

What to expect in 2017 and what happened in 2016

This interregnum between Christmas and New Year is an interesting one in Nairobi and The opening stanza of The Love Song of J. Alfred Prufrock BY T. S. ELIOT, came to my mind.

Let us go then, you and I,
When the evening is spread out against the sky
Like a patient etherized upon a table;
Let us go, through certain half-deserted streets,
The muttering retreats

.....

To lead you to an overwhelming question ...
Oh, do not ask, "What is it?"
Let us go and make our visit.

So lets take this opportunity to take a look at the markets in 2016. Its been a dramatic Year in the markets with big headline political events wrong-footing markets. The chances of BREXIT and the Election of President Trump were considered the equivalent of three legged ponies at the Epsom Derby, by the bookmakers. As we can see the new Zeitgeist spread like wildfire and the World at the end of 2016 looks nothing like it did at the beginning of the year. Vladimir Putin looks like the biggest Geopolitical Winner in 2016 and this has been reflected in the markets. The Russian Ruble has returned +21.31% versus the Dollar and is the top-performing Currency versus the Dollar in 2016. The Brazilian Real was a close second at +20.96%. Interestingly SSA clocked positions 6 through 9 in the top 10 currency rankings in 2016; 6. Zambia Kwacha +11.96%, 7. South Africa Rand +11.00%, 8. Lesotho Loti +11.00%, 9. Swaziland +11.00%. 7 African currencies ranked in bottom 10 Performers. The Biggest African Loser in 2016 was the Egyptian Pound which retreated -58.84%, followed by the Nigeria Naira -36.68%, Mozambique Metical -33.27%, Congolese Franc -21.14%. The British Pound retreated -16.99% through 2016. The reason I am laying out the currency movements is because movements are material and can juice or trash a portfolio, in the blink of an eye. The Kenya Shilling has held its own against the Dollar when you factor in the Carry [the interest rate you receive] and a Stand-Out in 2016. I expect the Dollar to continue on another leg higher, the first leg kicked off on November 8th with the election of Donald J. Trump. I am of the view that Sterling has room to pop to the upside in 2017. Closer to home, President Buhari has to capitulate and therefore I expect another fall in the Naira. The Congolese franc could go just about anywhere as buffers erode. The Zimbabwe Bond Note experiment is predicted to end in a debacle sooner rather than later. The best-performing currency in 2016 has been the crypto-currency BITCOIN which is +120% in 2016. So armed with this currency overlay Road-Map lets take a look at other Assets.

The Bloomberg Commodity Index is set to post its first yearly percentage gain in six years— As of mid-December, it traded up 11.5% for the year. The Commodity Complex has been led by Iron Ore which is +92.7% in 2016, Zinc +72%, Brent Crude Oil +46%, Orange Juice +40%, Palladium +29%, Sugar +18% after being considerably higher, Gold +8.00%. Commodity markets are notoriously tricky to trade but I am looking for Gold to go Lower [and in fact like the idea of a Long BITCOIN short Gold Trade which has already run some] and for Crude Oil to flatten out from close to these levels. The Agricultural markets present an interesting Opportunity and I believe that Climate Change [and now with a climate change denier in Office in the US], Investors need to stay long a Basket of Agricultural commodities over the Long term.

Investors into the US Equity markets earned +9.00% via the S&P and this was further juiced by the strong Dollar. Frontier Markets saw nearly a \$1b pulled in 2016 and were a serious Under-performer in 2016. The Nairobi All Share is -9.77% in 2016, the NSE20 is -22.52%. Here in Nairobi, You had to have your wits about you. A Strategy that has worked like a Peach was to just buy Safaricom and just hang onto it. During Bob Collymore's tenure, Safaricom has returned more than 700% which return ranks right up there with the top 1% percentile of world-wide returns over that period. Safaricom has posted a +26.93% return in 2016 and without that underpinning the Nairobi Securities Exchange would have crumbled completely. Kenya Airways closed out the year +20.4% and enjoyed a Michael Joseph Pop. KenolKobil was a big Stand-Out posting a near enough 50% return. Banking stocks weighed real heavy on the Indices and only one banking Stock Standard Chartered Bank registered a positive return in 2016 up around 20% on a Total Return Basis. The Interest rate Cap Action is forcing a fundamental re-configuring of the Banking sector. Investors are nervous that it could turn Darwinian. The stampede into GOK Bonds is now easing and whilst valuations look close to rock-bottom, we do have an election year in front of us.

My Optimal Portfolio at this moment looks like this 1. Long BITCOIN. 2. Long BITCOIN short Gold on a Spread. 3. Long Sterling versus the Shilling. 4. Long Safaricom 5. long the Dollar Index. 6. Short the Naira.

Here's to wishing you a profitable 2017.