

# Bimonthly Economic Outlook

August 2023 Last updated to 07/31/2023



**BFA**

PRIVATE BANKING

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## INTERNATIONAL

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- The PMI indices stabilized in July, signaling maintenance of economic activity in terms of services and industry;
- IMF revised upwards the economic growth prospects for 2023 due to the resilience of economic activity in 1Q 2023;
- Brent close to USD 85 with an undersupplied market and improvements on the demand side;
- The Dollar is strong and looks set to continue to extend its gains as the US economy proves strong;
- Stock markets ended July higher, with the S&P 500 and MSCI Emerging Markets up more than 9%;
- US, German and Japanese debt yields are rising after some easing between May and June;
- Fitch downgraded the US government's credit rating from AAA to AA+.

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## ANGOLA

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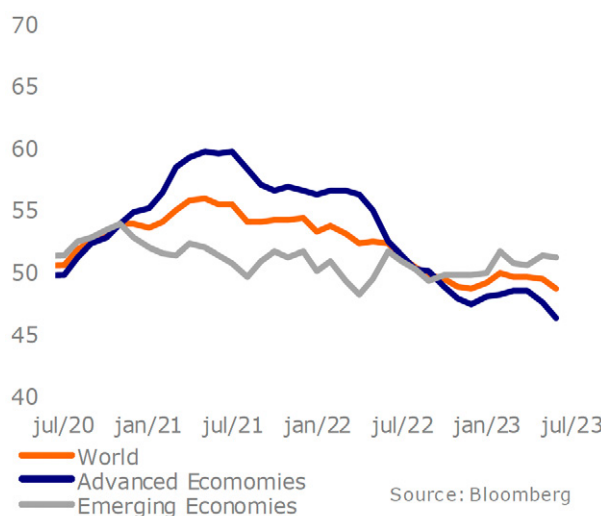
- In the first quarter of 2023, the Angolan economy grew by 0.3% year-on-year;
- In the second quarter of 2023, oil exports were around 1.11 million barrels per day, down 5.0% yoy;
- In the month of June, International Reserves stood at around USD 13.6 billion, representing a drop of around USD 705.7 million compared to the previous year;
- In June, the Angolan Debt and Stock Exchange traded around AOA 392.6 MM, the highest monthly amount traded since its creation. This amount surpassed the peaks of August 2022, AOA 335.8 (+17.55%).
- Domestic public debt interest rates are now rising. TBs with a maturity of 364 days rose 115 bp to 12.15% after having remained at 11% since the end of 2022.

## INTERNATIONAL

### ECONOMIC ENVIRONMENT

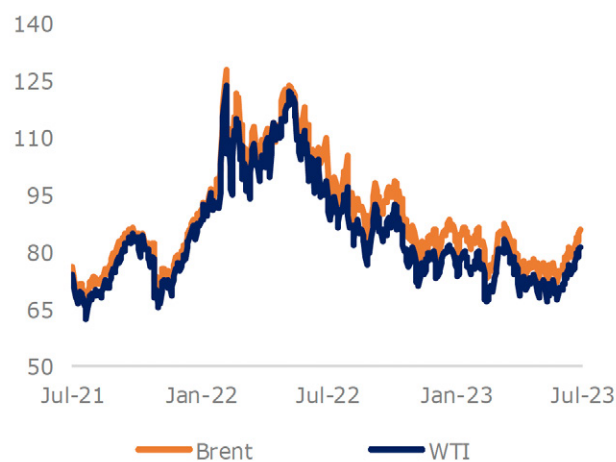
**The PMI index remains stable in July after easing slightly in June**

Markit PMI Index



**Brent close to USD 85 with an undersupplied market and improvements on the demand side**

USD



- After having fallen in the last two months, the Markit PMI indices stabilized in July, signaling the maintenance of economic activity in terms of services and industry. PMIs for advanced economies rose in July, in line with a more positive outlook for economic developments. About emerging economies, the indicator returned for the second consecutive month to signal a slowdown in economic activity, although in general it is clear that the outlook for emerging countries is broadly stable.

- The IMF revised upwards the economic growth prospects for 2023, essentially due to the resilience of economic activity in the first quarter. According to the July World Economic Outlook (WEO), the economy should grow 0.2 percentage points (pp) more than the forecast made in April, that is, 3%. Advanced economies are expected to grow by 1.5%, while emerging economies are expected to grow at the pace of 2022.

- The price of a barrel of oil has recently gained new momentum, with a market already undersupplied and strong signs that demand is really recovering. Brent closed the month of July trading close to USD 85.55, while WTI was at USD 81.22, in both cases, these are the highest values since the 13th of February of the current year.

**MF revised upwards global economic growth prospects for 2023**

#### IMF Forecast

GDP change	2022	2023	2024
Global	3,5	3,0	3,0
Advanced Economies	2,7	1,5	1,4
USA	2,1	1,8	1,0
Eurozone	3,5	0,9	1,5
Germany	1,8	-0,3	1,3
Emerging Economies	4,0	4,0	4,1
China	3,0	5,2	4,5
South Africa	1,9	0,3	1,7

## INTERNATIONAL

### FOREX

**Dollar gained new momentum against the Euro as US breaches debt ceiling**

EUR/USD



Source: Bloomberg

**The Pound has been recovering against the Dollar awaiting an end to rate hikes**

GBP/USD



Source: Bloomberg

**Rand has been gaining value against the Dollar, but recently the trend reversed**

USD/ZAR



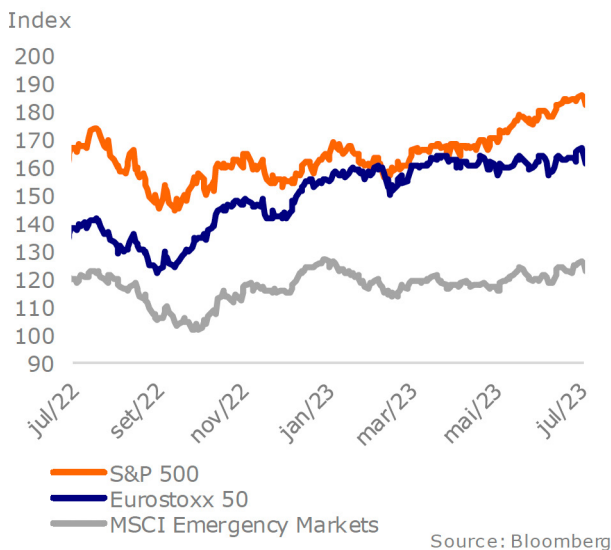
Source: Bloomberg

- **After sharp declines in March and later in June, the Dollar has been strong and looks set to continue to extend its gains against the Euro due to the resilience of the US economy.** At this point investors are less concerned about interest rate cuts as the Fed Found Rate is much closer to the terminal rate, signaling that the cycle of interest rate hikes is very close. At their last meeting, the FED ruled out a recession this year, generating further momentum for the Dollar, while the likelihood of a recession in Europe remains high.
- **The Pound Sterling has been under pressure from the US Dollar since mid-July, with the Pound now hovering around its lowest level in a month.** In response many retail traders have been increasing their net long exposure to GDP/USD, and this could lead to further losses for the British pound.
- **After starting to gain ground against the Dollar from the end of May, the Rand is weakening against the US currency.** Confirmation of a stagnation by the IMF in the growth of the largest economy in Southern Africa, the market expects that the movement of slight declines will continue in the coming months.

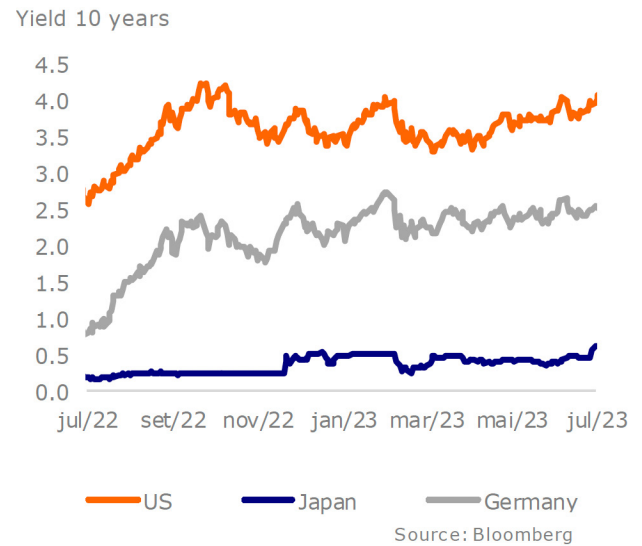
## INTERNATIONAL

### EQUITIES AND DEBT

#### Stock markets on the rise after bank failures in March



#### German and US debt yields have seen a significant increase since the beginning of March



#### Emerging bonds with new momentum in line with more positive outlook



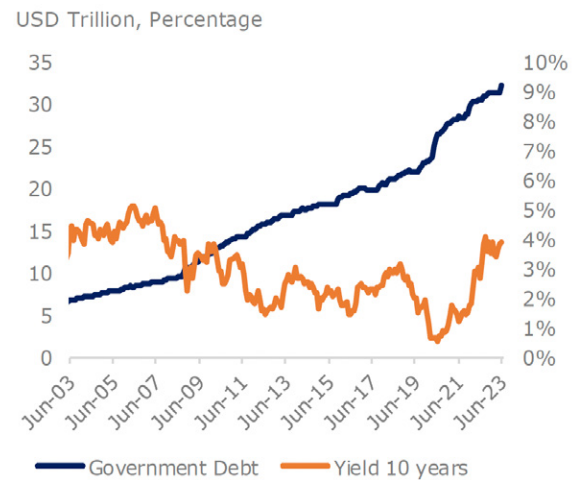
- **Stock markets overall ended July higher, with the S&P 500 and MSCI Emerging Markets up more than 9% over the past two months, while the Eurostoxx 50 gained a further 6%.** The prospects for the S&P 500 and for the Emerging Markets are quite positive, but the same cannot be said of the Eurostoxx 50 which closed down in July and may still continue to fall as a result of the downturn in economic activity in some of the major economies of the Europe.
- **Yields on US, German and Japanese debt are rising after some easing between May and June.** The yield on US 10-year bonds ended July close to 3.95%, a more than 5-week high. Yields in Germany remain very stable despite the economic downturn in the second quarter of this year. In Japan, sovereign bond yields are now rising after many months of stability.
- **Emerging debt increased its year-to-date gains during the second quarter, with positive returns across all segments of the asset class.** Overall, emerging local debt continues to outperform the main fixed income markets.

## INTERNATIONAL

### HIGHLIGHT: FITCH DOWNGRADES US CREDIT RATING

- Fitch downgraded the US government's credit rating, citing rising federal, state and local debt, as well as a "steady deterioration in governance standards" over the past two decades.** The rating has been reduced by one notch from AAA (the highest possible) to AA+ and is still a highly recommended investment rating.
- According to Fitch, the last 20 years have seen increasing budget approval problems coupled with several debt ceiling crises.** While the strong US government has always been able to resolve such crises, confidence in fiscal policy has been eroded. Fitch highlighted that there are medium-term budgetary risks not being addressed so far since there are increasing increases in public deficits which for the 2023 fiscal year are close to 5.8% of GDP and are not expected to decrease in the coming years. The agency also expects an economic recession in 2023 that could increase the difficulties.
- Many analysts believe that the downgrade will not have much impact in the short term.** On the one hand, the US credit rating had already been downgraded by the agency Standard & Poor's, in 2011, after an impasse over the debt ceiling similar to that which occurred this year. On the other hand, Moody's, another major rating agency, continues to give the US its main AAA rating. In addition, Treasuries are recognized for being highly liquid and denominated in the world's main currency, the US dollar. However, it is becoming increasingly clear that the US public debt is on an unsustainable course by growing indefinitely.
- Downgraded credit ratings over time can increase borrowing costs for the US government.** Fitch now joins Standard & Poor's in giving AA+ as the US credit rating. If Moody's eventually does the same, there may already be some slight impact on interest rates and eventually jeopardize the recent very positive evolution of the Dollar.

#### Stock of US government debt continues to grow indefinitely



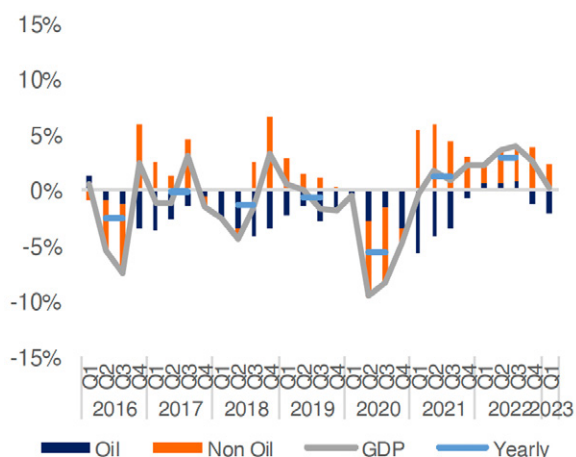
Source: Bloomberg

## ANGOLA

### REAL ECONOMY

**In the first quarter of 2023, the Angolan economy grew by 0.3% year-on-year.**

Yoy variation; Contribution to year-on-year change

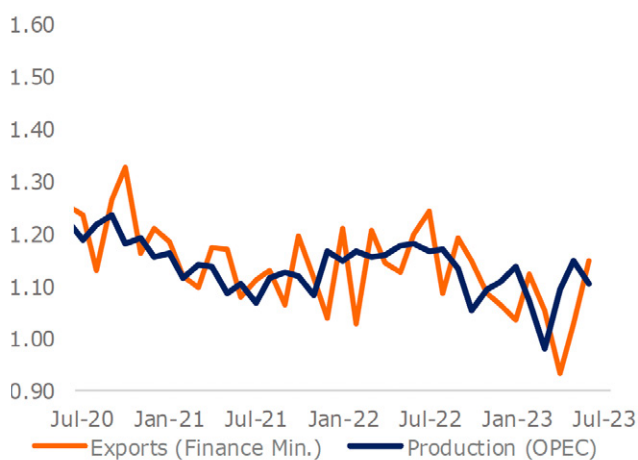


\* Proxy: GDP minus Oil GDP

Source: INE

**OPEC data point to a year-on-year drop in production**

Million barrels per day



Sources: MinFin, OPEC

- **In the first quarter of 2023, the Angolan economy grew by 0.3% year-on-year.** The oil economy contracted for the second consecutive quarter, after growing 2.4% on average between the first and third quarters of 2022. The non-oil economy grew 3.1% yoy but slowed by almost 2.1 percentage points (pp) against the growth in the immediately previous quarter.
- **In the second quarter of 2023, oil exports were around 1.11 million barrels per day, a drop of 5.0% yoy, partly due to the effects of the stoppage of production at the Dália field, in block 17 in Q1 and the rate of natural decline of the blocks aggravated by the lack of new investments.** The blocks that recorded the most drops in production are blocks 17, 15 and 0. The average export price was USD 77.7, a decrease of USD 1.7 compared to the immediately previous quarter.
- **The price of a barrel of Brent Angola oil ended July trading at 84.85 USD/bbl, representing gains of 18% over the last 2 months.** This increase is the result of production cuts that have been implemented by OPEC, combined with signs of recovery in demand.

**Brent Angola ended the month of July trading at 84.85 USD/bbl**

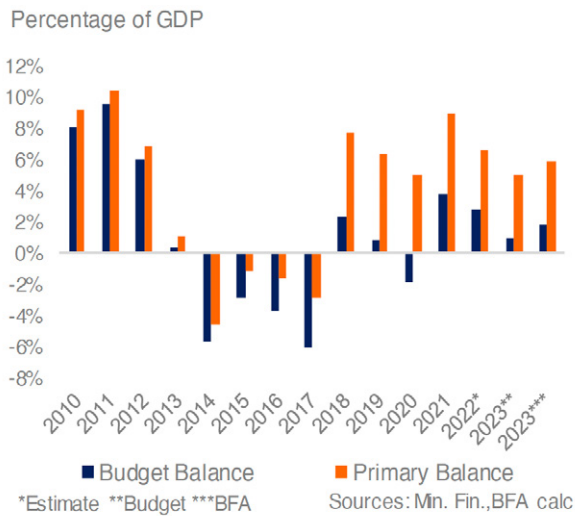


Source: Bloomberg

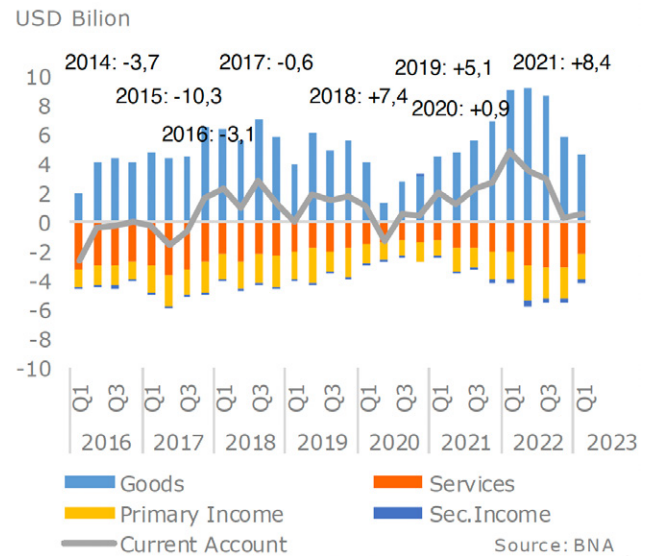
## ANGOLA

### INTERNAL & EXTERNAL EQUILIBRIUM

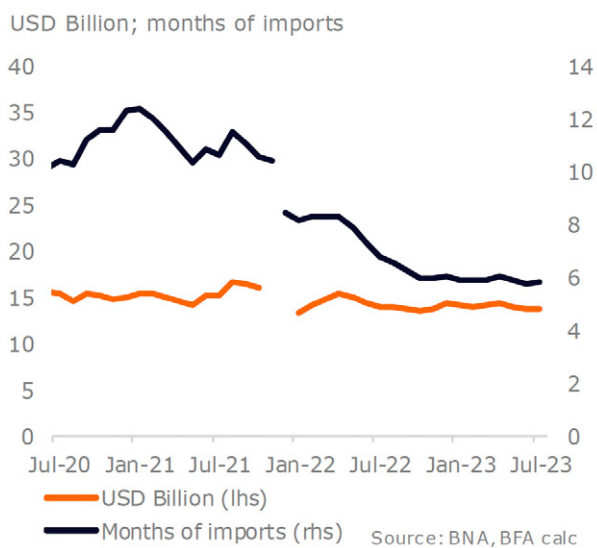
**Primary balance will remain positive, but lower than normal in recent years**



**Current account balance stood at USD 507 million (vs USD 2.1 Bn in Q1 2022)**



**International reserves ended June valued at USD 13.6 billion**



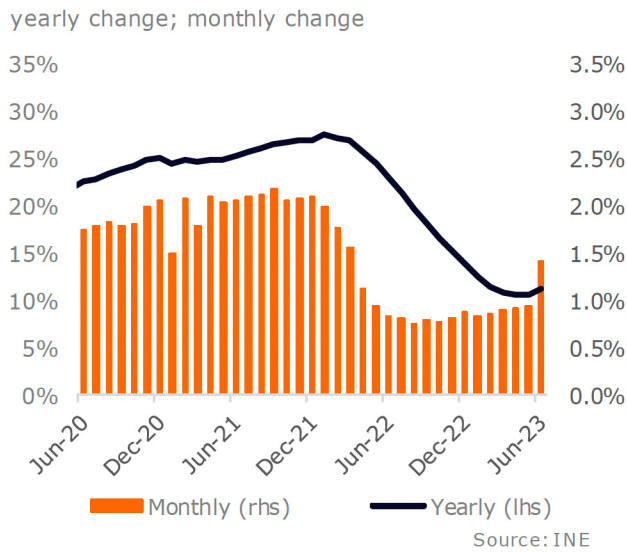
- In Q1 2023 the current account registered a surplus of USD 507 Million, + 42.1% compared to Q4 2022 and a decrease of 89.9% if compared to the same period in the previous year. Exports fell 32% compared to the same quarter of 2022, totaling USD 8.6 Billion, the lowest value in Q3 2021. On the other hand, imports grew 9.4% yoy, however, compared to the previous quarter, there was a 10.7% drop supported by the decline in imports of current consumer goods.
- In the month of July, International Reserves stood at around USD 13.8 billion, representing a drop of around USD 91.1 million compared to the same period in the previous year. Current reserves cover approximately 6 months of imports.



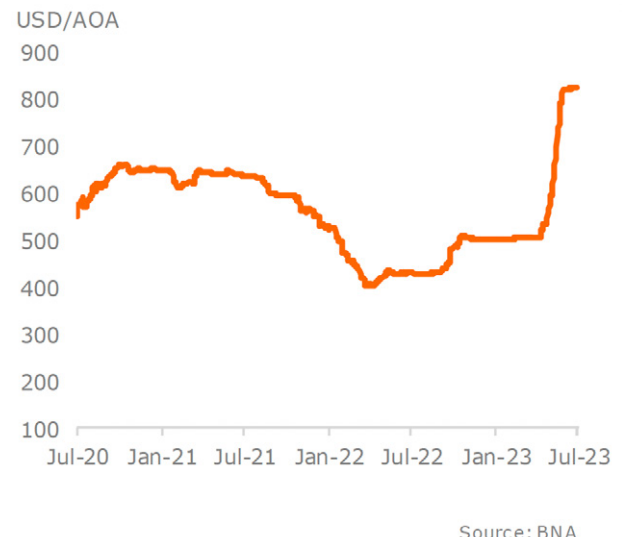
## ANGOLA

### INFLATION & FOREX

**Monthly inflation in June grows 1.41% and year-on-year rises to 11.23%**



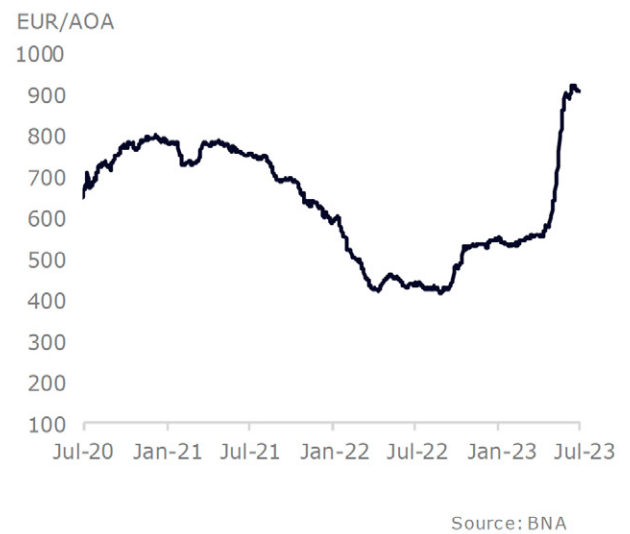
**Kwanza in free fall, accumulating losses of 39% against the Dollar and a further 41% against the Euro**



- In June, year-on-year inflation was 11.2% (+0.6 p.p compared to May), signaling the second consecutive increase after having fallen in the Q1 to the lows of August 2015. According to INE data, monthly inflation stood at 1.4%, with the categories “Transport”, “Health” and “Clothing and Footwear” registering the highest changes in the IPCN with 2.7%, 2.1% and 1.4%, respectively.

- In the second half of May, the Kwanza began to depreciate, breaking the period of “stability” registered since December. The drop was the result of a drop in the inflow of foreign exchange resources into the country, which reduced foreign exchange sales to the private economy. In that period, consecutive daily declines against the Dollar and the Euro of around 3% and 4% were recorded. In July, the Kwanza continued to depreciate against other currencies, however, at a much more moderate pace (depreciating at a daily average of around 0.01% for USD/AOA and 0.04% for EUR/AOA). Since the beginning of the year, the Angolan currency has depreciated 38.9% against the Dollar and 41% against the Euro.

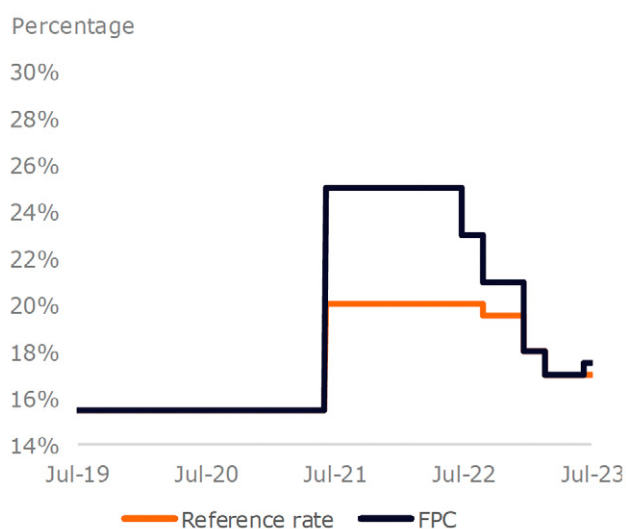
**Kwanza in free fall accumulating losses against the Euro**



## ANGOLA

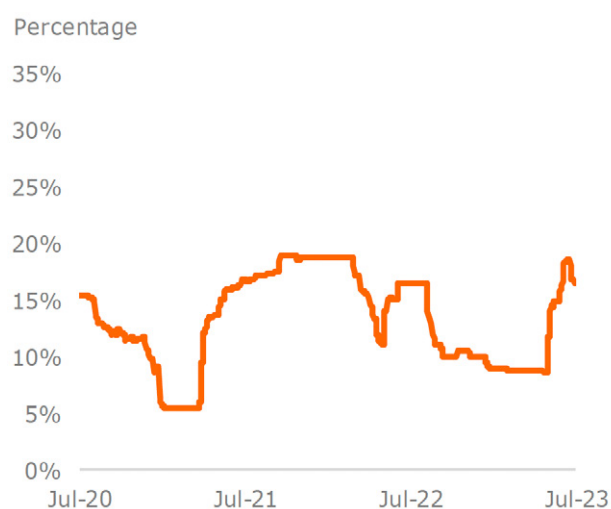
### INTEREST RATES

**BNA increased the rate of the permanent liquidity facility by 50bps**



Source: BNA

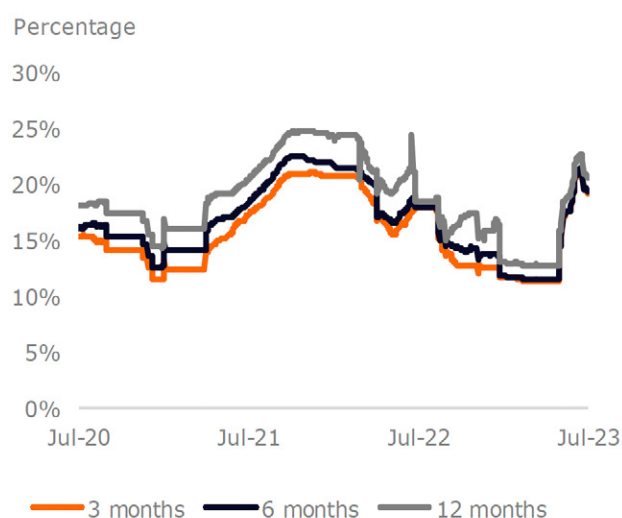
**Luibor O/N is falling, signaling easing of liquidity in the market**



Source: BNA

- **At the Monetary Policy Committee (CPM) meeting held on 14 July, the BNA decided to increase the interest rate on the permanent liquidity facility (FPCL) to 17.50% (+50bps).** The CPM opted to maintain the basic interest rate and the permanent liquidity absorption facility (FPAL) at 17% and 13.5%, respectively. Additionally, the CPM decided to make the custody fee mechanism more flexible on the excess liquidity of commercial banks with the BNA.
- **Interest rates on the Interbank Money Market, LUIBOR, rose between late May and mid-July, in line with the rising pace of rates for open market operations with repurchase agreements.** This rise in rates signaled the tightening of monetary policy by the BNA, at a time when pressure on inflation was not limited solely to the exchange rate, but also the beginning of the gradual removal of fuel subsidies. Meanwhile, rates have already started to drop, with Overnight closing the month of July at 16.65%, enunciating a drop of around 209 bp after registering, in the middle of the same month, levels close to the highs of Q1 2022, 18, 63%.

**After a period of growth, LUIBOR rates are now falling**

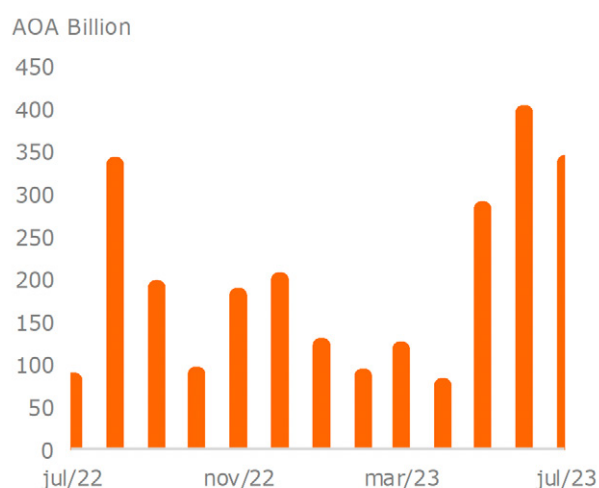


Source: BNA

## ANGOLA

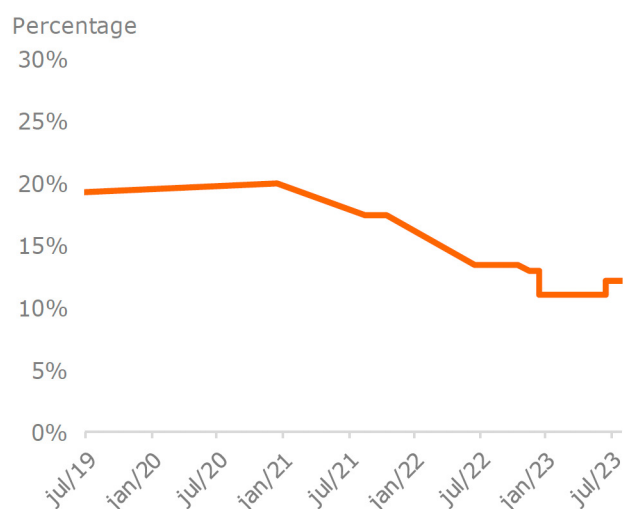
### FINANCIAL MARKETS

**In June, the highest monthly amount traded was registered, around AOA 393 MM (+39.2% mom)**



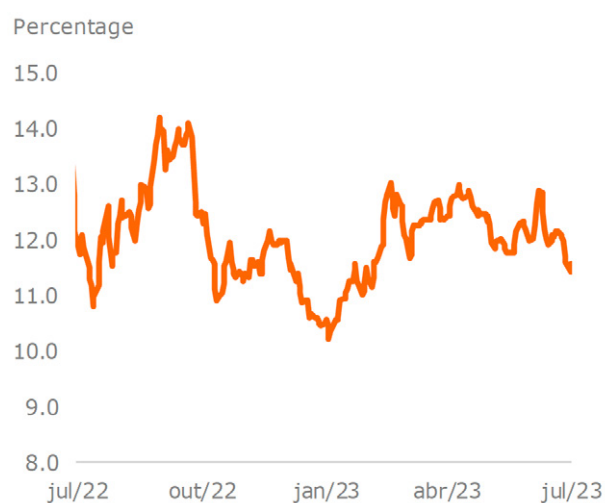
Source: BODIVA

**364-day TB interest rates rise to 12%**



Source: BFA

**2028 Eurobond yield drops slightly after May-June growth**



Source: Bloomberg

- In June, the Angolan Debt and Stock Exchange traded around AOA 392.6 MM, the highest monthly amount traded since its creation. This amount surpassed the peaks of August 2022, AOA 335.8 (+17.55%).
- Domestic public debt interest rates are now rising. TBs with a maturity of 364 days rose 115 bp to 12.15% after having remained at 11% since the end of 2022. This movement is consistent with the monetary policy cycle, since the remaining rates also rose, with highlight for Luibor Overnight which rose 682 bp to 16.54% compared to the end of May.
- The yield of the Angolan Eurobond maturing in 2028 ended July at around 11.43%, a decrease of around 0.08pp compared to the end of May.

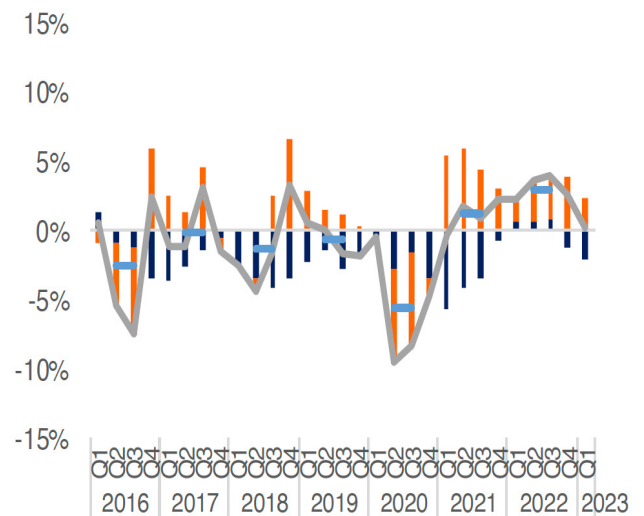
## ANGOLA

### HIGHLIGHT: ANGOLAN ECONOMY GREW 0.3% YOY IN Q1 2023

- The oil economy contracted for the second consecutive quarter, after growing 2.4% on average between the first and third quarters of 2022.** The non-oil economy grew 3.1% yoy, but slowed by almost 2.1 percentage points ( pp) against the growth in the immediately previous quarter.
- Data for the Q1 2023 for the oil sector are not very encouraging, being the second consecutive quarter of declines.** This contraction, around 8%, was in line with our expectations since OPEC data for Q1 2023 already showed a production level of 1.07 million barrels day (mbd), evidencing a year-on-year contraction of almost 7.2%. On the MINFIN side, data on exports indicated a year-on-year drop of 6.6%, which led us to believe that there would be a drop in oil activity of a similar magnitude, that is, between 6%-8%. On the one hand, this drop in production in Q1 2023 was mainly a result of the production stoppage for maintenance at the Dalia oil field, in Block 17, for 35 days. This field exports around 0.11-0.12 mbd, and did not export any crude in March. On the other hand, no new large investment projects with the potential to reverse the natural decline in production are foreseen. Thus, we believe that in the next quarter the oil sector will fall again between 4.3%-5.2%, as data on oil production released by OPEC already indicate a year-on-year drop of a magnitude similar to this interval.
- The non-oil economy shrank by 2.6 pp to 3.1% in Q1 2023, as a result of slower growth in agriculture and a weaker contribution from the transport and trade sectors.** We were expecting non-oil economic activity to grow close to the levels recorded in the third and fourth quarters of 2022, so the 3.1% did not meet our expectations, between 4.8%-5.3 %. Meanwhile, the course of this sector was consistent with the trend of the high-frequency indicators that we monitor (purchases and payments in the banking sector, imports, credit and deposits). In all, the non-oil economy added around 2.3pp to the real growth rate of the Gross Domestic Product (GDP).

In the first quarter of 2023, the Angolan economy grew by 0.3% year-on-year.

Yoy variation; Contribution to year-on-year change





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