

# Weekly Economic Commentary

20 FEBRUARY 2009



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ECONOMIC COMMENTARY

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Economic News

**Global**

U.K. home repossessions rose to the highest since 1996 last year and may almost double in the next 12 months as Britain's recession deepens. Banks took possession of 40,000 properties last year, a 54 per cent increase from 2007.

The economy will shrink at almost twice the pace previously forecast this year, as the country endures its worst recession in almost 30 years. The British economy is 5<sup>th</sup> largest in the world and the second biggest in Europe. The country is also Kenya's major export destination in terms of horticultural produce. This might lead to reduced demand from that market causing more harm to forex revenue flows to Kenya.

Other news making headlines globally, the banking sector is still knee deep in a quagmire of bad assets, poor demand and weak cash flow, and government policy initiatives to date showing meagerly results, the concept of nationalization—long considered anathema—is now a real policy option in a growing number of quarters. Slowly but surely that is what governments in the west are now doing, so much for capitalism and privatization. However this will inject the required stability into the banking sector and might actually unfreeze the markets.

**Regional**

A new index of African potential investor destination has rated Nigeria as the top-most country that qualifies as a reliable target for probable business men on the lookout for safe grounds to invest on the continent. Nigeria's laws and regulations make the country one of the best investment destination in the world because her legislations and regulations provide a very conducive environment for investors. Unlike other countries where their laws permit remittance of certain percentage of profit, that of Nigeria permits repatriation of 100 per cent of the profit made by investors.

Also, before the stock market meltdown which began in March 2008, Nigeria's stock market was one the most sought after by investors who needed high returns on their investments.

Africa, regarded as the world's poorest continent, had seen an investment boom in recent years but flows into the region are seen drying up as the global financial crisis and falling commodity prices take the shine off what were seen as promising frontier markets.

South Africa, Mauritius and Tanzania took third, fourth and fifth places respectively, she said.

Nigeria however scored poorly for corporate governance, but its potential for infrastructure expansion in electricity, water, information technology and communications as well as its status as Africa's most populous country were enough to propel it to the top of the list.



## Local Business News

### Horticulture

Flower farmers in Kenya are moving closer to the heat of the global economic crush as demand is falling coupled by price falls.

The Netherlands auction which is the biggest determinant of the quantity of flowers exported from Kenya has been gradually been reducing its uptake. According to source inside the industry the reduction is around 15-20%.

This has led to reduction in production and in some cases a complete halt to production. This has also not been helped by the rise in prices of inputs such as fertilizer and chemical sprays making the cost differential not favorable for production.

This doesn't the right signals to a struggling economy with its major income producer in near tartars. We might see an increase in unemployment, a reduction in the foreign reserves which will put more pressure on the Kenya shilling.

### Industrial

East African Cables (EA Cables) is pegging its growth in the next five years on expansion into war-ravaged Somalia and DR Congo, which are likely to start reconstruction following ongoing efforts to find stability.

The two countries, which have been destroyed by ongoing civil strife, are viewed as the next frontiers in real estate development. Already, the EA Cables is supplying electricity materials for reconstruction work in southern Sudan through its Uganda office.

The firm has two other regional operation centers in Tanzania and Rwanda and is planning to venture into 12 other countries within the Great Lakes region in the next four years. Instability in the Great Lakes region has destroyed infrastructure and impeded housing development, but with calm returning, especially with the election of a president in Somalia and the cessation of hostilities in the DR Congo, reconstruction is likely to begin.



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## Interest rates

	CURRENT	1 MONTH	PRIOR3 MONTH
1-Month Libor	0.47	0.35	1.40
3-Month Libor	1.25	1.12	2.15

### Global

The 1 month libor edged up by 0.01% to end the week at 0.47% and the 3 month libor went up by 0.02% as the banking sectors continue to deteriorate. Interest cuts instituted by central banks over the last 12 months have helped keep the libor down, if it were not for that they would be much higher than this. With the nationalization agenda on the plate the libor might remain there for awhile

### Local

Kenya debut 12-year infrastructure bond for Sh18.5 billion (\$232.6 million) was oversubscribed by 45 percent, receiving bids totaling Sh26.9 billion.

The money raised by the bond will be spent on construction of water supplies, sewerage systems, dams and irrigations projects. Part of the funds will be spent on construction of several roads, the drilling of electricity generation steam wells, new transmission lines to the national grid and rural electrification. The bond carries a nominal 12.5 percent coupon rate (-13%) and was to be redeemed in three stages; first after six years, then after two and four year periods. Following the same the 91 and 182 day treasury auction was also oversubscribed by 105.9% and the high liquidity keeps pressure on interest rates as they went down further by 0.189% to close the week at 7.157%.

The above news doesn't help the starved Nairobi stock exchange as it clearly signals where all the funds are headed to and are being kept.

	12 Week Moving Average (%)	This Auction (%)	Last Auction	Variance
Value		23/02/09	16/02/09	
91	8.197	7.157	7.35%	-0.2
182	8.623	7.646	7.62%	0.02



## Currencies

	USD	EUR	JPY	GBP
GBP	0.6995	0.8831	0.0074	
JPY	94.24	118.9648		134.71 61
EUR	0.7922		0.0084	1.1324
USD		1.2624	0.0106	1.4295

	This Friday	Last Friday	
US Dollar	79.5878	79.6528	0.08%
STG Pound	113.2944	114.5155	1.07%
Euro	100.275	102.8951	2.55%
SA Rand	7.8332	8.0163	2.28%
KES / USHS	24.7841	24.5755	0.85%
KES / TSHS	16.9499	16.5092	2.67%

### Global

The yen rose against the dollar and the euro as falling company earnings fueled concern the recession is deepening, prompting traders to buy the currency as a refuge.

The Japanese currency snapped three days of declines versus the dollar and gained the most in almost two weeks versus the euro as stocks tumbled in Asia. Some people are buying yen as a hedge against falling stocks. The yen is attractive in times of financial turmoil because Japan's current-account surplus reduces the country's reliance on overseas lenders. The currency also typically gains before the end of the financial year March 31 as some institutions sell foreign assets in favor of yen-denominated holdings to bolster balance sheets as they prepare to report to investors. The yen gained in every February for the past three years.

### Local

The shilling continued to weaken against the dollar, as a global recession and gloomy forecast clouded its performance. Barring any unforeseen events, the shilling is likely to remain in a range of 79.00-80.00 for the rest of February. The unit would remain under pressure due to the gloomy economic outlook. Balance of payments (BOP) pressures worsened in the last quarter of last year due to the withdrawal of capital by foreign investors, resulting in a fall in reserves and the shilling.



## Commodities

### Oil

Oil fell more than \$1 a barrel to below \$38, retreating as the global economic outlook deteriorated, dragging stock markets down across the world.

The overall driving trend will be the economy as the market remains demand-focused. We expect this to be the case for the entire first half of the year. Crude inventories in the United States, the world's top consumer, fell slightly last week on lower imports and higher demand. This might provide some price support for the commodity.

### Agriculture

High grown teas, favored by Western countries, will find it harder to recover this year because these countries are more severely affected by the global recession. Demand for high grown teas is also linked to quality.

Therefore, only the best varieties will maintain their prices whilst many of the plainer high grown will adjust downward from the 2008 average. But, the good news is, tea is increasingly recognized for its health benefits. So despite the recession, tea will always have a market.

Tea - Monthly Price - Commodity Prices

Month	Value US cents
Aug-08	321.9
Sep-08	321.59
Oct-08	282.39
Nov-08	241
Dec-08	228.48
Jan-09	261.59

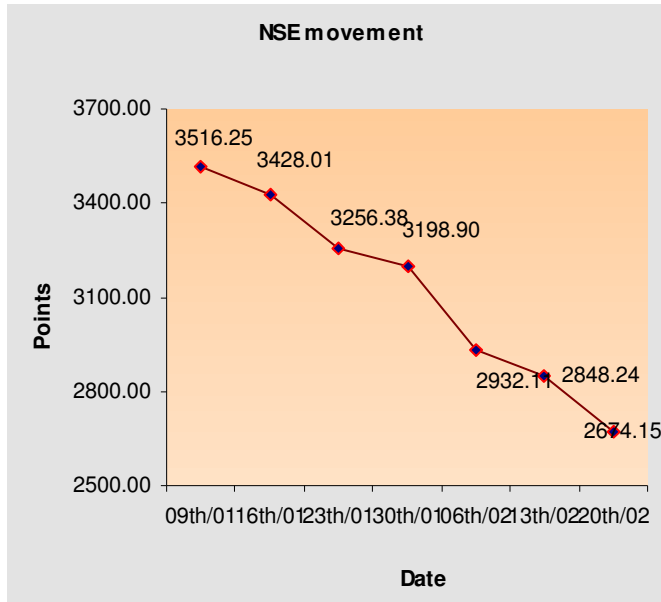


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## Nairobi Stock Exchange



	Trade Status	This Fri-	Last Fri-	Vol.
<b>Movers</b>				
Safaricom	xa	3.00	3.10	
Mumias	xa	3.85	4.15	
CMC	xd	11.20	12.55	
Co-op	xa	7.55	8.10	
Access	xa	17.25	18.00	
<b>Gainers</b>				
Sameer	xa	5.35	4.60	16.3% ↑
Pan Africa	xa	49.00	48.00	2.08% ↑
BAT	xa	137.0	135.0	1.48% ↑

	This Friday	Last Friday	Δ %
<b>Market Statistics</b>			
Equity Turnover (Kshs 000)	351,101	447,263	-21.5% ↓
Volume Traded '000'	36,228	35,967	0.73% ↑
Market Cap(Kshs. Billion)	671	715.48	-6.17% ↓
NSE 20-Share Index	2,674.15	2,848.24	-6.11% ↓
All Share Index (NASI)	57.97	61.79	-6.18% ↓

<b>Losers</b>					
Equity	cd cs	124.00	152.00	-18% ↓	418,400
Jubilee	xa	98.00	115.00	-14.4% ↓	7,300
NBK	xa	29.00	34.00	-14.4% ↓	74,075
Crown Berger	xa	17.20	20.00	-14.4% ↓	15,300
CFC Stanbic	xa	46.00	53.00	-13.3% ↓	12,600

No end to the slump at the NSE as the index shed another 6% this week. The bank results theory that was being waited for seems to be only a myth since after equity announced a 100% increase in profits, Barclays a 13% increase the sentiments have not changed. Market capitalization dropped to 671 billion from last weeks 715 billion marking a 6% drop. The bottom of the market continues to be illusive.