

OVERVIEW

International Developments

In April 2014, the US dollar appreciated against the euro and Japanese yen, but depreciated against the Pound sterling. The US currency started the month on a positive note, supported by strong March 2014 non-farm payroll data. Thereafter, the US dollar tumbled against major currencies after the minutes of the March 2014 Federal Open Market Committee (FOMC) meeting showed a dovish monetary policy stance, indicating that US interest rates would be kept at a low level until 2015. In the second half of the month, the dollar recouped some of its earlier losses after the release of better-than-expected US economic data. Following the two-day FOMC meeting on 29-30 April 2014, the asset purchase program was reduced by a further US\$10 billion to US\$45 billion and the Federal funds rate was left unchanged.

The euro depreciated against the US dollar in April 2014, trading at an average of US\$1.3806 compared to an average of US\$1.3827 in March 2014. At the start of the month, the common currency was under pressure due to expectations of a loosening of monetary policy by the European Central Bank (ECB) against a backdrop of very low inflation and moderate economic growth. The euro touched an intra-month low of US\$1.3701 on 3 April 2014 after the ECB decided to leave its key refinancing rate unchanged at 0.25 per cent at its monetary policy meeting despite fears of deflation. At its post-meeting conference, ECB President Mario Draghi said that the ECB was ready to use different monetary policy tools, including quantitative easing, to promote inflation in the euro area. Thereafter, the euro gradually recovered, benefiting from the US dollar's broad-based weakness, and hit an intra-month high of US\$1.3893 on 11 April 2014. From then on, the euro reversed its trend and was pressured after ECB board members warned that a further rise in the euro would affect economic growth and lead to additional monetary easing by the ECB in order to avert the risk of deflation. Towards the end of the month, the euro got a brief support after the release of solid Eurozone services sector data coupled with ECB President Mario Draghi's suggestions that quantitative easing measures were improbable. The euro ended the month trading around US\$1.3866.

The Pound sterling strengthened against the US dollar in April 2014, trading at an average of US\$1.6737 compared to an average of US\$1.6619 in March 2014. The UK currency started the month on a weak note and traded at an intra-month low of US\$1.6567 on 7 April 2014 after data showed UK services sector growth fell to an eight-month low in March 2014. The Pound thereafter gained some support from robust industrial and manufacturing data and a reduced UK trade deficit. As widely expected, on 9 April 2014, the Bank of England kept its bank rate unchanged at 0.5 per cent and its asset purchases at £375 billion. The Pound sterling continued its upward trend, supported by favourable inflation figures and a drop in the UK unemployment rate to below 7 per cent for the first time in 5 years. Towards the end of the month, robust UK retail sales growth and strong GDP growth figures for the first quarter of 2014 further bolstered the British currency, which closed the month at an intra-month high of US\$1.6833.

In April 2014, global equity markets posted a mixed performance amid uncertainties in the global economy. Doubts over the future path of US and Eurozone monetary policies and increased tensions from the Ukraine crisis brought some volatility in global financial markets. The MSCI Global Equity and Developed Market indices rose by 0.2 per cent and 4.4 per cent respectively, while the MSCI Global Equity index fell by 0.6 per cent. European indices, namely the CAC 40 and FTSE100 went up by 1.4 per cent and 1.9 per cent respectively, while the DAX was almost unchanged. In the US, the S&P 500 and NASDAQ fell by 0.1 per cent and 3.6 per cent, respectively, mainly due to disappointing corporate earnings and the biotechnology stocks sell-off, while the DJIA rose by 0.3 per cent. Among emerging markets, the JALSH added 1.6 per cent mainly due to the weak rand, which boosted the financial performance of most South African companies. The Bombay SENSEX, Shanghai Stock Exchange Composite Index, Hang Seng and the Nikkei 225 fell by 0.1 per cent, 1.0 per cent, 1.4 per cent and 3.3 per cent respectively.

NYMEX WTI (West Texas Intermediate crude oil) averaged US\$102.1 a barrel in April 2014, up from US\$100.5 a barrel in March 2014. ICE Brent Crude averaged US\$108.2 a barrel during the month under review, up from US\$107.7 a barrel in March 2014. NYMEX and ICE Brent Crude touched intra-month highs of US\$104.4 and US\$110.3 a barrel on 17 April 2014 and 24 April 2014, respectively.

COMEX gold futures, on average, fell from US\$1,336.4/Oz in March 2014 to US\$1,298.2/Oz in April 2014 and traded in an intra-month closing range of US\$1,279.6/Oz - US\$1,327.2/Oz in April 2014 compared to US\$1,283.4/Oz - US\$1,379.0/Oz in the preceding month. Gold prices hit an intra-month high of US\$1,327.2/Oz on 14 April 2014.

Domestic Developments

March 2014 data on tourist arrivals showed a fall of 3.7 per cent to 88,400 from 91,759 a year earlier. Gross tourism receipts decreased by 7.9 per cent, from Rs3,862 million in March 2013 to Rs3,557 million in March 2014. For the period April 2013 to March 2014, tourist arrivals increased by 2.2 per cent to 990,984 from 969,284 recorded over the previous corresponding period. Gross tourism receipts for the period April 2013 to March 2014 decreased by 6.2 per cent to Rs40,009 million from Rs42,674 million in the corresponding period of the preceding year.

The Consumer Price Index (CPI) stood at 107.7 in April 2014, unchanged from the previous period. The increase in the indices of *fish, other food products* and *other goods and services* (0.1 index point each) were fully offset by the decrease in the index of *vegetables* (0.3 index point).

The rate of inflation for the twelve-month period ended April 2014 stood at 4.0 per cent, unchanged from the previous period. Year-on-Year inflation rate went down from 4.5 per cent in March 2014 to 4.2 per cent in April 2014.

On a twelve-month average basis, CORE1 inflation remained unchanged at 2.9 per cent for the third consecutive month while CORE2 inflation rose from 2.7 per cent to 2.8 per cent between March and April 2014. TRIM10 inflation, which trims 5 per cent of the most volatile items in the CPI on both sides of the distribution, fell from 3.3 per cent in March 2014 to 3.2 per cent in April 2014.

Net foreign assets of depository corporations fell by Rs2,787 million, or 0.7 per cent, from Rs374,464 million at the end of February 2014 to Rs371,677 million at the end of March 2014.

Net foreign assets of the Bank of Mauritius increased by Rs1,799 million to Rs110,343 million at the end of March 2014 while the net foreign assets of the other depository corporations declined by Rs4,586 million to Rs261,334 million at the end of March 2014.

Domestic claims of depository corporations, including claims on GBL holders, rose by Rs2,922 million, or 0.7 per cent, from Rs435,872 million at the end of February 2014 to Rs438,794 million at the end of March 2014. Net claims on Central Government increased by Rs1,036 million, or 3.0 per cent, from Rs34,818 million at the end of February 2014 to Rs35,854 million at the end of March 2014. Claims on other sectors increased by Rs1,887 million, or 0.5 per cent, to Rs402,941 million in March 2014.

Broad Money Liabilities (BML) rose by Rs2,711 million, or 0.7 per cent, from Rs369,067 million at the end of February 2014 to Rs371,778 million at the end of March 2014.

The monetary base decreased by Rs1,609 million, or 2.5 per cent, from Rs64,092 million at the end of February 2014 to Rs62,483 million at the end of March 2014. Currency in circulation dropped by Rs168 million, or 0.6 per cent, from Rs26,937 million to Rs26,769 million and liabilities to other depository corporations decreased by Rs1,435 million, or 3.9 per cent, to Rs35,627 million in March 2014.

During the month of April 2014, the Bank issued Government of Mauritius Treasury Bills (GMTBs) for a total nominal amount of Rs2,400.0 million through the auctions of single maturity instruments. For the month, there was a net redemption of Treasury Bills to the tune of Rs740.0 million compared to Rs200.0 million in March 2014.

All auctions of the GMTBs were oversubscribed with the bid cover ratio ranging between 2.68 and 3.34 reflecting the level of excess liquidity prevailing in the system. One auction for each of 182-Day and 273-Day GMTBs and two auctions for 364-Day GMTBs were held during the month of April 2014.

On a point-to-point basis, the weighted yields of the 182-Day, 273-Day and 364-Day GMTBs decreased by 16, 12 and 30 basis points, respectively, at the respective last auction held in April 2014 compared with the respective last auctions held in March 2014. The weighted yields of the 182-Day, 273-Day and 364-Day GMTBs stood at 2.91 per cent, 2.93 per cent and 3.04 per cent, respectively, at the end of April 2014. The overall weighted yield on GMTBs in April 2014 decreased to 2.98 per cent from 3.05 per cent in March 2014.

A new benchmark issue of Three-Year Government of Mauritius Treasury Notes due 11 April 2017 was held through auction on 9 April 2014 for issue on 11 April 2014. Out of the 31 bids received for a total nominal amount of Rs3,530.0 million against a tender amount of Rs1,300.0 million, 11 bids were accepted on a competitive basis for the full amount. The lowest yield received and the highest yield accepted stood at 4.10 per cent and 4.25 per cent, respectively, whilst the weighted yield on accepted bids was 4.17 per cent. The coupon rate, based on market-determined rates, was set at 4.10 per cent. An additional nominal amount of Rs1,700.0 million was issued on a non-competitive basis at the weighted yield of 4.17 per cent.

A new benchmark issue of Five-Year Government of Mauritius Bonds due 25 April 2019 was held through auction on 23 April 2014 for issue on 25 April 2014. Out of the 36 bids received for a total nominal amount of Rs3,536.0 million, 15 bids were accepted on a competitive basis for the full tender amount of Rs1,600.0 million. The lowest yield received and the highest yield accepted stood at 5.20 per cent and 5.83 per cent, respectively, whilst the weighted yield on accepted bids was 5.54 per cent. The coupon rate, based on market-determined rates, was set at 5.20 per cent. An additional nominal amount of Rs800.0 million was issued on a non-competitive basis at the weighted yield of 5.54 per cent.

To manage the growing excess liquidity prevailing in the banking system, the Bank continued to issue Bank of Mauritius Securities. Securities for a total nominal amount of Rs1,299.4 million were issued in April 2014 against Rs862.2 million nominal maturing.

The amount transacted by primary dealers on the secondary market increased to Rs1,546.4 million in April 2014 from Rs830.0 million in March 2014. An amount of Rs0.25 million

nominal Government of Mauritius Treasury Bills was sold over the counter at the Bank to members of the public.

Transactions on the overnight interbank money market in April 2014 totalled Rs2,815 million compared to Rs1,660 million in March 2014. The daily average amount transacted inched up to Rs113 million in April 2014 from a daily average of Rs111 million in March 2014. Transactions with a high of Rs550 million and a trough of Rs25 million were recorded in April 2014. The weighted average overnight interbank rate fell to 2.03 per cent in April 2014 from 2.35 per cent in March 2014.

In April 2014, the Bank intervened on the domestic foreign exchange market and purchased an equivalent amount of US\$128.7 million whilst it sold US\$47.9 million to its customers.

The weighted average dealt selling rates of the rupee, which are calculated on the basis of transactions of US\$30,000 and above, or the equivalent in other foreign currencies, conducted by banks, foreign exchange dealers and the Bank of Mauritius appreciated, on average, against the US dollar and the Euro but depreciated against the Pound sterling between March and April 2014.

At the end of April 2014, the gross foreign exchange reserves of the Bank of Mauritius increased to Rs114,698 million, from Rs110,261 million as at end-March 2014. The end-April 2014 level of gross official international reserves of the country, based on the value of imports of goods, *fob* and non-factor services for the year 2013, represented 5.8 months of imports, compared to 5.6 months as at end-March 2014.