

## **OVERVIEW**

### **International Developments**

In December 2013, the US dollar depreciated against the euro and Pound sterling but appreciated against the Japanese yen. The US currency was under pressure at the start of the month amid an increase in risk appetite. This trend was, however, reversed after the US Congress reached a bi-partisan budget agreement that would ease sharp spending cuts over two years and data showed that the US inflation rate rose in November 2013. The US Federal Reserve announced on 18 December 2013, after its two-day FOMC meeting, that it would be tapering its asset purchasing scheme by US\$10 billion as from the beginning of 2014. The Fed chairman, Ben Bernanke, nevertheless, reassured investors by commenting that “tapering does not equal tightening”.

The euro strengthened against the US dollar in December 2013, trading at an average of US\$1.3696 compared to an average of US\$1.3492 in November 2013. The euro rose, from US\$1.3603 at the start of the month, on the back of the decision by Standard & Poor’s to upgrade Cyprus from CCC+ to B-, a slight decline in the euro zone unemployment rate and a higher than expected rise in the inflation rate in November 2013. Meanwhile, the European Central Bank (ECB) left its key refinancing rate unchanged at a historical low of 0.25 per cent on 5 December 2013, pausing to assess the health of the euro zone recovery after taking action a month earlier in response to falling inflation. At its post-meeting conference, ECB President, Mario Draghi, said that the ECB was ready to take fresh policy action to support the euro zone economy but has not yet worked out a detailed plan of which policy tool to use. The euro gained support as traders reacted positively to expectations that European leaders were close to agreeing on a deal to help create a banking union, and Ireland became the first euro zone nation to exit a bail-out package after three years of guidance and €85 billion in emergency funding. The upside of the single currency was, however, limited by concerns over the state of Slovenia’s banking system and the decision by Standard & Poor’s on 20 December 2013 to downgrade the European Union’s credit rating by one notch from AAA to AA+. The euro ended the month trading around US\$1.3793.

The Pound sterling traded at an average of US\$1.6376 in December 2013 compared to an average of US\$1.6101 in November 2013. Trading around US\$1.6415 at the start of the month, the British currency strengthened following the release of generally positive economic data. It also gained some support from the Bank of England's decision to maintain its policy rate steady at 0.5 per cent at its MPC meeting on 9 December 2013. The Pound sterling was thereafter undermined by a higher-than-expected trade deficit and by comments from the Chancellor of the Exchequer, George Osborne, about yet-to-come austerity measures. The British currency subsequently rebounded as the UK jobless rate fell to 7.4 per cent in November 2013 although gains were capped by the deceleration of the UK inflation rate in November 2013 and a widening of the UK current account deficit in the third quarter of 2013. The Pound sterling finished the month trading around US\$1.6480.

Global equity markets continued their rally in December 2013. Despite the decision of the US Fed to start the tapering of its asset-purchasing program, US benchmark stock indices rose to all-time highs on the back of stronger macro trends in the US economy, with the S&P 500, DJIA and NASDAQ rising by 2.4 per cent, 3.0 per cent and 2.9 per cent, respectively. Likewise, the DAX and FTSE 100 finished the month on the upside, recording increases of 1.6 per cent and 1.5 per cent, respectively, while the CAC 40 remained virtually flat. Japanese stocks maintained their impressive rally, boosted by a falling yen and more monetary easing, with the Nikkei 225 improving by 4.0 per cent. Among the emerging markets, JALSH and Bombay SENSEX gained 2.8 per cent and 1.8 per cent, respectively, while the Shanghai Stock Exchange Composite Index and the Hang Seng index retreated by 4.7 per cent and 2.4 per cent, respectively.

NYMEX WTI (West Texas Intermediate crude oil) averaged US\$97.9 a barrel in December 2013, up from US\$94.0 a barrel in November 2013. Likewise, ICE Brent Crude averaged US\$110.7 a barrel during the month under review, up from US\$107.9 a barrel in November 2013. NYMEX and ICE Brent Crude hit intra-month highs of US\$100.3 and US\$112.6 a barrel, respectively, on 27 December 2013 and 3 December 2013, respectively.

COMEX gold futures, on average, fell from US\$1,275.2/Oz in November 2013 to US\$1,224.9/Oz in December 2013 and traded in an intra-month closing range of US\$1,195.0/Oz

- US\$1,262.4/Oz compared to US\$1,237.8/Oz - US\$1,317.8/Oz in the preceding month. Gold prices touched an intra-month high of US\$1,262.4.0/Oz on 10 December 2013.

## **Domestic Developments**

November 2013 data on tourist arrivals showed an increase of 5.5 per cent to 89,057 from 84,398 a year earlier. Gross tourism receipts decreased by 4.4 per cent, from Rs4,063 million in November 2012 to Rs3,885 million in November 2013. For the period December 2012 to November 2013, tourist arrivals increased by 3.0 per cent to 991,485 from 962,271 recorded over the previous corresponding period. Tourism receipts for the period December 2012 to November 2013 decreased by 8.8 per cent to Rs40,726 million from Rs44,634 million in the corresponding period a year earlier.

The Consumer Price Index (CPI) increased from 105.0 in November 2013 to 105.3 in December 2013. The main contributors to the rise in the index between November 2013 and December 2013 were cigarettes, doctors' fees, motor vehicles and other goods and services, each registering an increase of 0.1 index point, more than offsetting the decline of 0.1 index point in rum and other cane spirits. Division-wise, 'clothing and footwear', 'health' and 'restaurants and hotels' each contributed 0.1 index point to the CPI increase. 'Furnishings, household equipment and routine household maintenance' made a negative contribution of 0.1 index point while the contributions of the remaining divisions were negligible.

The rate of inflation for the twelve-month period ended December 2013 stood unchanged at 3.5 per cent relative to the twelve-month period ended November 2013. Year-on-Year inflation rate edged up from 3.9 per cent in November 2013 to 4.0 per cent in December 2013.

CORE1 inflation for the twelve-month period ended December 2013 stood unchanged at 2.6 per cent relative to the twelve-month period ended November 2013, while CORE2 inflation rose from 2.5 per cent in November 2013 to 2.6 per cent in December 2013. TRIM10 inflation, which

trims 5 per cent of the most volatile items in the CPI on both sides of the distribution, edged up from 2.8 per cent in November 2013 to 2.9 per cent in December 2013.

Net foreign assets of depository corporations rose by Rs3,397 million, or 0.9 per cent, from Rs372,526 million at the end of October 2013 to Rs375,923 million at the end of November 2013. Net foreign assets of the Bank of Mauritius declined by Rs968 million to Rs99,261 million at the end of November 2013 while the net foreign assets of the other depository corporations increased by Rs4,364 million to Rs276,661 million at the end of November 2013.

Domestic claims of depository corporations, including claims on GBL holders, increased by Rs5,880 million, or 1.4 per cent, from Rs432,771 million at the end of October 2013 to Rs438,651 million at the end of November 2013. Net claims on central Government rose by Rs2,783 million, or 9.5 per cent, from Rs29,439 million at the end of October 2013 to Rs32,222 million at the end of November 2013. Claims on other sectors grew by Rs3,096 million, or 0.8 per cent, to Rs406,428 million in November 2013.

Broad Money Liabilities (BML) rose by Rs4,882 million, or 1.4 per cent, from Rs349,811 million at the end of October 2013 to Rs354,693 million at the end of November 2013.

The monetary base grew by Rs1,779 million, or 3.4 per cent, from Rs51,978 million at the end of October 2013 to Rs53,757 million at the end of November 2013. Currency in circulation declined by Rs159 million, or 0.6 per cent, from Rs25,515 million to Rs25,356 million whereas liabilities to other depository corporations increased by Rs1,859 million, or 7.1 per cent, from Rs26,366 million to Rs28,225 million.

During the month of December 2013, the Bank issued Government of Mauritius Treasury Bills (GMTBs) for a total nominal amount of Rs2,300 million through auctions of single maturity instruments. During the month, there was a net redemption of Treasury Bills to the tune of Rs620 million compared to Rs774 million in November 2013.

All auctions of GMTBs were oversubscribed with the bid cover ratio ranging between 1.92 and 2.55. One auction for each of 91-Day and 273-Day GMTBs and two auctions for 364-Day GMTBs were held during the month of December 2013.

On a point-to-point basis, the weighted yields of the 91-Day and 273-Day GMTBs increased by 15 basis points and 1 basis point, respectively, while the weighted yield of the 364-Day GMTBs decreased by 1 basis point at the auctions held in December 2013 compared with the auctions held in November 2013. The weighted yields of the 91-Day, 273-Day and 364-Day GMTBs stood at 3.26 per cent, 3.65 per cent and 3.85 per cent, respectively, in December 2013. The overall weighted yield on GMTBs in December 2013 increased to 3.64 per cent from 3.52 per cent in November 2013.

The benchmark 3.75% Three-Year Government of Mauritius Treasury Notes due 20 September 2016, was re-opened for a nominal amount of Rs1,300.0 million, through an auction held on Wednesday 11 December 2013 for settlement on Friday 13 December 2013. The auction was undersubscribed with bid yields ranging from 4.75 per cent to 6.00 per cent. Out of a total nominal value of Rs1,190.0 million received, bids for a total nominal value of Rs1,115.0 million were accepted up to the highest yield of 5.17 per cent and at a weighted yield of 4.96 per cent.

The benchmark 4.30% Five-Year Government of Mauritius Bonds due 18 October 2018, was re-opened for a nominal amount of Rs1,200.0 million, through an auction held on Wednesday 18 December 2013 for settlement on Friday 20 December 2013. The auction was undersubscribed with bid yields ranging from 4.50 per cent to 6.15 per cent. Out of the 18 bids received for a total nominal value of Rs1,688.0 million, 14 bids for a total nominal value of Rs1,200.0 million were accepted up to the highest yield of 6.03 per cent and at a weighted yield of 5.70 per cent.

During the month under review, the amount transacted by primary dealers on the secondary market fell to Rs110.7 million from Rs339.8 million in November 2013. An amount of Rs2.7 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 December 2013 totalled Rs21,030 million compared to Rs26,637 million in November 2013. The daily average amount transacted decreased to Rs678 million in December 2013 from a daily average of Rs888 million in November 2013. Transactions with a high of Rs2,525 million and a trough of Rs75 million were

recorded in December 2013. The weighted average overnight interbank rate dropped to 3.00 per cent in December 2013 from 3.43 per cent in November 2013.

In December 2013, the Bank purchased an equivalent amount of US\$198.2 million whilst it sold US\$34.9 million to its customers on the domestic foreign exchange market.

Under the Special Line of Credit to Small and Medium Planters the total amount disbursed during the month amounted to Rs32.6 million and the amount disbursed and outstanding as at end December 2013 stood at Rs1,017.5 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 Pound sterling between November and December 2013.

At the end of December 2013, the gross foreign exchange reserves of the Bank of Mauritius increased to Rs103,258 million, from Rs99,026 million as at end-November 2013. The end-December 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 5.6 months of imports, compared to 5.3 months as at end November 2013.