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Vehicle assemblers hit record in August

Photo/HEZRON NJOROGE

BOOM TIME: A man walks past the General Motors East Africa assembly plant on Mombasa Road.

BY JAMES WAITHAKA

August recorded the highest number of vehicles assembled locally in a single month for over more than five and a half years, signalling a growing appetite for new vehicles.

Provisional data show 879 vehicles were assembled in the month, upholding a trend likely to see 2014 as the strongest year for new motor vehicle dealers.

Industry players say demand is mainly being driven by counties buying fleets, school buses and focus on high capacity public service vehicles.

The country has three vehicle assembly plants – Kenya Vehicle Manufacturers Ltd based in Thika, GMEA on Mombasa Road and Associated Vehicle Assemblers Ltd in Changamwe, Mombasa – which mainly focus on heavy commercial vehicles and pick-up trucks.

"The county system has broadened the scope for customer engagement and focus is quickly shifting to these areas," Geoffrey Mulandi, general manager for sales and marketing at General Motors EA, said in a statement last Thursday. The motor dealer has unveiled a campaign targeting the 47 counties.

Vehicle assemblers first surpassed the 800 units mark in May and production has remained steadily above this for the four months to the end of August, data collated by the Kenya National Bureau of Statistics show.

A total of 6,264 units have been produced locally over the eight months, which is 41.9 per cent higher than the 4,415 units assembled over a similar period last year.

Already, the eight-month production has surpassed annual production in 2009 when 5,060 units were churned out, 2010 (5,721 units), 2011 (6,049 units) and 2012 (6,218 units) as local vehicle assemblage maintains a year-on-year growth.

The trend shows nine-month production will exceed the total 6,948 units put together in 2013, propelling 2014 into an all-time record year.

However, local assemblers face stiff completion from second-hand imports, whose demand has risen exponentially in recent years especially for personal cars.

KNBS says 14,399 vehicles were registered in July, including motor cycles which made up 39 per cent of total registrations in the month. In June, 14,011 vehicles were registered.

"Some of the critical issues for the future development of the sub-sector [vehicle assemblage] include stiff competition from second-hand vehicles, a problem that started when liberalisation of the economy was introduced in 1993," the Kenya Association of Manufacturers, whose membership includes the assemblers, states on its website.

"Massive importation of these vehicles has reduced the capacity utilisation in vehicle assembly plants drastically."

According to the Statistical Bulletin 2014 released by KNBS, Kenya exported passenger vehicles, valued at Sh121.54 million in 2013, higher than the previous year's but nearly half of 2010 exports worth Sh228.16 million – a 10-year high.

In contrast, imports of complete units of passenger cars are rising year-on-year, amounting to Sh42.75 billion in 2013 for 74,120 units.

Imports of complete units of buses, trucks and lorries shot to Sh19.42 billion last year for 6,368 units. Imports of 170 chassis with engines mounted for buses, lorries and trucks attracted a Sh235.98 million bill in 2013.

Tullow says talks have ended strike at sites

LONDON-listed Tullow Oil has said talks to resolve "limited industrial action" at sites in Northern Kenya have been successfully concluded and staff affected are returning to work.

The independent oil and gas explorer and its partner, Africa Oil, have struck commercially viable deposits of oil in Kenya's Lokichar basin in Turkana, where they have discovered resources of about 600 million barrels.

Tullow said on Friday it was facing industrial action at drilling sites, but did not give details of how many sites were affected or whether any work had been interrupted. A local leader said the company had evacuated some workers.

"Negotiations between the county and central government representatives, workers' representatives, Tullow and its supplier regarding the limited industrial action in Northern Kenya have concluded successfully," Tullow said.

"The small number of workers affected are now returning to work," it said in a brief statement sent to Reuters late on Saturday, without giving further details.

Big oil and gas finds along Africa's East coast are propelling an exploration boom, but impoverished local communities say they are not getting any of the benefits.

– Reuters

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ALY KHAN'S STAR PORTFOLIO

WHO KNEECAPPED PRICES IN GLOBAL OIL MARKETS?

Oil markets have been roiled with WTI [West Texas Intermediate crude oil grade] touching $83.59 on Friday [the lowest since July 3, 2012] before a short-covering rally took the price back to $85.11 a barrel.

WTI has slumped 15 per cent over 90 days and that's a meaningful move. WTI on Friday closed more than 20 per cent below its June peak, a common definition of a bear market. Brent Crude is down 22 per cent from the June high. The contract reached $88.11 on Friday, the lowest since December 2010.

I have followed the oil market for eternity and the recent price action is best characterised as unprecedented and white-knuckle.

In fact, the oil market has always been very high beta and exhibits magnified price reactions to the demand and supply dynamic. Where markets are net short, price setting can be determined by the last buyer who is paying up in a net supply deficit scenario and that's why you see those big price spikes around futures expiry. However, this is a binary thing. In a situation where there is a net surplus, the price setter can be those last sales transacted at deep discounts.

The conditions [and I will explain them momentarily] are optimal for a complete wash-out [a 'blow-off bottom' was more earthy description in my time] down as far as $50 a barrel. Markets overshoot, crude oil does it big time and any and every model needs to consider such a price outcome.

The big game-changer has been US crude output which rose from 5.7 million barrels per day in 2011 to 8.4 million barrels in the second quarter of 2014, a remarkable 47 per cent gain, and touched 8.88 million barrels a day last week, the most since March 1986, according to the US Energy Information Administration.

In its monthly oil market report, OPEC said output increased by 402,000 barrels a day in September to 30.47 million, representing the biggest monthly gain since November 2011.

Iran and Saudi Arabia are offering their oil at the deepest discounts since 2008. Essentially, the global system is awash in oil and the US has displaced a lot of imports and these displaced barrels are being offered at fire sale prices.

President Obama and his administration is the answer to my question: who kneecapped oil prices?

In fact, as long ago as 2011, Thomas Donilon, who was then a US national security adviser, was signalling this and very clearly.

"America's new energy posture allows us to engage from a position of greater strength. Increasing US energy supplies act as a cushion that helps reduce our vulnerability to global supply disruptions and price shocks. It also affords us a stronger hand in pursuing and implementing our international security goals."

The US administration has turned price slasher and like in Alfred Hitchcock's totemic movie "Pyscho", oil has been sliced up real good. The US has flooded the oil market and the commodity is now a geopolitical spear [Michael Klare and Tom Engelhardt].

It is the US that is the new price setter for the oil markets and this is a deep and important geopolitical development. The new price levels will have immediate and enormous geopolitical and financial knock-on effects. It will place intolerable pressure on oil producers and particularly those operating from a higher base price.

It is not too difficult to calculate who are the biggest losers in this new price normal, and Vladimir Putin's Russia springs to mind first.

As I have previously mentioned, the pivot to Asia is in my view a naval blockade strategy aimed at cutting off China from its imports of crude oil. Between now and 2040, the EIA predicts US oil imports will fall from 9.5 million barrels per day to 6.9 million, while China's will rise from five million barrels per day to 14.2 million.

The Emirates chief executive Tim Clark was interviewed by Der Spiegel about MH370. He said: "It's anybody's guess who did what."

My point is that Barack Obama has taken control of the crude oil cockpit; he is in charge of the airplane. He has control of all the instruments and it has been a wild ride for the last few weeks, which could get a whole lot wilder.

Shares go up and down and readers are advised that this column represents Mr Satchu's personal opinions.