International Developments

In August 2010, the US dollar, on average, depreciated against the euro, Pound sterling and Japanese yen compared to the previous month. The US dollar started the month on a weak note and remained under pressure throughout the first week on fears that the US recovery was faltering on the back of a string of weak economic data. This fuelled speculation that the US Federal Reserve might consider pumping more money into the economy through new bond purchases, while a fall in benchmark yields to all-time lows offered investors little incentive to buy US-denominated assets. Moreover, news that the US economy shed twice as many jobs in July 2010, which added to worries about its recovery, also weighed on the US dollar. As from the second week of the month, investors' sentiment reversed and the US dollar trended upward on safe-haven buying and on profit-taking by investors while equity markets fell. Subsequently, at the FOMC meeting on 10 August 2010, the Federal Reserve announced plans to boost the flagging US economy by reinvesting funds from maturing mortgage bonds in government debt and also acknowledged that economic growth had slowed in recent months, whilst at the same time, reiterating its intention to hold its benchmark interest rate at record lows for an extended time. The gloomy US economic growth outlook, weak Chinese investment and factory output data and weaker-than-expected Eurozone industrial production data suggested that global growth was uncertain, which further spurred demand for the greenback. Moreover, US inflation data released showed that underlying price pressures were stuck at their lowest level since the 1960s, heightening fears about the world's biggest economy, while declines in stock prices prompted investors to shift funds to the world's most liquid currency. Towards the end of the month, the US dollar shed some gains but remained supported after Fed Chairman Ben Bernanke stated that the Fed was prepared to provide further stimulus to boost economic recovery.

The euro traded at an average of US$1.2907 in August 2010 compared to an average of US$1.2759 in July 2010. At the start of the month, the euro continued its upward movement against the US dollar on the back of decent manufacturing data from Europe. On 5 August 2010, the European Central Bank (ECB) left its key refinancing rate unchanged at 1 per cent at its Governing Council meeting and ECB President Trichet said that there was no need to tinker with policy for the time being. The euro reached an intra-month high of US$1.3278 on 9 August 2010 on the back of the US dollar's broad-based weakness. Thereafter, investors' appetite for higher-yielding currencies, including the euro, was dampened given the uncertain economic outlook for the US economy and tumbling stock markets. The single currency was also pressured after figures showed that Greece's economy shrank more than expected in the second quarter, while Eurozone industrial production unexpectedly declined in June. The euro regained some footing after data released indicated that European economic growth accelerated sharply in the second quarter of 2010 as Germany's best performance made up for the struggles of Spain, Ireland and recession-ravaged Greece, while solid Irish and Spanish bond auctions eased some concerns. However, the euro came under renewed pressure in the third week of the month amid uneasiness over the Eurozone's economic outlook on concerns whether Europe's largest economy could sustain a solid recovery. Moreover, rises in spreads of sovereign Credit Default Swaps in some euro zone countries, such as Ireland and Italy, rekindled worries about the Eurozone's debt problems. The euro hit an intra-month low of US$1.2642 on 24 August 2010 after ECB Governing Council member Axel Weber said that the ECB should extend its loose monetary stance. Towards the end of the month, the euro recouped some losses to finish at US$1.2656 after the release of German data showing that business morale hit a more than three-year high in August 2010.

The Pound sterling appreciated against the US dollar during August 2010, trading at an average of US$1.5663 compared to an average of US$1.5269 in July 2010. The British currency initially rose on the back of stronger-than-expected second quarter economic growth and rising risk appetite among investors. On 5 August 2010, the Bank of England (BoE) maintained its Bank Rate at 0.5 per cent and the size of its Asset Purchase Programme at £200 billion, which had no impact on the Pound. The UK currency reached an intra-month high of US$1.5974 on 9 August 2010 after which it tumbled as weak UK housing and retail sales surveys raised concerns about the UK economic recovery. Moreover, the BoE said that inflation would fall well below its 2 per cent target in two years' time despite the prospective VAT rise and left the door open to more quantitative easing, which also weighed on the Pound sterling. The central bank also cut its forecast for UK economic growth, while Governor Mervyn King said that there was more uncertainty about the economic outlook in the UK, the US and the Eurozone. The Pound sterling made some modest gains after the release of surprisingly strong UK retail sales data but plummeted to an intra-month low of US$1.5425 on 25 August 2010, as growing concerns about a faltering global economic recovery encouraged investors to seek refuge in safe-haven currencies. A bout of short-covering helped the Pound to recoup some of its losses, but it closed the month lower at US$1.5461 as investors dumped higher-risk currencies.

Overall, all major stock markets closed on a negative note in August 2010. US stocks started the month on a strong footing on the back of a weaker US dollar that lifted the energy and raw materials sectors but they, thereafter, receded following weaker-than-expected data on consumer spending, unexpected rise in initial jobless claims and unimpressive July retail sales that dimmed optimism. At the start of the second week, stock markets rebounded following speculation that the US Federal Reserve would signal potential steps to boost the sluggish economic recovery. But the positive momentum was short-lived after the Fed made a bleak assessment of the US economy. Ongoing concerns that the recovery had tapered off weighed on stock market prices. The negative sentiment overshadowed some uplift that came when Fed Chairman, Ben Bernanke, pledged to provide stimulus, if necessary, to boost the US economy.

Over the month, NASDAQ and FTSE fell by 7.90 per cent and 3.18 per cent, respectively, and NIKKEI, CAC-40 and DAX decreased by 7.80 per cent, 6.96 per cent and 5.83 per cent, respectively. Among emerging stock markets, Shanghai SEC and JALSH posted negative returns of 1.26 per cent and 5.64 per cent, respectively, while Bombay SENSEX and the Hang Seng retreated by 0.61 per cent and 4.09 per cent, respectively.

NYMEX WTI (West Texas Intermediate crude oil) averaged US$76.7 a barrel in August 2010, marginally up from US$76.4 a barrel in July 2010. ICE Brent Crude averaged US$77.1 a barrel during the month under review, up from US$75.4 a barrel in July 2010. Both NYMEX and ICE Brent Crude settled at intra-month highs of US$82.6 a barrel and US$82.7 a barrel, respectively, on 03 August 2010.

COMEX gold futures, on average, went up during August 2010, trading in an intra-month closing range of US$1,185.4/Oz-1,250.3/Oz compared to US$1,158.0/Oz-1,213.5/Oz in July 2010. Gold prices peaked at US$1,250.3/Oz on 31 August 2010 amid uncertainty about the economic recovery, which boosted the metal’s appeal as an alternative investment.

Domestic Developments

Tourism arrivals went up by 7.1 per cent, from 71,872 in July 2009 to 77,009 in July 2010, while gross tourism receipts increased by 4.6 per cent, from Rs2,526 million in July 2009 to Rs2,642 million in July 2010. On a cumulative basis, for the period January to July 2010, tourism arrivals reached 516,159 representing an increase of 6.3 per cent compared to the corresponding period of last year. Tourism receipts for the period January to July 2010 went up by 8.1 per cent to reach Rs22,452 million.

The Consumer Price Index (CPI) rose from 120.2 in July 2010 to 120.6 in August 2010. The main contributors to the rise in the index between July 2010 and August 2010 were gasoline which registered an increase of 0.3 index point, motor vehicles and other goods and services which showed an increase of 0.2 index point each and meat which registered an increase of 0.1 index point. Declines of 0.1 index point for fruits, rice, interest rates on housing loans and diesel oil were noted. The largest rise of 2.4 per cent was noted in the division “Transport” followed by “Health” (+1.1 per cent), “Restaurants and hotels” (+0.9 per cent), “Furnishings, household equipment and routine household maintenance” (+0.2 per cent), “Miscellaneous goods and services” (+0.2 per cent), and “Recreation and culture” (+0.1 per cent). The divisions “Food and non alcoholic beverages”, “Alcoholic beverages and tobacco” and “Housing, water, electricity, gas and other fuels” recorded decreases of 0.1 per cent, 0.1 per cent and 0.2 per cent, respectively while “Clothing and footwear”, “Communication” and “Education” recorded no change in their indices.

The rate of inflation for the twelve-month period ended August 2010 stood at 1.9 per cent, up from 1.8 per cent for the twelve-month period ended July 2010. Year-on-Year inflation rate rose to 2.6 per cent in August 2010, from 2.0 per cent in July 2010.

CORE1 inflation increased to 2.4 per cent for the twelve-month period ended August 2010, from 2.2 per cent in July 2010. CORE2 inflation remained unchanged at 2.5 per cent in August 2010. TRIM10 inflation stood at 2.1 per cent in August 2010, unchanged from the previous period.

Net foreign assets of depository corporations went down by Rs5,577 million, or 5.5 per cent, from Rs101,733 million at the end of June 2010 to Rs96,156 million at the end of July 2010. Net foreign assets of other depository corporations decreased by Rs5,745 million, or 15.6 per cent, to Rs30,984 million while those of the Bank of Mauritius increased by Rs168 million, or 0.3 per cent, to Rs65,172 million.

Domestic claims of depository corporations, excluding claims on GBL holders, decreased by Rs4,468 million, or 1.5 per cent, from Rs294,721 million at the end of June 2010 to Rs290,253 million at the end of July 2010. Net claims on budgetary central Government decreased by Rs3,243 million, or 6.2 per cent, from Rs52,272 million at the end of June 2010 to Rs49,029 million at the end of July 2010. Claims on other sectors, that is, credit to the private sector went down by Rs1,225 million, or 0.5 per cent, to Rs241,224 million in July 2010.

Net claims on budgetary central Government from the Bank of Mauritius decreased by Rs65 million, or 0.8 per cent, from negative Rs8,506 million at the end of June 2010 to negative Rs8,571 million at the end of July 2010. Net claims on budgetary central Government from other depository corporations fell by Rs3,178 million, or 5.2 per cent, from Rs60,778 million to Rs57,600 million.

Claims on Other Sectors from the Bank of Mauritius increased marginally by 0.6 per cent to Rs134 million at the end of July 2010 while claims on Other Sectors from other depository corporations decreased by Rs1,226 million, or 0.5 per cent, from Rs242,316 million to Rs241,090 million.

Broad Money Liabilities (BML) went down by Rs6,022 million, or 2.0 per cent, from Rs302,944 million at the end of June 2010 to Rs296,922 million at the end of July 2010. Of the components of BML, currency with public rose by Rs465 million, or 2.9 per cent, to Rs16,370 million while transferable deposits decreased by Rs6,310 million, or 8.7 per cent, to Rs66,385 million. Savings deposits went up by Rs1,190 million or 1.3 per cent, to Rs93,661 million while time deposits decreased by Rs1,366 million, or 1.1 per cent, to Rs119,665 million. Securities other than shares included in broad money fell marginally by 0.1 per cent to Rs841 million.

The monetary base went up by Rs2,446 million, or 6.8 per cent, from Rs35,752 million at the end of June 2010 to Rs38,197 million at the end of July 2010. Currency in circulation increased by Rs310 million, or 1.7 per cent, from Rs18,649 million to Rs18,959 million while liabilities to other depository corporations increased by Rs2,451 million, or 14.8 per cent, from Rs16,559 million to Rs19,010 million.

Broad Money Liabilities multiplier went down from 8.5 at the end of June 2010 to 7.8 at the end of July 2010 as a result of a decline in Broad Money Liabilities compared to the increase in Monetary Base.

In August 2010, the Bank issued Government of Mauritius Treasury Bills for a total nominal amount of Rs3,000 million through the weekly Primary Auctions. Between end-July 2010 and end-August 2010, the weighted average yields on the 91-day Bills, 182-day Bills and 364-day Bills decreased from 3.01 per cent to 2.38 per cent, from 3.46 per cent to 2.54 per cent and from 3.92 per cent to 3.29 per cent respectively. The overall weighted yield during August 2010 decreased to 2.92 per cent from 3.77 per cent for the previous month. During August 2010, the market preference was balanced between the three maturities with a slight move towards the 91-day Bills with 37.6 per cent of bids received.

Transactions on the interbank money market in August 2010 totalled Rs2,422 million with a daily average of Rs101 million compared to Rs240 million for the previous month and with a high of Rs360 million and a trough of Rs15 million. The weighted average overnight interbank rate for August 2010 fell to 2.52 per cent from 3.41 per cent for the previous month.

During the month under review, Rs1.0 million worth of Treasury Bills/Treasury Notes was sold over the counter at the Bank to members of the public. Bills traded by primary dealers during the month amounted to Rs2.2 million.

At the monthly auction of Government of Mauritius Treasury Notes(GMTN) held in August 2010, a total nominal amount of Rs1,200 million of Treasury Notes with maturities of 2, 3 and 4 years with interest payable semi-annually at the rates of 5.50, 5.75 and 6.00 per cent per annum, respectively, was put on tender. Bids received for the three maturities totalled Rs4,846 million and the amount accepted was Rs1,200 million. The weighted average yields on bids accepted for the 2-year, 3-year and 4-year maturities were 4.48, 5.19 and 5.92 per cent per annum, respectively. The market preference remained skewed towards the 2-year maturity with a market share of 58.3 per cent of total bids received. As part of its liquidity management, the Bank issued a total amount of Rs2,218.3 million of Bank of Mauritius Notes at the weighted yield on bids accepted of the 2-Year,3-Year and 4-Year GMTN.

An issue of Fifteen-Year Government of Mauritius Bonds was undertaken on 20 August 2010, through an auction held on 18 August 2010. Bids for a total nominal amount of Rs3,555.2 million were received against a tender amount of Rs2,000 million. The amount accepted was Rs2,892.3 million i.e. higher than the amount put on auction based on the provision mentioned in the prospectus to accept higher amounts. The coupon rate was set at 9.25 per cent per annum and the weighted average yield on bids accepted was 9.88 per cent per annum.

During the period under review, the Bank intervened on the domestic foreign exchange market and purchased USD8.15 million and EUR1.30 million from banks and foreign exchange dealers and sold USD33.22 million to its customers.

The weighted average dealt selling rates of the rupee against the US dollar, Euro and Pound sterling, which are calculated on the basis of transactions of US$30,000 and above, or the equivalent in other foreign currencies conducted by banks and Bank of Mauritius, showed that between July and August 2010, the rupee, on average, appreciated against the US dollar and the Euro but depreciated against the Pound sterling.

At the end of July 2010, the net international reserves of the country stood at Rs97,167 million. Following the release of external trade data for second quarter 2010, the end-July 2010 level of net international reserves of the country, based on the value of import bill for the fiscal year 2009-10 exclusive of the purchase of aircraft, represented 40.6 weeks of imports, down from 43.0 weeks of imports at the end of June 2010. The gross foreign exchange reserves of the Bank of Mauritius increased from Rs69,275 million as at end-July 2010 to Rs70,224 million at the end of August 2010.

Provisional estimates for the first six months of 2010 indicate that gross Foreign Direct Investment (FDI) inflows in Mauritius stood at Rs8,245 million. Investment was mainly directed to the “Human health and social work activities” sector (Rs2,732 million), “Financial and insurance activities” sector (Rs2,160 million), the “Real estate activities” sector (Rs1,810 million), of which the IRS/RES accounted for Rs1,202 million, and the “Construction” sector (Rs773 million). The main sources of FDI inflows were India, United Kingdom followed by France and South Africa. Outward direct investment is estimated at Rs2,541 million for the first six months of 2010 with significant investment destined to the “Human health and social work activities” sector (Rs1,375 million) and the “Accommodation and food service activities” sector (Rs744 million).