

OVERVIEW

International Developments

In February 2014, the US dollar depreciated against the euro and Pound sterling. The US currency started the month on a strong note as losses in emerging markets' currencies intensified demand for perceived low-risk currencies and investments, including US Treasuries and German Bunds. Thereafter, the US dollar tumbled against other major currencies on the back of weaker-than-expected data releases that fuelled fears that US economic growth could be slowing. The greenback was also weighed down by soft US housing numbers, stoking uncertainty about the direction of the Federal Reserve's monetary policy. However, the US dollar drew some support from the minutes of the Federal Open Market Committee's (FOMC) January 2014 meeting, which showed that the Fed remained committed to reducing its massive stimulus at the current pace. In the third week of the month, disappointing Chinese data releases rekindled concerns about emerging market economies and buoyed currencies such as the Japanese yen. Towards the end of the month, the US currency came under renewed pressure following dovish comments by US Fed Chief Janet Yellen and a downward revision of the fourth-quarter US economic growth rate, suggesting that the US central bank could maintain its easy monetary policy for longer than expected.

The euro appreciated against the US dollar in February 2014, trading at an average of US\$1.3659 in February 2014 compared to an average of US\$1.3621 in January 2014. Weaker-than-forecast inflation data from the Euro zone, fuelling expectations of radical European Central Bank (ECB) action to head off the risk of deflation, sent the single currency to an intra-month low of US\$1.3484 at the beginning of the month. On 6 February 2014, the ECB kept its key refinancing rate unchanged at 0.25 per cent and maintained its bond-buying programme intact. At the post-meeting conference, ECB President Mario Draghi said that there was no Euro zone deflation problem, which boosted the euro. Better-than-forecast Euro zone growth numbers further supported the euro versus the US dollar. The single currency briefly shed some of its gains after Euro zone business surveys pointed to a sluggish recovery and underlined a fragile outlook for

the currency bloc. However, Euro zone inflation came in above expectations, toning down expectations for a looser monetary policy, which sent the euro to an intra-month high of US\$1.3764 by end-February 2014.

The Pound sterling strengthened against the US dollar in February 2014, trading at an average of US\$1.6561 compared to an average of US\$1.6471 in January 2014. At the start of the month, the UK currency came under pressure, hitting an intra-month low of US\$1.6293 on 5 February 2014, on a weaker-than-forecast UK service sector survey. As widely expected, on 6 February 2014, the Bank of England (BoE) kept its Bank Rate at 0.50 per cent. Thereafter, the Pound sterling surged against the US dollar on a lower trade deficit and BoE's higher economic growth forecast, which pushed up expectations of a rate hike for next year. The Pound sterling was also helped by talk of merger and acquisition inflows. It eventually hit an intra-month high of US\$1.6786 on 17 February 2014 on growing expectations that the BoE would tighten monetary policy sooner than later. Thereafter, weak British factory orders, an unexpected rise in the unemployment rate and below-target inflation eroded some of the Pound's previous gains. The Pound sterling closed February 2014 trading around US\$1.6681.

Major stock market indices rallied in February 2014 on the back of the loose monetary policy stance in major economies and the generally positive economic data releases globally although gains were capped by worries over the tense political situation in Ukraine. The MSCI Global Equity, Emerging Market and Developed Market indices rose by 4.8 per cent, 3.2 per cent and 2.4 per cent, respectively. European indices, namely CAC 40, FTSE 100 and DAX went up by 5.8 per cent, 4.6 per cent and 4.4 per cent, respectively, while in the US, NASDAQ, S&P 500 and DJIA advanced by 5.0 per cent, 4.3 per cent and 4.0 per cent, respectively. Among the emerging markets, the JALSH, Hang Seng, Bombay SENSEX and Shanghai Stock Exchange Composite Index gained 4.9 per cent, 3.6 per cent, 3.0 per cent and 1.1 per cent, respectively. The Nikkei 225, however, lost 0.5 per cent.

NYMEX WTI (West Texas Intermediate crude oil) averaged US\$100.7 a barrel in February 2014, up from US\$94.9 a barrel in January 2014. ICE Brent Crude averaged US\$108.8 a barrel during the month under review, up from US\$107.1 a barrel in January 2014. NYMEX and ICE

Brent Crude touched intra-month highs of US\$103.3 and US\$110.6 a barrel, respectively, on 19 February 2014 and 24 February 2014, respectively.

COMEX gold futures, on average, rose from US\$1,244.1/Oz in January 2014 to US\$1,301.0/Oz in February 2014 and traded in an intra-month closing range of US\$1,251.7/Oz - US\$1,343.0/Oz compared to US\$1,225.0/Oz - US\$1,264.5/Oz in the preceding month. Gold prices hit an intra-month high of US\$1,343.0/Oz on 25 February 2014.

Domestic Developments

January 2014 data on tourist arrivals showed an increase of 3.7 per cent to 96,332 from 92,894 a year earlier. Gross tourism receipts decreased by 10.9 per cent, from Rs4,701 million in January 2013 to Rs4,190 million in January 2014. For the period February 2013 to January 2014, tourist arrivals increased by 3.9 per cent to 996,544 from 959,498 recorded over the previous corresponding period. Tourism receipts for the period February 2013 to January 2014 decreased by 8.2 per cent to Rs40,046 million from Rs43,601 million in the corresponding period of the preceding year.

The Consumer Price Index (CPI) increased from 107.2 in January 2014 to 108.5 in February 2014. The rise in the index between January 2014 and February 2014 was mainly due to seasonal vegetables price increases and price increases in other goods and services, which contributed 1.2 index point and 0.2 index point, respectively, more than offsetting the decline of 0.1 index point in fruits. Division-wise, the largest increase was registered in 'Food and non alcoholic beverages', which contributed 1.1 index point to the increase of the CPI.

The rate of inflation for the twelve-month period ended February 2014 stood at 3.9 per cent, up from 3.7 per cent for the twelve-month period ended January 2014. Year-on-year inflation rate went up from 5.1 per cent in January 2014 to 5.6 per cent in February 2014.

CORE1 inflation for the twelve-month period ended February 2014 rose to 2.9 per cent from 2.8 per cent for the twelve-month period ended January 2014, while CORE2 inflation edged up from 2.6 per cent to 2.7 per cent. TRIM10 inflation, which trims 5 per cent of the most volatile items in the CPI on both sides of the distribution, rose from 3.1 per cent in January 2014 to 3.2 per cent in February 2014.

Net foreign assets of depository corporations went down by Rs24,881 million, or 6.3 per cent, from Rs396,300 million at the end of December 2013 to Rs371,419 million at the end of January 2014. Net foreign assets of the Bank of Mauritius decreased by Rs577 million to Rs102,921 million at the end of January 2014 while the net foreign assets of the other depository corporations went down by Rs24,304 million to Rs268,498 million at the end of January 2014.

Domestic claims of depository corporations, including claims on GBL holders, went down by Rs15,515 million, or 3.5 per cent, from Rs448,175 million at the end of December 2013 to Rs432,659 million at the end of January 2014. Net claims on Central Government decreased by Rs699 million, or 2.0 per cent, from Rs34,759 million at the end of December 2013 to Rs34,060 million at the end of January 2014. Claims on other sectors declined by Rs14,817 million, or 3.6 per cent, to Rs398,599 million in January 2014.

Broad Money Liabilities (BML) went down by Rs628 million, or 0.2 per cent, from Rs365,609 million at the end of December 2013 to Rs364,981 million at the end of January 2014.

The monetary base went down by Rs3,681 million, or 5.9 per cent, from Rs62,350 million at the end of December 2013 to Rs58,669 million at the end of January 2014. Currency in circulation decreased by Rs2,792 million, or 9.3 per cent, from Rs30,128 million to Rs27,336 million whereas liabilities to other depository corporations decreased by Rs631 million, or 2.0 per cent, from Rs31,895 million to Rs31,264 million.

During the month of February 2014, the Bank issued Government of Mauritius Treasury Bills (GMTBs) for a total nominal amount of Rs2,400 million through the auctions of single maturity

instruments. For the month, there was a net redemption of Treasury Bills to the tune of Rs1,277.0 million compared to Rs500.0 million in January 2014.

All auctions of the GMTBs were oversubscribed with the bid cover ratio ranging between 2.42 and 4.43 reflecting the level of excess liquidity prevailing in the system. Four auctions, one for each of 91-Day, 182-Day, 273-Day and 364-Day GMTBs were held during the month of February 2014.

On a point-to-point basis, the weighted yields of the 182-Day, 273-Day and 364-Day GMTBs decreased by 22, 22 and 24 basis points, respectively, at the last auction held in February 2014 compared with the last auction held in January 2014 while the weighted yield of the 91-Day GMTB decreased by 22 basis points at the last auction held in February 2014 compared with the last auction held in December 2013. The weighted yields of the 91-Day, 182-Day, 273-Day and 364-Day GMTBs stood at 3.04 per cent, 3.20 per cent, 3.22 per cent and 3.46 per cent, respectively, in February 2014. The overall weighted yield on GMTBs in February 2014 decreased from 3.54 per cent in January 2014 to 3.36 per cent.

The benchmark 4.50% Three-Year Government of Mauritius Treasury Notes due 20 January 2017, was re-opened for a nominal amount of Rs1,400.0 million, through an auction held on Wednesday 12 February 2014 for settlement on Friday 14 February 2014. The auction was oversubscribed with bid yields ranging from 4.24 per cent to 5.25 per cent. An amount of Rs1,525.0 million nominal was accepted, out of Rs3,785.0 million nominal received, with a highest yield of 4.50 per cent and a weighted yield of 4.33 per cent.

The benchmark 4.30% Five-Year Government of Mauritius Bonds due 18 October 2018, was re-opened for a nominal amount of Rs1,600.0 million, through an auction held on Wednesday 19 February 2014 for settlement on Friday 21 February 2014. The auction was oversubscribed with bid yields ranging from 5.50 per cent to 6.25 per cent. Out of the 34 bids received for a total nominal value of Rs2,926.0 million, 23 bids for a total nominal value of Rs1,600.0 million were accepted up to a highest yield of 5.98 per cent at a weighted yield of 5.83 per cent.

To manage the growing excess liquidity prevailing in the banking system, Bank of Mauritius Securities for a total nominal amount of Rs2,971.1 million were issued during the month against Rs1,878.5 million nominal maturing.

During the month under review, the amount transacted by primary dealers on the secondary market increased from Rs430.6 million in January 2014 to Rs527.2 million. An amount of Rs0.4 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 February 2014 totalled Rs6,385 million compared to Rs4,845 million in January 2014. The daily average amount transacted rose to Rs228 million in February 2014 from a daily average of Rs220 million in January 2014. Transactions with a high of Rs520 million and a trough of Rs30 million were recorded in February 2014. The weighted average overnight interbank rate fell to 2.60 per cent in February 2014 from 3.19 per cent in January 2014.

In February 2014, the Bank intervened on the domestic foreign exchange market and purchased an equivalent amount of US\$112.7 million whilst it sold US\$32.0 million to its customers.

Under the Special Line of Credit to Small and Medium Planters the total amount disbursed during February 2014 amounted to Rs22.9 million and the total amount disbursed and outstanding as at end February 2014 stood at Rs1,040.4 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 depreciated, on average, against the Euro and Pound sterling but appreciated against the US dollar between January and February 2014.

At the end of February 2014, the gross foreign exchange reserves of the Bank of Mauritius increased to Rs108,445 million, from Rs102,732 million as at end-January 2014. The end-February 2014 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 2013, represented 5.5 months of imports, compared to 5.2 months as at end January 2014.