# OVERVIEW

## International Developments

In February 2012, the US dollar, on average, depreciated vis-à-vis the euro and Pound sterling but appreciated against the Japanese yen. Early in the month, the US dollar came under broad selling pressure in the wake of improving global growth prospects favouring riskier currencies, and Fed Chairman Ben Bernanke's defence of low interest rate policies. It, then, recovered briefly on market expectations of reduced likelihood of further stimulus by the Fed and concerns of delay about the Greek debt deal. From mid-month onwards, the US dollar trended downward on account of the broad-based strength of riskier currencies.

The euro appreciated against the US dollar in February 2012, trading at an average of US$1.3244 compared to an average of US$1.2903 in January 2012. At the start of the month, the single currency garnered support on hopes that a Greek debt deal was near. The European Central Bank (ECB) left its key refinancing rate unchanged at 1.00 per cent, as widely expected, and ECB President Mario Draghi who flagged tentative economic improvement in the euro area. The Greek parliament eventually approved an austerity bill that put the country a step closer to securing much-needed funds. The euro came under selling pressure after Moody's credit ratings downgrade of several countries, including Italy, Spain and Portugal, and its warning that it may downgrade its triple-A ratings of France, Britain and Austria. After tumbling to a three-week low of US$1.2973, the single currency recovered when euro zone finance ministers finally clinched the bailout deal and eventually hit an intra-day high of US$1.3486 at the end of February 2012 as hopes that European banks would take a large offer of cheap three-year cash from the ECB bolstered risk appetite.

The Pound sterling appreciated against the US dollar in February 2012, trading at an average of US$1.5795 compared to an average of US$1.5509 in January 2012. Beginning February 2012, the British currency was buoyed by data pointing to growth in the UK construction, manufacturing and dominant services sectors. As expected, the BoE kept its key interest rate unchanged at 0.5 per cent on 9 February 2012 and said that it would buy another 50 billion pounds of assets, mostly government bonds. Temporary gains arising from reduced expectations of further monetary stimulus were offset by comments by BoE Governor Mervin King about downside risks to economic recovery. Sterling gained further against the US dollar as perceived riskier currencies rallied broadly. At the end of the month, the British currency traded close to its highest in three months against the dollar ahead of the injection of cheap funds by the ECB, although renewed expectations of more monetary stimulus by the BoE kept a check on gains.

Global equities made broad gains in February 2012. Better-than-expected economic data, mainly from the US, hopes for a deal on the Greek bailout and anticipation of cheap three-year cash from the ECB to European banks helped to lift equity markets. Over the month, the NASDAQ, Dow Jones Industrial Average, CAC-40, FTSE and Nikkei gained 5.4 per cent, 2.5 per cent, 4.7 per cent, 3.3 per cent and 10.5 per cent, respectively. Among emerging stock markets, Shanghai SEC, Bombay SENSEX and JALSH went up by 5.9 per cent, 3.3 per cent and 1.5 per cent, respectively.

NYMEX WTI (West Texas Intermediate crude oil) averaged US$102.3 a barrel in February 2012, up from US$100.3 a barrel in January 2012. ICE Brent Crude averaged US$119.1 a barrel during the month under review, up from US$111.4 a barrel in January 2012. NYMEX and ICE Brent Crude settled at intra-month highs of US$109.8 a barrel and US$125.5 a barrel, respectively, on 24 February 2012.

COMEX gold futures, on average, went up from US$1,659.4/Oz in January 2012 to US$1,745.6/Oz in February 2012 and traded in an intra-month closing range of US$1,711.3/Oz-1,788.4/Oz compared to US$1,600.5/Oz-1,740.4/Oz in the preceding month. Gold prices peaked at US$1,788.4/Oz on 28 February 2012.

**Domestic Developments**

January 2012 data on tourist arrivals showed a decrease of 3.0 per cent to 98,837 from 101,887 a year earlier. Gross tourist receipts increased by 34.4 per cent, from Rs4,102 million in January 2011 to Rs5,514 million in January 2012. In the year February

2011 to January 2012, tourist arrivals increased by 1.8 per cent to reach 961,592 compared to 944,857 recorded over the previous corresponding period. Tourist receipts for the period February 2011 to January 2012 rose by 12.1 per cent to reach Rs44,257 million compared to Rs39,478 million registered over the previous corresponding period.

The Consumer Price Index (CPI) remained unchanged at 131.9 in February 2012. Increases in the price of “washing materials and softeners” and “other goods and services” (0.1 index point each) were fully offset by decreases in the price of “vegetables” and “fruits” (0.1 index point each). Division-wise, an increase of 1.1 per cent was recorded for “Furnishings, household equipment and routine household maintenance” followed by “Health” and “Miscellaneous goods and services” (+0.6 per cent each), “Clothing and footwear” and “Restaurant and Hotels” (+0.1 per cent each). “Food and non alcoholic beverages” recorded a decrease of 0.4 per cent, while “Alcoholic beverages and tobacco” and “Communication” recorded decreases of 0.1 per cent each. “Housing, water, electricity, gas and other fuels”, “Recreation and culture” and “Education” recorded no change in their indices.

The rate of inflation for the twelve-month period ended February 2012 stood at 6.2 per cent, down from 6.4 per cent for the twelve-month period ended January 2012. Year-on-Year inflation rate fell to 4.1 per cent in February 2012, from 4.8 per cent in January 2012.

Between January 2012 and February 2012, for the twelve month period, CORE1 inflation fell from 5.8 per cent to 5.6 per cent while CORE2 inflation decreased from 4.6 per cent to 4.5 per cent. TRIM10 inflation stood at 4.7 per cent in February 2012, down from 5.0 per cent for the twelve-month period ended January 2012.

In February 2012, the Bank issued Government of Mauritius Treasury Bills for a total nominal amount of Rs3,076 million against a total tendered amount of Rs4,900 million through the auctions of single maturity instruments. Two auctions for 91-day and 273-day maturity each, three auctions for 182-day maturity as well as four auctions for 364-day maturity were held during the month. In a bid to alleviate tightness in liquidity conditions, the Bank offered a buyback of Bank of Mauritius Notes in which market participants showed no interest.

As compared to the last auction held in January 2012, the weighted yield of the 91-day maturity decreased by 1 basis point to reach 3.91 per cent at the last auction held on 23 February 2012; the weighted yield of the 182-day maturity went down by 3 basis points from 4.12 per cent to 4.09 per cent on 24 February 2012; the weighted yield of the 273-day maturity and 364-day maturity went up by 3 basis points each to stand at 4.33 per cent on 16 February 2012 and 4.46 per cent on 27 February, respectively.

The overall weighted yield for February 2012 stood at 4.25 per cent down from 4.33 per cent for January 2012.

A new issue of 3-Year Treasury Notes with coupon rate of 5.40 per cent and maturity date of 17 February 2015 was auctioned on 15 February 2012. Out of the 12 bids received for a total nominal amount of Rs1,470 million at the auction, 11 bids for a total nominal amount of Rs1,400 million were accepted. The lowest yield received and the highest yield accepted stood at 5.65 per cent and 5.76 per cent, respectively, whilst the weighted yield was 5.73 per cent.

The Five-Year Government of Mauritius Bonds, with coupon rate of 6.75 per cent, due on 19 August 2016 was re-opened through an auction held on Wednesday 22 February 2012 for an amount of Rs1,500 million for settlement on Friday 24 February 2012. Out of the 26 bids received for a total nominal amount of Rs1,693.1 million at the auction, 10 bids for a total nominal amount of Rs1,020 million were accepted. The lowest yield received and the highest yield accepted stood at 6.60 per cent and 6.80 per cent, respectively, whilst the weighted yield was 6.71 per cent.

During the month under review, Rs1.1 million worth of Treasury Bills/Treasury Notes were sold over the counter at the Bank to members of the public. On the secondary market, an amount of Rs84.4 million was traded by primary dealers during the month.

Transactions on the overnight interbank money market in February 2012 totalled Rs15,885 million with a daily average of Rs548 million compared to Rs408 million for January 2012. Transactions with a high of Rs1,350 million and a trough of Rs45million were recorded in February 2012. The weighted average overnight interbank rate stood at 2.32 per cent in February 2012 from 2.40 per cent in January 2012.

During the period under review, the Bank intervened on the domestic foreign exchange market and purchased an equivalent of USD63.1 million from the market while it sold USD28.8 million to its customers.

Under the Special Line of Credit made available to Small and Medium Planters, the outstanding amount, as at end of February 2012, 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, appreciated, on average, against the US dollar but depreciated against the Pound sterling and the Euro between January and February 2012.

At the end of February 2012, the gross foreign exchange reserves of the Bank of Mauritius decreased to Rs79,906 million compared to Rs79,997 million as at end-January 2012.

Provisional estimates for the calendar year 2011 indicate that gross Foreign Direct Investment (FDI) inflows in Mauritius stood at Rs9,456 million. Investment during the year was mainly directed to the "Real estate activities" sector (Rs4,580 million), of which the IRS/RES/IHS accounted for Rs3,352 million, the "Construction" sector (Rs2,094 million), and the "Financial and insurance activities" sector (Rs1,646 million). The main sources of FDI inflows were France (Rs3,291 million), followed by South Africa (Rs2,169 million) and the United Kingdom (Rs1,752 million). Outward direct investment is estimated at Rs2,545 million for the calendar year 2011 with significant investment channelled to the "Manufacturing" sector (Rs785 million), the “Agriculture, forestry and fishing” sector (Rs531 million), and the “Accommodation and food service activities” sector (Rs411 million).