

International Developments

During August 2005, the US dollar, on average, depreciated against all major currencies. Despite its widening interest rate advantage over other major currencies, the US currency showed some signs of exhaustion throughout the month. As expected and already factored in by currency traders, the US Federal Reserve, at its FOMC meeting on 9 August 2005, raised its benchmark federal funds rate by another quarter percentage point to 3.50 per cent. Although the Federal Reserve said that more “measured” increases were ahead, market players’ disappointment with Fed’s assessment that core inflation had been relatively low hurt the US dollar. The release of data showing a larger-than-expected trade deficit of US\$58.82 billion in June 2005 further hampered the US currency. Despite the release thereafter of favourable data showing net foreign capital inflows of US\$71.2 billion in June 2005, the US dollar enjoyed short-lived gains. Towards the close of the month, weak data relating to industrial output and durable goods orders, as well as surging oil prices above US\$70 a barrel, cast doubts over US economic growth and whether the US Federal Reserve would keep raising rates.

The euro, which traded on average around US\$1.2047 in July 2005, moved higher against the US dollar in August 2005, trading on average around US\$1.2288. From an intra-month low of US\$1.2161 at the start of August 2005, the euro, benefiting from the broad-based weakness of the US dollar and amid position adjustment, gained ground vis-à-vis the US currency. Receding pessimism about growth prospects in the euro zone also supported the single currency. By 12 August 2005, the euro attained its intra-month high of US\$1.2454. The single currency, however, due to profit-taking, could not hold up to its gains vis-à-vis the US dollar. By the close of the month, the euro was trading around US\$1.2213.

The Pound sterling appreciated against the US dollar in August 2005, trading on average around US\$1.7920, up from US\$1.7528 in July 2005. Starting August 2005 at its intra-month low of US\$1.7623, the Pound sterling moved higher vis-à-vis the US dollar to reach its intra-month high of US\$1.8137 by mid-August 2005. As widely expected, on 4 August 2005, the Bank of England cut its key repo rate for the first time in two years by 25 basis points to 4.50 per cent. However, lingering market views that the Bank of England, in the light of the release of upbeat data, would stay in a wait-and-see mode for its next MPC meeting benefited the Pound. While raw material costs in July 2005 posted the fastest annual growth rate in over 20 years, Britain’s goods trade deficit with the rest of the world in June 2005 narrowed sharply to GBP4.277 billion. The release of the Bank of England’s quarterly inflation report, which confirmed the view that the Bank was in no rush of cutting interest rates further, provided additional support to the Pound. Yet, the British currency could not sustain its gains as the release of certain unfavourable data during the second half of 2005 undermined market sentiment. The London Retail Consortium reported that retail sales in London fell by 8.9 per cent year-on-year in July 2005, its sharpest decline since records began in Oct 2002. Moreover, Bank of England data showed the lowest rise in mortgage lending in three years in July 2005. By the close of the month, the Pound was trading around US\$1.7855.

The Japanese yen, on average, appreciated vis-à-vis the US currency, trading around ¥110.70 per US dollar in August 2005 as against ¥111.92 per US dollar in the previous month. Early August 2005, the yen came under downward pressure in the wake of political uncertainty when Japanese Prime Minister Junichiro Koizumi dissolved Parliament's powerful lower house for elections on 11 September 2005 after losing a key vote on postal industry reform. The yen, however, recouped its losses to move higher against the US dollar as foreign investors kept up their purchases of Tokyo stocks on optimism about Japan's economic outlook. By mid-August, the Japanese yen had reached its intra-month high of ¥109.33 per US dollar. The yen subsequently could not manage to hold on to its gains, undermined by the release of a poll result showing less support for the Prime Minister Junichiro Koizumi ruling Liberal Democratic Party, surging oil prices amid Japan's high dependence on imported oil and pressure on Asian currencies stemming from the depreciation of the Indonesian rupiah vis-à-vis the US currency.

Oil prices continued their ascent and reached new record highs during August 2005, trading consistently above US\$60 a barrel. Weekly reports from US Energy Information Administration (EIA) showed unsatisfactory US crude oil and gasoline stock levels. Some US and North Sea refineries' activities were disturbed by the outbreak of fire during the period under review. Fresh geopolitical worries erupted over the stability of Middle East crude supplies with the death of Saudi Arabian King Fahd and Iran's nuclear program. Ongoing US refinery problems in August also kept oil prices soaring. Moreover some unrest in Ecuador that disturbed the export of some 144,000 barrels per day (bpd) added to supply concerns. In the last week of August, the passage of hurricane Katrina shut oil production in the Gulf of Mexico and weighed heavily on the market sending oil prices above US\$70 a barrel in intra-day trading. In the weeks ahead, oil prices will most certainly continue to trade above US\$60 a barrel as the tight market conditions look unlikely to ease ahead of the United States winter season.

For August 2005, NYMEX WTI (West Texas Intermediate benchmark crude oil) averaged US\$65.0 a barrel, compared to US\$59.0 a barrel in July 2005 and US\$44.9 a barrel in August 2004. IPE Brent futures averaged US\$63.8 a barrel during the period under review, compared to US\$58.0 a barrel in July 2005 and US\$41.8 a barrel in August 2004. NYMEX and IPE Brent reached new all-time settlement record highs of US\$69.8 a barrel and US\$67.6 a barrel, respectively, on 30 August 2005.

COMEX gold futures, on average, moved higher during August 2005, trading in an intra-month closing range of US\$435.5/Oz-US\$451.5/Oz compared to a range of US\$420.2/Oz-US\$435.8/Oz. During the period under review, fund and speculative buying drove gold prices up. US dollar weakness also supported gold prices. Moreover, the high oil prices stimulated new buyers to invest into alternative assets like the bullion. COMEX averaged US\$443.0/Oz during August 2005, compared to an average of US\$425.1/Oz in July 2005.

Domestic Developments

Tourist arrivals increased by 5.3 per cent, from 62,173 in July 2004 to 65,462 in July 2005, while gross tourism receipts fell by 4.5 per cent, from Rs1,672 million in July 2004 to Rs1,596 million in July 2005. Cumulatively, over the period January to July 2005, tourist arrivals reached 414,773, representing an increase of 5.0 per cent on the 394,850 arrivals in the corresponding period of 2004. Tourism receipts for the period January to July 2005 grew by 4.2 per cent to reach Rs14,180 million compared to Rs13,607 million in the corresponding period of the previous year.

The Consumer Price Index (CPI) remained unchanged at 118.0 in August 2005. The rate of inflation for the twelve-month period ended August 2005 stood at 5.6 per cent, unchanged from the rate for the twelve-month period ended July 2005.

Taking into account liquidity conditions in the market, the Bank carried out in August 2005 one repurchase transaction for 2 days at a fixed yield of 5.25 per cent.

During August 2005, total transactions in Government of Mauritius Treasury/Bank of Mauritius Bills effected through primary dealers amounted to Rs682.7 million while trading of Treasury Bills on the Stock Exchange of Mauritius amounted to Rs1.8 million.

On 11 August 2005, the Bank announced the issues of Government Securities during fiscal year 2005-06. While the issues of 91, 182 and 364-day Treasury Bills would continue, the issue of 728-day Bills would be discontinued as from 19 August 2005. Treasury Notes of 3 and 4 - year maturities would be issued on a monthly basis as from 7 October 2005. Five-Year Government of Mauritius Bonds would be issued on six occasions during 2005-06 for an aggregate nominal amount of Rs3.0 billion and Mauritius Development Loan Stocks, with maturities ranging from 7 to 13 years, would be issued on three occasions for an aggregate nominal amount of Rs2.8 billion.

On 31 August 2005, the Bank undertook the first of the six issues of Five-Year Government of Mauritius Bonds for fiscal year 2005-06. Bonds for a total nominal amount of Rs500 million were put on tender at a coupon rate of 8.25 per cent per annum. Bids were received for a total nominal amount of Rs842.2 million, of which Rs500 million were accepted. The weighted average yield on bids accepted was 8.54 per cent.

Between July 2005 and August 2005, the rupee, on average, depreciated against all major currencies.

Spot sales of foreign currencies by the Mauritius Sugar Syndicate to the banking sector during August 2005 amounted to an equivalent of USD0.3 million. The Bank intervened and sold USD5.0 million to banks during the month. The weighted average dealt selling rates of the rupee, which are calculated on banks' transactions of USD30,000 and above, or the equivalent in other foreign currencies, showed that the rupee, on average, depreciated against the US dollar, the Euro and Pound sterling between July and August 2005.

The foreign exchange reserves of the Bank of Mauritius rose to Rs42,305 million at the end of August 2005, from Rs42,005 million at the end of July 2005.