OVERVIEW

International Developments

In August 2013, the US dollar depreciated against the euro, Pound sterling and Japanese yen as US economic data releases depicted an economy that was not as robust as expected, raising doubts about the Federal Reserve's announcement that it would scale back its asset-buying program in September 2013.

The euro strengthened vis-à-vis the US dollar in August 2013, trading at an average of US$1.3314 in August 2013 compared to an average of US$1.3086 in July 2013. As widely expected, the European Central Bank (ECB) kept its key refinancing rate unchanged at 0.50 per cent on 1 August 2013. At the post-meeting conference, ECB President Mario Draghi said that policy would not be tightened until well into 2014 at the earliest. From an intra-month low of US$1.3190 at the start of August 2013, the euro embarked on a general uptrend in the wake of encouraging data coming out of the Euro zone. Meanwhile, a European Union report indicated that the Euro area economy emerged from its longest recession in history. Official comments from the ECB also lent support to the euro. The common currency hit an intra-month high of US$1.3452 on 20 August 2013 after a strong reading of Purchasing Managers' Index supported views about the Euro zone recovery. Thereafter, the euro traded within tight ranges before surrendering some of its earlier gains on data showing benign inflation and elevated unemployment in the Euro zone, and it closed August 2013 trading around US$1.3241.

The Pound sterling appreciated against the US dollar in August 2013, trading at an average of US$1.5477 compared to an average of US$1.5189 in July 2013. On 1 August 2013, as widely expected, the Bank of England kept its Bank Rate unchanged at 0.5 per cent and the extent of its bond-buying unchanged. The British currency hit an intra-month low of US$1.5100 on 2 August 2013 before starting on a general uptrend against the US dollar. Better-than-expected economic data, including a sharply narrower trade deficit lent support to the Pound sterling, which eventually hit an intra-month high of US$1.5718 on 21 August 2013. The British currency thereafter gave up some of its gains, tracking the euro/dollar downward movement, and closed the month trading around US$1.5510.

Stock markets retreated in August 2013, hit by uncertainties around the tapering of stimulus by the US Fed as well as geopolitical tensions related to Syria. Among the developed countries' stock markets, the Dow Jones Industrial Average, FTSE, Nikkei, CAC-40 and NASDAQ fell by 4.5 per cent, 3.1 per cent, 2.0 per cent, 1.5 per cent and 1.0 per cent, respectively. In contrast, among the emerging countries' stock markets, Shanghai Stock Exchange Composite and JALSH recorded positive returns of 5.3 per cent and 2.3 per cent, respectively. The Bombay SENSEX lost 3.8 per cent.

NYMEX WTI (West Texas Intermediate crude oil) averaged US$106.5 a barrel in August 2013, up from US$104.7 a barrel in July 2013. ICE Brent Crude averaged US$110.4 a barrel during the month under review, up from US$107.4 a barrel in July 2013. Both NYMEX and ICE Brent Crude settled at intra-month highs of US$110.1 a barrel and US$116.6 a barrel, respectively, on 28 August 2013.

COMEX gold futures, on average, went up from US$1,285.6/Oz in July 2013 to US$1,351.4/Oz in August 2013 and traded in an intra-month closing range of US$1,282.5/Oz-US$1,420.2/Oz compared to US$1,212.7/Oz-US$1,336.0/Oz in the preceding month. Gold prices hit an intra-month high of US$1,420.2/Oz on 27 August 2013.

Domestic Developments

The July 2013 data on tourist arrivals showed an increase of 1.6 per cent to 77,374 from 76,166 a year earlier. Gross tourist receipts decreased by 22.5 per cent, from Rs3,070 million in July 2012 to Rs2,378 million in July 2013. For the period August 2012 to July 2013, tourist arrivals increased by 0.6 per cent to 971,160 from 965,323 recorded over the previous corresponding period. Tourist receipts for the period August 2012 to July 2013 decreased by 6.2 per cent to Rs42,193 million from Rs44,992 million a year earlier.

The Consumer Price Index (CPI) went down from 103.6 in July 2013 to 103.3 in August 2013. The main contributors to the fall in the index between July 2013 and August 2013 were vegetables (-0.2 index point), other food products (-0.1 index point), and other goods and services (-0.1 index point). An increase of 0.1 index point in bus fare was noted. Division-wise, a decrease of 1.2 per cent was recorded for “Food and non alcoholic beverages” followed by “Furnishings, household equipment and routine household maintenance” (-0.6 per cent), “Restaurants and hotels” (-0.5 per cent), “Miscellaneous goods and services” (-0.5 per cent) and “Alcoholic beverages and tobacco” (-0.3 per cent). “Transport”, “Clothing and footwear” and “Education” recorded increases of 0.7 per cent, 0.6 per cent and 0.2 per cent, respectively, while the remaining divisions recorded no change in their indices.

The rate of inflation for the twelve-month period ended August 2013 stood at 3.5 per cent, down from 3.6 per cent for the twelve-month period ended July 2013. Year-on-year inflation rate went down from 3.6 per cent in July 2013 to 3.1 per cent in August 2013.

Between July 2013 and August 2013, for the twelve month period, CORE1 inflation stood unchanged at 2.8 per cent while CORE2 inflation edged down from 2.8 per cent to 2.7 per cent. TRIM10 inflation, which trims 5% of the most volatile items in the CPI on both sides of the distribution, stood unchanged at 2.6 per cent for the twelve-month period ended August 2013.

Net foreign assets of depository corporations went up by Rs14,066 million, or 3.6 per cent, from Rs394,122 million at the end of June 2013 to Rs408,188 million at the end of July 2013. Net foreign assets of the Bank of Mauritius decreased by Rs2,886 million to Rs100,694 million at the end of July 2013 while the net foreign assets of the other depository corporations went up by Rs16,952 million to Rs307,493 million at the end of July 2013.

Domestic claims of depository corporations, including claims on GBL holders, went up by Rs14,769 million, or 3.7 per cent, from Rs395,942 million at the end of June 2013 to Rs410,711 million at the end of July 2013. Net claims on central Government increased by Rs4,704 million, or 19.2 per cent, from Rs24,490 million at the end of June 2013 to Rs29,194 million at the end of July 2013. Claims on other sectors rose by Rs10,064 million, or 2.7 per cent, to Rs381,517 million in July 2013.

Broad Money Liabilities (BML) went up by Rs1,569 million, or 0.4 per cent, from Rs351,376 million at the end of June 2013 to Rs352,945 million at the end of July 2013.

The monetary base increased by Rs1,062 million, or 2.0 per cent, from Rs53,094 million at the end of June 2013 to Rs54,156 million at the end of July 2013. Currency in circulation went up by Rs816 million, or 3.3 per cent, from Rs24,405 million to Rs25,221 million whereas liabilities to other depository corporations increased by Rs468 million, or 1.6 per cent, from Rs28,377 million to Rs28,845 million.

In August 2013, the Bank issued Government of Mauritius Treasury Bills (GMTBs) for a total nominal amount of Rs3,400 million through the auctions of single maturity instruments. During the month under review, there was a net redemption of Treasury Bills of Rs281 million compared to a net issue of Rs568 million in July 2013. Given the excess liquidity conditions prevailing in the banking system, the auctions of the 182-Day, 273-Day and 364-Day GMTBs were oversubscribed with the bid cover ratio ranging between 2.51 and 3.18. Two auctions each for 182-Day and 364-Day GMTBs and one auction for 273-Day GMTB were held during the month of August 2013.

On a point-to-point basis, the weighted yield of the 364-Day GMTB increased by 1 basis point while the weighted yield for the 273-Day GMTB decreased by 5 basis points at the last auctions held in July 2013 compared with the last auctions held in June 2013. The weighted yield of the 182-Day GMTB decreased by 3 basis points at the last auction held in August 2013 as compared to the last auction held in June 2013. The weighted yields of the 182-Day, 273-Day and 364-Day GMTBs stood at 2.62 per cent, 2.83 per cent and 3.08 per cent, respectively, in August 2013. Consequently, the overall weighted yield on GMTBs in August 2013 went down from 2.94 per cent in July 2013 to 2.85 per cent.

The 3.52% Three-Year Government of Mauritius Treasury Notes due 24 May 2016, was re-opened for a nominal amount of Rs1,500.0 million, through an auction held on Wednesday 21 August 2013 for settlement on Friday 23 August 2013. The auction was oversubscribed with bid yields ranging from 3.75 per cent to 4.35 per cent. Out of the 27 bids received for a total nominal value of Rs3,580.0 million, 14 bids for a total nominal value of Rs1,600.0 million were accepted up to a highest yield of 3.95 per cent and at a weighted yield of 3.88 per cent.

The 4.30% Five-Year Government of Mauritius Treasury Bonds due 22 February 2018, was re-opened for a nominal amount of Rs1,200.0 million, through an auction held on Wednesday 28 August 2013 for settlement on Friday 30 August 2013. The auction was oversubscribed with bid yields ranging from 4.24 per cent to 5.00 per cent. Out of the 31 bids received for a total nominal value of Rs3,810.0 million, 9 bids for a total nominal value of Rs1,200.0 million were accepted up to a highest yield of 4.31 per cent and at a weighted yield of 4.28 per cent.

To manage the excess liquidity prevailing in the banking system in August 2013, Bank of Mauritius securities for a total nominal amount of Rs4,668.5 million were issued during the month compared to Rs2,046.3 million nominal Bank of Mauritius securities maturing.

During the month under review, the amount transacted by primary dealers on the secondary market went down from Rs1,318.7 million in June 2013 to Rs44.7 million in July 2013. Additionally, an amount of Rs0.80 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 August 2013 totalled Rs14,420 million compared to Rs17,340 million in July 2013. The daily average amount transacted stood at Rs465 million in August 2013 down from a daily average of Rs559 million in July 2013. Transactions with a high of Rs885 million and a trough of Rs90 million were recorded in August 2013. The weighted average overnight interbank rate went down to 1.64 per cent in August 2013 from 1.75 per cent in July 2013.

In August 2013, the Bank intervened on the domestic foreign exchange market and purchased an equivalent of US$41.5 million whilst it sold US$32.8 million to its customers.

Under the Special Line of Credit to Small and Medium Planters, the total amount disbursed during the month amounted to Rs279.7 million and the amount outstanding at end August 2013 stood at Rs438.5 million.

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 but depreciated against the Euro and the Pound sterling between July 2013 and August 2013.

At the end of August 2013, the gross foreign exchange reserves of the Bank of Mauritius decreased to Rs99,096 million, from Rs100,495 million as at end-July 2013. The end-August 2013 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 2012, represented 5.3 months of imports, compared to 5.4 months as at end July 2013.

Provisional estimates for the first six months of 2013 indicate that gross Foreign Direct Investment (FDI) inflows in Mauritius stood at Rs4,736 million. Investment was mainly directed to the "Real estate activities" sector (Rs2,941 million) of which the IRS/RES accounted for Rs2,280 million, the "Construction" sector (Rs638 million), and the "Financial and insurance activities" sector (Rs488 million). The main sources of FDI inflows were France followed by China and South Africa. Outward direct investment for the first six months of 2013 is estimated at Rs1,678 million, and was mainly channelled to the "Accommodation and food service activities" sector (Rs948 million), the "Real estate activities" sector (Rs308 million) and the "Financial and insurance activities" sector (Rs209 million).