Election of trump hurts the shilling

Since the beginning of 2017, many commentators lament the steady decline in the Kenyan shilling’s value against the US dollar.

Let us rationally examine what makes currencies ebb and flow against each other on global markets and investigate root causes behind the Shilling’s condition. Obviously, currency prices represent the amount that buyers and sellers agree on in order to make the exchange. But what causes a currency more or less demand on given days? Investors hold two major reasons to demand a currency.
Investors weigh risks versus returns. Therefore, first, investors choose a currency that they feel minimises their risk and avoid potential downfalls in value. Inasmuch, the Burundian Franc proves an unpopular choice due to immense perceived risk in the nation. Investors do not want to lose their funds. Notice the inverse relationship between the Chinese Yuan and Bitcoin.

When Chinese equities markets, Renminbi currency, or economic fundamentals falter, then Bitcoin values shoot through the roof as Chinese investors look to protect their money from risk. Then when indicators in China improve, Bitcoin values drop dramatically again as investors view Chinese investments as less risky.

In another example, the United States suffered from a highly valued Dollar in the months and years that followed the global economic crash of 2008 because investors wanted a safe haven for their money and stored their funds in American treasury bills and bank accounts in mass numbers. Their demand for safety pushed up the value of the Dollar as global citizens clamoured for security all the while many other currencies crashed from the Balkans to Central Asia to Southeast Asia. Some currencies, like the Tajikistan Somoni, dropped in value by 30 per cent against the dollar since those currencies where not perceived as safe and secure as the American Dollar.

Second, speculators place their funds in the country they can earn the best return with acceptable risk. When a nation’s central bank raises the rate at which banks can borrow from the central bank, this has impact throughout the financial sector. The effect typically results in higher rates paid on deposits and therefore greater rates demanded on domestic competitor products like treasury bills and corporate bonds.

If a Botswanan treasury bill paid an effective return of 5 per cent per annum while its Namibian counterpart provided 6 per cent and investors viewed both nations as equal riskiness, clearly, Namibia with its higher returns would beckon money from around the world more than Botswana. Since in order to purchase Namibian treasury bills one must also purchase the Namibian Dollar, we would expect the Namibian Dollar to raise in value against the Botswanan Pula as less people demand the Pula.

Other asset class appreciation attractive to investors also impacts the demand in a currency. Strong growth in securities exchange returns in a country also causes investor money to flood into the nation and push up the currency values.

Armed with the above two main conditions for currency fluctuations, let us examine the Kenyan Shilling. First, we examine the safety risk issue. Yes, Kenya’s general elections will take place in only four more months. Logically, one could expect investors worried about instability to flee Kenyan markets and invest elsewhere in the region or in safe haven currencies like the American Dollar or Swiss Franc. However, in the past five months, our Kenyan Shilling stayed fairly constant with the Tanzanian Shilling, Euro, and Swiss Franc. In regards to the Ugandan Shilling, we actually appreciated. Inasmuch, investors do not feel threatened by the upcoming general election and do not see undue uncertainty and risk enough to repatriate funds out of Kenya.
Next, we look into the issue of better returns at home or abroad. Since the Kenyan Shilling remained constant or even appreciated against comparable currencies and many major currencies, let us look specifically at the US Dollar against world currencies to see if the cause lies in America or elsewhere.

The Kenyan Shilling’s slight decline against the greenback commenced in November 2016. Nearly every world currency depreciated against the Dollar, not just Kenya. Other nations experienced sharper declines against the US Dollar than us. Uganda’s currency slide began in October 2016 and devalued more in total. Tanzania actually strengthened until January when it quickly devalued by April more than our Kenyan Shilling. The intensely controlled Ethiopian Birr devalued even with the Shilling. The Euro followed a very similar closing price trend chart against the US Dollar as the Shilling since the end of October 2016.

The Ghanaian Cedi decreased at double the rate of the Shilling and the Japanese Yen performed notably worse than the Shilling. Among major currencies, only the Swiss Franc and the British Pound performed markedly better than the Shilling against the US Dollar. South Africa’s Rand surprisingly appreciated against the Dollar during the past five months despite President Zuma’s erratic behaviour, eroding support, and sacking of his well respected finance minister.

So the devaluation of the Shilling is the result of events in America, not at home. The aftermath of the US Presidential election in November 2016 led American equity markets to garnish record gains as investors expected President Trump to cut regulations, at the expense of consumers, so that companies can make more money during his term.

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