NEWS BUSINESS

ELECTION TURMOIL

Private sector bounces back but GDP expansion still unable to achieve ideal

Solid improvement but business took slight dive during the third quarter as firms adjusted to taxes imposed byFinance Act 2018

Central Bank of Kenya Governor Patrick Njoroge during an update on Chase Bank receivership in Nairobi on January 12 / ENOS TECHE

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Private sector activity rebounded in 2018 as the macroeconomic environment stabilised following a turbulent election year and a jittery aftermath.

Strong growth was reported in manufacturing, agriculture, electricity and water supply, transport and storage as well as wholesale and retail trade due to economic expansion.

The National Bureau of Statistics shows the economy grew by 6.3 per cent between March and June. It cited favourable weather conditions backed by a fairly stable macroeconomic environment. This was 1.6 per cent growth compared to the 4.7 per cent GDP growth recorded the same period last year.

KNBS data shows that in the first half of the year agriculture contributed Sh1.67 trillion to the economy, manufacturing Sh349.41 billion, transport and storage Sh323.54 billion. Wholesale and retail trade accounted for Sh311.46 billion.

"Accommodation and food service and Information and communication recorded the highest growths of 15.7 per cent and 12.6 per cent, respectively in the quarter under review," the report stated.

Inflationary prices were also well under the Central Bank target ranging between 2.5 and 7.5 per cent. From January to November, the average recorded inflation stood at 4.6 per cent nearly half the rate recorded over the same period last year at 8.34 per cent.

This resulted in an overall improvement in business activity as firms were able to easily access raw material and in turn reduce operational costs. There was also increased demand for goods both locally and in the foreign market which drove up firms' output.

Private sector activity however took a slight dive during the third quarter of the year as firms readjusted their business models to new taxes imposed under the Finance Act 2018, especially the eight per cent Value Added Tax on fuel products.

"The decline in the PMI in the third quarter, we largely believe was due to wanning business confidence and enhanced anxiety owing to the new fiscal year tax measures that were introduced, weighed on economic activity," Stanbic economist Jibran Qureishi said.

Stanbic Bank's Purchasing Managers' Index shows the country's private sector completed a full year of growth with November PMI recorded at 53.1. Although this was a slight dip from 54 in October,the report shows it was still a solid improvement.

"Costs remained relatively muted despite the Michuki transport rules which had raised costs earlier in the month as electricity and food prices declined," Qureishi said.

The private sector still had to grapple with poor credit access over the year as the law capping interest rates on commercial loans was retained.

However, data by the Central Bank shows that all though banks remained tough on private sector lending, there was a significant improvement.

Lending to private firms grew 4.4 per cent in the 12 months to October compared to a two per cent growth recorded in the same period last year.

"Private sector credit growth was driven by strong growth in manufacturing, business services, finance and insurance, and building and construction, which grew by 14.9, 12.4, 9.1 and 7.2 per cent respectively," Central Bank governor Patrick Njoroge said during the MPC meeting held on November 27.

He added more growth was expected with the continued expansion of the economy. Stanbic upgraded its 2018 GDP estimate for Kenya to 5.8 per cent from 5.6 per cent previously supported by continued stability in private sector growth.

MARKET REPORT
ALY KHAN SATCHU

Annus horribilis [Cash is King]

Vinod Khosla who bagged a billion or two Dollars at Sun Microsystems [When I arrived on the Trading Floor at Credit Suisse First Boston in the early 1990s every computer was a Sun Microsystems Computer] said

"The Future is not seen in the rear view Mirror."

In my last article, we looked in the rear view Mirror, we remembered The Queen who said in 1992

"1992 is not a year on which I shall look back with undiluted pleasure. In the words of one of my more sympathetic correspondents, it has turned out to be an annus horribilis"

Subsequent to that article, The US markets swooned and served up the worse Christmas since 1931 [I think]. President Trump was holed up in the White House [except for a short visit to Iraq]

"He's trapped," Murphy told the Washington Post . "He's playing poker holding two threes and suddenly putting all of his chips in. It's pure emotion, the mark of a panicking amateur."

Nancy Pelosi mocked Trump's ultimatum "Now he's down to, I think, a beaded curtain or something, I'm not sure where he is."

The thing is a New Year beckons and what I recall is that January is the month for Bargain-hunting. So lets try and peer into the Future

What is a "Known Known" is that Trump-related political volatility is surely a Buy into 2019. Prediction markets have Impeachment before the end of the first term at 50%. Markets down-shifted interest rate expectations in the US in the run up to the end of the year. The US Fiscal story is popping over the radar. The US Dollar whilst seeing its share of global FX reserves fall to 61.9% an almost 5 year Low, is still the Elephant in the room.

A strong Dollar is the equivalent of administering a Caning when it comes to Emerging and Frontier markets. The direction of the Dollar is therefore pivotal. I am increasingly in a minority but I expect the Dollar to strengthen about 10% through 2019. Folks are keenly looking for chinks in the US Economy.

If the US Economy slows, I can guarantee you the Rest of the World will slow further.

After quaffing Malbec wine with their Argentine Sirloin steaks in what was a widely anticipated "Truce" Dinner, the markets will be watching developments very carefully. The Trajectory of the Tariff War is another pivotal Curve to keep an eye on in 2019. China has been delaying some data releases and high frequency satellite level data confirms a sharp slow-down in the Chinese Economy which has yet to be seen in official data points.

The Financial Times is reporting that Juncker is telling the UK to 'get act together' on Brexit. The UK remains a political conundrum. The recalcitrant Jeremy Corbyn refuses to pivot on Brexit and surge into 10 Downing Street on a "Youthquake" wave.

Prime Minister Theresa May who came to Africa and danced in 2018 is still there like Geoffrey Boycott and that of itself is an achievement. The Pound has not priced in a hard Brexit nor has the Euro.

Europe remains off balance. The French have always been prone to take to the Streets but President Macron clearly has to deal with things with plenty of finesse, now. President Putin is snapping at the edges and his European Portfolio continues to grow.

The new Certainty seems to be Uncertainty.

Commodity Markets are also a natural cleavage. Crude Oil slumped coincident with the Khashoggi incident and has been in Free-Fall. Crude Oil is a big Pivot for 2019. The esoteric Carbon Credit markets were the best performing commodity in 2018 adding more than 200%.

Emerging and Frontier markets endured a torrid 2018 well with some exceptions, Jamaica interestingly was a Stand Out. African Eurobond Yields [$81b issuance in the last 4 years] soared to 4 year highs. Credit Cards are maxed out just as the interest rates are being dialled higher is what is called a "double whammy".

President Kenyatta made a comparison between Japan [Debt-to-GDP] and Kenya's but the crucial point is this, Japan pays 0% for borrowings out to 10 Years. I like 30 year maturity African Eurobond Paper not necessarily at todays closing levels. Double Digit Yields will be difficult to resist after sifting through the credit risk. You might consider putting together a Portfolio and leveraging it 50%. 30 Years is a long enough Off-Ramp to get our Ducks in a row.

In my next article, I will look into my Conviction Trades for 2019.

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Harvard Business Review

TIP OF THE DAY

THE SOLUTION TO A TOUGH PROBLEM ISN'T TO OVERTHINK IT

We all like to consider ourselves smart, but raw intelligence isn't everything. When we get stuck on a problem, sometimes it's because we're overthinking it. Pay attention to when focused thinking isn't getting you anywhere; perhaps it has turned into obsessing over the same answers or approaches. Consider whether experimenting with a new strategy or talking ideas through with others might be more likely to result in success. Take breaks to let your brain relax and get unstuck. Expand your range of skills for reaching insights and coming up with new ideas; don't be someone who sees every problem as a nail because your only tool is a hammer. And when you do find yourself ruminating, disrupt it by doing a few minutes of an absorbing activity, such as a puzzle. This can be a surprisingly effective way to break your brain out of a rut.