

ANGOLA UPDATE

The Kwanza Blues

On Dec. 29th Rhombus alerted clients that a general strike at TCUL (Luanda’s mass transit corporation), had brought the city to a virtual standstill, the 1,900 workers demanding the ‘prompt’ settlement of a staggering nine months of salary arrears. In our view, **this level of delinquency strongly suggested that Angola’s oil-dependent fiscus was under even greater pressure than Ghana’s¹.**

More specifically, **we warned that a significant currency adjustment would be a logical response to such fiscal distress, especially given the 100% premium at which USD was then trading on the parallel market vs. the official rate of AOA135.25.**

On Jan. 4th, the central bank devalued the Kwanza by 13% to 156.386, as illustrated below.



1) Yet even after this move, **the Kwanza’s official rate implied a premium of 72% vs. the parallel market.** It was therefore no surprise to see the official rate gap up to 158.75 today – and stay there until the authorities intervened to ensure that the market closed no weaker than its opening level of Kz155.51.

The hope in Luanda - as in Lagos - must be that the House of Saud escalates the ongoing proxy war against Iran – anything to revive the grim price outlook for oil. Alas, **the odds are decisively weighted in favour of further devaluation(s).**

¹ Ghana has been sub-Saharan Africa’s poster-child for fiscal imbalance since 2008, having run budget deficits in, or approaching double digits in almost every year thereafter.

2) Meanwhile, doubling down on those Chinese loans, Angola has obtained **another USD 6 billion in credit lines from the Middle Kingdom's official-sector lenders**². The package clearly marks a follow-through from President Dos Santos' official visit to Beijing last June, during which infrastructure development and finance featured prominently on the agenda.

Once funded, the new credits will bring **Angola's total exposure to China to a reported USD 20 billion** – almost all of which is assumed to be secured by a pledge of future oil and/or mineral export proceeds. Unfortunately for Luanda, **these liabilities would not be covered by the provisions of the agreement**³ to **accept each other's currency for settling trade-related transactions**.

3) Not having looked at the Luanda money-market sector for a while, one was fascinated to see that the **yields on Bilhetes do Tesouro are back at 13.90%, 14.95% and 15.95%**, for 91, 182 and 364 days, respectively. Rhombus clients will recognize these levels as those at which **we made history almost exactly a decade ago, executing the first ever trades in this market by offshore investors**⁴.

The image shows a scanned document titled "LICENÇA DE IMPORTAÇÃO DE CAPITAIS" (Capital Importation License) for a value of USD 10,000,000. The document is filled out with details for "BANCO AFRICANO DE INVESTIMENTOS" and "INVESTIMENTOS L.P.". It includes sections for "CREDITO EXTERNO" (External Credit) and "BANCOS AVALISTAS" (Rating Agencies), with various fields for interest rates, terms, and conditions. The document is signed and dated 03/01/16.

More note-worthy, from an analytical perspective, are the medium-term *Obligações do Tesouro*⁵ currently yielding between 7.00% and 7.75%. Clearly, **the dominant trade would be to go long the sovereign eurobond**⁶ and get paid 10.75% p.a.

² Approximately three quarters of this amount being earmarked for a major power project, the 2,717 mWh Caculha Cabaça Hydro project to be constructed by the China Gezhouba Group Co Ltd. on the Rio Cuanza in the province of Cuanza Norte.

³ According to central bank governor José Pedro Morais, quoted in "Angola and China will accept national currencies in bilateral trade", posted by [MacauHub](#) on October 13, 2015.

⁴ i.e. Kwana-denominated Treasury bonds, indexed to the US Dollar, with yields of 7.00%, 7.25%, 7.50% and 7.75% for 2, 3, 4 and 5 yrs respectively.

⁵ As attested to by *Licença de Importação de capitais* #DCC/DCEX/01/01/06, a scanned copy of which appears above.

⁶ i.e. the Republic of Angola 9.5s, due 2025; current px 92.72.

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