

NEWS BUSINESS



DOLLAR REVIEW
ALY KHAN SATCHU

The End Zone and the Mighty Dollar

The end zone in American football is where a football team scores. Some teams will start the move near their own end zone and string a sequence of moves to get to the opponent's end zone. Occasionally, a team will throw a "hail-mary" pass and make a score out of nowhere.

The dollar had been in a precipitous decline in 2017 and until last week had crashed about 12 per cent lower versus the euro and as an index [against a basket of currencies] was down 11 per cent. The \$5.1 trillion (Sh529.74 trillion) a day foreign exchange markets [the most liquid market in the world] had watched incredulously as Washington metastasized into a new epicentre of global uncertainty and as the special prosecutor Robert Mueller the third's hot breath could be felt on President Trump's collar. President Trump is a unique individual but his twitter account gives us surgical and real-time insights into his mental state. President Trump had drawn a "red line" with respect to the special prosecutor in a New York Times interview where he had said 'probing his business and his family's financial dealings would be a "violation." Last week, we learnt this red line has been crossed.

Any financial expert will tell you that President Trump's financial affairs are a "smoking gun." Deutsche Bank loans were surely "mirror" transactions, where Deutsche Bank was a commission agent interposed between Trump and the real lender. All those sales where Trump proclaimed himself a "genius" because they were so off-market, we would all be incredulous, were essentially just that "incredible". There is a prima facie case here and its in plain sight. President Trump knows it and that's why he has been demanding Al Pacino [a la Martin Scorsese's godfather] style demands of loyalty from the likes of the now dispensed with FBI director James Comey.

What was interesting last week is that the dollar picked itself off the floor and we witnessed a rebound into the end of the week. Its nascent but it was noteworthy. It was as if the FX markets had reached the conclusions that it is all in the price now, maybe not an impeachment but pretty much everything else is baked into the price of the dollar.

The dollar is the elephant in the room [financial markets]. This week we will need to study it closely for the signals that it emits.

I think the rebound will gather strength because just about everyone has been lulled into a sense of security. And that the dollar which was deep in its end-zone has just thrown a hail-mary pass, which is set to make up a lot of ground.

Aly-Khan Satchu is a financial analyst



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BLACK GOLD

Uganda, Tanzania start work on construction of \$3.5bn oil pipeline

REUTERS / The leaders of Tanzania and Uganda laid a foundation stone on Saturday for the construction of a \$3.55 billion crude export pipeline that would pump Ugandan oil for international markets.

The 1,445 km-project - set for completion by 2020 - will stretch from landlocked Uganda's western region, where crude reserves were discovered in 2006, to Tanzania's Indian Ocean seaport of Tanga.

The project will become "the longest electrically heated crude oil pipeline in the world," said Guy Maurice, Senior Vice President of Africa at

Total Exploration and Production.

Total is one of the owners of Ugandan oilfields, alongside China's Cnooc and Britain's Tullow Oil.

Tanzanian President John Magufuli, flanked by his Ugandan counterpart Yoweri Museveni, urged the three joint venture partners to speed up construction of the pipeline.

"We don't need to delay the completion of the project for almost three years. They can do it even night and day to ensure the project is completed as quickly as possible," Magufuli said.

"Act with big speed and make sure you finish this project before 2020."

Uganda estimates overall crude reserves at 6.5 billion barrels, while recoverable reserves are seen at between 1.4 billion and 1.7 billion barrels.

Kampala said it picked Tanzania over its other neighbour Kenya as the route for the proposed 24-inch export pipeline because it was a "least cost and least risky" option.

"Tanzania offered several concessions to make the pipeline profitable in spite of the falling global crude oil prices," said Museveni. Tanzania agreed to waive taxes, offered to take up shares in the pipeline project and charge a tariff of \$12.2 per barrel to make the project feasible, he said.



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T-bills deprive private sector of funds at NSE

Government participation in the bond market has resulted in crowding out access to domestic funds by the private sector

CYNTHIA ILAKO
@LadyKanyali



The Treasury bond market has continued to outdo the corporate bond market reducing private sector access to domestic funds, the Capital Markets Authority has said.

In its quarter-two capital markets soundness report, CMA said that the government bond issuance has been significantly higher than corporate bonds which have only registered one issuance by East African Breweries Limited in 2017.

"The active Government participation in the bond market has effectively resulted in crowding out access to domestic funds by the private sector," the report stated.

CMA, in the report, said that the crowding out has also resulted in reduced potential opportunities in the

debt market for companies facing challenges in accessing credit due to the interest rate cap effected in September 2016.

CMA said that in light of the rate cap, significant amounts of bank liquidity have been parked in government debt backed by comparatively high interest rates available on risk free government debt. This, the authority said has crunched available private sector credit.

Analysts at Cytonn Investments said in a weekly report that institutions are now channeling funds more actively towards government securities due to the attractive risk return proposition on T-bills relative to loans.

The report showed that yields on the 91, 182 and 364-day T-bills declined marginally during the first half of 2017 closing at 8.3 per cent, 10.3 per cent and 10.9 per cent from 8.6 per cent, 10.5 per cent, and 11.0 per

cent respectively last year.

"During the first half of 2017, T-bills auction recorded an oversubscription, with subscriptions level coming in at 263.2 per cent from 174.5 per cent in the second half of 2016," Cytonn said based on data for the six months ending June 30.

The Central Bank of Kenya on Friday announced the sale of the five-year and 10-year bond that seeks to raise Sh30 billion. This is a month after the debut launch of the M-Akiba bond on June 30.

In a statement, CBK, the government's fiscal agent, said it would receive bids for the two benchmark bonds between August 7 and 22 and auction the bond on August 23.

CBK said the five-year bond will have a market-determined coupon, while the reopened 10-year bond has a 12.966 percent coupon. The bonds will be listed on the Nairobi Securities Exchange.

Capital Market Authority chief executive Paul Muthaura at the launch of the M-Akiba, a retail government bond traded exclusively through a mobile handset on June 30, 2017.

/ENOS TECHE