International Developments

In June 2010, the US dollar, on average, depreciated against the Pound sterling and Japanese yen but appreciated slightly vis-à-vis the euro. The US dollar started the month trading around US$1.2269 vis-à-vis the euro and continued its rally in the first week of June on the back of persistent woes about the euro zone's debt crisis and data showing US non-farm payrolls growing at a slower-than-expected rate in May, which kept investors averse to risk. Thereafter, the greenback fell as the euro gained strength on solid demand at European debt auctions and improved risk sentiment on international stock markets. The US dollar stayed on the defensive after the FOMC of 23 June 2010, when the Fed reiterated its pledge to keep interest rates low for an extended period and softened its view on the US economy. The FOMC noted pockets of weakness in certain sectors and warned against volatile financial markets. However, revised US gross domestic product growth at 2.7 per cent in the first quarter, from an earlier estimate of 3.0 per cent and soft economic data from across the globe cast doubts over the strength of global economic recovery, which broadly favoured the US dollar around the end of the month.

The Euro traded at an average of US$1.2216 in June 2010 compared to an average of US$1.2557 in May 2010. On 7 June 2010, the euro fell to its lowest at US$1.1917 since early 2006, hurt by fears that the region's sovereign debt problems might spread to the banking system and concerns that other peripheral countries could be facing a Greek-style debt crisis. The euro subsequently rose as strong demand for Spanish bonds eased concerns on the country's ability to finance its debt and a spike in Chinese exports boosted investors' confidence in the global economy. Moreover, the single currency gained support by options-related demand and renewed market hopes that Europe's debt crisis may not put the brakes on global growth. The European Central Bank (ECB), at its monthly policy meeting on 10 June 2010, left its key refinancing rate unchanged at 1 per cent, as expected and raised its 2010 growth forecast slightly, though ECB President Jean-Claude Trichet said that the pace of growth would be uneven in the coming quarters. Investors breathed a sigh of relief after he also said that the three-month emergency loans to banks would continue until September 2010. Stronger-than-expected euro zone industrial data eased concern about Europe's recovery and further encouraged investors to reduce bets against the single currency but gains were capped after Moody's downgraded the credit rating of Greece to junk status and said that the country faced substantial risks. The euro touched a high of US$1.2429 briefly on 21 June as European leaders said they would publish details about the health of European banks and investors took China's commitment to allow more yuan flexibility as a signal to buy riskier assets. Subsequently, the euro pared some gains as yuan-induced euphoria faded and investors became nervous over a retreat in US stocks. The euro ended the month pressured by concerns about European banks' funding abilities ahead of July 1 but these were rather short-lived as banks borrowed less money than expected from the ECB.

The Pound sterling appreciated against the US dollar during June 2010, trading at an average of US$1.4745 compared to an average of US$1.4644 in May 2010. The Pound initially fell, tracking the broad fall in the euro and on ratings agency Fitch warning that Britain faced a "formidable" challenge to cut government borrowing. Mixed domestic data released also did not provide any support to the UK currency. However, following the Bank of England's decision to maintain the Bank Rate at a record low of 0.50 per cent on 10 June 2010, the Pound rose against the US dollar, buoyed by hawkish comments from policymakers and lower UK public borrowing forecasts. Britain's budget deficit coming in lower than expected in May and general investor sentiment that the new government's first budget was tough enough to address UK's fiscal problems added support to the Pound. Moreover, positive comments from Moody's that Britain would retain its triple-A credit standing, if it successfully implemented the fiscal tightening measures outlined in the June 22 budget, helped the Pound to end the month on a strong footing, trading around US$1.5057.

Overall, major stock markets closed June 2010 on a negative note. Most stock markets were on a downward trend during the first week of the month on the back of soft US jobs figure in May, concerns over debt crisis in Hungary and as the US probe of the oil spill in the Gulf of Mexico deepened. They recovered subsequently and US stocks posted their best day on 10 June in response to signs of health in the euro debt market and investors snapped up energy shares. Stock markets resumed their downtrend as from 23 June on the back of Federal Reserve downgrading its assessment of the economic recovery, signs of consumer weakness and worries about stringent financial regulation. The downward trend accentuated on 29 June following a sell-off triggered by concerns over the global economic outlook and strength of European banks as they were due to repay emergency loans to the ECB on 1 July 2010.

Over the month, NASDAQ and FTSE fell by 5.09 per cent and 4.77 per cent, respectively, while NIKKEI, CAC-40 and DAX decreased by 3.39 per cent, 1.72 per cent and 0.26 per cent, respectively. Among emerging stock markets, a mixed performance was noted, with Shanghai Stock Exchange Composite and JALSH losing 6.62 per cent and 3.85 per cent, respectively. Bombay SENSEX and Hang Seng recorded positive returns of 6.81 per cent and 3.24 per cent, respectively.

NYMEX WTI (West Texas Intermediate crude oil) averaged US$75.4 a barrel in June 2010, up from US$74.1 a barrel in May 2010. ICE Brent Crude averaged US$75.7 a barrel during the month under review, down from US$77.1 a barrel in May 2010. NYMEX and ICE Brent Crude settled at intra-month highs of US$78.9 a barrel on 25 June 2010 and US$78.8 a barrel on 21 June 2010, respectively.

COMEX gold futures, on average, went up during June 2010, trading in an intra-month closing range of US$1,210.0/Oz-1,258.3/Oz compared to US$1,169.2/Oz-1,243.1/Oz in May 2010. Gold prices peaked at US$1,258.3/Oz on 18 June 2010 on safe-haven demand in the face of weaker equity markets.

Domestic Developments

Tourist arrivals went up by 9.7 per cent, from 64,761 in May 2009 to 71,055 in May 2010, while gross tourism receipts increased by 24.4 per cent, from Rs2,422 million in May 2009 to Rs3,012 million in May 2010. On a cumulative basis, over the period June 2009 to May 2010, tourist arrivals reached 890,541, representing a marginal decrease of 0.5 per cent over the corresponding period of last year. However, tourism receipts for the period June 2009 to May 2010 declined by 1.2 per cent to Rs37,220 million.

In the June 2010 issue of its National Accounts Estimates, the Central Statistics Office revised the growth rate of the Mauritian economy for 2010 to 4.2 per cent, down from the 4.6 per cent forecast made in March 2010. This downward revision resulted mainly from: (i) a growth of 2.3 per cent in “Sugarcane/sugar milling”, lower than the 8.9 per cent growth forecast in March 2010, based on a sugar production of 450,000 tonnes instead of 480,000 tonnes; and (ii) a growth of 5.0 per cent in the construction sector instead of 8.0 per cent due to delays in some public sector investment projects such as airport infrastructure and roads.

The Consumer Price Index (CPI) rose from 119.1 in May 2010 to 119.9 in June 2010. The main contributors to this rise were gasoline, which registered an increase of 0.3 index point, motor vehicles which showed an increase of 0.2 index point and milk, fruits and diesel oil, each registering an increase of 0.1 index point. The largest rise of 3.5 per cent was noted in the division “Transport”, followed by “Clothing and footwear” (+0.9 per cent), “Recreation and culture” (+0.9 per cent), “Restaurants and hotels” (+0.6 per cent), “Food and non alcoholic beverages” (+0.5 per cent),“Furnishings, household equipment and routine household maintenance” (+0.4 per cent), “Health” (+0.2 per cent) and “Miscellaneous goods and services” (+0.2 per cent). The divisions “Alcoholic beverages and tobacco” and “Housing, water, electricity, gas and other fuels” recorded decreases of 0.4 per cent and 0.1 per cent, respectively, while “Communication” and “Education” recorded no change in their indices.

The rate of inflation for the twelve-month period ended June 2010 stood at 1.7 per cent, down from 1.8 per cent for the twelve-month period ended May 2010. Year-on-Year inflation rate edged down to 2.4 per cent in June 2010, from 2.5 per cent in May 2010.

CORE1 inflation remained unchanged at 2.2 per cent for the twelve-month period ended June 2010. CORE2 inflation dropped to 2.6 per cent in June 2010, from 2.8 per cent for the twelve month period ended May 2010. TRIM10 inflation edged down to 2.1 per cent for the twelve-month period ended June 2010, from 2.2 per cent for the twelve-month period ended May 2010.

Reflecting increases in both of its components, the net foreign assets of depository corporations went up by Rs3,315 million, or 3.2 per cent, from Rs102,798 million at the end of April 2010 to Rs106,113 million at the end of May 2010. Net foreign assets of other depository corporations increased by Rs690 million, or 1.8 per cent, to Rs39,656 million while those of the Bank of Mauritius increased by Rs2,625 million, or 4.1 per cent, to Rs66,457 million.

Domestic claims of depository corporations, excluding claims on GBL holders, increased by Rs8,369 million, or 3.0 per cent, from Rs281,856 million at the end of April 2010 to Rs290,225 million at the end of May 2010. Net claims on budgetary central Government increased by Rs628 million, or 1.2 per cent, from Rs50,351 million at the end of April 2010 to Rs50,979 million at the end of May 2010. Claims on other sectors, that is, credit to the private sector went up by Rs7,740 million, or 3.3 per cent, to Rs239,245 million in May 2010.

Net claims on budgetary central Government from the Bank of Mauritius decreased by Rs19 million, or 0.2 per cent, from negative Rs9,067 million at the end of April 2010 to negative Rs9,086 million at the end of May 2010. Net claims on budgetary central Government from other depository corporations rose by Rs648 million, or 1.1 per cent, from Rs59,418 million to Rs60,066 million.

Claims on Other Sectors from the Bank of Mauritius increased by Rs3 million, or 2.3 per cent, to Rs130 million at the end of May 2010 while claims on Other Sectors from other depository corporations rose by Rs7,737 million, or 3.3 per cent, from Rs231,378 million to Rs239,115 million.

Broad Money Liabilities (BML) went up by Rs4,168 million, or 1.4 per cent, from Rs296,688 million at the end of April 2010 to Rs300,856 million at the end of May 2010. Of the components of BML, currency with public increased by Rs191 million, or 1.2 per cent, to Rs16,227 million while transferable deposits rose by Rs2,648 million, or 3.8 per cent, to Rs71,649 million. Savings deposits went up by Rs533 million, or 0.6 per cent, to Rs92,051 million while time deposits decreased by Rs783 million, or 0.7 per cent, to Rs120,098 million. Securities other than shares included in broad money increased by Rs13 million, or 1.5 per cent, to Rs830 million.

The monetary base went up by Rs1,037 million, or 3.0 per cent, from Rs34,067 million at the end of April 2010 to Rs35,104 million at the end of May 2010. Currency in circulation rose by Rs160 million, or 0.9 per cent, from Rs18,752 million to Rs18,912 million while liabilities to other depository corporations increased by Rs877 million, or 5.8 per cent, from Rs15,125 million to Rs16,002 million.

Broad Money Liabilities multiplier went down from 8.7 at the end of April 2010 to 8.6 at the end of May 2010 as a result of a higher expansion in Broad Money Liabilities compared to Monetary Base.

In June 2010, the Bank issued Government of Mauritius Treasury Bills for a total nominal amount of

Rs5,300 million through the weekly Primary Auctions. Between end-May 2010 and end-June 2010, the weighted average yields on the 91-day Bills, 182-day Bills and 364-day Bills increased from 3.53 per cent to 3.64 per cent, from 3.60 per cent to 4.40 per cent and from 3.80 per cent to 4.73 per cent, respectively.

The overall weighted yield on Bills in June 2010 decreased to 3.48 per cent, from 3.91 per cent for the previous month. During June 2010, the market preference remained skewed towards the 91-day Bills.

Transactions on the interbank money market in June 2010 totalled Rs10,598 million with a daily average of Rs353 million, a high of Rs1,515 million and a trough of Rs20 million. The weighted average overnight interbank rate for June 2010 decreased to 3.26 per cent, from 3.69 per cent for the previous month.

A total amount of Rs0.9 million Treasury Bills/Treasury Notes was sold over the counter at the Bank to members of the public. Bills traded by primary dealers amounted to Rs277.5 million.

At the monthly auction of Treasury Notes held in June 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 Rs3,776 million and the amount accepted was Rs1,500 million. The weighted average yields on bids accepted for the 2-year, 3-year and 4-year maturities were 5.15, 5.75 and 6.03 per cent per annum, respectively. Market preference remained skewed towards the 2-year maturity with a market share of above 65 per cent of total bids received.

An issue of Five-Year Government of Mauritius Bonds was undertaken on 4 June 2010, through an auction held on 2 June 2010. Bids for a total nominal amount of Rs5,482.2 million were received against a tender amount of Rs3,000 million. The amount accepted was Rs3,000 million. The coupon rate was set at 6.69 per cent per annum and the weighted average yield on bids accepted was 7.05 per cent per annum.

With a view to managing the excess liquidity in the domestic Rupee market, the Bank conducted Special Deposits Facility for a period of 21 days with banks at the rate of 4.75 per cent per annum for a total amount of Rs2,000 million. The Bank also carried out one reverse repo transaction for 7 days for a total amount of Rs1.0 billion.

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 May and June 2010, the rupee, on average, appreciated against the US dollar and the Euro but depreciated against the Pound sterling.

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

At the end of May 2010, the net international reserves of the country stood at Rs106,975 million. The end-May 2010 level of net international reserves of the country, based on the value of import bill for the calendar year 2009 exclusive of the purchase of aircraft, represented 48.2 weeks of imports, up from 46.7 weeks of imports at the end of April 2010. The gross foreign exchange reserves of the Bank of Mauritius decreased from Rs70,519 million at the end of May 2010 to Rs69,065 million at the end of June 2010.