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Weak shilling hurts borrowing plan

BY CONSTANT MUNDA

FOREIGN exchange reserves hit a 21-month low last week, piling pressure on the dollar stock the government uses to service foreign debt and cushion the shilling.

Latest data by the Central Bank shows assets in foreign currency fell to $6.2 billion [Sh652.24 billion] last Thursday from $6.25 billion [Sh657.50 billion] a week earlier, mirroring the January 30, 2014, levels when it stood at $6.20 billion.

This is equivalent of 3.98 months of import cover, levels last seen in April 2012 but well within the government's target of 3.4 months.

Treasury Cabinet secretary Henry Rotich said on Wednesday the fall of the shilling to above 100 units against the dollar has disjointed government's borrowing plans which was based to levels below 100.

The government plans to borrow Sh340.5 billion from foreign lenders and Sh229.7 billion domestically to plug the Sh570.2 billion deficit in the Sh2.1 trillion budget for this fiscal year ending next June.

OPTIMISTIC: Treasury CS Henry Rotich at a past media briefing.

The depreciation of the shilling by 17.84 per cent year-on-year through Friday's 105.20 closing levels from 89.27 units on September 18, last year, means higher financing costs. The dollar-denominated debt accounted for 56.3 per cent(up from 40 per cent in June 2014) of the overall Sh2.79 trillion debt as of May, Sh420 billion more than Sh2.37 trillion in June 2014.

"Obviously, it (shilling weakening) has increased debt payment in shilling terms because we have to now get more shillings to pay similar amount of debt," Rotich said. "But we are now seeing easing of the shilling and should not have any further pressures."

The CBK has responded with a 300-basis tightening over the last three months, besides interventions in the foreign exchange markets, increasing the cost of borrowing domestically.

"The interest rates in terms of T-bills and bonds have actually gone up and what we are seeing is that they(Central Bank) are now issuing a one-year bond," said Cytonn Investments chief researcher Elizabeth Nkukuu in an interview last week.

Rotich said the increase in interest rates is a "temporary phenomenon", explaining the issue of short term debt bonds.

"As government we will also be looking to access other sources of funds to avoid putting more pressure on interest rates domestically," he said. "What we had budgeted to borrow in shillings, we may choose to borrow in other currencies."

The dwindling of the dollar reserves is a reflection of rising demand for dollars by the private sector amid falling inflows from traditional foreign exchange earners, tourism and agricultural exports.

"It is clear that the weakening of the shilling will have some impact on government borrowing, as it makes it more expensive for Kenya to repay its debt, causes financial instability and drives foreign exchange reserves lower due to the Central Bank's policies," said Ricard Torné, senior economist at FocusEconomics, a Barcelona-based global financial data analysis firm, via email. "That said, the country has room to maneuver."

The CBK's Monetary Policy Committee is expected to review its monetary policy stance at a delayed meeting tomorrow, as it awaited last Thursday's decision by US Federal Reserve that kept interest rates steady.

Prudential sponsors actuarial students at UoN

BY STAR REPORTER

PRUDENTIAL Life Assurance Kenya, a subsidiary of UK's Prudential plc, has established a scheme to support the development of actuarial science studies, underlining its commitment following last year's re-entry.

The firm, which re-entered the market September last year after acquiring collapsed Blue Shield Insurance-owned Shield Assurance, said it will support three exams-topping students at the University of Nairobi for the next two years.

The beneficiaries, it said in a statement, are Grace Wambui, Yvonne Muthwii and Timothy Lang'at.

"We are committed to contributing to Kenya's long-term prosperity and hope these awards will give these outstanding students the best possible start to their careers in actuarial science,"chief executive Charles Mang'ee said.

The firm has made a comeback after exit in exit in 1990 and committed Sh1.5 billion in investments.

Can YOU outsmart the expert?

ALY KHAN'S STAR PORTFOLIO

POLICY MAKERS NEED TO BE AHEAD OF THE CURVE

"A frozen moment when everyone sees what is on the end of every Fork."

That is a quotation from 'The Naked Lunch' by William Burroughs and it is an inscription at the beginning of 'The Looting Machine' by Tom Burgis.

The book shines a torch on the underbelly of the "Africa Rising" story and explores the parallel shadow state in a number of African countries but with a particular focus on DR Congo, Angola and Nigeria.

It is a story of flipping state resources for immediate and egregious profits through shadowy back channels where insiders are able to fleece the "national interest".

We witnessed staggering and eye-popping increases in the price of Africa's primary commodities.

In 2008, there was a big spill in the Lehman aftermath but things came back.

The trough was filled to overflowing again. However, we have now entered a whole new normal.

Thomas Pynchon puts it much more succinctly:

"What goes around may come around, but it never ends up exactly the same place, you ever notice? Like a record on a turntable, all it takes is one groove's difference and the universe can be on into a whole [a]nother song."

Commodity Prices have crashed and burned. Last week, Goldman Sachs forecast a price of $50.00 a barrel for crude oil in the long-term with a less than 50% chance of a drop to $20.00 a barrel.

If we hit $20.00 a barrel, we are going to be in "revolutionary" and "regime-change" territory in a number of countries from Venezuela to Angola and a number of points in between.

Earlier this week, I was invited to be a part of a panel at an event convened by Herbert Smith Freehills, whose subject matter was "Oil and Gas in East Africa".

I started to point out the crude oil price curve. I said it looks to me like East African oil and gas is collateral damage in this hot crude oil war.

The kingdom always spoke of the shale producers as being their primary target, but what is clear is that East Africa is in the cross-fire.

Sitting in that room at the Kempinski Hotel, I wanted to say the bull market is over, so over.

The shilling weakness across the region is surely due in some measure to the massive impairment of the regional hydrocarbon opportunity. It is receding back over the horizon. Writing a cheque for $4 billion to export crude oil, where there is a risk of the commodity trading $20.00, is a whole lot different from writing that cheque when the crude oil is trading at $100.00.

Policy responses will now have an outsize impact. Policy makers need to be ahead of the curve, they need to be nimble.

Over in Nigeria, President Muhammadu Buhari has made the calculation that he needs to drain the trough. He is Mr Forensic Audit and he is calculating. The appointment of his cabinet can wait. In Angola, President Eduardo Dos Santos is leveraging the balance sheet, drawing down loans to make up the short fall and stamping down hard on any whisper of dissent.

In East Africa, we are going to have to think really seriously about how we keep the candle burning.

If we hit $20 a barrel, we are going to be in revolutionary and regime-change territory in some countries

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