OVERVIEW

International Developments

In December 2011, the US dollar, on average, appreciated vis-à-vis the euro, Pound sterling and Japanese yen. The US dollar was supported broadly due to its safe-haven appeal. Rising yields on euro zone sovereign debt, fear of sovereign credit rating downgrades as well as a lack of progress in tackling the debt crisis led investors to sell risky assets, which benefitted the US dollar. Optimism on the US economic recovery, following a string of strong US economic data, which stood in sharp contrast to the doom felt in Europe, also supported the dollar.

The euro depreciated against the US dollar in December 2011, trading at an average of US$1.3168 compared to an average of US$1.3547 in November 2011. In the first week of the month, the euro dipped on fear of sovereign credit rating downgrades. The euro fell to a two-month low as the measures taken at the December 2011 European Union summit to contain the euro zone debt crisis failed to restore investor confidence. However, a well-bid Spanish bond sale and solid US economic data heightened risk appetite thereby providing some support to the common currency. The single currency slid near a one-year low versus the dollar after the first-ever tender of ultra-cheap three-year loans by the European Central Bank failed to support the euro as signs appeared that banks were hoarding cash. The euro was also hurt by a renewed rise in Italian bond yields.

The Pound sterling depreciated against the US dollar during December 2011, trading at an average of US$1.5591 compared to an average of US$1.5788 in November 2011. Sterling hit a seven-week low against the dollar, tracking steep falls in riskier currencies and assets, on lack of progress on resolving the euro zone debt crisis. It then tracked gains in stocks as risk sentiment showed signs of some improvement on hopes of progress in resolving the crisis. Dovish Bank of England minutes that kept the possibility of more quantitative easing on the table, however, had little market impact, with many market players seeing the UK currency as a relative safe haven from the debt troubles plaguing the euro zone. Sterling hit a two-and-half month low versus the dollar, which attracted broad safe-haven flows, as the weak demand at the Italian bond auction highlighted risks the euro zone debt crisis would worsen.

Stock markets in developed economies made marginal gains, while emerging stock markets suffered losses over the month. Concerns about the euro zone sovereign debt crisis, a lack of credible solution to the crisis following the December 2011 EU summit, and fears of corporate and sovereign credit rating downgrades hurt the major stock markets. The prospect of no new stimulus measures by the US Federal Reserve also weighed on global equities. However, signs of an improvement in the US economy following a string of unexpectedly strong economic data, including jobs and housing data, gave markets a lift. Over the month, the Dow Jones Industrial Average, FTSE, CAC-40 and Nikkei gained 1.4 per cent, 1.2 per cent, 0.2 per cent and 0.2 per cent respectively, while NASDAQ dropped 0.6 per cent. Among emerging stock markets, Shanghai SEC, Bombay SENSEX and JALSH shed 5.7 per cent, 4.1 per cent, and 2.5 per cent, respectively.

NYMEX WTI (West Texas Intermediate crude oil) averaged US$98.6 a barrel in December 2011, up from US$97.2 a barrel in November 2011. ICE Brent Crude averaged US$107.7 a barrel during the month under review, down from US$110.5 a barrel in November 2011. NYMEX and ICE Brent Crude settled at intra-month highs of US$101.3 a barrel on 27 December 2011 and US$110.8 a barrel on 06 December 2011, respectively.

COMEX gold futures, on average, went down from US$1,743.2 in November 2011 to US$1,644.6 in December 2011 and traded in an intra-month closing range of US$1,540.9/Oz-1,751.30/Oz compared to US$1,678.6/Oz-1,799.2/Oz in the preceding month. Gold prices peaked at US$1,751.3/Oz on 02 December 2011.

Domestic Developments

In the December 2011 issue of the National Accounts, Statistics Mauritius maintained the growth rate for 2011 at 4.1 per cent, same as forecast in September 2011. For 2012, the economy is projected to grow at around 4.0 per cent. Forecast real growth rates for 2012 among main industry groups are as follows: ‘Manufacturing’ (1.5 per cent), ‘Construction’ (3.5 per cent), ‘Hotels and restaurants’ (3.0 per cent based on a forecast of 1,010,000 tourist arrivals and tourist earnings of Rs44.5 billion), ‘Transport, storage and communications’ (5.5 per cent), ‘Financial intermediation’ (4.7 per cent) and ‘Business activities’ (8.8 per cent).

November 2011 data on tourist arrivals showed an increase of 1.6 per cent to 87,348 from 85,982 a year earlier. Gross tourist receipts increased by 21.7 per cent, from Rs3,593 million in November 2010 to Rs4,373 million in November 2011. In the year December 2010 to November 2011, tourist arrivals increased by 4.7 per cent to reach 967,196 compared to 923,708 recorded over the previous corresponding period. Tourist receipts for the period December 2010 to November 2011 rose by 8.1 per cent to reach Rs42,267 million compared to Rs39,107 million registered over the previous corresponding period.

The Consumer Price Index (CPI) remained unchanged at 130.4 in December 2011. Increases in the price of vegetables, fruits, meat, prepared foods and air tickets (+0.1 index point each) were fully offset by decreases in the price of other food products (-0.2 index point) and milk, alcoholic beverages and goods for personal care (-0.1 index point each). Division-wise, an increase of 1.2 per cent was recorded for “Restaurants and hotels” followed by “Recreation and culture” (+0.8 per cent), “Clothing and footwear” (+0.6 per cent) and “Transport” (+0.4 per cent). “Miscellaneous goods and services”, “Furnishings, household equipment and routine household maintenance”, “Alcoholic beverages and tobacco”, “Health” and “Communication” recorded decreases of 1.1 per cent, 0.8 per cent, 0.7 per cent, 0.2 per cent and 0.2 per cent, respectively while “Food and non alcoholic beverages”, “Housing, water, electricity, gas and other fuels” and “Education” recorded no change in their indices.

The rate of inflation for the twelve-month period ended December 2011 stood at 6.5 per cent, down from 6.6 per cent for the twelve-month period ended November 2011. Year-on-Year inflation rate eased to 4.8 per cent in December 2011, from 7.0 per cent in November 2011.

Between November and December 2011, for the twelve month period, CORE1 inflation edged down from 6.1 per cent to 6.0 per cent while CORE2 inflation decreased from 4.9 per cent to 4.8 per cent. TRIM10 inflation stood at 5.3 per cent in December 2011, down from 5.5 per cent for the twelve-month period ended November 2011.

Net foreign assets of depository corporations rose by Rs588 million, or 0.6 per cent, from Rs104,251 million at the end of October 2011 to Rs104,839 million at the end of November 2011, mainly as a result of the increase in the net foreign assets of the other depository corporations. Net foreign assets of the other depository corporations went up by Rs4,219 million, to Rs30,979 million as at end-November 2011 while the net foreign assets of the Bank of Mauritius went down by Rs3,631 million, to Rs73,860 million as at end-November 2011.

Domestic claims of depository corporations, excluding claims on GBL holders, increased by Rs1,740 million, or 0.5 per cent, from Rs328,406 million at the end of October 2011 to Rs330,146 million at the end of November 2011. Net claims on budgetary central Government increased by Rs1,386 million, or 3.0 per cent, from Rs46,296 million at the end of October 2011 to Rs47,682 million at the end of November 2011. Claims on other sectors, that is, credit to the private sector went up by Rs355 million, or 0.1 per cent, to Rs282,464 million in November 2011.

Net claims on budgetary central Government from the Bank of Mauritius rose by Rs1,779 million, from negative Rs5,333 million at the end of October 2011 to negative Rs3,554 million at the end of November 2011 and net claims on budgetary central Government from other depository corporations fell by Rs393 million, or 0.8 per cent, from Rs51,629 million to Rs51,236 million.

Broad Money Liabilities (BML) went up by Rs1,641 million, or 0.5 per cent, from Rs324,314 million at the end of October 2011 to Rs325,955 million at the end of November 2011.

The monetary base went down by Rs499 million, or 1.2 per cent, from Rs42,578 million at the end of October 2011 to Rs42,079 million at the end of November 2011. Currency in circulation fell by Rs423 million, or 1.9 per cent, from Rs21,838 million to Rs21,415 million and liabilities to other depository corporations went up by Rs13 million, or 0.1 per cent, from Rs20,394 million to Rs20,407 million.

In December 2011, the Bank issued Government of Mauritius Treasury Bills for a total nominal amount of Rs3,988.1 million through the auctions of single maturity instruments. Two auctions for 91-day maturity, four auctions for 182-day maturity and five auctions each for 273-day and 364-day maturities were held during the month.

As compared to the last auction held in November 2011 and the last auction held in December 2011, the weighted yield of the 91-day maturity decreased by 29 basis points to reach 4.03 per cent on 23 December 2011; The weighted yield of the 182-day maturity increased by 3 basis points to reach 4.39 per cent on 26 December 2011; The weighted yield of the 273-day maturity decreased by 7 basis points to reach 4.60 per cent on 29 December 2011 and the weighted yield of the 364-day maturity decreased by 6 basis points to reach 4.73 per cent on 30 December 2011.

The overall weighted yield as at end December 2011 stood at 4.44 per cent, down from 4.54 per cent as at end November 2011.

At the monthly auction of Government of Mauritius Treasury Notes (GMTN) held in December 2011, Treasury Notes for a total nominal amount of Rs1,500 million with maturities of 2, 3 and 4 years and bearing interest at the rate of 5.15, 5.40 and 5.65 per cent per annum, respectively, were put on tender. Bids received for the three maturities totalled Rs2,023.0 million and the amount accepted was Rs1,290.0 million. Bids accepted in the three maturities of 2, 3 and 4 years were Rs20.0 million, Rs310.0 million and Rs960.0 million, respectively. The weighted yields were 5.10 per cent, 5.70 per cent and 6.07 per cent, respectively. The market preference was skewed towards the 4-Year maturity with bids accounting for 55.4 per cent of total bids received.

On 7 December 2011, an auction of Fifteen Year Inflation Indexed Government of Mauritius Bonds was held. An amount of Rs1,000.0 million was put on tender and bids received amounted to Rs1,730 million. An amount of Rs1,000.0 million was accepted and the weighted bid margin stood at 2.81 per cent.

During the month under review, Rs2.65 million worth of Treasury Bills/Treasury Notes were sold over the counter at the Bank to members of the public**.** An amount of Rs228.6 million was traded by primary dealers during the month.

Transactions on the interbank money market in December 2011 totalled Rs30,845 million with a daily average of Rs1,186.0 million compared to Rs1,361.0 million for the previous month. A high of Rs2,125.0 million and a trough of Rs30.0 million were recorded in December 2011. The weighted average overnight interbank rate in December 2011 stood at 3.31 per cent up from 2.85 per cent in November 2011.

During the period under review, the Bank intervened on the domestic foreign exchange market and purchased an equivalent of USD57.0 million from the market while it sold USD44.5 million to its customers.

Under the Special Line of Credit made available to Small and Medium Planters, the outstanding amount, as at end December 2011, stood at Rs1,014.9 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 and Bank of Mauritius, depreciated, on average, against the US dollar but appreciated against the Pound sterling and the Euro between November and December 2011.

At the end of November 2011, the net international reserves of the country stood at Rs106,208 million compared to Rs105,626 million at the end of October 2011. The end-November 2011 level of net international reserves of the country, based on the forecast value of import bill for the year 2011, represented 35.6 weeks of imports, up from 35.4 weeks of imports at the end of October 2011. The gross foreign exchange reserves of the Bank of Mauritius increased from Rs77,794 million as at end-November 2011 to Rs80,219 million at the end of December 2011.