

OVERVIEW

International Developments

During December 2015, the key influences on global markets were the continued fall in oil prices, the much-awaited US interest rate hike and the additional stimulus by the European Central Bank (ECB). The US Federal Reserve, at its FOMC meeting on 15-16 December 2015, raised its benchmark interest rates, for the first time in more than nine years, by 25 basis points to the target range of 0.25-0.50 per cent. The US Fed Chair, Janet Yellen, however, said that any further US monetary tightening would be gradual and data-dependent. In contrast, the ECB, at its Governing Council meeting earlier on 3 December 2015, provided further stimulus by lowering the interest rate on its deposit facility by 10 basis points to minus 0.30 per cent. Additionally, at his post-meeting press conference, ECB President Mario Draghi announced that the monthly asset purchases of 60 billion euros would continue to be fully implemented and would be running until the end of September 2016 or even beyond if the ECB's inflation target was not reached. The Bank of England (BoE) Monetary Policy Committee, at its meeting on 10 December 2015, maintained the Bank Rate unchanged at 0.5 per cent and kept its asset purchase programme untouched at £375 billion amid expectations that UK inflation would remain low after another sharp fall in the price of oil and a levelling off in wage growth.

With currency markets having already priced in the US Fed's lift-off in December 2015, the focus has shifted to the pace and number of future rate increases. The US dollar's movement during the month was mixed, as it gained against commodity-linked currencies but came under pressure vis-à-vis those currencies used to fund carry trades. The euro started to rally in early December 2015 when the ECB announced an expansion of its monetary stimulus that fell short of market expectations. The single currency continued to benefit throughout the month from falling oil prices, as traders unwound their bets on commodity-linked currencies and bought the euro given the prevailing relatively low interest rates. Towards the end of the year, the main driver behind the euro's gains was investors closing out their positions. The euro traded at an average of US\$1.0880 in December 2015 compared to US\$1.0733 in November 2015. The weakness of the Pound sterling against the US dollar persisted in December 2015 amid dovish comments from the Bank of England, which indicated that UK interest rates were likely to remain on hold at record lows for a longer period. The Pound sterling traded at an average of US\$1.4997 in December 2015 compared to US\$1.5201 in November 2015.

Most major stock markets continued to sustain losses in December 2015 amid weak global economic sentiment that was exacerbated by lower oil prices adding to global deflationary concerns as well as emerging market woes. The MSCI Developed Markets Index and MSCI Emerging Markets Index lost 2.1 and 3.8 per cent, respectively. The NASDAQ and Dow Jones dropped by 2.9 per cent and 2.6 per cent, respectively. Among the major European market indices, DAX, CAC-40 and FTSE went down by 4.6 per cent, 5.6 per cent, and 2.4 per cent, respectively. The JALSH, Hang Seng, Bombay SENSEX and NIKKEI also decreased by 1.6 per cent, 2.0 per cent, 0.2 per cent and 4.9 per cent, respectively, while the Shanghai Exchange Composite rose by 2.4 per cent.

Commodity prices fell in December 2015. Oil prices fell, on average, in December 2015, as global oil production continued to remain high. ICE Brent Crude averaged US\$38.9 a barrel in December 2015, down from US\$46.0 a barrel in November 2015. NYMEX WTI (West Texas Intermediate crude oil) averaged US\$37.4 a barrel in December 2015, down from US\$43.0 a barrel in November 2015. The FAO food price index continued to decline in 2015, averaging nearly 19 per cent below its previous year's average level, on the back of a stronger dollar and weak global demand. The Food and Agriculture Organisation (FAO) Food Price Index fell from 155.6 points in November 2015 to 154.1 points in December 2015, or by 1.0 per cent, and was still 17.1 per cent below its level a year earlier.

Domestic Developments

Tourist arrivals rose by 9.9 per cent to 132,735 in December 2015, from 120,784 a year earlier. This improvement reflected to a large extent the pick-up in arrivals from Europe (+13.8 per cent) with major source countries like Germany, France and Sweden registering growth rates of 40.8 per cent, 3.0 per cent and 43.3 per cent, respectively, and Asia (+16.8 per cent). The hefty progression of tourist arrivals from China (+38.1 per cent) mirrored the success of the diversification efforts of the government. For the year 2015 as a whole, tourist arrivals increased by 10.9 per cent.

Latest CPI data showed that inflationary pressures in the economy remained moderate in December 2015. Headline inflation rose marginally from 1.2 per cent in November 2015 to 1.3 per

cent in December 2015, while y-o-y inflation picked up from 1.0 per cent to 1.3 per cent over the same period. The core measures of inflation also remained subdued in December 2015.

Monetary aggregates grew at a slightly slower pace in November 2015 than in the previous month. Monetary expansion, as measured by the year-on-year growth rate of Broad Money Liabilities (BML), slowed from 11.0 per cent in October 2015 to 10.9 per cent in November 2015. The annual growth in banks' credit went down from 4.5 per cent in October 2015 to 3.7 per cent in November 2015. The annual growth rate of monetary base accelerated to 11.3 per cent in November 2015, from 9.2 per cent in October 2015.

The auctions of Government of Mauritius Treasury Bills (GMTBs) held in December 2015 were oversubscribed, as reflected by bid-cover ratios in the range of 1.1 - 2.7 compared to 1.2 - 2.2 in November 2015. During December 2015, the Bank issued GMTBs for a total nominal amount of Rs3,680.0 million, of which Rs500.0 million was issued for liquidity management purposes. Over the same period, maturing GMTBs amounted to Rs3,140.4 million. The weighted yields on the three maturities, namely, 91-Day, 182-Day and 364-Day, went up by 68, 65 and 71 basis points, to 3.39 per cent, 3.60 per cent and 4.05 per cent, respectively. As a result, the overall weighted yield went up by 71 basis points from 2.74 per cent in November 2015 to 3.45 per cent in December 2015.

During December 2015, the Bank conducted one auction of Three-Year Government of Mauritius (GoM) Treasury Notes (Re-opening) and one of Five-Year GoM Bonds (New benchmark). The Three-Year Notes' auction was undersubscribed, with a bid-cover ratio of 0.7 compared to 1.3 for the previous auction held in November 2015. However, the weighted yield increased by 22 basis points to 4.78 per cent. In contrast, the auction for the Five-Year GoM Bonds was oversubscribed with a bid cover-ratio of 1.3 and with the weighted yield increasing to 5.01 per cent, from 4.95 per cent for the last auction held in October 2015.

Between November and December 2015, based on the weighted average dealt selling rate¹, the rupee, on average, appreciated against the US dollar and the Pound sterling but

¹ The rates are calculated on the basis of transactions of US\$20,000 and above, or the equivalent in other foreign currencies, conducted by banks and foreign exchange dealers and reported to the Bank.

depreciated against the euro. The average rupee exchange rates were Rs36.171/USD, Rs39.432/EUR and Rs54.527/GBP in December 2015 compared to Rs36.209/USD, Rs38.966/EUR and Rs55.402/GBP, respectively, in November 2015.

The Gross Official International Reserves (GOIR) of the country stood at Rs152,902 million (US\$4,260.5 million) at the end of December 2015, up from Rs151,627 million (US\$4,187.3 million) at the end of November 2015. Based on the value of imports of goods (f.o.b.) and non-factor services for the year 2014, the level of GOIR was unchanged at 7.6 months of imports as at end-December 2015.