

OVERVIEW

International Developments

In August 2012, the US dollar, on average, depreciated vis-à-vis the euro, the Pound sterling and the Japanese yen. The dollar hit a two-month low against a basket of currencies after minutes of the latest U.S. Federal Reserve policy meeting suggested that the US Fed was willing to deliver more stimulus fairly soon unless the economy improved considerably. The US currency was under pressure again after US Fed Chairman Bernanke's Jackson Hole speech emphasized the grave concern posed by the labour market, thus fuelling expectations of further stimulus.

The euro appreciated against the US dollar in August 2012, trading at an average of US\$1.2398 compared to an average of US\$1.2302 in July 2012. The European Central Bank, as expected, kept its key interest rate unchanged at 0.75 per cent on 2 August 2012 but its decision not to immediately revive bond-buying to lower crippling borrowing costs for Spain and Italy disappointed markets. However, persistent hopes for further action by the ECB to stem the region's debt crisis buoyed the single currency. Weak economic data out of China, which prompted a drop in commodity currencies, also helped support the euro. Amid hopes for more monetary stimulus from the Fed, the single currency rose to a high of US\$1.2561.

The Pound sterling appreciated against the US dollar in August 2012, trading at an average of US\$1.5707 compared to an average of US\$1.5593 in July 2012. The Pound gained against the US dollar on growing expectations that the ECB would take action to tackle the eurozone's debt crisis. However, gains were tempered by ongoing worries about the fragility of the UK economy that could prompt further monetary easing.

Global equities gained in August 2012. The major stock markets, with the exception of some Asian markets, posted gains on expectations for more monetary stimulus from the US Fed and the ECB. Over the month, the Dow Jones Industrial Average, NASDAQ, FTSE, CAC-40 and the Nikkei rose by 0.6 per cent, 4.3 per cent, 1.4 per

cent, 3.7 per cent and 1.7 per cent, respectively. Among emerging stock markets, Shanghai SEC lost 2.7 per cent, while JALSH and Bombay SENSEX added 2.3 per cent and 1.1 per cent, respectively.

NYMEX WTI (West Texas Intermediate crude oil) averaged US\$94.3 a barrel in August 2012, up from US\$87.9 a barrel in July 2012. ICE Brent Crude averaged US\$112.5 a barrel during the month under review, up from US\$102.7 a barrel in July 2012. NYMEX and ICE Brent Crude settled at intra-month highs of US\$97.7 a barrel on 7 August 2012 and US\$ 116.9 a barrel on 16 August 2012, respectively.

COMEX gold futures, on average, went up from US\$1,593.1/Oz in July 2012 to US\$1,634.4/Oz in August 2012 and traded in an intra-month closing range of US\$1,590.7/Oz-1,687.6/Oz compared to US\$1,565.3/Oz-1,621.8/Oz in the preceding month. Gold prices peaked at US\$1,687.6/Oz on 31 August 2012.

Domestic Developments

July 2012 data on tourist arrivals showed a decrease of 2.4 per cent to 76,166 from 78,034 a year earlier. Gross tourist receipts increased by 1.0 per cent, from Rs3,039 million in July 2011 to Rs3,070 million in July 2012. In the period August 2011 to July 2012, tourist arrivals increased by 0.4 per cent to 965,323 from 961,306 recorded over the previous corresponding period. Tourist receipts in the period August 2011 to July 2012 rose by 8.8 per cent to Rs44,992 million, from Rs41,348 million in the previous corresponding period.

The Consumer Price Index (CPI) rose from 133.0 in July 2012 to 133.2 in August 2012. The main contributors to the rise in the index between July 2012 and August 2012 were other food products (+0.2 index point) and ready-made clothing (+0.1 index point). Vegetables registered a decrease of 0.1 index point. Division-wise, an increase of 0.9 per cent was recorded for “Clothing and footwear” followed by “Education” (+0.5 per cent), “Food and non alcoholic beverages” (+0.3 per cent), “Furnishings, household equipment and routine household maintenance” (+0.3 per cent), “Miscellaneous goods and services” (+0.2 per cent) and “Restaurants and

hotels” (+0.1 per cent). “Alcoholic beverages and tobacco”, “Recreation and culture” and “Transport” recorded decreases of 0.1 per cent, 0.2 per cent and 0.1 per cent, respectively, while “Housing, water, electricity, gas and other fuels”, “Communication” and “Health” recorded no change in their indices.

The rate of inflation for the twelve-month period ended August 2012 stood at 4.6 per cent, down from 4.9 per cent for the twelve-month period ended July 2012. Year-on-Year inflation rate remained unchanged at 3.7 per cent in August 2012.

Between July 2012 and August 2012, for the twelve month period, CORE1 inflation fell from 4.1 per cent to 3.9 per cent while CORE2 inflation decreased from 3.4 per cent to 3.2 per cent. TRIM10 inflation stood at 3.1 per cent in August 2012, down from 3.3 per cent for the twelve-month period ended July 2012.

Net foreign assets of depository corporations went up by Rs32,740 million, or 9.2 per cent, from Rs354,770 million at the end of June 2012 to Rs387,510 million at the end of July 2012. The increase reflected the rise in both net foreign assets of the Bank of Mauritius and those of other depository corporations. Net foreign assets of the other depository corporations went up by Rs31,466 million to Rs304,923 million as at end-July 2012 while the net foreign assets of the Bank of Mauritius increased by Rs1,274 million to Rs82,588 million as at end-July 2012.

Domestic claims of depository corporations, including claims on GBL holders, increased by Rs1,954 million, or 0.5 per cent, from Rs378,455 million at the end of June 2012 to Rs380,409 million at the end of July 2012. Net claims on budgetary central Government decreased by Rs2,295 million, or 5.0 per cent, from Rs46,057 million at the end of June 2012 to Rs43,762 million at the end of July 2012. Claims on other sectors, that is, credit to the private sector went up by Rs4,249 million, or 1.3 per cent, to Rs336,647 million in July 2012.

Broad Money Liabilities (BML) went up by Rs1,631 million, or 0.5 per cent, from Rs342,702 million at the end of June 2012 to Rs344,333 million at the end of July 2012.

The monetary base increased by Rs129 million, or 0.3 per cent, from Rs46,016 million at the end of June 2012 to Rs46,145 million at the end of July 2012. Currency in circulation went up by Rs404 million, or 1.9 per cent, from Rs21,746 million to Rs22,150 million and liabilities to other depository corporations went down by Rs275 million, or 1.1 per cent, from Rs23,977 million to Rs23,702 million.

In August 2012, the Bank issued Government of Mauritius Treasury Bills (GMTB) for a total nominal amount of Rs2,760 million against a total tendered amount of Rs4,000 million through the auctions of single maturity instruments. There was a net maturing of Treasury Bills for Rs749 million in August 2012 compared to an amount of Rs2,613 million in July 2012. With improvement of liquidity conditions in the last week of August 2012, the auctions of GMTB were oversubscribed. One auction of 91-Day GMTB, two auctions of 273-Day GMTB as well as three auctions of 182-Day and 364-Day GMTB, respectively, were held during the month. The Bank continued its offer to buy-back Bank of Mauritius Notes from commercial banks.

During August 2012, it was observed that weighted yields on all maturities of GMTB trended upwards. Compared to the last auctions held in July 2012 for the various maturities, the weighted yields of the 182-Day and 273-Day GMTB increased by 5 basis points to reach 3.38 per cent and 3.43 per cent, respectively, at the end of August 2012. The weighted yield of the 91- Day GMTB went up from 3.04 per cent in end-June 2012 to 3.09 per cent in end-August 2012. As regards the weighted yield of the 364-Day GMTB, it went up by 4 basis points from end-July 2012 to 3.88 per cent as at end-August 2012.

The overall weighted yield for August 2012 stood at 3.56 per cent up from 3.55 per cent for July 2012.

A new issue of the Three-Year Government of Mauritius Treasury Notes bearing a coupon rate of 4.90 per cent was put on auction on 29 August 2012 for issue on 31 August 2012. Out of the 28 bids received for a total nominal amount of Rs3,180 million at the auction, 11 bids for a total nominal amount of Rs1,700 million were accepted. The lowest yield received and the highest yield accepted stood at 4.90 per

cent and 5.00 per cent, respectively, whilst the weighted yield on accepted bids was 4.96 per cent.

The Five-Year Government of Mauritius Bonds with a coupon rate of 6.00 per cent due on 20 April 2017 was re-opened through an auction held on Wednesday 22 August 2012 for an amount of Rs1,400 million for settlement on Friday 24 August 2012. Out of the 32 bids received for a total nominal amount of Rs2,639 million at the auction, 16 bids for a total nominal amount of Rs1,610 million were accepted. The lowest yield received and the highest yield accepted stood at 5.80 per cent and 6.15 per cent, respectively, whilst the weighted yield was 6.11 per cent.

The issue of Fifteen-Year Government of Mauritius Bonds due on 3 August 2027 took place through an auction held on Wednesday 1 August 2012 for an amount of Rs1,500 million for settlement on Friday 3 August 2012. The coupon rate on the Fifteen Year Bonds was market determined and stood at 8.29 per cent. Out of the 72 bids received for a total nominal amount of Rs4,643.3 million at the auction, 18 bids for a total nominal amount of Rs1,029.8 million were accepted. The lowest yield received and the highest yield accepted stood at 8.29 per cent and 8.50 per cent, respectively, whilst the weighted yield was 8.38 per cent.

During the month under review, Rs11.7 million worth of Government Securities were sold over the counter at the Bank to members of the public. On the secondary market, the amount transacted by primary dealers declined from Rs424.3 million in July 2012 to Rs103.2 million in August 2012.

Transactions on the overnight interbank money market in August 2012 totalled Rs19,250 million up from Rs15,565 million in July 2012. The daily average amount transacted stood at Rs621 million in August 2012 compared to a daily average of Rs502 million in July 2012. Transactions with a high of Rs1,630 million and a trough of Rs65.0 million were recorded in August 2012. The weighted average overnight interbank rate stood at 1.81 per cent in August 2012 down from 1.91 per cent in July 2012.

During the period under review, the Bank intervened on the domestic foreign exchange market and purchased an equivalent of USD71.1 million whilst it sold USD49.5 million to its customers.

Under the Special Line of Credit made available to Small and Medium Planters, disbursement amounted to Rs240.1 million during the month under review and an amount of Rs362.6 million was outstanding as at end of August 2012. With regard to the Special Foreign Currency Line of Credit for an amount of up to EUR600 million, an amount of EUR1.25mn was disbursed therefrom during the month of August 2012.

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, forex dealers and Bank of Mauritius, appreciated, on average, against the Euro, but depreciated against US dollar and the Pound sterling between July and August 2012.

At the end of August 2012, the gross foreign exchange reserves of the Bank of Mauritius increased to Rs86,746 million from Rs86,307 million as at end-July 2012. The end-August 2012 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 2011, represented 5.0 months of imports, unchanged from July 2012.