International Developments

In January 2011, the US dollar, on average, depreciated against the euro, Japanese yen and Pound sterling. At the start of the month, sentiment towards the US dollar was buoyant on upbeat US economic data indicating that the world's largest economy was on a steady path to recovery. Thereafter, the US currency tumbled on rising speculation that the sluggish US housing and labour markets would lead to US interest rates being kept on hold. At the Federal Open Market Committee (FOMC) meeting on 25-26 January 2011, the Fed kept its benchmark interest rate at a record low of 0-0.25 per cent. In its accompanying statement, the Fed repeated that the federal funds rate would remain exceptionally low for an ‘extended period’ and offered only a very slight upgrade to its assessment of the US economy. The dovish statement and data released showing a rise in the number of Americans making first-time claims for jobless benefits, which suggested continued strains in the labour market, also weighed on the US dollar.

The euro strengthened against the US dollar in January 2011, trading at an average of US$1.3345 compared to an average of US$1.3213 in December 2010. At the beginning of the month, the single currency came under pressure in the wake of renewed concerns over Euro zone sovereign debt risks, as caution gripped the market ahead of debt sales by highly indebted countries, and it hit an intra-month low of US$1.2901 on 10 January 2011. From then on, the euro rallied after successful securities auctions by indebted Euro zone members calmed fears of a credit crisis in the region. Moreover, the single currency got some support from Euro zone finance ministers, who were considering the option of raising the effective lending capacity of the rescue fund as part of efforts to calm jittery markets. At its Governing Council meeting on 13 January 2011, the European Central Bank (ECB) left its key refinancing rate unchanged at 1 per cent, as widely expected, and ECB President Jean-Claude Trichet warned that Euro zone inflation risks could escalate. This sparked speculation that the ECB could lift lending rates before the Fed, which further supported the euro. The single currency suffered from a temporary dip around mid-month after Euro zone finance ministers made no firm decisions regarding possible additional measures to quell a sovereign debt crisis that would put nations such as Portugal and Spain under heavy pressure. However, the euro rallied on increased demand from Asian central banks and reached an intra-month high of US$1.3703 on 27 January 2011. Towards the end of month, the euro lost some ground against the US dollar, as rising civil unrest in Egypt prompted safe-haven demand for the US currency and US Treasuries. The euro ended the month trading around US$1.3602.

The Pound sterling appreciated against the US dollar during January 2011, trading at an average of US$1.5762 compared to an average of US$1.5599 in the previous month. Beginning of the month, the UK currency’s movements were erratic given the mixed economic data releases. Thereafter, the British currency rallied against the US dollar on the back of the latter’s broad-based weakness on international markets. On 13 January 2011, the Bank of England (BoE) maintained its Bank Rate at 0.5 per cent, as expected, and made no new quantitative easing purchases. The Pound sterling garnered further support and reached an intra-month high of US$1.6006 on 19 January 2011, benefiting from expectations that UK interest rates could rise in coming months due to sticky inflation, a view bolstered by higher-than-expected producer prices. Moreover, rising oil prices drove UK inflation rate up far more than expected in December to an eight-month high of 3.7 per cent and well above the Bank of England's 2.0 per cent target. By the end of the month, the Pound retreated following the release of poor retail sales data and a contraction of the British economy of 0.5 per cent in the last quarter of 2010, confounding forecasts for a 0.5 per cent expansion. This made investors scale back expectations for interest rates rises in the months ahead and the Pound sterling ended the month trading around US$1.5867.

Overall, major stock markets moved up in January 2011, albeit at a much slower pace than in previous months, as strong profit reports revived optimism and European debt fears eased, which sparked a broad advance, led by banking and commodity-related shares. Speculation that the US economy would strengthen also triggered further flows into equities. However, gains were capped by the monetary policy tightening in China, which prompted renewed concerns about the sustainability of the global economic recovery. Over the month, CAC-40, Dow Jones Industrial Average and NASDAQ advanced by 2.68 per cent, 1.89 per cent and 0.32 per cent, respectively, while FTSE fell by 0.63 per cent. Among emerging stock markets, Bombay SENSEX, JALSH and Shanghai SEC went down by 10.86 per cent, 2.81 per cent and 0.62 per cent, respectively, while Hang Seng gained by a marginal 0.05 per cent.

NYMEX WTI (West Texas Intermediate crude oil) averaged US$89.6 a barrel in January 2011, up from US$89.2 a barrel in December 2010. ICE Brent Crude averaged US$96.9 a barrel during the month under review, up from US$92.3 a barrel in December 2010. Both NYMEX and ICE Brent Crude settled at intra-month highs of US$92.2 a barrel and US$101.0 a barrel, respectively, on 31 January 2011.

COMEX gold futures, on average, went down during January 2011, trading in an intra-month closing range of US$1,318.4/Oz-1,422.9/Oz compared to US$1,371.0/Oz-1,421.4/Oz in December 2010. Gold prices peaked at US$1,422.9/Oz on 03 January 2011.

Domestic Developments

Tourist arrivals went up by 10.7 per cent, from 103,730 in December 2009 to 114,849 in December 2010, while gross tourist receipts rose by 8.8 per cent, from Rs3,973 million in December 2009 to Rs4,323 million in December 2010. On a cumulative basis, tourist arrivals for the calendar year 2010 reached 934,827, representing a rise of 7.3 per cent over the 871,356 arrivals recorded in the year 2009. Tourist receipts for 2010 increased by 10.5 per cent to Rs39,457 million compared to Rs35,693 million recorded in 2009.

The Consumer Price Index (CPI) rose from 124.4 in December 2010 to 125.8 in January 2011. The main contributors to the rise in the index between December 2010 and January 2011 were other food products and other goods and services, each registering an increase of 0.3 index point, private school and tuition fees which registered an increase of 0.2 index point, and sugar, vegetables, milk, doctors' fees, bus fares, taxi fares and gasolene, each registering an increase of 0.1 index point. Air tickets registered a drop of 0.1 index point. The largest rise of 5.3 per cent was noted in the division "Education" followed by "Health" (+2.3 per cent), "Transport" (+1.7 per cent), "Food and non alcoholic beverages" (+1.5 per cent), "Miscellaneous goods and services" (+1.1 per cent), "Furnishings, household equipment and routine household maintenance" (+1.0 per cent), "Clothing and footwear" (+0.6 per cent), "Alcoholic beverages and tobacco" (+0.3 per cent), "Housing, water, electricity, gas and other fuels" (+0.1 per cent) and "Restaurants and hotels" (+0.1 per cent). The division "Recreation and culture" recorded a decrease of 0.1 per cent while "Communication" recorded no change in its index.

The rate of inflation for the twelve-month period ended January 2011 stood at 3.3 per cent, up from 2.9 per cent for the twelve-month period ended December 2010. Year-on-Year inflation rate went up to 6.4 per cent in January 2011, from 6.1 per cent in December 2010.

CORE1 inflation went up to 3.4 per cent for the twelve-month period ended January 2011, from 3.2 per cent for the twelve-month period ended December 2010. CORE2 inflation went up from 2.8 per cent for the twelve-month period ended December 2010 to 3.0 per cent for the twelve-month period ended January 2011. TRIM10 inflation stood at 3.1 per cent in January 2011, up from 2.9 per cent for the twelve-month period ended December 2010.

Net foreign assets of depository corporations rose by Rs3,949 million, or 3.8 per cent, from Rs103,003 million at the end of November 2010 to Rs106,952 million at the end of December 2010. The increase reflected the rise in both net foreign assets of the Bank of Mauritius and those of other depository corporations. Net foreign assets of the Bank of Mauritius rose by Rs2,961 million, or 4.2 per cent to Rs73,899 million and those of the other depository corporations increased by Rs988 million, or 3.1 per cent, to Rs33,052 million.

Domestic claims of depository corporations, excluding claims on GBL holders, increased by Rs3,891 million, or 1.3 per cent, from Rs300,273 million at the end of November 2010 to Rs304,164 million at the end of December 2010. Net claims on budgetary central Government increased by Rs3,227 million, or 6.5 per cent, from Rs49,506 million at the end of November 2010 to Rs52,733 million at the end of December 2010. Claims on other sectors, that is, credit to the private sector went up by Rs664 million, or 0.3 per cent, to Rs251,432 million in December 2010.

Net claims on budgetary central Government from the Bank of Mauritius went up by Rs1,420 million, or 25.3 per cent, from negative Rs5,608 million at the end of November 2010 to negative Rs4,188 million at the end of December 2010. Net claims on budgetary central Government from other depository corporations rose by Rs1,808 million, or 3.3 per cent, from Rs55,113 million to Rs56,921 million.

Claims on Other Sectors from the Bank of Mauritius increased by Rs7 million or 4.9 per cent to Rs145 million at the end of December 2010 while claims on Other Sectors from other depository corporations increased by Rs658 million, or 0.3 per cent, from Rs250,629 million to Rs251,287 million.

Broad Money Liabilities (BML) went up by Rs12,211 million, or 4.0 per cent, from Rs306,913 million at the end of November 2010 to Rs319,124 million at the end of December 2010. Of the components of BML, currency with public increased by Rs2,253 million, or 13.5 per cent, to Rs18,975 million while transferable deposits increased by Rs4,782 million, or 7.4 per cent, to Rs69,347 million. Savings deposits went up by Rs5,348 million or 5.3 per cent, to Rs106,477 million while time deposits decreased by Rs57 million, from Rs121,513 million to Rs121,456 million. Securities other than shares included in broad money went down by Rs114 million or 3.8 per cent, from Rs2,983 million at the end of November 2010 to Rs2,869 million at the end of December 2010.

The monetary base went up by Rs4,802 million, or 12.0 per cent, from Rs40,135 million at the end of November 2010 to Rs44,937 million at the end of December 2010. Currency in circulation increased by Rs3,077 million, or 15.8 per cent, from Rs19,515 million to Rs22,592 million while liabilities to other depository corporations rose by Rs1,826 million, or 9.0 per cent, from Rs20,362 million to Rs22,188 million.

Broad Money Liabilities multiplier went down from 7.6 at the end of November 2010 to 7.1 at the end of December 2010.

In January 2011, the Bank issued Government of Mauritius Treasury Bills for a total nominal amount of Rs2,900 million through the weekly Primary Auctions. Between end-December 2010 and end-January 2011, the weighted yields across the three maturities, namely, 91-Day Bills, 182-Day Bills and 364-Day Bills declined from 2.02 per cent, 3.04 per cent and 3.49 per cent to 1.92 per cent, 2.32 per cent and 3.30 per cent, respectively.

The overall weighted yield in January 2011 stood at 3.01 per cent up from 2.89 per cent in the previous month. The market preference was skewed towards the 182-Day Bills in January 2011 with bids in 91-Day, 182-Day and 364-Day maturities representing around 26.6 per cent, 49.8 per cent and 23.5 per cent, respectively, of total bids received.

An amount of Rs800mn nominal 182-Day Bank of Mauritius Bills was issued on 7 January 2011 at a weighted yield of 2.89 per cent.

At the monthly auction of Government of Mauritius Treasury Notes (GMTN) held in January 2011, Treasury Notes for a total nominal amount of Rs1,200 million with maturities of 2, 3 and 4 years and bearing interest at the rate of 4.50, 4.75 and 5.00 per cent per annum, respectively, were put on tender. Bids received for the three maturities totalled Rs5,294.2 million and the amount accepted was Rs1,200 million. Bids accepted in the three maturities of 2, 3 and 4 years respectively were Rs358.0 million, Rs410.0 million and Rs432.0 million, respectively. The weighted yields were 4.95 per cent, 5.32 per cent and 5.91 per cent, respectively. The market preference remained skewed towards the 2-Year maturity with bids accounting for 66.5 per cent of total bids received.

During the month under review, Rs2.9 million worth of Treasury Bills/Treasury Notes was sold over the counter at the Bank to members of the public. Bills traded by primary dealers during the month amounted to Rs299.2 million.

Transactions on the interbank money market in January 2011 totalled Rs14,845.0 million with a daily average of Rs479 million compared to Rs502 million for the previous month. A high of Rs985.0 million and a trough of Rs220 million were recorded in January 2011. The weighted average overnight interbank rate in January 2011 stood at 1.93 per cent down from 1.99 per cent in December 2010.

Under the Special Line of Credit made available to Small and Medium Planters, the outstanding amount, as at end-January 2011, stood at Rs733.6 million. There has been no disbursement under the Special Line of Credit to the Small and Medium Hotels.

During the period under review, the Bank intervened on the domestic foreign exchange market and purchased a total amount of USD17.30 million and EUR15.38 million from the Government, banks and foreign exchange dealers and sold USD42.2 million to its customers.

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 Euro and the US dollar but depreciated against the Pound sterling between December 2010 and January 2011.

At the end of December 2010, the net international reserves of the country stood at Rs107,984 million compared to Rs104,027 million at the end of November 2010. The end-December 2010 level of net international reserves of the country, based on the value of import bill for the fiscal year 2009-10 exclusive of the purchase of aircraft, represented 45.1 weeks of imports, up from 43.4 weeks of imports at the end of November 2010. The gross foreign exchange reserves of the Bank of Mauritius declined from Rs78,031 million as at end-December 2010 to Rs74,767 million at the end-January 2011.