OVERVIEW

International Developments

In January 2012, the US dollar, on average, appreciated vis-à-vis the euro and Pound sterling but depreciated against the Japanese yen. In the first half of the month, the US dollar gained broadly on its safe-haven appeal as markets remained focused on the euro zone debt crisis following a subdued German debt auction. Thereafter, the US dollar retreated on the back of better economic data releases in major economies, which boosted risk appetite and dampened the US currency’s safe haven appeal. At the Federal Open Market Committee meeting on 24-25 January 2012, the Fed kept its benchmark interest rate at the record low of 0-0.25 per cent and pushed back the likely timing of an eventual interest rate hike until late 2014. In its accompanying statement, Fed Chairman Ben Bernanke said that the US central bank might consider further monetary easing through bond purchases.

The euro depreciated against the US dollar in January 2012, trading at an average of US$1.2903 compared to an average of US$1.3168 in December 2011. At the start of the month, the euro remained under pressure ahead of debt auctions in the euro zone countries with market players dubious about the euro zone's plans to fend off the sovereign debt crisis as some countries face huge debt refinancing needs. On 12 January 2012, the European Central Bank (ECB) left its key refinancing rate unchanged at 1.00 per cent as widely expected after two successive rate reductions. At its post-meeting conference, ECB President Mario Draghi cited "signs of stabilisation activity at low levels" in the euro zone economy. On 13 January 2012, the single currency plunged to an intra-day low of $1.2624 after Standard & Poor's mass downgrade of nine euro zone countries, including France, Spain, Italy and Austria. S&P's, however, left Germany's triple A rating unchanged, with a stable outlook. Thereafter, the euro reversed its downtrend as risk appetite improved following better-than-expected German economic data and strong Chinese growth figures. News about a possible increase in the IMF’s lending capabilities and short-covering after successful bond sales in Spain and France also supported the single currency. At the end of the month, the euro remained supported as the European Stability Mechanism

(500 billion euro permanent bailout fund) was due to be signed and news that "significant progress had been made" in talks to strike a restructuring deal for Greek government debt. The euro ended the month trading at a high of US$1.3185.

The Pound sterling depreciated against the US dollar in January 2012, trading at an average of US$1.5509 compared to an average of US$1.5591 in December 2011. At the start of the month, the Pound was undermined by the UK economy's uncertain prospects. As expected, the Bank of England (BoE) left interest rates on hold at 0.5 per cent on 12 January 2012 and opted not to increase its quantitative easing target. In the aftermath of the series of euro zone downgrades, the Pound sterling fell to an intra-day low of US$1.5234 on 13 January 2012. From then on, the Pound sterling reversed its losses against the US dollar, tracking the gains in the euro, but the rise was limited as weak UK consumer confidence data added to concerns about the British economy. The Pound sterling closed the month trading at US$1.5734.

The recent run of better-than-expected economic data around the world, helped to lift equity markets in January 2012 as investors moved away from a worst-case scenario for the global economy. Forecast-beating earnings also supported stock markets. Moreover, the Fed’s pledge to an easy monetary policy to support economic growth boosted market sentiment. Over the month, the NASDAQ, Dow Jones Industrial Average, CAC-40, FTSE and Nikkei gained 8.0 per cent, 3.4 per cent, 4.4 per cent, 2.0 per cent and 4.1 per cent, respectively. Among emerging stock markets, Shanghai SEC, Bombay SENSEX and JALSH went up by 4.2 per cent, 10.8 per cent, and 5.7 per cent, respectively.

NYMEX WTI (West Texas Intermediate crude oil) averaged US$100.3 a barrel in January 2012, up from US$98.6 a barrel in December 2011. ICE Brent Crude averaged US$111.4 a barrel during the month under review, up from US$107.7 a barrel in December 2011. NYMEX and ICE Brent Crude settled at intra-month highs of US$103.2 a barrel and US$113.7 a barrel, respectively, on 04 January 2012.

COMEX gold futures, on average, went up from US$1,644.6/Oz in December 2011 to US$1,659.4/Oz in January 2012 and traded in an intra-month closing range of

US$1,600.5/Oz-1,740.4/Oz compared to US$1,540.9/Oz-1,751.3/Oz in the preceding month. Gold prices peaked at US$1,740.4/Oz on 31 January 2012.

Domestic Developments

December 2011 data on tourist arrivals showed a decrease of 2.2 per cent to 112,295 from 114,849 a year earlier. Gross tourist receipts increased by 26.3 per cent, from Rs4,323 million in December 2010 to Rs5,458 million in December 2011. For the year 2011, tourist arrivals increased by 3.2 per cent to reach 964,642 compared to 934,827 recorded over the previous year. Tourist receipts for the year 2011 rose by 10.0 per cent to reach Rs43,402 million compared to Rs39,457 million registered over the previous year.

The Consumer Price Index (CPI) rose from 130.4 in December 2011 to 131.9 in January 2012. The main contributors to the rise in the index between December 2011 and January 2012 were water (+0.4 index point), food products (+0.2 index point), expenditure in bars and restaurants (+0.2 index point), other goods and services (+0.2 index point), soft drinks (+0.1 index point), alcoholic beverages (+0.1 index point), waste water (+0.1 index point), workman's wages (+0.1 index point), domestic and household services (+0.1 index point) and mobile phone charges (+0.1 index point). Motor vehicles registered a drop of 0.1 index point. Division-wise, an increase of 3.8 per cent was recorded for "Housing, water, electricity, gas and other fuels" followed by "Restaurants and hotels" (+3.6 per cent), "Communication" (+1.9 per cent), "Education" (+1.9 per cent), "Miscellaneous goods and services" (+1.6 per cent), "Furnishings, household equipment and routine household maintenance" (+1.5 per cent), "Health" (+1.0 per cent), "Clothing and footwear" (+0.9 per cent), "Food and non alcoholic beverages" (+0.8 per cent), "Alcoholic beverages and tobacco" (+0.5 per cent) and "Recreation and culture" (+0.3 per cent). "Transport" division recorded a decrease of 0.6 per cent.

The rate of inflation for the twelve-month period ended January 2012 stood at 6.4 per cent, down from 6.5 per cent for the twelve-month period ended December 2011. Year-on-year inflation rate remained unchanged at 4.8 per cent in January 2012.

Between December 2011 and January 2012, for the twelve month period, CORE1 inflation fell from 6.0 per cent to 5.8 per cent while CORE2 inflation decreased from 4.8 per cent to 4.6 per cent. TRIM10 inflation stood at 5.0 per cent in January 2012, down from 5.3 per cent for the twelve-month period ended December 2011.

Net foreign assets of depository corporations rose by Rs3,329 million, or 3.2 per cent, from Rs104,839 million at the end of November 2011 to Rs108,168 million at the end of December 2011, mainly as a result of the increase in the net foreign assets of the Bank of Mauritius. Net foreign assets of the other depository corporations went up by Rs757 million, to Rs31,736 million as at end-December 2011 while the net foreign assets of the Bank of Mauritius went up by Rs2,572 million, to Rs76,432 million as at end-December 2011.

Domestic claims of depository corporations, excluding claims on GBL holders, decreased by Rs535 million, or 0.2 per cent, from Rs330,146 million at the end of November 2011 to Rs329,611 million at the end of December 2011. Net claims on budgetary central Government increased by Rs496 million, or 1.0 per cent, from Rs47,682 million at the end of November 2011 to Rs48,178 million at the end of December 2011. Claims on other sectors, that is, credit to the private sector went down by Rs1,031 million, or 0.4 per cent, to Rs281,433 million in December 2011.

Broad Money Liabilities (BML) went up by Rs7,950 million, or 2.4 per cent, from Rs325,955 million at the end of November 2011 to Rs333,905 million at the end of December 2011.

The monetary base increased by Rs6,235 million, or 14.8 per cent, from Rs42,079 million at the end of November 2011 to Rs48,314 million at the end of December 2011. Currency in circulation rose by Rs3,055 million, or 14.3 per cent, from Rs21,415 million to Rs24,470 million while liabilities to other depository corporations went up by Rs3,261 million, or 16.0 per cent, from Rs20,407 million to Rs23,668 million.

In January 2012, the Bank issued Government of Mauritius Treasury Bills for a total nominal amount of Rs3,353.0 million through the auctions of single maturity instruments. One auction for 91-day maturity, four auctions for 182-day maturity and 364-day each as well as three auctions for 273-day maturity were held during the month.

The Bank also issued Bank of Mauritius Bills for 273-Day maturity for an amount of Rs500.0 million at the weighted yield of 4.30 per cent on 20 January 2012.

As compared to the last auction held in December 2011, the weighted yield of the 91-day maturity decreased by 11 basis points to reach 3.92 per cent on 27 January 2012; the weighted yield of the 182-day maturity went down by 27 basis points from 4.39 per cent on 26 December 2011 to reach 4.12 per cent on 30 January 2012; the weighted yield of the 273-day maturity and 364-day maturity decreased by 30 basis points each to stand at 4.30 per cent on 20 January 2012 and 4.43 per cent on 26 January 2012, respectively.

The overall weighted yield for January 2012 stood at 4.33 per cent down from 4.59 per cent for December 2011.

At the Re-Opening of the Three-Year Government of Mauritius Treasury Notes (GMTN) held in January 2012, a total nominal amount of Rs1,300 million bearing interest at the rate of 5.50 per cent per annum was put on tender. Bids received totalled Rs1,838.0 million and the amount accepted was Rs1,300.0 million. The lowest and highest yield accepted stood at 5.60 per cent and 5.74 per cent while the weighted yield worked out to 5.69 per cent.

On 18 January 2012, an auction of Fifteen Year Government of Mauritius Bonds with a coupon rate of 9.25 per cent per annum was held for issue on 20 January 2012. An amount of Rs1,500.0 million was put on tender and bids received amounted to Rs3,369.5 million. Bids amounting to Rs1,709.0 million were accepted and the weighted yield stood at 9.81 per cent.

During the month under review, Rs2.8 million worth of Treasury Bills/Treasury Notes were sold over the counter at the Bank to members of the public. An amount of Rs163.0 million was traded by primary dealers during the month.

Transactions on the interbank money market in January 2012 totalled Rs10,195 million with a daily average of Rs408 million compared to Rs1,186 million for the previous month. Transactions with a high of Rs1,065.0 million and a trough of Rs110.0 million were recorded in January 2012. The weighted average overnight interbank rate stood at 2.40 per cent in January 2012 from 3.32 per cent in December 2011.

During the period under review, the Bank intervened on the domestic foreign exchange market and purchased an equivalent of USD36.4 million from the market while it sold USD43.5 million to its customers.

Under the Special Line of Credit made available to Small and Medium Planters, the outstanding amount, as at end of January 2012, stood at Rs1,014.9 million.

At the end of December 2011, the net international reserves of the country stood at Rs109,588 million compared to Rs106,208 million at the end of November 2011. The end-December 2011 level of net international reserves of the country, based on the preliminary estimate of the import bill for the year 2011, represented 36.8 weeks of imports, up from 35.6 weeks of imports at the end of November 2011. The gross foreign exchange reserves of the Bank of Mauritius decreased from Rs80,054 million as at end-December 2011 to Rs79,997 million at the end of January 2012.