Where Meteorology intersects with Monetary Policy

About this time of year, I would park myself on the Verandah at the Mombasa Club and search for the sea breeze. Later I would learn that I was in fact sniffing the sea breeze for Petrichor [Petrichor (/ˈpɛtrk□ ɔər/) is the earthy scent produced when rain falls on dry soil]. The word is constructed from Greek πέτρα petra, meaning "stone", and ἰχώρ īchōr, the fluid that flows in the veins of the gods in Greek mythology Wikipedia]. According to Wikipedia, Some scientists believe that humans appreciate the rain scent because ancestors may have relied on rainy weather for survival. I like the idea that my sojourns to that verandah at the Club, tied me somehow to my ancestors. And from that time I have always been interested in the Weather and Meteorology which is the interdisciplinary scientific study of the atmosphere. The study of meteorology dates back millennia. For those who are Weather enthusiasts, the current drought conditions in East Africa is being caused by an "obscure" climate Phenomenon called the the Indian Ocean Dipole (IOD) [an oscillation of sea surface temperatures in the Indian Ocean] It wasn't until the 1990s that Japanese scientists discovered the Indian Ocean Dipole, a warm pool of water that migrates between western and eastern "poles" and affects atmospheric temperatures and rainfall. The phenomenon occurs in cycles of positive (warmer) and negative (cooler) sea temperatures, but it has become more extreme in recent years due to climate change. A negative Indian Ocean Dipole results in less rainfall over East Africa, and that's contributing to the current drought that aid agencies warn could trigger mass famine. The Scientists found that before 1924, the IOD occurred approximately every 10 years, but since 1960, IOD events have been occurring approximately 18 months to three years apart.The researchers suggested that global warming effects on the western Indian Ocean have driven the observed shift in IOD variability and note that the IOD has replaced the El Nino-Southern Oscillation as the major driver of climate patterns over the Indian Ocean region. It is this negative Indian ocean Dipole which has parched the Country and the region.

What is clear now is that Meteorology intersects with Monetary Policy and at times with considerable violence as we are witnessing now. Kenya's inflation jumped to 9.04 percent year-on-year in February from 6.99 percent a month earlier, the statistics office said earlier this week. On a month-on-month basis, inflation was at 1.72 percent compared to 1.00 percent a month earlier. Thats a big asymmetric

move right there and this moment is reminiscent of 2011 when a weather shock [coupled with elevated Crude Oil Prices] and a slow-motion monetary policy response saw the Shilling tumble to an all time low of 107.00 against the Dollar in October 2011. Interestingly in 2011, we had our noses pressed right up against an Election just as we do now. There is also a political dynamic at work. Food Price increases have a big outsize positive/negative well-being effect. Folks earning the minimum wage spend a bigger percentage of their salary on Food [in some cases as much as 50%] and therefore the Food price rise amplifies at the lower salary point. I am not ignoring those who are at the ''bleeding edge'' of the drought, they are in extremis. In 2011, GDP slowed over 1%. The economy is slowing and this was further confirmed by higher frequency data; The Markit Stanbic Bank Kenya Purchasing Managers' Index (PMI) dropped to 50.1, a record low since the survey began in January 2014, down from 52.0 in January. A reading above 50.0 marks growth. Private sector credit growth stood at 4.3 percent in December, the central bank said.
Razia Khan the Standard Chartered Lead Africa Economist said this on Twitter "Before you panic about Kenyan CPI, every single component (ex-food) is showing <5% y/y inflation. But food is 36% of the CPI basket"

I am of the view that for now this time is different to 2011. Firstly, Crude Oil prices are stuck in the $50.00 a barrel area [compared to an $80-$110.00 range in 2011] and Crude Oil remains the single biggest expense item for Kenya Inc. I am also of the view that the Shale Boys in North America have OPEC over a Barrel. Essentially, Shale is able to turn on supply faster than OPEC are able to turn supply off. Its a Catch-22 for OPEC. So this Crude Oil development is soothing the Inflationary move. Furthermore, The Central Bank Governor has established his inflation-busting credentials and is very highly regarded by the markets and therefore, I expect the Governor to retain an optimal margin for manoeuvre in these tricky times unlike in 2011. Finally, a big curve ball remains the fiscal side, where we need to get a grip and soon. Infrastructure is uniformly good [as long as all the money designated for these big Flagship projects ends up spent on them] but it needs to be sequenced appropriately.