin, BFA calc.

**In Q2 2022, the current account balance stood at 3,5Bn (vs 1,3 Bn in Q2 2021)**

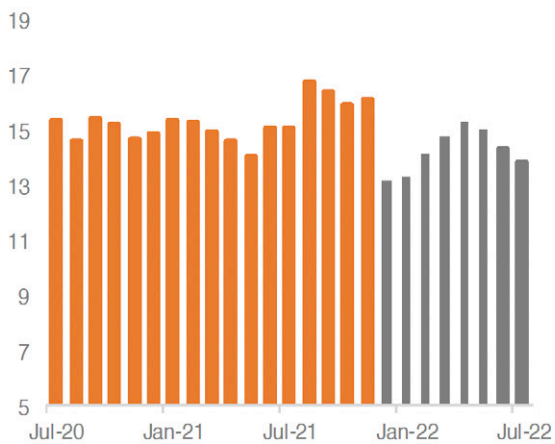
USD Billion



Source: BNA

**International Reserves closed August at 13,8 billion (USD +610 million ytd)**

USD Billion



Sources: BNA, BFA calc.

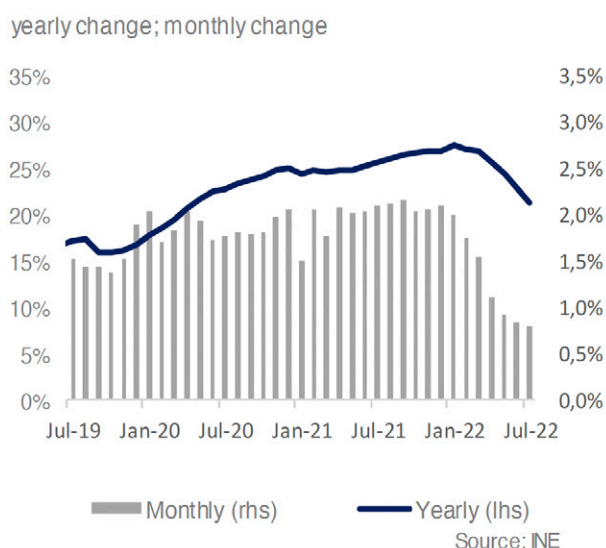
- **The balance of trade in goods will have closed 2Q 2022 with a positive balance of around USD 9.1 billion, thus representing a growth of 91% compared to the same period last year.** The balance of trade grew by 2% compared to Q1 2022 and this performance is essentially due to oil exports, which reached USD 13.7 billion, which is the highest value since Q3 2014.
- **International Reserves ended August at USD 13.8 billion, representing an increase of USD 610 million since the beginning of the year.**



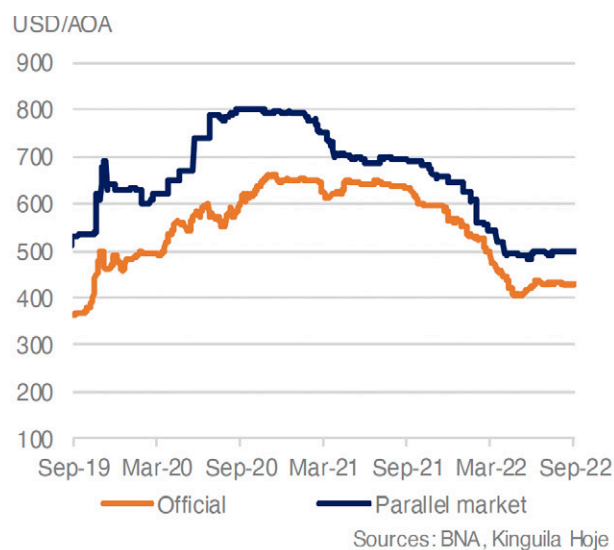
## ANGOLA

### INFLATION & FOREX

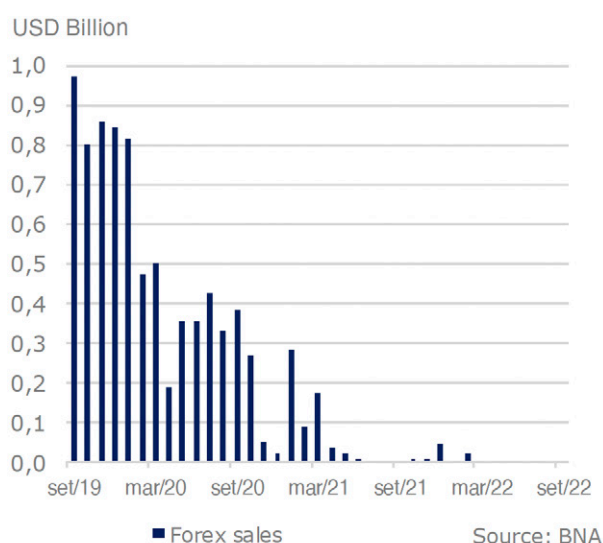
**In 2022, year-on-year inflation has already recorded the 6th consecutive month of decline**



**Since the beginning of the year, the Kwanza has already appreciated 29.4% against the Dollar**



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

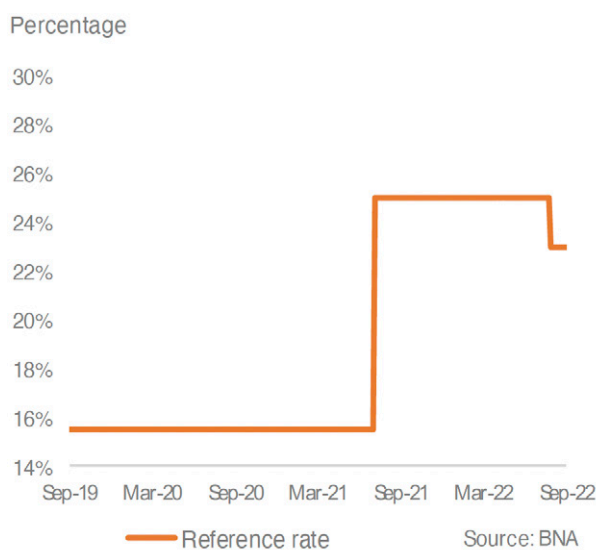


- **Year-on-year inflation in July stood at 21.40%, representing a drop of 4.32 percentage points (p.p) in year-on-year terms - the sixth consecutive month of decline in 2022.** Monthly inflation in July was 0.81% , the lowest value since April 2015, and much lower than the levels in December 2021 (2.10%).
- **Since the beginning of 2022, the Kwanza has appreciated by around 29.0% against the Dollar and by 43.8% against the Euro. Since June, the exchange rate has stabilized.** The month of August ended with an exchange rate of USD/AOA 429.4 and EUR/AOA 429.7. On the informal market side, which is increasingly less liquid and with fewer transactions, the exchange rate has followed the same trend, with the average USD/AOA and EUR/AOA prices closing the month of August at 497.318 and 493.705, respectively.
- **The BNA continues to sell little to commercial banks, making only occasional interventions to avoid too sudden changes in the exchange rate. In the first half of 2022, it sold USD 514 million, only 7.5% of the total foreign exchange sold, and 15% less than in the same period of 2021.**

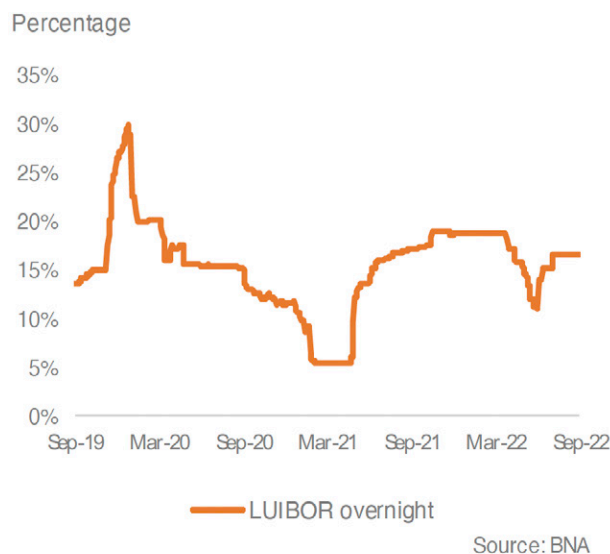
## ANGOLA

### INTEREST RATES

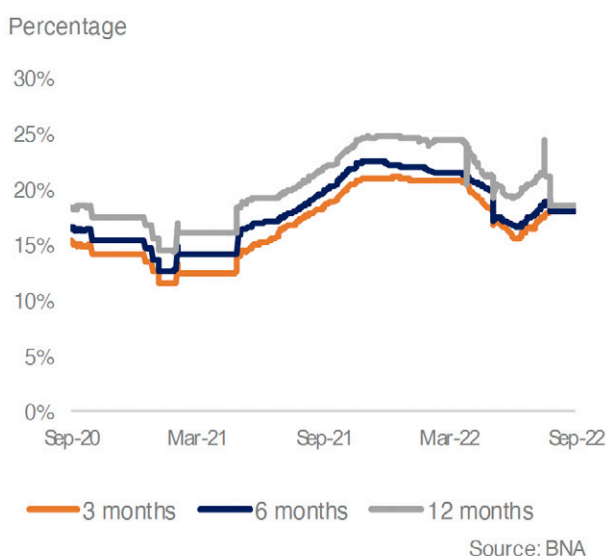
**In July, the BNA changed the Transfer rate to 23%**



**Luibor O/N corrected to close to 16,5%, after 2 months of decline**



**After a period of decline, LUIBOR rates have been recovering since July**

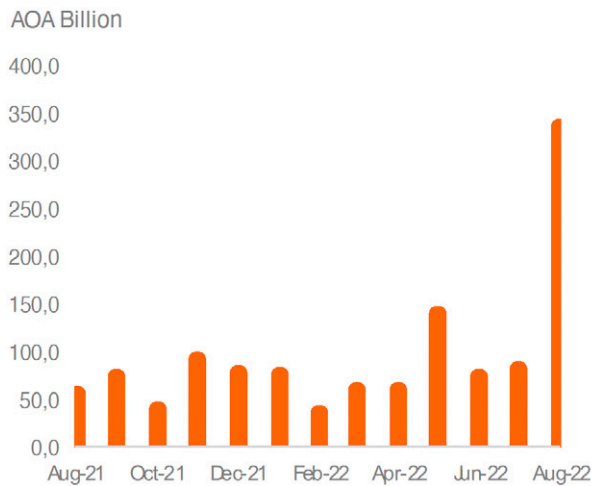


- **At the Monetary Policy Committee (CPM) held at the end of July, the BNA reduced the Compulsory Reserves coefficient in national currency from 19% to 17%.** This is the second reduction in this coefficient this year, in line with the decision in the CPM of May 2022, to gradually reduce the coefficient from 22% to 17% by July. Additionally, the BNA reduced the interest rate on the marginal lending facility (FCO) from 25% to 23%.
- **The LUIBOR rates registered significant declines in the last two months, reaching minimums in early June, where the overnight rate reached 11.05%. Subsequently, the introduction of new rates in the Open Market Operations (OMA) of the BNA led to a new increase in the reference rates of the Interbank Money Market, with overnight rates now set at close to 16.5%.**

## ANGOLA

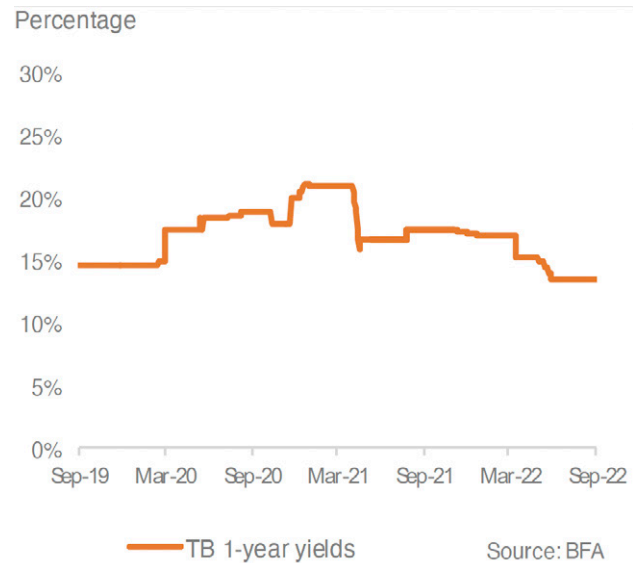
### FINANCIAL MARKETS

#### BODIVA traded around AOA 335.8 billion



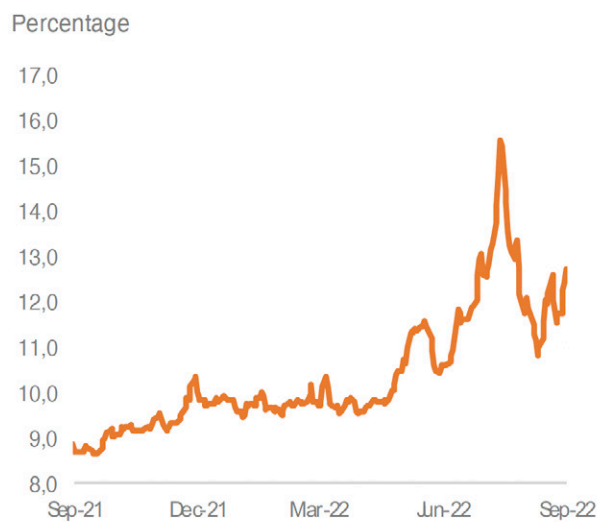
Source: BODIVA

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



Source: BFA

#### 2028 eurobond yield with historic rise in August



Source: Bloomberg

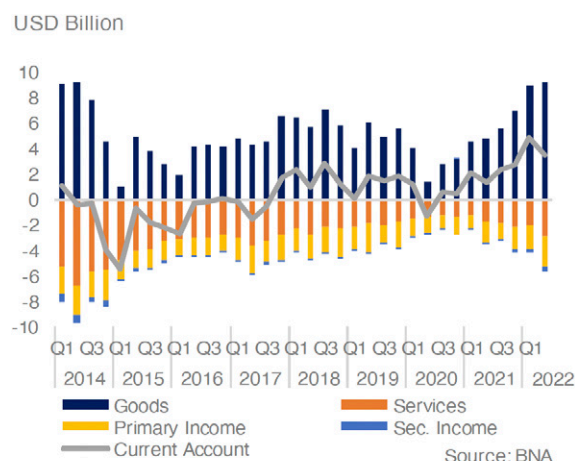
- BODIVA data indicate that in the first 8 months of 2022, around AOA 859.7 bn in securities were traded, a growth of 24% compared to the AOA 695.6 bn traded in 2021. In August, AOA 335.8 bn were traded, the amount maximum ever recorded by BODIVA.
- The issuance rates of debt in national currency have remained at recent levels, after a significant decline – in the case of 1-year debt, the rate remains at 13.5%.
- The yield of the Angolan Eurobond maturing in 2028 fell from a very significant peak, which is now around 12.7%. In general, all rates for the various maturities of Angolan Eurobonds are above 11%.

## ANGOLA

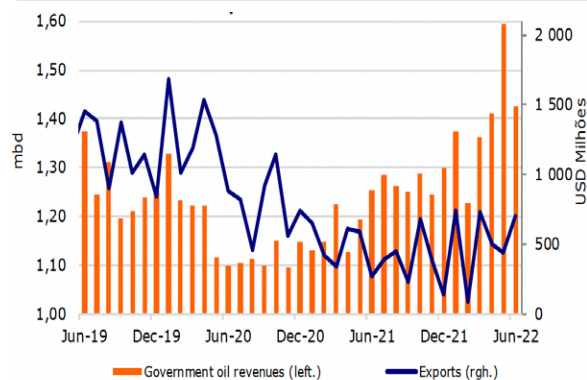
### HIGHLIGHT: TRADE BALANCE ENDS Q2 2022 HIGHER INFLUENCED BY OIL

- **The balance of trade in goods will have closed Q2 2022 with a positive balance of around USD 9.1 billion, thus representing a growth of 91% compared to the same period last year.** The balance of trade grew by 2% compared to Q1 2022 and this performance is essentially due to oil exports, which reached USD 13.7 billion, which is the highest value since Q3 2014.
- The price of a barrel of oil played an important role, reaching an average of USD 112 in the quarter, representing USD 14 more than the average for Q1 2022 (USD 97.9). Note that Brent may have found a new low at around USD 90 a barrel following comments from Saudi Arabia's energy minister that OPEC could consider production cuts again to stabilize prices. Geopolitics will continue to strongly influence short-term price movements at a time when OPEC+ faces declining idle capacity and is struggling to meet production increases.
- In Q3 2022, Angola's trade relationship with the rest of the world may not have the same performance, as Bloomberg forecasts for Q3 2022 estimate Brent to be traded close to USD 99.36, which according to our calculations represents USD 12.61 less than the average for the quarter under review. So, if reality meets forecasts, we anticipate a deceleration in the value of oil exports, with direct effects on the balance of trade.
- On the other hand, imports of goods grew by 21.8% and ended Q2 2022 valued at USD 4.5 billion, thus converging to the levels of Q1 2019, being structurally more influenced by the heading of current consumption goods, which totaled around 67.5% of the total, followed by capital goods (22.4%) and intermediate consumption goods (10%).

**In Q2 2022, the current account balance stood at 3,5Bn (vs 1,3 Bn in Q2 2021)**



### Oil exports and Tax revenues





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