International Developments

In January 2010, the US dollar, on average, appreciated against the euro, Pound sterling and the Japanese yen. The US dollar pared some gains at the beginning of the month as optimism about the global economic recovery encouraged investors to seek riskier assets such as stocks and commodities at the expense of the greenback, and minutes from the U.S. Federal Reserve's December policy meeting suggested the possibility of more stimulus measures for the economy given the persistently high unemployment. An unexpected drop in U.S. nonfarm payrolls data on 11 January 2010 dented expectations that interest rates might rise any time soon causing the US dollar to weaken considerably across the board. Thereafter, the U.S. dollar recouped following U.S. reports indicating a rise in manufacturing alongside stable consumer price inflation, while pressure on the euro persisted over concerns about the Greek economy.

By mid-January, the main commodity currencies including the Australian, New Zealand and Canadian dollars all hit lows against the US dollar as the People’s Bank of China decided to tighten banks' reserve requirements, thus raising concerns that Chinese demand could fall and slow the global economic recovery. At the conclusion of the FOMC meeting on 27 January 2010, the US Federal Reserve reiterated that rates would stay low for an “extended period” and maintained its target lending rate between 0 and 0.25 per cent, while confirming its intention to cease buying mortgage-backed securities in March 2010. The dollar ended the month near a 6-1/2-month peak of US$1.3930 against the euro as investors remained anxious about the fiscal health of Greece and other small euro zone countries. Warnings by credit ratings agencies that Portugal needed a clear plan for further budget cuts beyond 2010 to prevent debt rating downgrades added further pressure on the euro.

The Euro traded at an average of US$1.4282 in January 2010 compared to an average of US$1.4609 in December 2009, dragged down by Greece debt issues and possible contagion effects as well as worse than expected German ZEW indicator of economic sentiment. As expected, the European Central Bank left its refinancing rate unchanged at 1 per cent, and President Jean-Claude Trichet reiterated the importance of a strong US dollar.

The Pound sterling depreciated slightly against the US dollar during January 2010, trading at an average of US$1.6166 compared to an average of US$1.6242 in December 2009. The Pound started the month on a weak note on worries about a flagging UK economy, high debt levels coupled with jitters over the looming election campaign. The Bank of England (BoE) kept the scale of its asset purchase programme unchanged at £200 billion and left the Bank Rate at 0.50 per cent. In the second week of the month, the Pound reversed earlier losses and strengthened on the back of stronger-than-expected rise in UK industrial output and producer prices. This followed firm retail sales and trade data which lifted expectations that the UK returned to growth in the fourth quarter. The Pound hit its strongest versus the US dollar in six weeks on 19 January after a jump in UK consumer prices suggested the BoE may soon end its quantitative easing programme. Subsequently, it reversed its gains on concerns about UK’s fiscal health and very weak UK money supply data. A report that UK emerged out of recession at the end of 2009 with a quarter-on-quarter growth of 0.1 per cent against an expected 0.4 per cent suggested that any UK monetary tightening was still a long way off and weighed on the Pound.

Global equity markets got off to an exuberant start at the beginning of 2010 on expectations that the global economic recovery would continue and possibly even accelerate. Nearly all stock markets attained fresh 12-month highs in early January following higher optimism, better-than-expected factory orders and positive corporate announcements. However, during the second half of January, equities moved lower on concerns over the weaker-than-expected Reuters/University of Michigan Surveys of Consumers, the impact of Chinese tightening measures on global growth, banking sector reform proposals by the US government and weaker 4th quarter 2009 US corporate earnings. Among the developed economies' stock markets, Nasdaq and CAC-40 registered decreases of 5.37 per cent and 5.00 per cent, respectively, while among emerging stock markets, Shanghai Stock Exchange Composite, Bombay SENSEX and Johannesburg Stock Exchange recorded negative returns of 8.78 per cent, 6.34 per cent and 3.58 per cent, respectively.

International oil prices rose during January 2010, mainly on account of a weaker dollar and a general rise in stock market. Both IPE Brent and NYMEX reached their intra-month high at US$81.9 a barrel and US$83.2 a barrel, respectively, on 6 January 2010. The US Energy Information Administration's (EIA) forecast that the price of West Texas Intermediate (WTI) crude oil, which averaged $62 per barrel in 2009, will average around $80 and $84 per barrel in 2010 and 2011, respectively. In addition, the EIA expects that the annual average OPEC crude oil production, which declined by almost 2.2 million barrels per day, on average, in 2009, will increase, on average, by around 0.5 million barrel per day through 2011 as global oil demand recovers.

NYMEX WTI (West Texas Intermediate crude oil) averaged US$78.4 a barrel in January 2010, up from US$74.6 a barrel in December 2009. IPE Brent averaged US$77.0 a barrel during the month under review, up from US$75.2 in December 2009.

COMEX gold futures, on average, went down during January 2010, trading in an intra-month closing range of US$1,083.8/Oz-1,151.4/Oz compared to US$1,086.7/Oz-1,218.3/Oz in December 2009. Gold prices reached a peak of US$1,151.4/Oz on 11 January 2010 as bullion market sentiment improved on the back of a declining US dollar.

Domestic Developments

Tourist arrivals went up by 6.5 per cent, from 97,388 in December 2008 to 103,730 in December 2009, while gross tourism receipts declined by 10.9 per cent, from Rs4,461 million in December 2008 to Rs3,973 million in December 2009. On a cumulative basis, tourist arrivals for calendar year 2009 reached 871,356, representing a decrease of 6.4 per cent over the 930,456 arrivals recorded in the year 2008. Tourism receipts for 2009 contracted by 13.4 per cent to Rs35,693 million compared to Rs41,213 million recorded in 2008.

The Consumer Price Index (CPI) increased from 117.2 in December 2009 to 118.2 in January 2010. The main contributors to this rise were other food products, which went up by 0.2 index point and sugar, vegetables, rice, milk, meat, fruits, alcoholic beverages, school textbooks, goods for personal care and hygiene and other goods and services, each registering an increase of 0.1 index point. A drop of 0.1 index point for both gasoline and air tickets was recorded. The largest rise of 2.2 per cent was noted in the Division "Food and non alcoholic beverages" followed by "Recreation and culture" (+1.6 per cent), "Miscellaneous goods and services" (+1.4 per cent), "Education" (+1.2 per cent), "Health" (+1.1 per cent), "Clothing and footwear" (+0.7 per cent), "Furnishings, household equipment and routine household maintenance" (+0.7 per cent), "Alcoholic beverages and tobacco" (+0.6 per cent) and "Housing, water, electricity, gas and other fuels" (+0.1 per cent). The divisions "Transport" and "Restaurants and hotels" recorded decreases of 1.2 per cent and 0.3 per cent, respectively while "Communication" recorded no change in its index.

The rate of inflation for the twelve-month period ended January 2010 dropped to 2.3 per cent, from 2.5 per cent for the twelve month period ended December 2009. Year-on-Year inflation rate stood at 2.5 per cent in January 2010, up from 1.5 per cent in December 2009.

CORE1 inflation remained unchanged at 2.4 per cent in January 2009, while CORE2 inflation dropped to 3.6 per cent in January 2010, from 3.8 per cent in December 2009. TRIM10 inflation edged up to 2.6 per cent for the twelve-month period ended January 2010, from 2.4 per cent in December 2009.

Net foreign assets of depository corporations rose by Rs5,255 million, or 5.3 per cent, from Rs99,869 million at the end of November 2009 to Rs105,124 million at the end of December 2009, reflecting increases at both Bank of Mauritius and other depository corporations. Net foreign assets of other depository corporations went up by Rs4,146 million or 11.5 per cent, to Rs40,050 million while those of the Bank of Mauritius increased by Rs1,109 million or 1.7 per cent, to Rs65,073 million.

On the back of increases in both of its components, domestic claims of depository corporations, excluding claims on GBL holders, increased by Rs5,519 million or 2.0 per cent, from Rs271,893 million at the end of November 2009 to Rs277,412 million at the end of December 2009. Net claims on budgetary central Government rose by Rs2,468 million or 5.2 per cent, to Rs49,843 million at the end of December 2009. Claims on other sectors, that is, credit to the private sector went up by Rs3,051 million or 1.4 per cent, to Rs227,569 million in December 2009.

Net claims on budgetary central Government from the Bank of Mauritius increased by Rs4,185 million or 28.9 per cent, from negative Rs14,474 million at the end of November 2009 to negative Rs10,289 million at the end of December 2009. However, net claims on budgetary central Government from other depository corporations fell by Rs 1,717 million or 2.8 per cent, from Rs61,849 million to Rs60,132 million.

Claims on Other Sectors from Bank of Mauritius increased by Rs6 million or 4.0 per cent to Rs144 million at the end of December 2009 while claims on Other Sectors from other depository corporations went up by Rs3,046 million or 1.4 per cent, from Rs224,379 million to Rs227,425 million.

Broad Money Liabilities (BML) went up by Rs8,789 million or 3.1 per cent, from Rs287,691 million at the end of November 2009 to Rs296,480 million at the end of December 2009. Of the components of BML, currency with public increased by Rs1,689 million or 10.9 per cent, to Rs17,153 million while transferable deposits increased by Rs4,321 million or 6.6 per cent, to Rs70,170 million. Savings deposits went up by Rs2,524 million or 3.0 per cent, to Rs86,502 million while time deposits rose by Rs243 million or 0.2 per cent, to Rs121,883 million. Securities other than shares included in broad money increased by Rs12 million or 1.6 per cent, to Rs772 million.

The monetary base rose by Rs6,144 million or 20.6 per cent, from Rs29,790 million at the end of November 2009 to Rs35,934 million at the end of December 2009. Currency in circulation went up by Rs3,104 million or 17.3 per cent, from Rs17,965 million to Rs21,069 million while liabilities to other depository corporations increased by Rs3,112 million or 26.8 per cent, from Rs11,617 million to Rs14,729 million.

Broad Money Liabilities multiplier went down from 9.7 at the end of November 2009 to 8.3 at the end of December 2009 on account of a higher expansion in monetary base compared to Broad Money Liabilities.

In January 2010, the Bank issued Government of Mauritius Treasury Bills for a total nominal amount of Rs8,570 million through the weekly primary auctions. Between end-December 2009 and end-January 2010, the weighted average yields on the 91-day Bills, 182-day Bills and 364-day Bills increased from 4.31 per cent to 4.40 per cent, from 4.38 per cent to 4.64 per cent and from 4.59 per cent to 4.78 per cent respectively. The overall weighted yield increased to 4.52 per cent, from 4.40 per cent. During January 2010, the market preference remained skewed towards the 91-day Bills with a small shift to 182-day Bills.

Transactions on the interbank money market in January 2010 totalled Rs16,488 million with a daily average of Rs532 million, a high of Rs1,245 million and a trough of Rs70 million. The weighted average overnight interbank rate for January 2010 decreased to 3.96 per cent, from 4.08 per cent for the previous month.

A total amount of Rs19.35 million Treasury Bills/Treasury Notes was sold over the counter at the Bank to members of the public for individual amounts ranging from the minimum of Rs50,000 to the maximum amount of Rs2 million. Bills traded by primary dealers amounted to Rs69.9 million. No Bills were traded on the Stock Exchange of Mauritius.

At the auction of Treasury Notes held in January 2010, a total nominal amount of Rs1,500 million of Treasury Notes with maturities of 2, 3 and 4 years with interest payable semi-annually at the rates of 5.50, 5.75 and 6.00 per cent per annum, respectively, was put on tender. Bids received for the three maturities totalled Rs4,170.2 million and the amount accepted was Rs1,500.0 million. The weighted average yields on bids accepted for the 2-year, 3-year and 4-year maturities were 6.11, 7.02 and 7.50 per cent per annum, respectively. The market preference of bids received for Treasury Notes shifted from the 2-year maturity to the 3-year maturity.

In January 2010, the Bank conducted spot-to-three month forward swap transactions for amounts of USD1.0 million, EUR1.0 million and GBP500,000 for value 22 January 2010 maturing on 23 April 2010.

In a communiqué dated 4 February 2010, the Bank announced that, in addition to the spot-to-three-month swap, the Bank will offer, as from week starting 8 February 2010, foreign currency swaps for period ranging from one to three months and the swap facility will be available on Mondays and Wednesdays.

Based on the consolidated indicative selling rates of banks, the rupee, on average, appreciated vis-à-vis the euro but depreciated against the US dollar, Pound sterling and the Japanese yen between December 2009 and January 2010.

The weighted average dealt selling rates of the rupee against the US dollar, euro and Pound sterling, which are calculated on the basis of transactions of US$30,000 and above, or the equivalent in other foreign currencies reported by banks, showed that between December 2009 and January 2010, the rupee, on average, depreciated against the US dollar and the Pound sterling but appreciated against the euro.

At the end of December 2009, the net international reserves of the country stood at Rs105,748 million compared to Rs100,493 million at the end of November 2009. The end-December 2009 level of net international reserves of the country, based on the value of import bill for the fiscal year 2008-09 exclusive of the purchase of marine vessel, represented 44.8 weeks of imports, up from 42.6 weeks of imports at the end of November 2009. The gross foreign exchange reserves of the Bank of Mauritius decreased from Rs69,136 million as at end-December 2009 to Rs66,490 million at the end of January 2010.

Provisional estimates for the year 2009 indicate that foreign direct investment (FDI) in Mauritius stood at Rs8,492 million. Investment was mainly directed to the “Hotels and restaurants” sector (Rs3,760 million) and the “Real estate, renting and business activities” sector (Rs2,094 million). Investments were mainly from France and United Kingdom. Outward FDI is estimated at Rs1,412 million for the year 2009 with significant investments destined to the “Hotels and restaurants” sector in Seychelles, Morocco and Maldives.