Annus Mirabilis 2019

This series of articles headlined Annus Horribilis [Latin phrase meaning horrible year] are complementary to annus mirabilis, which means “wonderful year”. Paul Virilio, in his book Speed and Politics, says, “The revolutionary contingent attains its ideal form not in the place of production, but in the street, where for a moment it stops being a cog in the technical machine and itself becomes a motor (machine of attack), in other words a producer of speed.”

Emerging Markets were a train smash in 2018 and “are tentatively picking themselves up from the floor after a rout that’s wiped about 55 trillion off the value of stocks since a high in January 2018” [Bloomberg Economics].

“The theory is dead simple: emerging-market assets have already bombed, so the downside, if things get worse, is much lower and if things recover they have greater potential to perform,” said Anthony Peters, an independent analyst, formerly at Blockx. However, “they have the potential to go lower for much longer than anybody had ever thought possible.”

I recall being at a presentation last year given by Standard Chartered’s Chief Economist Razia Khan and every single African sovereign bond issuer was clustered within 50 basis points of each other. For some reason the phrase “If it makes no sense it must be nonsense” kept popping into my head. Since 2008 the markets have been firehosed in a tidal wave of liquidity. The chart that Razia showed that day was the most extreme example of the consequences of that liquidity firehose. From the Dow Jones to the German Dax to EM and SSA sovereign spreads, we are in the midst of the “Great Unwind” from a decade-long liquidity firehose.

I’m not suggesting we are headed into Mellon doctrine “liberty. Mellon believed that economic recessions, such as those that had occurred in 1873 and 1907, were a necessary part of the business cycle because they purged the economy. In his memoirs, Hoover wrote that Mellon advised him to “liquidate labor, liquidate stocks, liquidate the farmers, liquidate real estate. Purge the rottenness out of the system. High costs of living and high living will come down… enterprising people will pick up the wrecks from less competent people.”

The lesson is, the markets will be more “Darwinian”. It will reward winners and punish losers. In the case of the BRICS, Brazil was a big out-performer last year. China has rerouted its big demand in their direction as well. They have been a winner so far in the tariff war. However, we have all noted how a bump can morph into a slump real quick - Just look at Trump.

Russia under Putin has proven resilient but another swoon lower in oil will surely test its mettle. India has an election and Prime Minister Modi seems to be losing his shine. China’s Shanghai index was the worse performing Index in the World in 2018. These are indeed choppy waters for the BRICS at the macro level. We will have to dig deeper to earn our returns. There is a lot of growth in these economies. You just have to position yourself in the right place.

Africa had a tough time in 2018. Borrowing costs spiked higher, currencies lost ground against the Dollar and stock markets retreated. South Africa and Nigeria go to the polls in 2019. Both Economies have been slow and need a positive catalyst. President Ramaphosa has made steady progress in rolling back the “Zupta” state and trying to put the Rainbow Nation on an even keel. Nigeria is at risk of being slapped by a lower oil price. Ivory Coast and Ghana have been a bright spot. Alky’s Ethopia continues to lead the GDP charge and will be the fastest growing economy in the world in 2019. In Kenya, we popped towards 6% GDP on good rains, the trade balance dynamics were due to spikes during this festive season. On Monday, Central Bank of Kenya quoted the shilling at 103.17 in mid-November. The trade balance dynamics during the quarter favoured the shilling, which had come under siege in November, losing ground to the greenback, dropping to a low of 103.17 in mid-November. The trade balance dynamics during the quarter favoured the shilling, which had come under siege in November, losing ground to the greenback, dropping to a low of 103.17 in mid-November. The trade balance dynamics during the quarter favoured the shilling, which had come under siege in November, losing ground to the greenback, dropping to a low of 103.17 in mid-November.

According to the Balance of Payments Q3 report released by Kenya National Bureau of Statistics on New Year’s eve, total exports grew 3.9 per cent to Sh150.6 billion compared to Sh145.0 billion recorded in Q3 of 2017. On the contrary, the value of imports dropped by 4.3 per cent to Sh 412.3 billion over the same period.

“The increase in value of total exports coupled by decline in the value of imports, resulted into narrowing of the merchandise trade deficit from Sh 306.7 billion in the third quarter of 2017 to Sh 281.7 billion in the same quarter of 2018,” KNBS said.

Decrease in the current account deficit was mainly driven by increased value of exports in goods and services as well as reduced value of food imports. Merchandise trade balance improved to a deficit of Sh250 billion in the third quarter under review compared to a deficit of Sh279 billion in the same period of 2017. Africa remained the leading destination for Kenya’s exports, accounting for 35.9 percent of the country’s total exports followed by the European Union accounted for 19.7 percent of total exports estimated at Sh29 billion.

Total exports to China, India and Japan increased by 62.4 per cent, 73.6 percent and 12.9 percent respectively, indicating Kenya’s inroads to the Asian market.

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On Monday, Central Bank of Kenya quoted the shilling at 101.84 compared to Sh102.35 on Jan 2, 2018, 50 basis points higher despite various analysts including the International Monetary Fund predicting doom for the shilling in October.

Global rating firm Fitch Solution in its study dubbed Africa Monitor East and Central Africa predicted the shilling to close the year at 103.50 as demand for dollars by importers spikes during this festive season.

In a report in October following a review on Kenya’s economic health, the international lender said the shilling may be overvalued by up to 17.5 per cent adding that it risked being classified as “managed” rather than operating on the forces of demand and supply.

Kenya dismissed the report, with CBK governor Patrick Njoroge terming it as ‘black box’ analysis of shilling’s performance.