AFRICAN MARKETS REVEALED

MAY 2020

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When Dust Settles
Igshaan Adams (2018) Installation view

Adam’s cross-disciplinary practice combines process and material – performance, weaving, sculpture and installation – in an ongoing investigation into hybrid identity and the self, particularly in relation to race and sexuality, as well as more metaphysical questions of mysticism and truth.

Source: Standard Bank Corporate Art Collection

Disrupted by COVID-19

- Forecasts and prophesies are completely different concepts. Forecasts are almost always characterised by significant uncertainty rather than exactitude. Fortunately, most economically significant decisions that require forecasts as inputs can be made even without forecast precision. For example, at a time when the cost of hedging currency exposure is 20%, having a strong view of whether the currency is likely to depreciate by either 10% or 40% is far more useful than having a strong view of whether it is likely to depreciate by either 18% or 22%.
- By the way, some central banks tend to take issue with exchange rate forecasts made by forecasters as if such forecasts can actually cause the exchange rate to evolve in the manner predicted. No matter how many speculators lose their fortunes, the experience of the Bank of England's exit from the European Exchange Rate Mechanism is an enduring legacy in many central bankers' minds.
- Henceforth, for each of the countries in our coverage, we will publish a range of forecasts we believe illustrate whatever forecast uncertainty there may be. Bear in mind that for each country, we collect and forecast no less than 50 different variables. Thus, for tractability, we will limit this exercise to just the quarterly tables.
- Of course, the containment measures adopted by governments in response to COVID-19 have created abundant forecast risk for the countries in our coverage. This is compounded by the uncertainty regarding the duration of the disease and how widespread it will be.
- Eurobond markets sold off dramatically, in line with the risk-off sentiment in global financial markets, and thereby creating attractive buying opportunities. We like Côte d'Ivoire, Egypt, Kenya, Ghana and Senegal.
- There is concern about some oil sovereigns, especially Angola, defaulting on their external debt. It is not so clear-cut to us despite our assumption that Brent crude oil will range around USD25/bbl – USD30/bbl this year, a far more conservative assumption than the consensus that sees it in the low 50s early next year. We therefore maintain our exposure to both Angola and Nigeria in our shadow portfolio.
- Should oil prices pan out per the consensus, the Central Bank of Nigeria will most probably not allow USD/NGN to rise much from current levels. So, there is a case for selling USD/NGN NDFs. There is also a case for selling USD/ZMW NDFs given that copper prices are headed higher and the government has put debt restructuring on the table. We will add a short USD/EGP 12-m NDF position to our shadow portfolio. There are reasons to be constructive about the EGP.

USD performance, YTD

Asset class	Return, %
FX	
Africa 8, spot (with carry)	-6.3 (-3.2)
Africa 10, spot (with carry)	-9.0 (-6.2)
EM 10, spot (with carry)	-12.3 (-12.1)
Bloomberg USD index, spot	6.1
Local bonds	
Africa 8	-2.3
Africa 10	-5.4
EM 10	-12.1
Bloomberg DM Sovereign	1.7
Credit	
Africa (ex SA)	-16.9
Africa	-15.5
EMBI Global	-7.8
Bloomberg HY Global Corporate	-9.6
Equity	
MSCI Frontier Africa	-25.1
MSCI Africa	-33.9
MSCI EM	-19.2
MSCI DM	-14.8

Source: Bloomberg; Standard Bank Research

Global growth – recession likely to be short-lived

COVID-19 undoubtedly dislocated the global growth trajectory this year. While at the beginning of the year it seemed reasonable to forecast the global economy growing around 3% - 4% y/y this year and next, a global recession in 2020 is on the cards now. That said, most forecasters envisage a strong rebound going into 2021. Indeed, the broad expectation is that a recovery will start in H2:20.

In its Apr update of the World Economic Outlook, the IMF forecast a 3.0% y/y contraction in the global economy this year, followed by 5.8% y/y growth in 2021. Much of the contraction in 2020 would most likely be attributable to advanced economies, which the Fund expects to contract by 6.1% y/y. The Fund expects emerging economies, which typically grow by between 3% y/y and 5% y/y, to contract by 1.0% y/y this year before rebounding to grow by 6.6% y/y in 2021.

The Fund's forecasts for Sub-Saharan Africa reveal that the Fund still expects a dichotomy between natural resource exporters and non-resource exporters. Overall, the Fund expects SSA to contract by 1.6% y/y this year, rebounding to grow by 4.1% y/y in 2021. Just about all the countries that the IMF expects to contract this year, are resource-exporting countries. Of the natural resource exporting countries in our coverage, it is only Ghana and Tanzania that the IMF does not expect to contract. Mauritius is the only non-resource exporter in our coverage that the IMF expects to contract in 2020.

Forecast uncertainty as a matter of course

We appreciate that uncertainty is germane in any forecasting exercise. Were we to closely examine the IMF's forecasts, far from trying to understand why the Fund settled on a particular number as its forecast, we would try to understand what it sees as risk factors underlining its forecasts, which way it sees the balance of risks and the reasons thereof.

For instance, we acknowledge that COVID-19 complicates the task of producing forecasts for the economies in our coverage because its impact on African economies comes via two channels. First, there is an indirect impact that an economy would feel even if it were to be spared the disease, an impact that would be transmitted via disruptions to trade and international financial flows. This spill-over effect from the disruption to the global economy is comparatively easier to estimate. The second channel is direct, arising from the disruption to economic activity as governments put measures in place to contain the disease. This is far harder to estimate with a fair degree of confidence, especially for poor countries with large populations.

Furthermore, COVID-19 started in China, then spread to advanced economies. Only in recent weeks has the number of infections started to rise at an exponential rate in emerging market economies. Indeed, it is possible that the peak in infections in SSA countries will come well after the disease has been brought under control in advanced economies. Thus, estimating the spill-over effects of COVID-19 on SSA economies is far easier than estimating its direct impact.

As our clients are sophisticated financial professionals, they too appreciate that forecasts come with a considerable degree of uncertainty. For planning and budgeting purposes, many of them even collect forecasts from various sources rather than rely on forecasts from a single source.

Policymakers are similarly sophisticated but may, at times, regard forecasts to be infallible. Central bank officials may even fail to appreciate exchange rate forecasts made by private sector participants, especially those predicting a sharp depreciation of a currency. George Soros may be to blame for that. Many a central banker will always suspect that a private forecaster is merely interested in fomenting speculation against a currency, in much the same that Soros is famed to have done in order to force the Bank of England out of the European Exchange Rate Mechanism.

To be sure, most economically significant decisions can tolerate forecast uncertainty. To hedge currency exposure at a time when the cost of hedging is 20%, one can still make the decision to hedge or not to hedge based on whether one strongly believes that the currency will depreciate by either 40% or 10%. The challenge for a potential hedger is switching from expecting a 10% depreciation to expecting a 40% depreciation before market prices move.

Communicating forecast uncertainty is hard. A forecaster always runs the risk of being ignored if the forecast is seen to be woolly and imprecise. Hence, some forecasters tend to resort to a more dogmatic presentation of a forecast, perhaps leaving an impression that the forecast is synonymous with a prophesy.

Our forecasts are not meant to be interpreted as infallible prophesies. To appreciate this point, consider the trades that we make for our shadow portfolio. We do not have a mechanistic rule that relates our forecast to any trade. Indeed, sometimes we will not enter a trade despite a forecast that suggests that doing so would be profitable. Such restraint may purely be because we are not convinced that the balance of risks is in our favour. For example, suppose that the 12-m T-bill yield in a country is 15% and we wanted to target a minimum USD return of 5%. The trigger to buy that T-bill would be reasonable confidence that the currency will not depreciate by more than 10%. Forecasting that it will depreciate by 10% would not be the trigger.

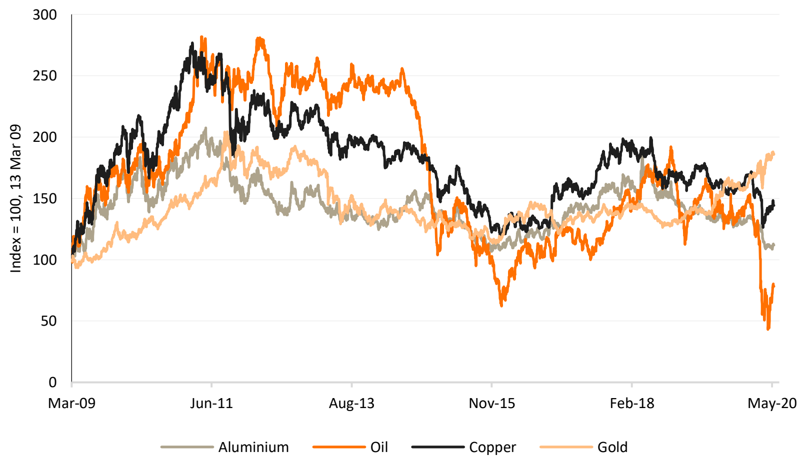
Perhaps before, our forecasts failed to convey their inherent uncertainty. In future, for each of the countries in our coverage we will be publishing a range of forecasts that we believe illustrate the forecast uncertainty that exists at the time of making such forecasts. Of course, since we collect and forecast no less than 50 different variables for each country, it would be impractical to publish a range of forecasts for each such variable. Instead, we will limit this exercise to just 6 variables in each country's quarterly table.

Of course, at any given point in time there may be greater uncertainty with respect to one variable relative to another in any country. Arguably, the range of probable GDP growth outcomes for Ghana in 2020 is far greater than was the range for GDP growth last year, because of COVID-19. In fact, there may currently be greater uncertainty regarding the growth outlook in 2020 than the outlook for T-bill yields.

While we label the alternatives to the base scenario as the bull and bear scenarios, the financial outcomes for different entities need not match the characterisation of these scenarios. A scenario with a higher exchange rate relative to the base scenario would be bullish for an exporter but bearish for an importer.

Commodity prices: bias to the upside

Figure 1: Commodity prices have an upside bias



Source: Bloomberg

There are reasons to believe that commodity prices are more likely than not to rise in the next 4-m. Clearly the outbreak of COVID-19, and the associated containment measures adopted by governments around the world, depressed demand for commodities. But the markets seem to anticipate a normalisation in H2:20, with prices perhaps having gone past the nadir.

Copper prices illustrate this. In the immediate aftermath of the outbreak in China, it was clear that economic activity would be depressed for some time. But this was likely to be a transitory disruption. So, even though futures and spot prices dropped below USD4,600/MT consensus forecasts never dropped that low. Prices, which have since climbed above USD5,300/MT at the time of writing, seem to be on track to validate the consensus expectation that they will end the year closer to USD5,800/MT.

It seems likely that it will be China and advanced economies that will recover first from the COVID-19 crisis. Demand for commodities will start recovering, while many emerging market economies that produce such commodities will still be struggling to contain the disease. This can lead to excess demand for some commodities, something that could very well support prices. Bear in mind that the theme of potential future supply constraints has been consistent among copper analysts over the past 3 or so years. Considering that COVID-19 has spread quite extensively in Peru, the second-largest producer in the world, and is spreading rapidly in Chile, the largest, this risk cannot be understated.

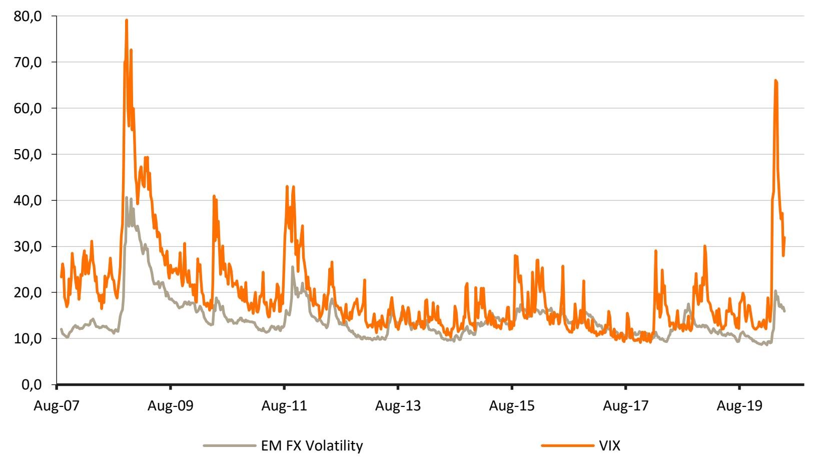
Other base metals prices have not been left behind. The London Metals Exchange's LMEX index has risen by some 10% since late-Mar. Iron ore prices rose above USD90/MT in recent weeks too, all seemingly corroborating the view of a recovery in Chinese demand for commodities.

Consensus forecasts for oil prices drifted somewhat lower after the outbreak of COVID-19. However, they never matched the sharp drop in spot and futures prices. Consensus forecasts for the Brent crude oil price put it in the 40s at the end of 2020 and approaching USD50/bbl in early 2021. For our macroeconomic forecasting purposes, we have assumed prices will be in a range of USD25/bbl – USD30/bbl over the remainder of this year.

Global risk appetite: recovery in risk assets seemingly underway

Following the spike in the VIX index, to over 80 at times in Mar, global risk appetite seems to be recovering. At the time of writing, the VIX index had dropped below 30, seemingly on its way further lower. It is highly probable that it will be below 15 within the next 4-m.

Figure 2: Volatility is moderating



Source: Bloomberg; Standard Bank Research

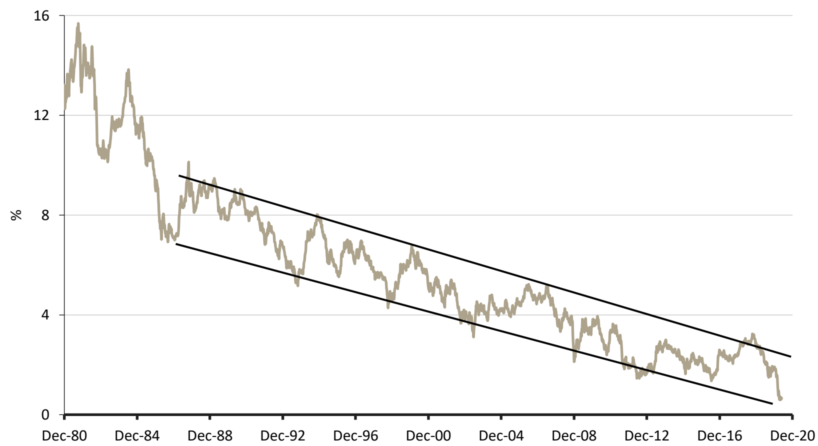
To be sure, US equity markets are still way off the highs reached in Jan. After bottoming out in late Mar, the ensuing rally seemed to have stalled in mid-Apr. But consensus forecasts for the S&P 500 index point to a further rally over the remainder of the year.

In our January edition, we noted some market commentators attributing the performance of the US equity markets to the monetary policy stimulus that the Fed has provided since the global financial crisis. Well, the COVID-19 pandemic prompted not only a strong monetary response, but a strong fiscal response too. The Fed has not only resumed asset purchases, but it has promulgated direct lending programs to the private sector as well.

Nonetheless, the market still demonstrates some sensitivity to political rhetoric. This is likely to get louder as the Nov elections approach. Not only is there likely to be bellicose rhetoric regarding trade from the US administration, but there are likely to be recriminations over the spread of COVID-19 too. It has not been just the US administration that has levelled accusations at China for not preventing the global spread of the disease. There's also the issue of Huawei Technologies.

Global rates: downside bias is persisting

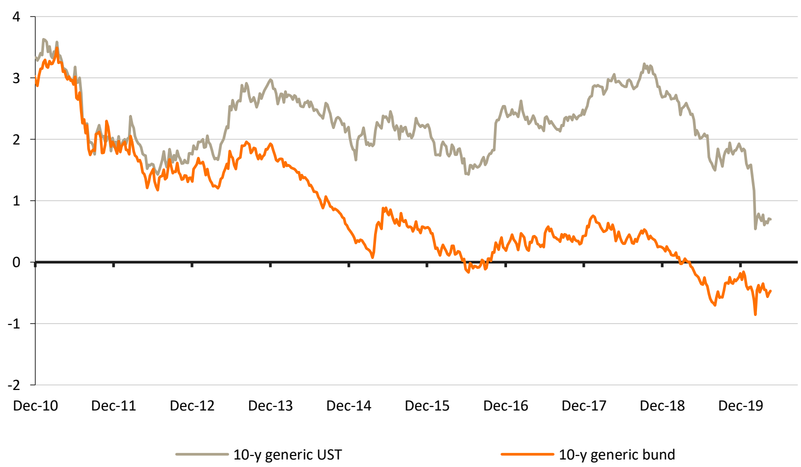
Figure 3: Downside bias for US Treasury 10-y yields is not abating



Source: Bloomberg

COVID-19 forced the US Federal Reserve's Federal Open Market Committee to cut it and resume asset purchases despite the committee having communicated its intention to keep the Fed Funds rate steady for a prolonged period. Market pricing suggests that a negative Fed Funds rate cannot be ruled out in the next 12-m.

Figure 4: 10-y generic US Treasury and German bund yields



Source: Bloomberg

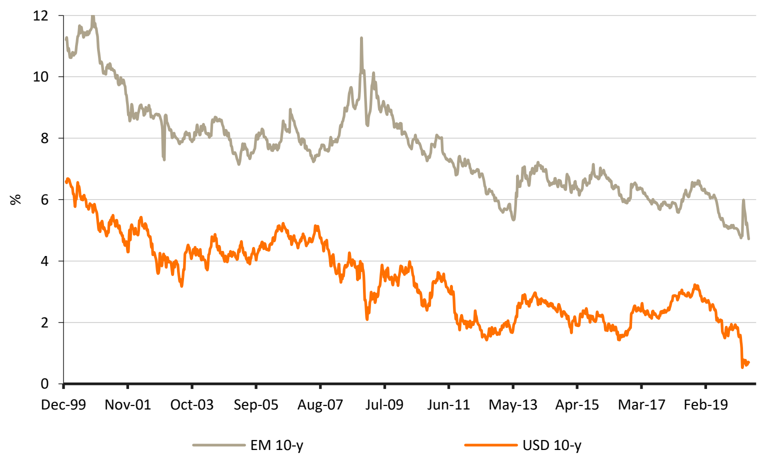
Consensus forecasts for the Fed Funds rate indicate that it will be unchanged until the end of the year, with a hiking bias in 2021. This seems to imply that most economic forecasters expect the disruption to economic activity to be temporary, with a strong recovery in H2:20.

Inflation forecasts seem to bear this out. Consensus forecasts have the core PCE deflator bottoming out at a 1.0% y/y pace of increase between Q3:20 and Q1:21, before nudging up to a 1.5% y/y pace of increase in Q3:21. All this translates into a consensus forecast that the 10-y US Treasury yield will remain at sub-1% for the remainder of this year, but climb to 1.2% by Q3:21.

To address the health risks brought about by COVID-19, governments deliberately shut down most economic activities in their countries. This, naturally, dampened inflation pressures and expectations thereof. Curiously though, this has led to much lower developed market interest rates, while leading to a widening of emerging market spreads. Indeed, as Figure 5 indicates, EM yields initially increased outright as the sell-off in risk assets got underway, before these declined.

Steve Barrow, our G10 analyst, expects a US economic contraction of 5.0% y/y in 2020 followed by a rebound to 5.0% y/y growth in 2021. For the G10, he believes that the low point was in Apr, with a modest recovery now set to unfold. But this recovery is unlikely to be sufficiently robust to dissuade central banks from easing monetary policy or prompt bond yields to rise meaningfully. So, he expects US 10-y Treasury yields to be below 1.0% between now and Q2:21, rising to 1.1% at the end of Q3:21. Throughout this period he expects the Fed Funds rate to be unchanged.

Figure 5: EM 10-y average bond yields versus US Treasury 10-y yields



Source: Bloomberg

Political risks: COVID-19 likely to disrupt the electoral calendar

The Malawian general elections due to be held on 2 Jul are the only ones that will be held in the next 4-m among the countries in our coverage. The Constitutional Court annulled the results of the elections that were held last year, citing evidence of irregularities.

The elections are likely to generate some anxiety. After all, public protests have been a feature of the appeals process that led to the annulment of last year’s results. It is not certain whether the spread of COVID-19 in the country will affect the elections in any way. It is likely that most opposition parties would oppose a proposal to postpone the elections were the electoral commission to point to COVID-19 as a motivation for such a postponement.

In any event, the Constitutional Court set a 150-d deadline, which is 3 Jul, for the elections when it made its determination. So, unless the court were to give a fresh ruling, the electoral commission if bound by this ruling. Furthermore, the number of confirmed cases is still low, amounting to less than 100 at the time of writing.

Despite the number of confirmed cases being similarly low in Ethiopia, this did not prevent the electoral commission postponing the elections there indefinitely. The elections were scheduled for Aug. The decision to postpone the elections was supported by opposition parties. The electoral body will announce a new date once the disease has subsided.

It is not inconceivable that elections due to be held later in the year in other countries will be postponed. Côte d'Ivoire's elections are scheduled for the end of Oct. They are highly unpredictable. As is the norm, coalitions will probably be formed in the run-up to the elections. Yet, at this stage it is not clear how these will be composed. At least one source of uncertainty - being whether President Ouattara, who is serving his second term and should thus be ineligible to be president, will run or not - has been resolved. He has declared that he won't run.

The number of COVID-19 cases remains relatively low, although it is rising fast. There were more than 2.1k cases at the time of writing, with daily infections of close to 50. Given the policy response to this crisis thus far, encompassing seeking IMF financial assistance, it is plausible that the electoral commission would postpone the elections.

Postponement of the elections notwithstanding, there are developments that might have a bearing on political risks, and hence investor confidence. Guillaume Soro, the former President of the National Assembly who fell out with President Ouattarra and has been positioning himself for a presidential run, was found guilty and given a 20-y prison term in absentia on allegations of corruption. There is still the public prosecutor's allegation that he was involved in a coup plot last year. Recall that it was Soro and his fighters that turned the tide against Laurent Gbagbo during the civil war in 2010, allowing Ouattara to capture the presidency.

Although the Ghanaian government responded very forcefully to the crisis, the number of confirmed cases has climbed substantially. In the West Africa region, the government leads with respect to testing for the disease. It eased the restrictions that it initially imposed, with the decline in the number of daily infections seemingly vindicating this decision.

Admittedly, the elections are only in Dec. So, it is not improbable that by then the disease will have abated sufficiently for the electoral body to believe that it can hold safe elections. This would be especially so if by then the government no longer sees the need to keep restrictions on the movement of people in place.

Could success or failure in containing COVID-19 have a bearing on the outcome of Ghana's elections? As we pointed out in Jan, the Ghanaian electorate tends to switch between the NPP, currently in power, and the NDC, giving each party 2 terms in power since multi-party democracy was introduced in 1992. So, successful containment of COVID-19 may increase the odds of the NPP holding on to power.

COVID-19 may turn out to be a useful distraction for another reason. Ordinarily, the market would have been fixated on whether the NPP would essentially try to buy the elections by boosting government spending in the lead up to the elections. COVID-19 has forced the government to increase the budget deficit. So, the fact that the government will not be able to observe the Fiscal Responsibility Act, which mandates the government to limit the fiscal deficit to 5.0% of GDP, will probably not be such a blow to market sentiment.

COVID-19 is probably an inconvenient distraction to Kenya's political elite. They would probably rather have the electorate focusing its attention on the Building Bridges Initiative. The broad expectations are that this initiative will lead to a proposal to amend the constitution so as to introduce the position of Prime Minister, who will have executive authority, while the President becomes a ceremonial figurehead. The constitutional referendum would need to be finished well ahead of the 2022 elections.

FX strategy: limited opportunities

Despite the flux in global financial markets, the currencies in our coverage did not do badly. The 8 most tradeable currencies in our coverage, what we refer to as the Africa 8, have returned -6.3% since the beginning of the year. If one includes the carry, then the return is -3.2%. Emerging market currencies fared far worse, as did equities, whether African or the broader emerging market universe, for that matter.

This makes it hard to find recovery trades among the currencies in our coverage. A case can be made that perhaps the market is overly pessimistic in its assessment of the NGN. The implied yield on the12-m USD/NGN NDF is nearly 30%, even higher for the 3-m tenor. Yet the CBN is not showing any sign that it would allow the NGN to depreciate much more than it has already done.

Of course, it is extremely hard to make a convincing argument that the CBN will not allow the NGN to depreciate further when there is clear evidence of excess demand for FX in the market. This is nothing new. The market experienced this in 2016/17, the last time that oil prices collapsed.

Ultimately, it all comes down to whether one believes that Brent crude oil prices will be stuck close to USD30/bbl for the remainder of this year or whether one believes the consensus forecast that Brent crude oil prices will be in the low 50s in early 2021. If one believes the latter, and the CBN happens to share that view, then selling USD/NGN NDFs will prove to be profitable. After all, it looks highly probable that the CBN would believe that, even if it is rationing FX supply currently, doing so would not be as detrimental as it was in 2016/17 due to the prevailing impact of COVID-19. After all, with no international travel possible, demand for FX by foreign exchange bureaus should not be material right now.

The ZMW has been the worst-performing currency of the ones in our coverage since the beginning of the year, having depreciated by about 24% at the time of writing. There is a case to be made that a rebound trade is worthwhile putting on. As we have pointed out in earlier editions of this report, USD/ZMW has risen in stepwise fashion since trading mostly in a 9.50 - 10.30 range between Mar 16 and Sep 18. The last step took the pair to nearly 19.00 in early Apr, from around 14.70 in mid-Feb.

It is highly probable that the ZMW will depreciate at a much slower pace than the annualised 26% pace between mid-2018 and early Apr this year. Given the broadly expected improvement in the global backdrop, copper prices are likely to improve. This suggests that copper exports will likely improve, providing some support to the BOP.

What’s more, the government is looking to restructure its external debt. This matters greatly to the outlook for the USD/ZMW exchange rate. Budgeted external debt service payments are budgeted to be in excess of USD1.5bn in 2020, continuing to rise in the medium term if the Medium Term Expenditure Framework is any guide. Data from the BOZ indicates that FX demand from the public sector is some 3 times the amount of FX demanded by FX bureaus. Clearly, a restructuring of external debt would reduce the government’s FX requirements considerably, thereby easing the upside pressure on USD/ZMW.

However, there remains considerable uncertainty regarding the time that will elapse until the government restructures its external debt. After all, the government seems to prefer voluntary restructuring. There is no certainty that the government’s external creditors, who probably have disparate interests, would quickly voluntarily come to a restructuring agreement.

Although the AOA has depreciated sharply since the beginning of the year, it is hard to call the top in USD/AOA. As with the NGN, the call boils down to one's expectation of the trajectory for oil prices. It's well worth keeping in mind that oil companies are now allowed to sell FX directly to commercial banks rather than selling it to the BNA. The BNA hoped that this reform would allow for better price discovery in the FX market.

There are indications that there is excess demand in the market, with some FX buyers not able to obtain FX. Even though the government is proceeding with reforms under the programme financed by the IMF's Extended Arrangement under the Extended Fund Facility, there doesn't seem to be an imminent improvement in the BOP position. Since dropping to about USD16.0bn in late 2018, gross FX reserves have hardly budged, only rising meaningfully after the government issued Eurobonds late last year. Even then, they still amounted to just USD16.4bn in Mar.

After depreciating by 13.1% in 2019, the first double-digit pace of depreciation since the 13.9% depreciation in 2015, the GHS has depreciated by just about 2% year-to-date. 2015 was a pre-election year as 2019 was. COVID-19 notwithstanding, it seems as if our expectation that the GHS will not depreciate in a disorderly fashion this year might still play out.

That said, foreign investors have divested from the fixed income market this year. Foreign investors held GHS29.07bn in Ghanaian bonds in Dec, rising to GHS30.51bn in Jan. This has dropped to GHS27.80bn in Apr, the lowest level since Sep 19. Indeed, throughout 2019 they were close to GHS27.50bn, with a peak of GHS29.22bn in Apr 18. However, foreigners now hold 23.2% of total domestic debt, the lowest percentage since 2016.

We are still not inclined to do anything. Implied yields on USD/GHS NDFs are quite low, right around the mid-teens. We prefer to express our view via duration rather than NDFs.

Selling USD/EGP is still by far the most compelling trade among the currencies in our coverage. Until the end of Oct 19 we maintained exposure to the EGP consistently since early 2017. We will re-establish a position by selling a 12-m USD/EGP NDF for our shadow portfolio.

It is unlikely that USD/EGP will rise sufficiently fast to erode the carry on the trade. Indeed, our baseline view is that the pair will fall somewhat from current levels in the near term, before commencing on an upward trajectory. While we acknowledge the large hit that the BOP will take from COVID-19, we also acknowledge that much of the risk to the EGP is behind us. There has already been capital flight, with the amount of EGP T-bills held by foreigners having dropped significantly. Similarly, FX reserves have dropped precipitously.

From this point onwards it is likely that the predominant impetus for the BOP will come from the recovery that will be supported by emergency support from the IMF. The EGP149.3bn in T-bills held by foreigners in Mar was the lowest level since 2017.

The East African shillings continue to exhibit broad stability. We see little impetus to change this over the next 4 – 6 months. The KES might enjoy some support in early Q1:20 due to flower sales. That might reverse somewhat in Q2:20 due to dividend payments.

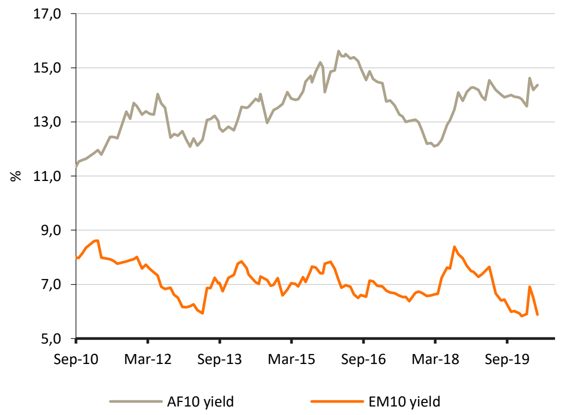
Fixed income strategy: it's tough to justify new positions

Our shadow portfolio is composed almost completely of local currency bonds. Considering the performance of the different asset classes (see table on page 2), this is not a bad strategy.

Most currencies in our coverage tend to be unresponsive to global systemic risks. They are much more responsive to idiosyncratic risks. And it is those idiosyncrasies that occasionally open up interesting rebound opportunities, both for carry and duration trades.

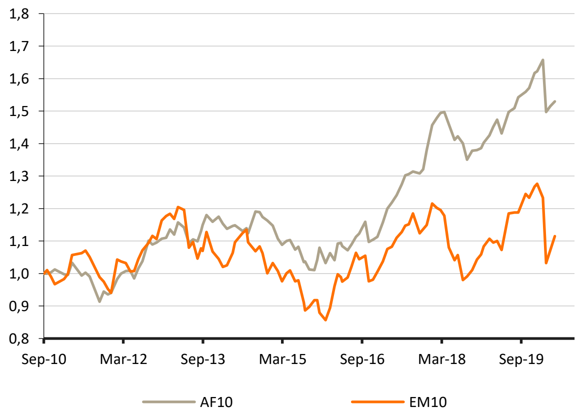
Neither carry nor duration rebound opportunities exist at this moment. Perhaps if one believes that oil prices will rise meaningfully from current levels, then one might be convinced into buying NGN duration. But this is a hard call to make when implied NDF yields are near 30%. It is probably better to express that view with NDFs rather than duration.

Figure 6: EM10 versus AF10 average 10-y bond yield



Source: Bloomberg; Standard Bank Research

Figure 7: EM10 versus AF10 average 10-y bond return

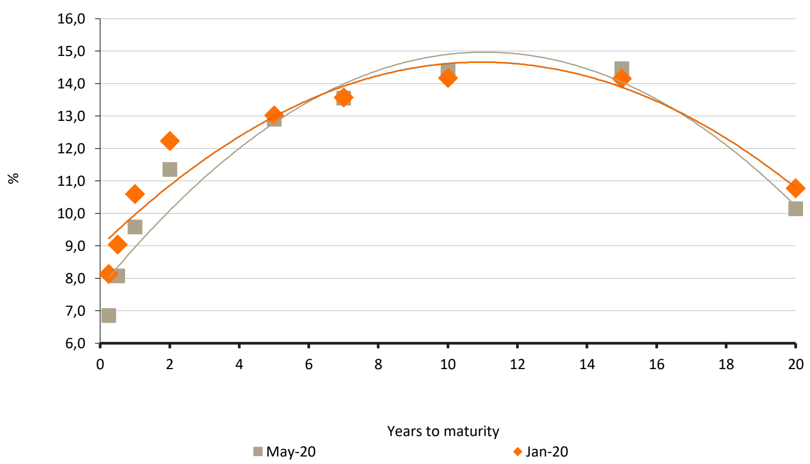


Source: Bloomberg; Standard Bank Research

This is not to say that an opportunity might not transpire in time. Perhaps there will be an impetus to push yields closer or above 15% in the coming 3 – 4 months. Bear in mind that the IMF's assessment suggested that the government will still have a financing gap even after it disbursed emergency funding to the government. This might prompt the government to issue more domestic paper, thereby pushing yields higher.

To be fair, many other countries are likely to be in the same position. In addition to Nigeria, Egypt, Ghana, Kenya and Uganda are notable countries that approached the IMF for emergency funding. While the IMF provided such assistance, it noted that some of these countries would still be left with large financing gaps. This raises the possibility that there might be some upward pressure on government bond yields.

Figure 8: AF10 yield curve simple yield average



Source: Bloomberg; Standard Bank Research

However, central banks have implemented measures to ensure that liquidity does not dry up in the money markets. In most cases central banks seem to have particularly worried about the possibility of a run on banks, something that would disrupt the banking system. After all, once it became clear that governments would impose lockdowns as a means to contain the spread of COVID-19, there was always a risk that some people would worry about being able to get access to cash in order to make payments for necessities.

The resultant liquidity injections make it all the more likely that any tendency for yields to rise due to increased issuance would be restrained. Hence, there might not be more attractive entry levels into duration in many of our markets.

That said, it is not implausible that the spread of the disease in the countries we cover might be such that the fiscal deficits widen further. After all, thus far the pleas for aid, from the IMF as well as other multilateral agencies like the World Bank and the African Development Bank, came at a time when the spread of the disease was in its infancy. Hence, the likelihood of the needed support being substantially more than what has been provided thus far cannot be dismissed.

We will not add anymore duration to our shadow portfolio at this point.

African Eurobonds: further spread compression on the cards

African Eurobond spreads, as measured by our SBAFSOZ index - comprising all the USD Eurobonds issued by African governments, except South Africa – widened to about 1,200 bps in late-Mar. This was the widest they have been. At the time of writing spreads had compressed significantly, with the spread of our SBAFSOZ index down to about 875 bps.

This is an indication that the market is recovering from crisis. This recovery seems set to persist over the coming 3 – 4 months. We have increased exposure to bonds in our shadow portfolio, favouring the longer-dated bonds.

Egypt and Senegal still make up our core holdings. Senegal is a high growth economy that is characterised by robust macroeconomic policy management. Sure, it owes much of the latter to its membership of the Union Economique et Monétaire Ouest-Africaine (UEMOA). However, unlike Côte d'Ivoire, also a member of the UEMOA, Senegal doesn't have a tricky election to contend with in the near term. That said, we recently added 1% exposure to the Côte d'Ivoire '33s in our shadow portfolio.

Angolan Eurobonds were the worst hit after the spread of COVID-19. Naturally, when oil prices collapsed, the market started to question the capacity of oil sovereigns to continue servicing the debts. So, Angolan bonds, along with Cameroonian, Gabonese and Nigerian bonds, sold off aggressively.

There was an extra dimension though. For some time the market was worried that the Zambian government would default on its external debt. However, the government frequently signalled its intention to engage its Chinese creditors with a view to restructuring the debt owed to them. But when the Zambian government sought advisors to help it restructure its external debt, the market seemed to conclude that Chinese creditors were not amenable to a restructuring of their debt. As it happens, the Angolan government has a lot of exposure to Chinese debt. So, the sell-off in Angolan Eurobonds, which is worse than that of Zambian Eurobonds thus far this year, may also reflect this contagion effect.

The response by the international community, most visibly demonstrated by the readiness of the IMF to provide emergency assistance to a number of countries on the continent, may yet allay investor fears. For much of Mar and Apr it seemed as if investors were scouring the African Eurobond universe looking to identify countries that were most likely to default on their external debt. That seems to be waning, something that will support bonds.

Of course, it didn't help that there were prominent individuals making a plea for a rescheduling of all external debt service payments by African governments. Given that G20 countries committed to providing debt relief to poor countries, the fear was that governments would end up defaulting on commercial debt, including Eurobonds.

We retain 1% overweight positions in both Angola and Nigeria. We will probably increase this in coming weeks or months if we come around to the view that oil prices are heading higher. We also have overweight positions on Kenyan, Ghanaian and Mozambican Eurobonds.

Hedging CNY exposure

Trade conducted between Africa and China is still predominantly done in USD. Yet, for importers, it is often cheaper to hedge CNY exposure than to hedge USD exposure. Standard Bank offers forwards that allow African importers to hedge CNY exposure.

Indicative CNY forward prices

	Historical prices				Forward prices		
	-12m	-6m	-3m	spot	+3m	+6m	+12m
CNY/BWP	1.57	1.54	1.61	1.66	1.66	1.66	1.65
CNY/GHS	0.79	0.80	0.79	0.82	0.84	0.87	0.92
CNY/KES	14.66	14.58	14.46	14.95	15.02	15.17	15.38
CNY/MUR	5.22	5.24	5.40	5.59	5.56	5.53	5.46
CNY/ZAR	2.12	2.08	2.25	2.46	2.48	2.49	2.51
CNY/UGX	544.53	525.41	532.75	528.44	534.38	540.18	560.80
CNY/ZMW	1.91	2.08	2.16	2.51	2.60	2.73	3.02

Source: Bloomberg Standard Bank Research

African Eurobonds

					Spread, bps		Spread change, bps			Total Return, %		
Name	Moody's/Fitch	Mid Price	Mod Dur	Yield, %	Over UST	Z-Spread	1 wk	YTD	12mths	1 wk	YTD	12mths
ANGOL 9.5% 12-NOV-2025	B3 *-/B-	68.251	3.7	19.11	1,884	1,872	-487	1452	1381	19.7	-38.0	-30.0
ANGOL 8.25% 09-MAY-2028	B3 *-/	62.806	4.9	16.92	1,655	1,642	-369	1137	1119	19.3	-38.3	-31.3
ANGOL 8% 26-NOV-2029	B3 *-/B-	62.725	5.3	15.67	1,527	1,511	-327	1009		17.9	-38.1	
ANGOL 9.375% 08-MAY-2048	B3 *-/	61.593	6.6	15.37	1,487	1,470	-302	839	842	19.6	-39.8	-32.0
ANGOL 9.125% 26-NOV-2049	B3 *-/B-	61.601	6.3	14.95	1,446	1,427	-291	802		17.9	-38.8	
REPCAM 9.5% 19-NOV-2025	/B	95.068	3.5	10.93	1,068	1,058	-142	583	507	4.9	-11.9	-2.5
REPCON 3% 30-JUN-2029	/CCC	78.591	3.4	12.36	1,212	1,192	23	464	557	-0.6	-7.5	-2.3
EGYPT 6.125% 31-JAN-2022	B2/B+	101.882	1.6	4.93	476	453	-44	245	138	0.8	-0.1	6.6
EGYPT 5.577% 21-FEB-2023	B2u/B+	101.177	2.5	5.11	492	483	-65	259	134	1.7	-1.3	7.4
EGYPT 4.55% 20-NOV-2023	B2u/B+	98.451	3.2	5.04	481	475	-64	256		2.0	-2.0	
EGYPT 6.2004% 01-MAR-2024	B2u/B+	102.936	3.3	5.33	510	502	-82	275	139	2.8	-2.7	7.8
EGYPT 5.875% 11-JUN-2025	B2/B+	100.857	4.2	5.68	538	531	-69	253	125	3.0	-3.0	9.2
EGYPT 7.5% 31-JAN-2027	B2/B+	104.539	5.1	6.64	625	618	-64	252	151	3.3	-3.5	8.9
EGYPT 6.588% 21-FEB-2028	B2u/B+	98.559	5.9	6.83	637	632	-57	225	154	3.4	-2.8	8.9
EGYPT 7.6003% 01-MAR-2029	B2u/B+	102.839	6.3	7.15	667	660	-52	227	158	3.2	-3.2	8.9
EGYPT 7.0529% 15-JAN-2032	B2u/B+	97.545	7.5	7.37	679	672	-48	225		3.5	-4.4	
EGYPT 6.875% 30-APR-2040	B2/B+	91.100	10.3	7.75	704	698	-44	230	182	4.3	-7.3	6.9
EGYPT 8.5% 31-JAN-2047	B2/B+	99.846	10.2	8.51	781	774	-48	233	181	4.6	-7.0	7.9
EGYPT 8.7002% 01-MAR-2049	B2u/B+	99.857	10.3	8.71	800	794	-43	240	192	4.1	-7.7	6.9
EGYPT 7.903% 21-FEB-2048	B2u/B+	94.953	10.6	8.37	764	759	-44	225	182	4.3	-6.7	7.5
EGYPT 8.15% 20-NOV-2059	B2u/B+	94.576	11.2	8.63	786	785	-45	240		4.0	-8.8	
ETHOPI 6.625% 11-DEC-2024	B2 *-/B	93.337	3.7	8.42	816	808	-224	510	427	8.6	-11.3	-2.3
GABON 6.375% 12-DEC-2024	/CCC	91.306	2.9	9.33	912	902	-281	573	407	8.7	-10.4	1.3
GABON 6.95% 16-JUN-2025	Caa1/CCC	89.032	4.0	9.74	946	938	-215	549	425	8.9	-13.3	-1.5
GABON 6.625% 06-FEB-2031	Caa1/CCC	83.824	6.6	9.18	868	859	-113			7.5		
GHANA 7.875% 07-AUG-2023	B3/B	98.727	2.7	8.33	813	804	-253	495	399	7.2	-7.2	1.1
GHANA 8.125% 18-JAN-2026	B3/B	96.789	3.7	8.99	873	863	-266	414	371	10.2	-7.0	1.0
GHANA 7.875% 26-MAR-2027	B3u/B	94.197	4.3	8.93	863	852	-237	375	353	10.8	-7.5	0.4
GHANA 6.375% 11-FEB-2027	B3/B	90.312	4.5	8.56	823	815	-209			9.8		
GHANA 7.625% 16-MAY-2029	B3/B	90.322	5.7	9.38	895	886	-192	347	329	11.4	-8.5	0.1
GHANA 10.75% 14-OCT-2030	B1/BB-	114.175	6.0	8.52	805	796	-104	313	294	6.3	-7.5	1.0
GHANA 8.125% 26-MAR-2032	B3u/B	89.635	6.8	9.56	904	894	-157	319	322	11.0	-8.8	-0.8
GHANA 7.875% 11-FEB-2035	B3/B	88.122	7.7	9.43	885	876	-134			10.4		
GHANA 8.95% 26-MAR-2051	B3u/B	89.005	9.3	10.12	947	937	-128	274	286	11.6	-9.3	-0.7
GHANA 8.627% 16-JUN-2049	B3/B	88.802	9.3	9.80	915	905	-127	253	258	11.4	-7.7	1.8
GHANA 8.75% 11-MAR-2061	B3/B	88.784	9.7	9.88	921	911	-119			11.1		
IVYCST 5.375% 23-JUL-2024	Ba3/B+	96.688	3.6	6.29	603	597	-86	362	229	3.2	-6.0	4.7
IVYCST 2.5% 31-DEC-2032	/B+	96.471	5.2	6.42	603	588	-68	210	148	3.5	-1.4	8.7
IVYCST 6.375% 03-MAR-2028	Ba3/B+	99.166	5.3	6.53	612	606	-89	251	145	4.8	-3.7	9.3
IVYCST 6.125% 15-JUN-2033	Ba3/B+	96.207	8.1	6.59	598	592	-74	190	113	5.9	-2.4	12.7
KENINT 6.875% 24-JUN-2024	/NR	97.273	3.4	7.66	742	734	-186	433	351	6.6	-7.8	1.0
KENINT 7% 22-MAY-2027	B2u/B+	96.562	4.8	7.73	738	731	-178	334	270	8.4	-6.7	3.2
KENINT 7.25% 28-FEB-2028	B2u/B+	96.245	5.7	7.90	747	739	-152	341	241	9.0	-8.8	4.3
KENINT 8% 22-MAY-2032	B2u/B+	96.469	7.1	8.50	795	788	-139	302	240	9.5	-8.7	3.8
KENINT 8.25% 28-FEB-2048	B2u/B+	95.588	10.3	8.67	796	790	-96	239	195	9.5	-7.6	6.5
MOROC 4.25% 11-DEC-2022	/BBB-	104.373	2.4	2.47	228	219	-27	164	127	0.6	0.4	4.8
MOROC 5.5% 11-DEC-2042	/BBB-	112.949	13.2	4.57	366	375	-17	193	134	1.4	-6.3	9.2
MOZAM 5% 15-SEP-2031	Caa2u/	78.679	6.6	10.78	1,028	1,021	-131	411		8.9	-13.7	
REPNAM 5.5% 03-NOV-2021	Ba2/BB	99.256	1.4	6.05	588	553	-105	429	375	1.5	-2.5	2.1
REPNAM 5.25% 29-OCT-2025	Ba2/BB	97.247	4.6	5.85	553	546	-80	285	213	3.8	-4.8	4.6

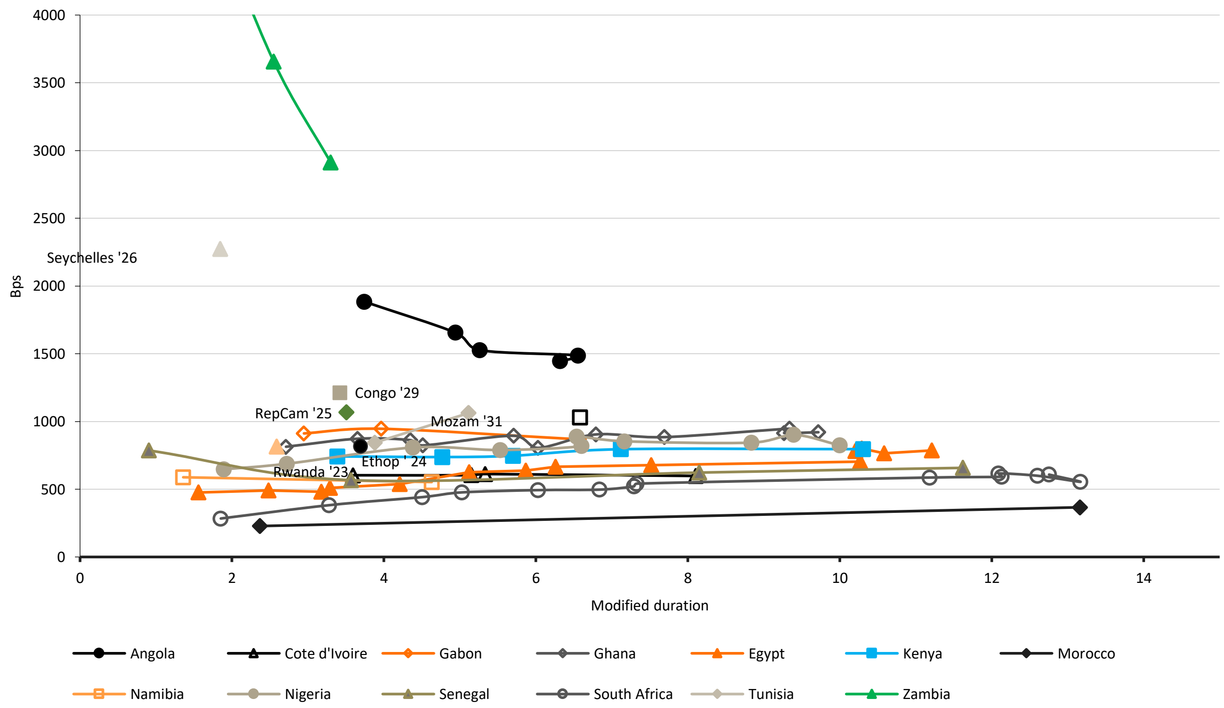
Continue on the next page

African Eurobonds (continued)

					Spread, bps		Spread change, bps			Total Return, %		
Name	Moody's/Fitch	Mid Price	Mod Dur	Yield, %	Over UST	Z-Spread	1 wk	YTD	12mths	1 wk	YTD	12mths
NGERIA 5.625% 27-JUN-2022	B2/B	98.036	1.9	6.64	647	637	-235	428	365	4.7	-3.9	1.9
NGERIA 6.375% 12-JUL-2023	/B	98.048	2.7	7.08	688	679	-218	424	368	6.2	-5.7	0.9
NGERIA 7.625% 21-NOV-2025	B2/B	96.665	4.4	8.39	808	800	-191	427	400	8.3	-9.7	-2.4
NGERIA 6.5% 28-NOV-2027	B2/B	90.010	5.5	8.32	789	782	-159	356	328	9.1	-9.4	-0.7
NGERIA 7.143% 23-FEB-2030	B2/B	89.921	6.6	8.70	819	811	-140	320	318	9.5	-8.9	-1.2
NGERIA 8.747% 21-JAN-2031	B2/B	95.771	6.5	9.38	888	877	-154	341	358	10.3	-9.9	-3.1
NGERIA 7.875% 16-FEB-2032	B2/B	91.350	7.2	9.09	854	844	-162	305	327	11.7	-8.8	-2.3
NGERIA 7.696% 23-FEB-2038	B2/B	87.942	8.8	9.07	844	834	-136	275	293	12.0	-9.3	-1.9
NGERIA 9.248% 21-JAN-2049	B2/B	95.869	9.4	9.67	902	892	-124	286	297	11.3	-10.6	-2.1
NGERIA 7.625% 28-NOV-2047	B2/B	86.697	10.0	8.93	824	816	-124	247	256	12.0	-8.2	0.6
RWANDA 6.625% 02-MAY-2023	/B+	95.602	2.6	8.34	815	806	-66	551	498	1.8	-8.4	-2.1
SENEGL 8.75% 13-MAY-2021	Ba3/	100.698	0.9	7.98	786	728	-263	713	578	2.6	-4.0	1.2
SENEGL 6.25% 30-JUL-2024	Ba3/	101.166	3.6	5.93	567	560	-157	371	265	5.8	-6.4	2.7
SENEGL 6.25% 23-MAY-2033	Ba3/	95.282	8.2	6.84	623	617	-96	250	169	7.5	-7.1	7.7
SENEGL 6.75% 13-MAR-2048	Ba3/	92.602	11.6	7.39	658	659	-81	199	148	8.7	-5.3	10.3
SEYCHE 3% 01-JAN-2026	/B+	72.430	1.8	22.91	2,274	2,256	9	1790	1781	0.2	-27.6	-17.0
SOAF 5.875% 30-MAY-2022	Ba1/BB	105.560	1.9	3.01	284	274	-82	165	134	1.6	0.6	4.9
SOAF 4.665% 17-JAN-2024	Ba1/BB	102.060	3.3	4.05	382	375	-86	204	170	2.9	-0.6	5.2
SOAF 5.875% 16-SEP-2025	Ba1/BB	105.242	4.5	4.74	442	436	-102	229	186	4.7	-2.5	5.0
SOAF 4.875% 14-APR-2026	Ba1/BB	98.635	5.0	5.15	477	473	-94	242	215	4.8	-3.5	3.6
SOAF 4.85% 27-SEP-2027	Ba1/BB	96.685	6.0	5.40	493	490	-98	246	204	5.9	-4.8	4.0
SOAF 4.3% 12-OCT-2028	Ba1/BB	92.122	6.8	5.48	497	493	-97	230	217	6.7	-4.5	2.9
SOAF 4.85% 30-SEP-2029	Ba1/BB	93.370	7.3	5.77	521	518	-91	229		6.6	-5.0	
SOAF 5.875% 22-JUN-2030	Ba1/BB	99.247	7.3	5.98	541	536	-87	247	220	6.3	-6.3	2.8
SOAF 6.25% 08-MAR-2041	Ba1/BB	95.587	11.2	6.64	586	585	-56	233	246	5.7	-8.9	-2.0
SOAF 5.375% 24-JUL-2044	Ba1/BB	83.560	12.1	6.77	592	596	-64	235	256	6.9	-10.1	-4.1
SOAF 6.3% 22-JUN-2048	Ba1/BB	91.372	12.1	7.01	617	620	-69	250	254	7.4	-11.5	-3.5
SOAF 5.65% 27-SEP-2047	Ba1/BB	85.122	12.6	6.86	599	605	-69	235	255	7.8	-10.3	-4.3
SOAF 5% 12-OCT-2046	Ba1/BB	81.671	13.2	6.46	554	563	-63	220	239	7.2	-9.0	-2.9
SOAF 5.75% 30-SEP-2049	Ba1/BB	84.947	12.8	6.96	608	614	-63	236		7.1	-10.5	
BTUN 5.75% 30-JAN-2025	B2 *-/B	88.783	3.9	8.72	844	837	-80	286	263	3.2	-2.7	5.3
BTUN 8.25% 19-SEP-2027	B2 *-/WD	86.320	5.1	11.02	1,062	1,053	-34	420	448	1.8	-10.4	-4.2
ZAMBIN 5.375% 20-SEP-2022	/CC	43.520	1.7	48.46	4,829	4,819	-625	2875	3112	12.0	-32.6	-25.9
ZAMBIN 8.5% 14-APR-2024	/CC	43.790	2.6	36.75	3,655	3,643	-595	1884	1985	16.7	-31.0	-21.7
ZAMBIN 8.97% 30-JUL-2027	/CC	43.582	3.3	29.36	2,912	2,894	-437	1384	1443	15.5	-29.9	-20.4
SB Africa Eurobond (incl. SA)	B+		6.2	8.45	797	784	-84	317	275	5.9	-10.5	-1.0
SB Africa Eurobond (excl. SA)	B+		5.9	9.00	855	841	-91	345	293	6.1	-11.7	-1.7

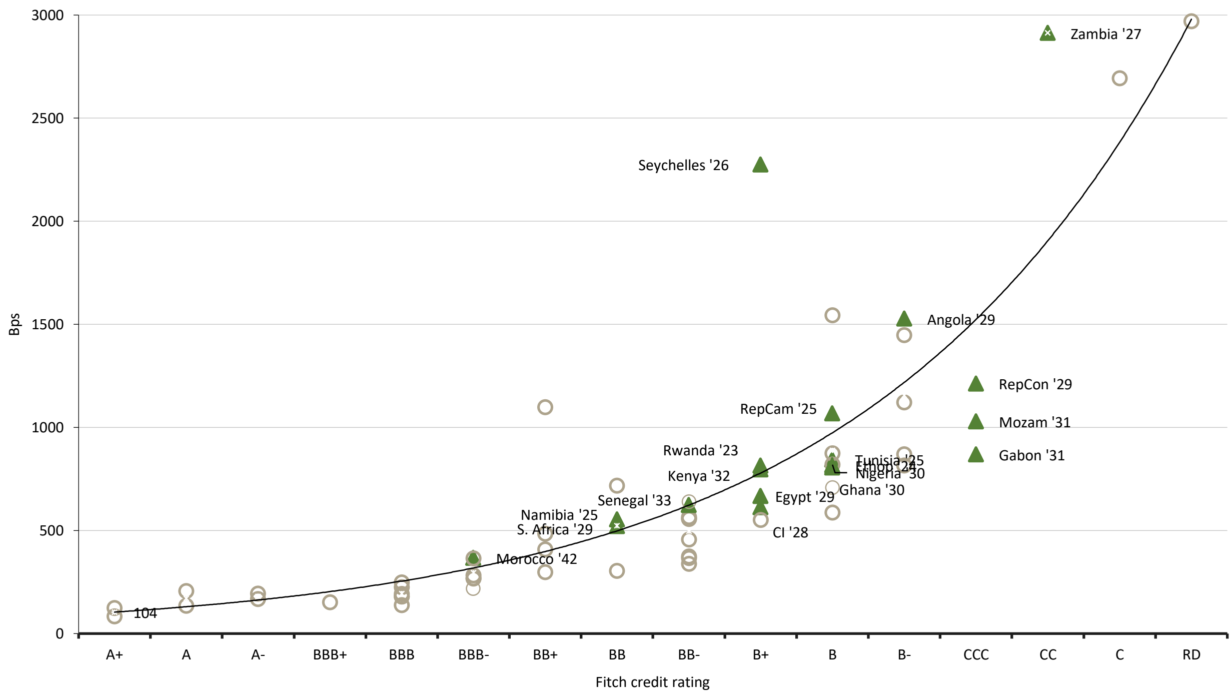
Source: Bloomberg; Standard Bank Research

Figure 9: African sovereign USD bonds (spread over US Treasuries versus modified duration)



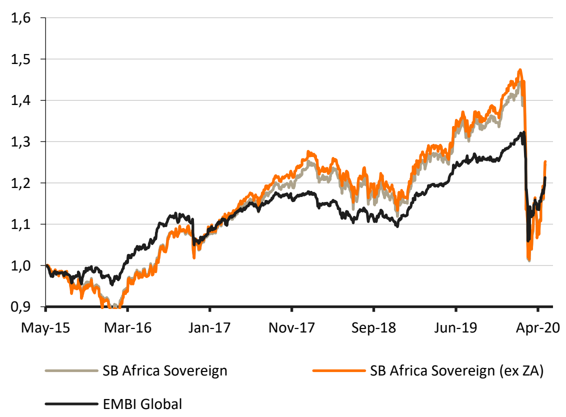
Source: Bloomberg; Stanard Bank Research

Figure 10: African and broader EM bonds (spread over US Treasuries versus credit rating)



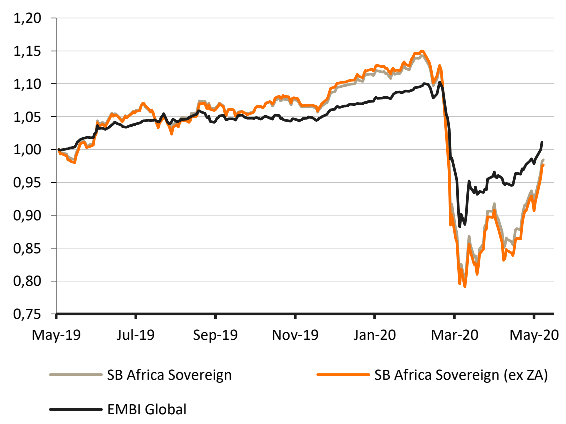
Source: Bloomberg; Standard Bank Research

Figure 11: African Eurobonds (5-y performance)



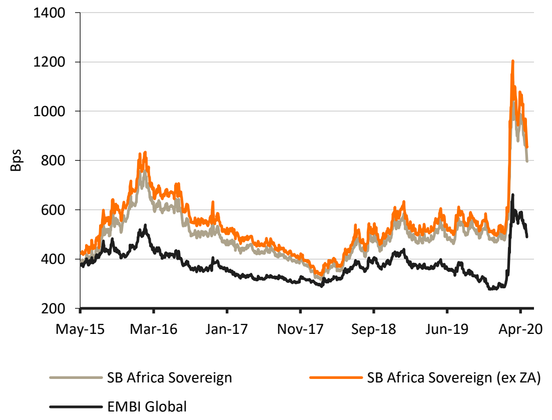
Source: Bloomberg; Standard Bank Research

Figure 12: African Eurobonds (1-y performance)



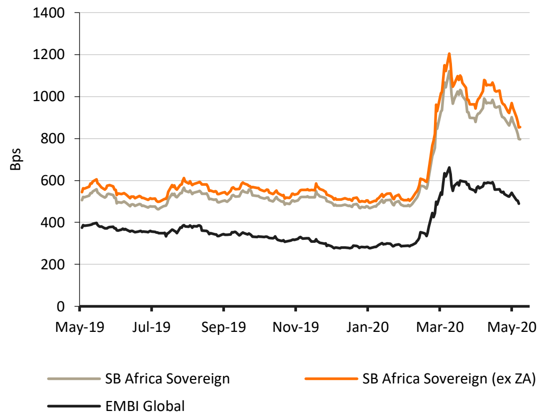
Source: Bloomberg; Standard Bank Research

Figure 13: African Eurobonds spread over UST (5-y)



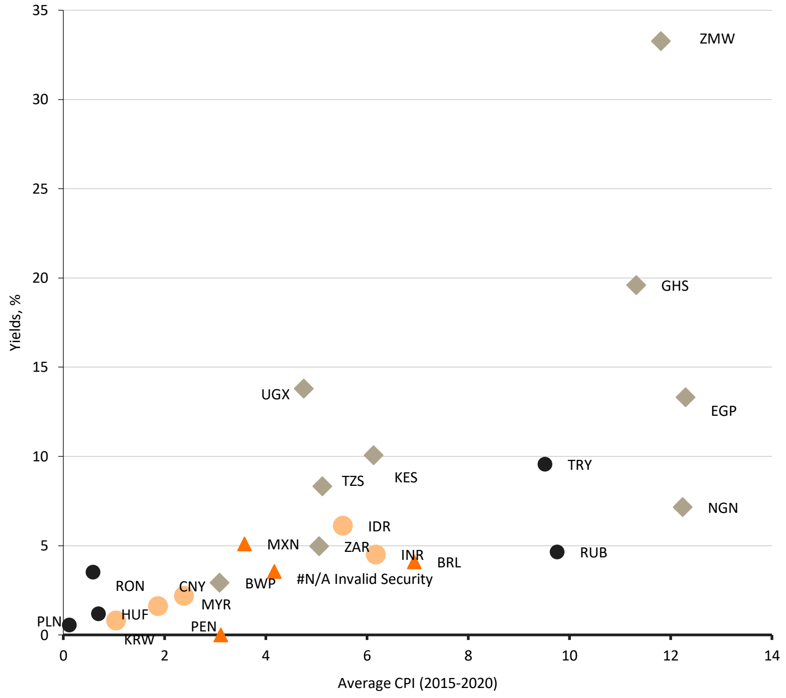
Source: Bloomberg; Standard Bank Research

Figure 14: African Eurobonds spread over UST (1-y)



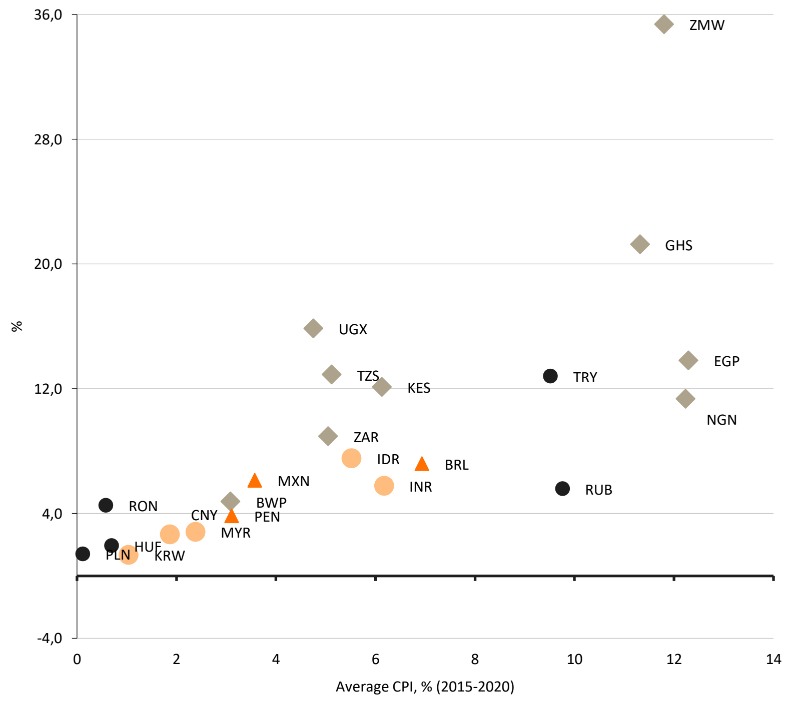
Source: Bloomberg; Standard Bank Research

Figure 15: Local 2-year bonds vs. past and forecast inflation



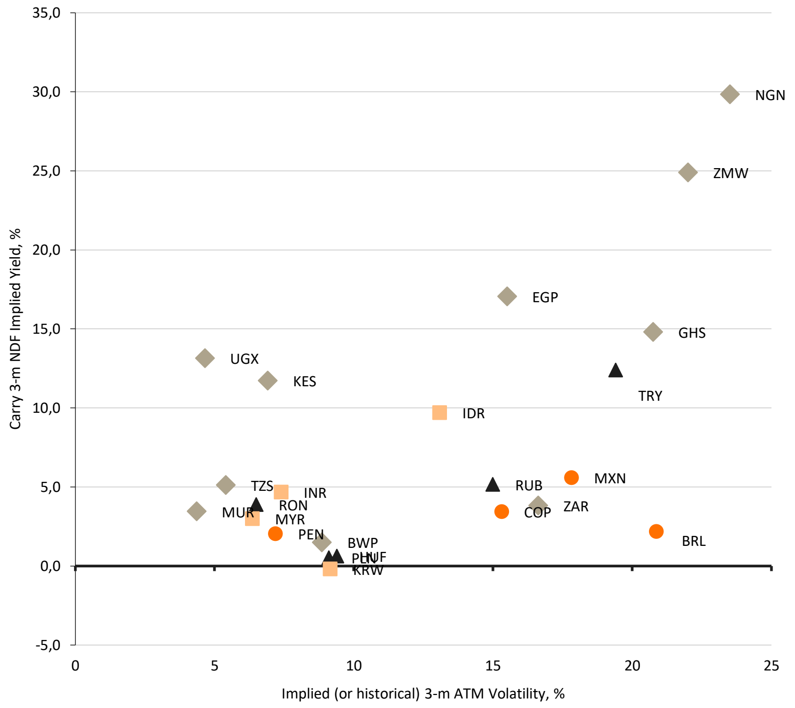
Source: Bloomberg; Standard Bank Research

Figure 16: Local 10-year bonds vs. past and forecast inflation



Source: Bloomberg; Standard Bank Research

Figure 17: NDF carry rates vs. implied vols



Source: Bloomberg; Standard Bank Research

Table of expected returns over the next 3 months

Country	Tenor	Current yield	Yield, % Slide	Yield, % Forward	Yield, % SB forecast	Total return, % Slide	Total return, % Forward	Total return, % SB forecast
Botswana	2Y	1.38	1.12	1.36	3.30	1.6	0.4	-3.2
	5Y	3.63	3.53	3.75	3.58	1.7	-0.1	1.1
	10Y	4.64	4.62	4.74	5.03	1.3	0.4	-1.9
Egypt	2Y	13.48	13.44	13.75	13.40	3.4	2.9	3.5
	5Y	13.92	13.93	14.08	13.55	3.5	2.9	4.7
	10Y	14.50	14.45	14.62	14.13	3.9	3.0	5.5
Ghana	2Y	19.45	19.26	20.51	21.40	5.1	3.3	2.0
	5Y	20.40	20.41	21.01	20.80	5.1	3.3	3.9
	10Y	20.65	20.67	21.10	20.80	5.1	3.3	4.6
Kenya	2Y	9.82	9.63	10.18	10.2	2.8	1.9	1.8
	5Y	11.48	11.41	11.75	11.3	3.1	1.9	3.5
	10Y	12.36	12.35	12.58	12.4	3.2	1.9	2.9
Nigeria	2Y	7.29	6.68	8.20	6.90	2.9	0.3	2.5
	5Y	11.51	11.34	12.21	9.00	3.5	0.4	11.9
	10Y	12.77	12.77	13.29	10.95	3.2	0.4	13.1
Tanzania	2Y	5.85	5.52	6.23	8.2	2.0	0.8	-2.6
	5Y	9.74	9.47	10.16	11.6	3.5	0.9	-4.5
	10Y	13.61	13.50	14.07	12.7	4.0	1.0	8.2
Uganda	2Y	14.54	14.39	15.47	14.5	3.9	2.2	3.7
	5Y	15.37	15.35	15.85	15.7	3.9	2.3	2.8
	10Y	15.62	15.62	15.96	15.8	3.9	2.3	3.0
Zambia	2Y	32.96	32.55	36.27	32.50	8.8	4.1	8.8
	5Y	34.43	34.44	36.45	34.20	8.6	4.2	9.1
	10Y	34.60	34.63	36.30	34.20	8.6	4.1	9.7

Source: Bloomberg; Standard Bank Research

Notes: Yield curve scenarios: "Slide" = the bond yields slide along the unchanged yield curve, "Forward" = the yield curve evolves according to its embedded forward rates, "SB forecasts"= Standard Bank Research expectations

Asset class expected performance summary (3 months)

	FX	Rates	Credit
Angola	↓	↓	↓
Botswana	↑	→	
Côte d'Ivoire	↑	↑	↑ ↑
Democratic Republic of the Congo	↓	↓	
Egypt	↑ ↑	↑	↑ ↑
Ethiopia	↓	→	↑
Ghana	→	→	↑ ↑
Kenya	→	↓	↑
Malawi	↓	↓	
Mauritius	↑	→	
Morocco	↑	↑	↑
Mozambique	↓	↓	↓
Namibia	↑	↑	↑
Nigeria	↑	↑	↑
Rwanda	↓	↓	→
Senegal	↓	↑	↑
Tanzania	→	↓	→
Tunisia	↑	↑	↑
Uganda	↓	↑	
Zambia	↑	→	↑

Source: Bloomberg; Standard Bank Research

Recommended trades: performance

Open trades

Positions	Entry date	Entry yield, %	Entry FX	Latest yield, %	Latest FX	Total return, %	
						Since inception	1-month
Ghana: buy GHGB '20	31-Oct-16	20.00	3.99	16.61	5.76	24.3	1.7
Zambia: buy ZAMGB '26	18-Nov-16	24.50	9.81	35.11	18.03	-2.8	4.5
Egypt: buy Egypt '27	23-Nov-17	15.88	17.69	13.85	15.86	67.5	1.0
Uganda: buy Uganda '29	14-Oct-19	14.90	3700	15.65	3788	1.9	-1.1
Kenya: KenGB '29	08-Apr-20	12.10	106.00	11.91	107.05	2.2	1.0
Total portfolio internal rate of return since prev. AMR (15-Sep-2019)						**-5.8**	

Source: Bloomberg; Standard Bank Research

Angola: pandemic and low oil prices to prolong recession

Medium-term outlook: clouded by COVID-19 and an oil market in flux

Angola still has among the lowest rates of COVID-19 infection, with 52 confirmed cases, when the world count topped 5-m at the time of writing. COVID-19 nevertheless poses a large risk factor for Angola because the country has limited financial resources, poor health infrastructure, a poverty rate around 41%, and high inequality. The impact of the pandemic here will raise unemployment, last reported at 38.1% in 2019, thereby dampening the outlook for disposable incomes and consumer spending.

Maintaining the structural reform programme remains of critical importance so that Angola can reduce its dependency on oil. The programme, which is supported by the IMF, aims to improve governance and competition, reduce the size of the government and foster a private sector-led economic diversification. The oil sector accounts for 96% of exports, 65% of government revenues, and 33% of GDP.

In our base case we see the recession continuing this year and next as the recovery in net exports (Netex) expected cannot offset the negative impact of depressed general domestic expenditure (GDE) on low personal consumer spending, a tighter government budget, and subdued private investment. Due to both COVID-19 and soft oil, the economy only temporarily escapes recession by 2022 but with the risk of the recession lasting until 2023.

Our bull scenario anticipates real GDP to resume growth from Q2:21 onwards, still much lower rates than the 3.2% y/y population growth, which would result in a contraction in per capita real GDP.

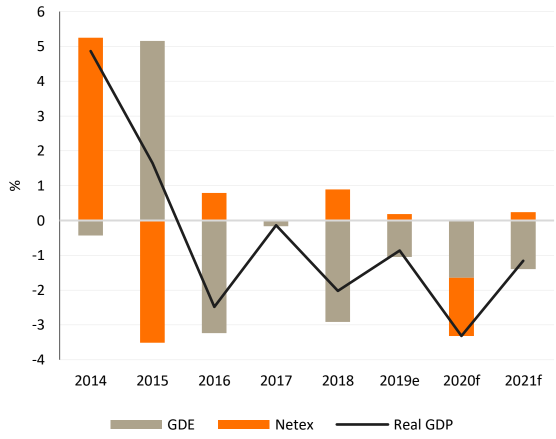
Our bear scenario sees real GDP annual contractions of 3.3% and 1.2% in 2020 and 2021, easing from 4.8% this year to 3.1% next year.

In our bull case, the economy grows by 0.5% y/y in 2021, from a recession of 0.8% y/y this year. Our base case assumes an average oil price of USD31.3/bbl for 2020 and USD31.8/bbl for 2021, slightly lower than the USD35/bbl assumed in the revised government budget which was cut from USD55/bbl. The bull case also assumes average oil prices of respectively USD36.4/bbl and USD41.8/bbl.

In our bear case, oil prices are at USD23/bbl and USD18.3/bbl.

The recent OPEC agreement sees Angolan oil exports capped at 1.18m bpd, lower than the average of 1.48m bd recorded in Apr when the price for the Angolan oil fell to USD26.75/bbl, Apr data shows oil exports at USD1.19bn, 55% lower than the 2019 average of USD2.62bn per month.

Composition of GDP by demand (ppts)



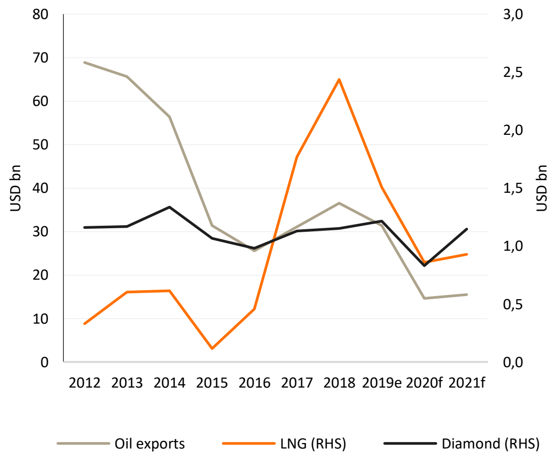
Source: Instituto Nacional de Estatística; Standard Bank Research

Contribution to GDP by sector

% of GDP	2010	2015	2019
Agriculture	3.8	4.3	4.7
Fisheries	1.6	2.5	1.9
Oil and Gas	43.0	38.1	31.5
Mining and Quarrying	2.0	1.8	2.0
Manufacturing	3.3	3.4	4.3
Electricity and Water	0.5	0.7	1.0
Construction	7.7	9.8	11.5
Trade	11.0	13.1	13.3
Transport and Storage	1.8	2.3	2.7
Communication	0.9	1.8	1.9
Financial Services	1.7	1.5	1.4
Property	4.6	4.7	5.6
Public administration	8.9	8.7	8.1
Other	9.2	7.3	10.3
Total	100.0	100.0	100.0

Source: Instituto Nacional de Estatística de Angola

Principal exports



Source: Banco Nacional de Angola; Standard Bank Research

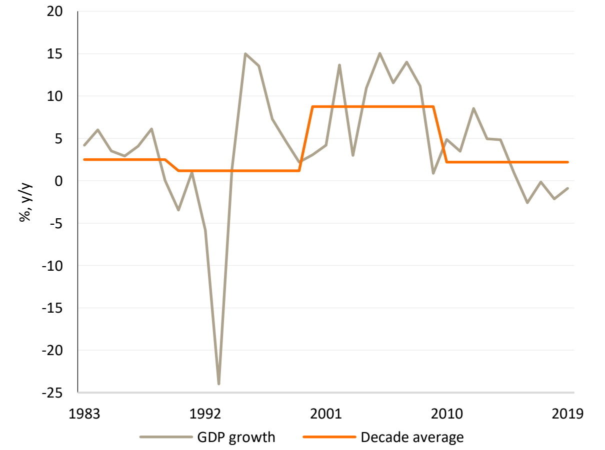
Medium-term economic growth scenarios

	Q1:20	Q2:20	Q3:20	Q4:20	Q1:21	Q2:21	Q3:21	Q4:21	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23
Base scenario																
GDP (% y/y) pa	-0.5	-4.9	-4.5	-3.3	-1.6	-0.9	-0.8	-1.2	1.0	2.9	3.3	2.4	-2.2	-2.8	-2.9	-2.6
CPI (% y/y) pe	19.6	23.1	27.7	30.6	29.8	27.8	23.8	21.1	21.9	22.0	20.8	18.5	16.2	14.9	14.7	14.9
BNA rate (%) pe	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5
3-m rate (%) pe	15.0	16.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0
6-m rate (%) pe	16.5	16.5	14.1	14.1	14.1	14.1	14.1	14.1	14.1	14.1	14.1	14.1	14.1	14.1	14.1	14.1
USD/AOA pe	536.7	602.4	667.8	719.6	759.2	800.9	844.9	891.4	932.1	974.7	1 019.2	1 065.8	1 098.0	1 131.3	1 165.6	1 200.9
Bull scenario																
GDP (% y/y) pa	-0.3	-4.4	-3.9	-2.8	-0.8	0.7	1.6	0.5	2.8	2.7	2.2	2.6	0.6	0.9	0.6	0.7
CPI (% y/y) pe	19.6	22.8	24.0	24.7	21.5	18.1	15.4	12.7	12.0	14.4	10.7	10.0	10.7	11.4	11.2	10.9
BNA rate (%) pe	15.5	15.5	15.5	15.5	15.5	15.5	15.5	14.5	14.0	14.0	14.0	14.0	13.0	12.5	12.5	12.5
3-m rate (%) pe	15.0	16.0	14.4	14.4	14.4	14.4	14.4	13.5	13.0	13.0	13.0	13.0	12.1	11.6	11.6	11.6
6-m rate (%) pe	16.5	16.5	14.9	14.9	14.9	14.9	14.9	13.9	13.4	13.4	13.4	13.4	12.5	12.0	12.0	12.0
USD/AOA pe	536.7	596.6	633.1	671.8	696.3	721.7	748.0	775.2	798.7	822.9	847.9	873.6	894.7	916.3	938.5	961.2
Bear scenario																
GDP (% y/y) pa	-1.1	-6.4	-6.9	-4.8	-3.6	-2.9	-2.8	-3.1	-0.9	-1.2	-2.7	-1.6	-6.1	-4.5	-2.9	-4.5
CPI (% y/y) pe	19.6	25.4	31.2	36.7	37.2	34.5	30.6	26.8	26.1	25.3	24.6	23.9	22.8	21.7	20.6	19.6
BNA rate (%) pe	15.5	16.0	16.5	17.5	18.0	18.5	18.5	18.5	18.5	19.0	19.5	19.5	19.5	19.5	19.5	19.5
3-m rate (%) pe	15.0	16.5	8.3	8.8	9.0	9.3	9.3	9.3	9.3	9.5	9.8	9.8	9.8	9.8	9.8	9.8
6-m rate (%) pe	16.5	17.0	9.9	10.5	10.8	11.1	11.1	11.1	11.1	11.4	11.7	11.7	11.7	11.7	11.7	11.7
USD/AOA pe	536.7	614.0	690.7	776.9	824.4	874.9	928.5	985.3	1 039.5	1 096.6	1 156.9	1 220.5	1 280.0	1 342.5	1 407.9	1 476.6

Source: Banco Nacional de Angola; Instituto Nacional de Estatística de Angola; Bloomberg; Ministério das Finanças; Standard Bank Research

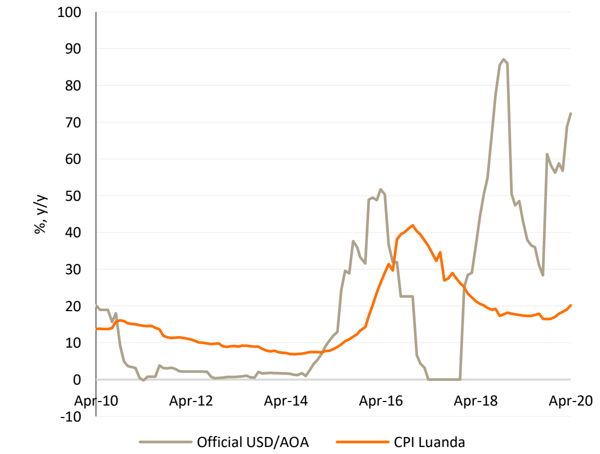
Notes: pa - period average; pe - period end

Long-term GDP performance



Source: Instituto Nacional de Estatística: Standard Bank Research

Annualised pace of change



Source: Banco Nacional de Angola; Instituto Nacional de Estatística; Standard Bank Research

Balance of payments: C/A deficit looms

The balance of payments (BOP) current account (C/A) will likely swing into a deficit of USD9.2bn (or 13.3% of GDP) this year, as the plummet in oil prices will likely see the value of merchandise exports at USD16.7bn, down from USD34.7bn in 2019. If merchandise imports are trimmed from USD14.1bn last year to USD12.3bn this year and USD10.4bn next year, the trade surplus eases from USD20.6bn in 2019 to USD4.3bn this year, improving to USD7.6bn next year as exports recover. Adding an expected net services deficit of USD7.1bn, down from USD7,5bn last year, the result is a trade deficit including services of USD1.9bn this year and a surplus of USD1.5bn next year.

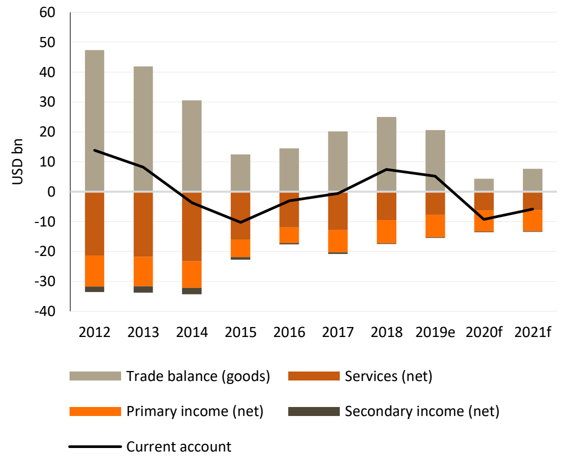
The BOP adjustment is likely to be painful as we expect BNA to continue to capitalise on substantial progress being already made through ongoing structural reforms towards a free-floating exchange rate regime which aims at eliminating the FX backlog and protecting FX reserves by moving away from an administrative setting, which ultimately could help encourage foreign direct investment, import substitution and economy diversification.

Even considering the trimming of imports, the magnitude of the BOP shock will likely require Angola to seek external financing, which could come in the form of a USD3.0bn Eurobond issuance per year and a restructuring of bilateral debt with China. Both options seem challenging.

Despite the uncertain outlook for the oil sector, we expect net foreign direct investment (FDI) inflows to turn into positive at USD3.18bn next year as some of the planned FDI in the oil sector for 2020 gets delayed to 2021. The government may also sweeten fiscal conditions to help attract further FDI.

We expect gross FX reserves to fall to USD11.6bn next year, with an import cover ratio around 8-m. The BNA started to report FX reserves data daily this month, reported at 15.9bn for 20 May, which helps ease uncertainty and build confidence.

Current account developments



Source: Banco Nacional de Angola; Standard Bank Research

FX reserves

Source: Banco Nacional de Angola; Standard Bank Research

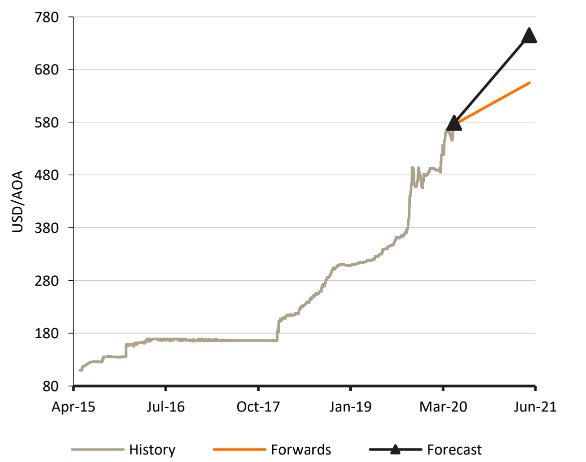
FX outlook: USD/AOA further up

The USD/AOA is likely to continue to rise. Our base case sees the USD/AOA closing at 719.6 this year, rising by 49.2% y/y, from 56.3% y/y last year and 86% y/y in 2018 when FX reforms started.

The USD/AOA pair was trading at an official level of 574.4 at the time of writing, with the parallel market at an average of USD/AOA619.4 which represents a spread of 7.8%, a substantial decline from above 30% recorded until Oct 19. The maximum FX rate in the parallel market at USD/AOA705.1 still shows a spread of 22.8% against the official FX rate.

The USD/AOA raise helps trim imports and stabilize FX liquidity in a more efficient and sustained manner than administrative measures. In combining this with local currency liquidity management, the BNA aims to manage the BOP shock.

USD/AOA: forwards vs forecasts



Source: Bloomberg; Standard Bank Research

Monetary policy: limited space for easing

Given the magnitude of the BOP and fiscal pressures facing Angola, which can cause inflation to rise, we do not see the BNA cutting policy rates anytime soon, even if this was a measure taken by most central banks globally to help their economies deal with COVID-19.

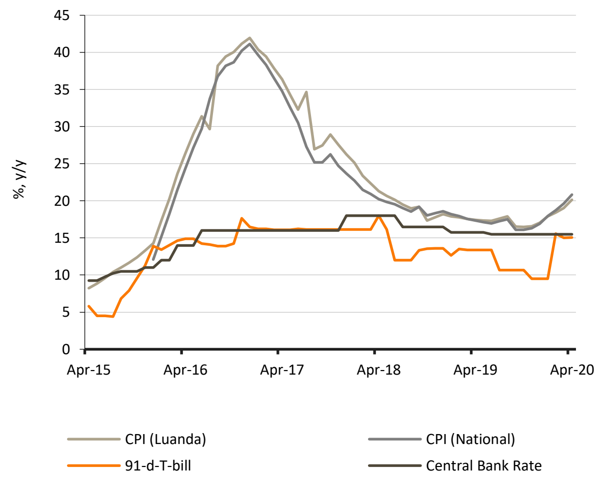
Given the weak interest rate transmission mechanism, we are likely to see the BNA focusing on liquidity management using open-market operations. Since COVID-19 was declared a pandemic, BNA Monetary Policy Committee has focused on delivering mechanisms to improve the supply of local currency liquidity to companies through the discount of government securities.

Our base case assumes the BNA rate at the current level of 15.5% for the entire forecast period, consistent with the view that BNA will likely continue to seek a consolidation of ongoing reforms to normalize the FX market and avoid a return to an administrated FX rate regime. It means the BNA will likely allow for real interest rates to deepen into negative territory as inflation maintains an upward trend.

Keeping policy rates steady would provide relief to both business and families already with poor balance sheets and depressed disposable incomes from the four-year recession.

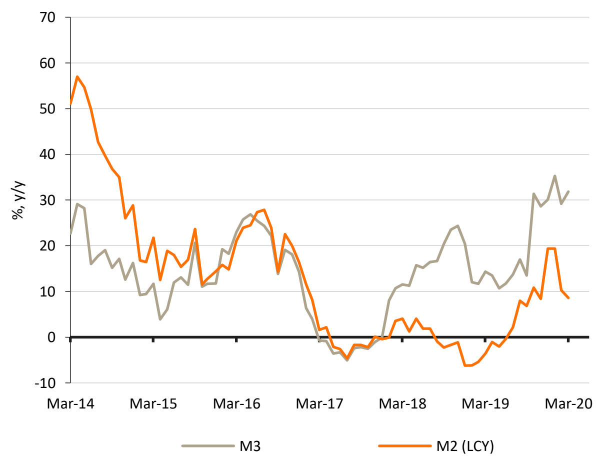
Inflation data continues to show a limited passthrough effect from the FX rate. This could change as both official and parallel FX rates reach new highs. Our base case sees inflation at 30.6% y/y by year-end, easing to 21.1% next year, with the 12-m average at 24.3% y/y this year and accelerating to 26.2% y/y next year on base effects. As per the latest INE report, inflation was 20.1% y/y in Luanda and 20.8% y/y at national level in Apr, with the 12-m average at 17.7% in both cases. This denotes prices increases across the main categories of the CPI basket, including the food items. The need to progress with fuel subsidy reform adds to inflation expectations.

Inflation and interest rates



Source: Banco Nacional de Angola; Instituto Nacional de Estatística; Standard Bank Research

Money supply growth



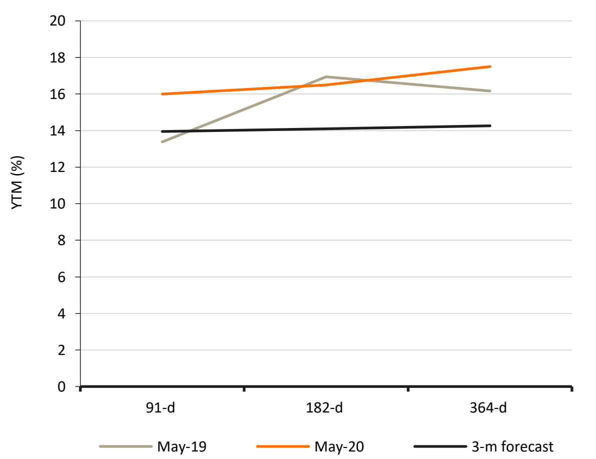
Source: Banco Nacional de Angola; Standard Bank Research

Yield curve outlook: downward shift in view

We still foresee downward pressure on yields across the curve this year. Even considering that the government will likely increase the domestic supply of paper, thanks to a larger fiscal deficit, the market will experience moments of high supply of local currency liquidity as some government debt matures but with limited investment options.

As a result, the government could use this as an opportunity to fund the deficit at lower interest rates. This is demonstrated by both our base and bear cases where T-bills travel in an opposite direction to inflation. Latest data available reported to Apr shows the T-bill stock down by 60.8% y/y, to AOA204.6bn (USD367m), with the stock of government bonds up by 36.2% y/y, to AOA11,060.0bn (USD3.6bn), as the government increases the maturity profile of domestic debt.

Changes in the yield curve



Source: Banco Nacional de Angola; Ministério das Finanças; Standard Bank Research

Fiscal policy: deficit likely

It is unlikely that the government will be able to generate a fiscal surplus this year. Our expectation is for a deficit of 2.1% of GDP, partially funded by the usage of USD1.5bn from the Sovereign Fund, with a deficit of 2.6% of GDP next year.

The sharp decline in oil prices forced the government to propose a revision of the 2020 budget. The 2020 original budget targeted a fiscal surplus of 1.2% of GDP, so we look to the new target as the budget revision document becomes available. Provisional data shows that fiscal performance since 2018 has been remarkable, breaking away from large fiscal deficits.

However, the impact of lower oil prices on fiscal revenues will be material. After all, the oil sector still accounts for about 65% of fiscal revenues. The ongoing privatization programme will only contribute to revenues in time. Therefore, expect borrowing requirements to rise, both domestic and external.

Ongoing structural reforms continue to take shape as President João Lourenço cuts the size of the government by reducing the number of ministries and encouraging a number of initiatives to raise fiscal revenues outside the oil sector and to cut both recurrent and investment expenditure.

The positive track record on the current programme with the IMF bodes well for Angola. Revision of some of the program metrics is probably inevitable. After all, given the current challenges both domestic and external borrowing requirements, will inevitably rise.

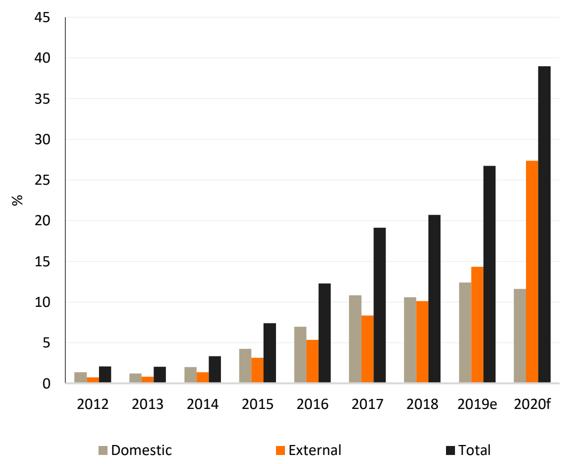
Tapping into Eurobonds and pursuing a restructuring of the sovereign debt with China are likely to be considered. There is already pressure from high debt service ratios that would need to be managed. The overall interest bill could rise to 40% of revenues. Under the original budget, the debt service (interest plus principal) to GDP ratio was at 113%, from 91% in 2019 and 100% in 2018.

Central government budget

	2018	2019	2020
% of GDP	Actual	Estimate	Initial budget
Revenues	22.0	19.6	20.4
- Oil	14.0	11.7	13.2
Expenditure	20.0	19.6	19.2
- Wages	5.8	5.9	5.3
- Interest	4.6	5.2	5.9
- Capital	4.5	3.4	3.2
Overall balance (commit.)	2.0	0.0	1.2
Changes in balances	-3.2	0.0	0.0
Overall balance (cash)	-1.2	0.0	1.2
Net domestic financing	-1.7	-1.6	-5.3
Net external financing	2.9	1.6	4.1

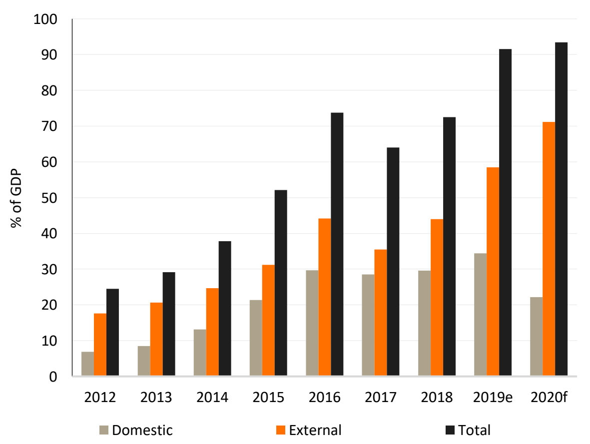
Source: Ministry of Finance; Standard Bank Research

Interest expenditure to revenue



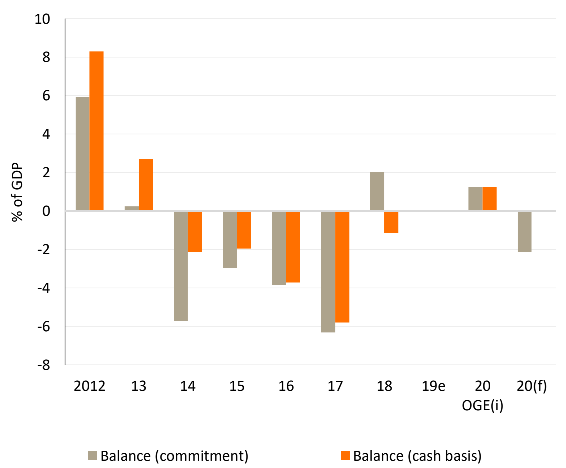
Source: Ministério das Finanças; Standard Bank Research

Public debt to GDP



Source: Ministério das Finanças; Standard Bank Research

Fiscal balance



Source: Ministério das Finanças; Standard Bank Research

Annual indicators

	2015	2016	2017	2018	2019e	2020f	2021f
Output							
Population (million)	26.6	27.5	28.3	29.3	30.2	31.1	32.1
Nominal GDP (AOA bn)	13 781.8	16 459.0	20 262.0	26 605.9	30 535.7	42 407.4	53 562.0
Nominal GDP (USD bn)	114.8	100.6	122.1	105.2	83.7	69.5	66.2
GDP / capita (USD)	4 314.5	3 661.7	4 308.6	3 597.3	2 773.7	2 231.5	2 060.3
Real GDP growth (%)	1.6	-2.5	-0.1	-2.0	-0.9	-3.3	-1.2
Oil production ('000 bpd)	1 721	1 675	1 577	1 418	1 319	1 263	1 335
LNG production ('000 000 BOE)	0	14	69	42	51	55	59
Diamond production ('000 Q)	8 205	7 934	9 753	7 993	8 535	8 279	8 179
Central Government Operations							
Budget balance (commitment) / GDP (%)	-3.0	-3.9	-6.3	2.0	0.0	-2.1	-2.6
Budget balance (cash basis) / GDP (%)	-2.0	-3.7	-5.8	-1.2	0.0	0.0	-2.6
Domestic debt / GDP (%)	21.4	29.7	28.5	29.6	34.4	22.2	19.6
External debt / GDP (%)	31.2	44.2	35.5	44.0	58.4	71.2	75.2
Overall public debt/GDP (%)	52.6	73.8	64.1	73.6	92.8	93.4	94.9
Balance of payments							
Exports of goods (USD bn)	34.4	28.3	35.6	41.4	35.2	17.1	18.5
Imports of goods (USD bn)	-38.0	-25.7	-28.3	-25.9	-22.3	-19.0	-17.0
Trade Balance	-3.5	2.6	7.3	15.5	12.9	-1.9	1.5
Current account (USD bn)	-10.3	-3.1	-0.6	7.4	5.1	-9.2	-5.9
- % of GDP	-8.9	-3.1	-0.5	7.0	6.1	-13.3	-8.9
Capital & Financial account (USD bn)	8.4	5.3	-4.3	-8.2	-3.2	5.8	3.9
- FDI (USD bn)	10.8	-0.5	-8.7	-6.5	-1.7	-3.1	3.8
Basic balance / GDP (%)	-1.6	2.2	-4.0	-0.8	2.3	-5.0	-3.0
Gross FX reserves (USD bn) pe	24.4	24.4	18.2	16.2	17.2	13.9	11.6
- Import cover (months) pe	7.7	11.4	7.7	7.5	9.3	8.8	8.2
Sovereign Credit Rating							
S&P	B+	B	B-	B-	B-	CCC+	CCC+
Moody’s	Ba2	B1	B2	B3	B3	B3	B3
Fitch	B+	B	B	B	B	B-	B-
Monetary & Financial Indicators							
Consumer inflation (%) pa		30.4	30.4	19.7	17.1	24.1	26.4
Consumer inflation (%) pe	12.1	41.1	23.7	18.6	16.9	30.6	21.1
M2 money supply (% y/y) pa	11.0	20.9	-0.9	16.2	17.3	30.0	18.9
M2 money supply (% y/y) pe	11.8	14.4	-0.1	20.4	30.2	25.0	15.0
BNA rate (%) pa	9.94	14.83	16.33	17.25	15.58	15.50	15.50
BNA rate (%) pe	11.00	16.00	18.00	16.50	15.50	15.50	15.50
3-m rate (%) pe	13.9	16.5	16.2	13.6	9.5	14.0	14.0
6-m rate (%) pe	15.0	24.1	20.2	17.1	12.0	14.1	14.1
12-m rate (%) pe	12.6	24.7	23.9	19.0	14.7	14.3	14.3
USD/AOA pa	120.0	163.7	165.9	252.9	364.8	610.5	809.6
USD/AOA pe	135.3	165.9	165.9	308.6	482.2	719.6	891.4

Source: Banco Nacional de Angola; Instituto Nacional de Estatística de Angola; Bloomberg; Ministério das Finanças; Standard Bank Research

Notes: pe – period end; pa –a period average

Glossary

For brevity, we frequently use acronyms that refer to specific institutions or economic concepts. For reference, below we spell out these and provide definitions of some economic concepts that they represent.

14-d	14-day, as in 14-d deposit, which denotes 14 day deposit
10-y	10-year
16 Jan 13	16 January 2013
3-m	3 months
3m	3 million, as in USD3m, which denotes 3 million US dollars
3bn	3 billion, as in UGX3bn, which denotes 3 billion Ugandan shillings
3tr	3 trillion, as in TZS3.0tr, which denotes 3 trillion Tanzanian shillings
AOA	Angola Kwanza
BAM	Bank Al Maghrib
BCC	Banque Central du Congo (Central Bank of Congo)
BCEAO	Banque Central des États de L'Afrique de l'Ouest (Central Bank of West African States)
BCT	Banque Central de Tunisie
BM	Banco de Moçambique
BNA	Banco Nacional de Angola
BOB	Bank of Botswana
BOG	Bank of Ghana
BOM	Bank of Mauritius
BON	Bank of Namibia
BOP	Balance of payments – a summary position of a country's financial transactions with the rest of the world. It encompasses all international transactions in goods, services, income, transfers, financial claims and liabilities.
BOT	Bank of Tanzania
BOU	Bank of Uganda
BOZ	Bank of Zambia
BR	Bank Rate (Reserve Bank of Malawi)
BRVM	Bourse Régionale des Valeurs Mobilières (Regional Securities Exchange)

BWP	Botswana Pula
C/A	Current account balance. This is the sum of the visible trade balance and the net invisible balance of a country. The latter includes net service, income and transfer payments.
Capital account	Captures the net change in investment and asset ownership for a nation by netting out a country's inflow and outflow of public and private international investment.
CBE	Central Bank of Egypt
CBK	Central Bank of Kenya
CBR	Central Bank Rate
CDF	Congolese Franc
CPI	Consumer Price Index – An index that captures the average price of a basket of goods and services representative of the consumption expenditure of households within an economy.
Discount rate	Policy rate for Bank of Uganda
Disinflation	A decline in the rate of inflation. Here prices are still rising but with a slower momentum.
Disposable income	After tax income
DM	Developed markets
ECB	European Central Bank
EGP	Egyptian pound
EM	Emerging markets
ETB	Ethiopian Birr
Eurobond	A bond denominated in a currency other than the home currency of the issuer.
Exports	The monetary value of all goods and services produced in a country but consumed broad.
FMDQ	FMDQ OTC Securities Exchange, Nigeria
FX	Foreign Exchange
FY2016/17	2016/17 fiscal year
GCE	Government Consumption Expenditure - Government outlays on goods and services that are used for the direct satisfaction of the needs of individuals or groups within the community. This would normally include all non-capital government spending.
GDE	Gross domestic expenditure, the market value of all goods and services consumed in a country – both private and public – including imports but excluding exports. This is measured over a period of time – usually a quarter/year.

GFCF	Gross Fixed Capital Formation – this is investment spending, the addition to capital stock such as equipment, transportation assets, electricity infrastructure, etc to replace the existing stock of productive capital that is used in the production of goods and services in a given period of time, usually a year/quarter. Normally, the higher the rate of capital, the faster an economy can grow.
GDP	Gross Domestic Product – the monetary value of all finished goods and services produced in a country in a specific period, usually a year/quarter.
GHS	Ghanaian Cedi
H1:16	First half of 2016
Imports	The monetary value of goods and services produced abroad and consumed locally.
Inflation	The rate at which the general level of prices of goods and services are rising. It is usually measured as the percentage change in the consumer price index over a specific period, usually a month/year.
Invisible trade balance	The value of exports of services, income and transfers, less imports of same.
Jan 16	January 2016
KBRR	Kenya Bankers' Reference Rate
KES	Kenya Shilling
KR	Key Rate (Bank Al Maghrib)
KRR	Key Repo Rate
m/m	Month on month, in reference to a rate of change
MAD	Moroccan Dirham
MLF	Marginal Lending Facility
MOF	Ministry of Finance
MPC	Monetary Policy Committee, the committee that makes the decision on policy rates
MPR	Monetary Policy Rate
MUR	Mauritian Rupee
MWK	Malawian Kwacha
MZN	Mozambican Metical
NAD	Namibian Dollar
NBE	National Bank of Ethiopia
NBR	National Bank of Rwanda

NEER	Nominal Effective Exchange Rate. This is the weighted average rate at which a country's currency exchanges for a basket of currencies, usually trading partner currencies. It is measured in index format.
NGN	Nigerian Naira
Nominal GDP	The monetary value of all finished goods and services produced in a country in a specific period, usually a year/quarter, measured in current prices.
NPL	Non-Performing Loans
Parity	Refers to the par or nominal value of a debt instrument. This is usually the price at which the said instrument is redeemed on maturity.
PCE or HCE	Personal or Household Consumption Expenditure: The monetary value of household purchases of durable goods, non-durable goods, semi durables and services within a given period of time, usually a year/quarter.
PR	Policy Rate
Prime rate	key lending rate
q/q	quarter on quarter, in reference to a rate of change
Q1:16	First quarter of 2016
RBM	Reserve Bank of Malawi
Real GDP	The monetary value of all finished goods and services produced in a country in a specific period, usually a year/quarter, measured in constant prices.
REER	Real Effective Exchange Rate. This is the weighted average rate at which a country's currency exchanges for a basket of currencies - usually trading partner currencies – while taking into account any changes in relative prices between the host country and its trading partners. It is often measured in index format.
RWF	Rwandan Frank
SARB	South African Reserve Bank
SDF	Standing Deposit Facility (Mozambique)
SLF	Standing Lending Facility (Mozambique)
T-bill	Treasury bill – A short-dated, government backed security that yields no interest but is issued at a discount over a period of less than one year.
TND	Tunisian Dinar
Treasury bond	A marketable government debt security with a maturity of a year or longer
TZS	Tanzanian Shilling
UGX	Uganda Shilling
USD	US Dollar

VAT	Value Added Tax
Visible trade balance	The value of exports of visible goods less imports.
WAEMU	West African Economic and Monetary Union, also known as Union Economique et Monetaire Ouest Africaine (UEMOA)
XAF	Central African Franc
XOF	West African Franc
y/y	Year on year, in reference to a rate of change
Yield	The return on an investment, usually expressed as a percentage over a period of time, usually a year.
YTD	Year to date
ZAR	South African Rand
ZMW	Zambian Kwacha

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