

## **OVERVIEW**

### **International Developments**

During July 2014, the US dollar appreciated against the euro but depreciated against the Pound sterling and Japanese yen. At the beginning of the month, the US dollar was supported by strong US June 2014 employment data. The US currency pared some gains after the minutes of the US Federal Reserve's June 2014 meeting indicated that the central bank was in no rush to raise interest rates. Thereafter, the US dollar resumed its uptrend after Fed Chief Janet Yellen, at the semiannual Monetary Policy Report to the Congress, hinted at a tightening of monetary policy. The US currency remained well bid on its safe-haven appeal as geopolitical tensions aggravated following the downing of a Malaysian airliner in Ukraine. As expected, the Federal Open Market Committee, at its meeting on 29-30 July 2014, cut its monthly asset purchases by another US\$10 billion to US\$25 billion and said that rates would likely remain close to zero for a "considerable time". The US dollar also gained some support as stronger-than-expected US gross domestic product and labour market data bolstered expectations that the Federal Reserve would adopt a more hawkish policy stance.

The euro depreciated against the US dollar, trading at an average of US\$1.3553 in July 2014 compared to an average of US\$1.3597 in June 2014. From an intra-month high of US\$1.3683 reached on 1 July 2014, the single currency dropped on the European Central Bank's (ECB) dovish monetary policy stance. On 3 July 2014, the ECB kept its key refinancing rate at 0.15 per cent. At the post-meeting conference, ECB President Mario Draghi highlighted the downside risks facing the euro zone and warned about the effects of a strong euro on economic growth. The single currency tumbled as a 10 per cent fall in the shares of Portugal's largest listed bank, Banco Espirito Santo, shook stock markets across Europe on contagion concerns. The euro continued its declining trend on worries over the first economic sanctions imposed on Russia by the European Union and the potential impact on the fragile euro zone economic growth. The single currency dropped to an intra-month low of US\$1.3395 at the end of the month as a fall in

German business sentiment heightened concerns that geopolitical tensions were weighing on the euro zone economy.

The Pound sterling strengthened against the US dollar in July 2014, trading at an average of US\$1.7088 compared to an average of US\$1.6900 in June 2014. The UK currency started the month on a positive note, hitting an intra-month high of US\$1.7173 on 4 July 2014, as data showed the UK manufacturing sector had strengthened in June 2014. On 10 July 2014, as widely expected, the Bank of England kept its bank rate unchanged at 0.5 per cent and maintained its bond-buying programme unchanged at GBP375 billion. The minutes of the July 2014 Monetary Policy Committee meeting failed to boost expectations of an interest rate hike by year-end. The Pound sterling, thereafter, fell as weak economic data added to signs that Britain's economic recovery might not be as robust as expected and on the US dollar's broad-based strength. The UK currency hit an intra-month low of US\$1.6922 on 31 July 2014.

In July 2014, global equity markets posted a negative performance amid uncertainties in the global economy. Geopolitical tensions and renewed euro zone worries triggered profit-taking following the recent strong stock market rally. Sentiment was also hit by fears about the health of Portuguese lender Banco Espírito Santo, which reignited concerns about the creditworthiness of the European banking sector. The MSCI Developed Markets Index and MSCI Emerging Markets Index rose by 1.8 per cent and 1.4 per cent, respectively while the MSCI Global Equity Index fell by 1.7 per cent. In Europe, the DAX, CAC 40 and FTSE 100 fell by 4.3 per cent, 4.0 per cent and 0.2 per cent, respectively. The Dow Jones, S&P 500 and Nasdaq went down by 1.6 per cent, 1.5 per cent and 0.9 per cent, respectively. In contrast, the Nikkei rose by 3.0 per cent, buoyed by a weaker yen and robust earnings from blue chips. The Shanghai Stock Exchange Composite Index, Hang Seng and Bombay SENSEX rose by 7.5 per cent, 6.8 per cent and 1.9 per cent, respectively.

NYMEX WTI (West Texas Intermediate crude oil) averaged US\$104.6 a barrel in July 2014, down from US\$105.1 a barrel in June 2014. ICE Brent Crude averaged US\$108.2 a barrel in July 2014, down from US\$111.9 a barrel in June 2014. NYMEX and ICE Brent Crude traded at intra-month highs of US\$105.3 a barrel and US\$112.3 a barrel, respectively, on 1 July 2014.

COMEX gold futures, on average, rose from US\$1,282.2/Oz in June 2014 to US\$1,311.1/Oz in July 2014 and traded in an intra-month closing range of US\$1,281.3/Oz - US\$1,338.7/Oz in July 2014 compared to US\$1,243.7/Oz - US\$1,322.2/Oz in the preceding month. Gold prices hit an intra-month high of US\$1,338.7/Oz on 10 July 2014.

## **Domestic Developments**

June 2014 data on tourist arrivals showed an increase of 9.9 per cent to 60,445 from 55,007 a year earlier. Gross tourism earnings increased by 38.5 per cent, from Rs2,437 million in June 2013 to Rs3,376 million in June 2014. For the period July 2013 to June 2014, tourist arrivals increased by 4.3 per cent to 1,012,139 from 969,952 recorded over the previous corresponding period. Gross tourism earnings for the period July 2013 to June 2014 decreased by 4.2 per cent to Rs41,079 million from Rs42,885 million in the corresponding period a year earlier.

The Consumer Price Index (CPI) stood at 106.8 in July 2014, unchanged from the previous month. An increase in the index of *motor vehicles* (0.2 index point) was fully offset by a decrease in the indices of *vegetables* and *other food products* (0.1 index point each).

The rate of inflation for the twelve-month period ended July 2014 stood at 3.9 per cent, down from 4.0 per cent for the twelve-month period ended June 2014. The year-on-year inflation rate dropped from 3.3 per cent in June 2014 to 3.1 per cent in July 2014.

Between June 2014 and July 2014, on a twelve-month average basis, CORE1 inflation remained unchanged at 2.9 per cent, while CORE2 inflation rose from 2.9 per cent to 3.0 per cent. TRIM10 inflation, which trims 5 per cent of the most volatile items in the CPI on both sides of the distribution, fell from 3.2 per cent in June 2014 to 3.1 per cent in July 2014.

Net foreign assets of depository corporations declined by Rs979 million, or 0.3 per cent, from Rs383,221 million at the end of May 2014 to Rs382,242 million at the end of June 2014. Net foreign assets of the Bank of Mauritius increased by Rs2,564 million to Rs119,620 million at the

end of June 2014 while the net foreign assets of the other depository corporations fell by Rs3,544 million to Rs262,622 million at the end of June 2014.

Domestic claims of depository corporations, including claims on GBL holders, dropped by Rs7,423 million, or 1.7 per cent, from Rs433,905 million at the end of May 2014 to Rs426,481 million at the end of June 2014. Net claims on Central Government decreased by Rs1,313 million, or 3.7 per cent, from Rs35,817 million at the end of May 2014 to Rs34,504 million at the end of June 2014. Claims on other sectors decreased by Rs6,110 million, or 1.5 per cent, to Rs391,977 million in June 2014.

Broad Money Liabilities (BML) rose by Rs4,008 million, or 1.1 per cent, from Rs374,448 million at the end of May 2014 to Rs378,456 million at the end of June 2014.

The monetary base decreased by Rs445 million, or 0.7 per cent, from Rs62,582 million at the end of May 2014 to Rs62,137 million at the end of June 2014. Currency in circulation increased by Rs323 million, or 1.2 per cent, from Rs26,022 million to Rs26,345 million while liabilities to other depository corporations fell by Rs975 million, or 2.7 per cent, to Rs35,506 million in June 2014.

During July 2014, the Bank issued Government of Mauritius Treasury Bills (GMTBs) for a total nominal amount of Rs2,000 million through the auctions of single maturity instruments. For the month, there was a net redemption of Treasury Bills of Rs1,050 million as against a net issue of Rs460 million in June 2014.

All the auctions of GMTBs were oversubscribed with the bid-cover ratio ranging between 4.03 and 4.70, reflecting significant excess liquidity prevailing in the banking system. One auction of each of 182-Day and 273-Day GMTBs and two auctions of 364-Day GMTBs were held in July 2014.

On a point-to-point basis, the weighted yields of the 182-Day, 273-Day and 364-Day GMTBs decreased by 57, 37 and 53 basis points, respectively, at the last auction held in July 2014

compared with the last auction held in June 2014. The weighted yields of the 182-Day, 273-Day and 364-Day GMTBs stood at 1.75 per cent, 2.19 per cent and 2.08 per cent, respectively, in July 2014. The overall weighted yield on GMTBs in July 2014 declined to 2.10 per cent from 2.48 per cent in June 2014.

A new benchmark issue of Three-Year Government of Mauritius Treasury Notes due on 25 July 2017 was held through auction on 23 July 2014 for settlement on 25 July 2014. Out of the 33 bids received for a total nominal amount of Rs4,350 million at the auction against a tender amount of Rs1,200 million, 6 bids were accepted on a competitive yield basis for an amount of Rs1,250 million. The lowest yield received and the highest yield accepted stood at 3.88 per cent and 3.96 per cent, respectively, whilst the weighted yield on accepted bids was 3.93 per cent. The coupon rate, which was market-determined, was 3.88 per cent at the auction.

A new issue of Fifteen-Year Inflation-Indexed Government of Mauritius Bonds due on 4 July 2029 took place through an auction held on Wednesday 2 July 2014 for an amount of Rs1,000 million for settlement on Friday 4 July 2014. Out of the 45 bids received at the auction for a total nominal amount of Rs2,209 million, 15 bids for a total nominal amount of Rs1,000 million were accepted. The bid margins offered varied between 2.00 per cent and 3.50 per cent. The weighted bid margin on accepted bids stood at 2.30 per cent.

The amount transacted by primary dealers on the secondary market increased from Rs1,556.3 million in June 2014 to Rs1,580.2 million in July 2014. Government of Mauritius securities for a total nominal amount of Rs6.3 million were sold over the counter at the Bank to members of the public.

On 23 July 2014, the Bank, acting as agent of Government, launched the sale of Five Year Government of Mauritius Savings Bonds for retail customers through banks, all Mauritius Post branches, and its counters in Port Louis and Port Mathurin. Two types of instruments are offered: a bond bearing interest at the fixed rate of 6.00 per cent and a bond bearing interest linked to the inflation rate (variable). Over the period 23 July 2014 to 31 July 2014, a total amount of Rs237.05 million of Five Year Government of Mauritius Savings Bonds was sold. Out of this total amount, an amount of Rs222.35 million was issued at the fixed rate of 6.00 per cent.

Transactions on the overnight interbank money market in July 2014 totalled Rs19,795 million compared to Rs7,940 million in June 2014. The daily average amount transacted rose to Rs733 million in July 2014 from a daily average of Rs331 million in June 2014. Transactions with a high of Rs2,385 million and a trough of Rs20 million were recorded in July 2014. The weighted average overnight interbank rate fell to 1.18 per cent in July 2014 from 1.46 per cent in June 2014.

In July 2014, the Bank intervened on the domestic foreign exchange market and purchased an amount equivalent to US\$47.4 million whilst it sold US\$30.5 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, foreign exchange dealers and the Bank of Mauritius appreciated, on average, against the Euro and US dollar but depreciated against the Pound sterling between June and July 2014.

At the end of July 2014, the gross foreign exchange reserves of the Bank of Mauritius increased to Rs121,043 million, from Rs119,631 million as at end-June 2014. The end-July 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 6.1 months of imports, compared to 6.0 months as at end-June 2014.