OVERVIEW

International Developments

In January 2014, the US dollar appreciated against the euro and Japanese yen but depreciated against the Pound sterling. The US currency was well bid at the start of the month on expectations that the US Federal Reserve would scale back monetary stimulus further following the release of better-than-expected US economic data. The US dollar's gains were thereafter capped by disappointing data releases, especially jobs numbers. In the last two weeks of January 2014, the anxiety surrounding emerging markets increased the safe-haven appeal of the Japanese yen and Swiss Franc at the expense of the US dollar. As expected, the Federal Open Market Committee (FOMC), at its meeting on 28-29 January 2014, announced a second consecutive cut in its stimulus programme despite the emerging market turmoil. The FOMC said that asset purchases would be reduced by another US$10 billion monthly to US$65 billion per month as from February 2014. Policy interest rates were left unchanged. In its accompanying statement, the Fed pointed to signs that the US economy was recovering and that the labour market was improving.

The euro weakened against the US dollar in January 2014, trading at an average of US$1.3621 compared to an average of US$1.3696 in December 2013. As widely expected, the European Central Bank (ECB) kept its key refinancing rate unchanged at 0.25 per cent on 9 January 2014. At the post-meeting conference, ECB President Mario Draghi said that the central bank was monitoring money market conditions and hinted that there might be downward risks to its current views on inflation. The euro thereafter managed to recoup some of its previous losses on demand for Euro zone peripheral bond markets while robust German data provided additional support to the single currency. However, towards the end of the month, soft Euro zone inflation data dimmed the appeal of the single currency, which closed January 2014 trading around US$1.3647.

The Pound sterling appreciated against the US dollar in January 2014, trading at an average of US$1.6471 compared to an average of US$1.6376 in December 2013. Trading around US$1.6442 at the start of the month, the British currency remained range-bound against the US dollar until 9 January 2014 when, as widely expected, the Bank of England (BoE) kept its Bank Rate at 0.50 per cent and maintained the extent of its bond-buying unchanged at GBP375 billion. Having fallen to an intra-month low of US$1.6351 on 16 January 2014 against a buoyant US dollar, the Pound sterling thereafter surged on positive economic data that rekindled optimism about the UK economic recovery. The British currency eventually hit an intra-month high of US$1.6632 on 24 January 2014, but from then on, it surrendered some of its gains as UK economic growth data came in slightly below expectations. The Pound sterling closed January 2014 trading around US$1.6561.

Major stock market indices suffered a rout in January 2014 on the back of heightened financial market volatility with some data from major economies coming in below expectations that was compounded by concerns about developments in a few emerging economies. Among European indices, the FTSE 100, CAC 40 and DAX declined by 3.1 per cent, 2.7 per cent and 2.6 per cent, respectively, while American indices, namely S&P 500, DJIA and NASDAQ fell by 3.6 per cent, 4.5 per cent and 1.3 per cent, respectively. The Nikkei 225 and the Hang Seng indices dropped by 8.5 per cent and 5.5 per cent, respectively. Among the emerging markets, the JALSH, Shanghai Stock Exchange Composite Index and Bombay SENSEX lost 2.4 per cent, 3.9 per cent and 0.1 per cent, respectively.

NYMEX WTI (West Texas Intermediate crude oil) averaged US$94.9 a barrel in January 2014, down from US$97.9 a barrel in December 2013. ICE Brent Crude averaged US$107.1 a barrel during the month under review, down from US$110.7 a barrel in December 2013. NYMEX and ICE Brent Crude touched intra-month highs of US$98.2 and US$108.3 a barrel, respectively, on 30 January 2014 and 22 January 2014, respectively.

COMEX gold futures, on average, rose from US$1,224.9/Oz in December 2013 to US$1,244.1/Oz in January 2014 and traded in an intra-month closing range of US$1,225.0/Oz -

US$1,264.5/Oz compared to US$1,195.0/Oz- US$1,262.4/Oz in the preceding month. Gold prices hit an intra-month high of US$1,264.5.0/Oz on 24 January 2014.

Domestic Developments

December 2013 data on tourist arrivals showed an increase of 1.4 per cent to 117,086 from 115,465 a year earlier. Gross tourism receipts decreased by 3.7 per cent, from Rs4,610 million in December 2012 to Rs4,441 million in December 2013. For the year 2013, tourist arrivals increased by 2.9 per cent to 993,106 from 965,441 in the previous year. Gross tourism receipts for the year 2013 fell by 8.6 per cent to Rs40,557 million, from Rs44,378 million in 2012.

The Consumer Price Index (CPI) increased from 105.3 in December 2013 to 107.2 in January 2014. The main contributors to the rise in the index between December 2013 and January 2014 were vegetables, which contributed 1.0 index point to the overall CPI increase, and milk, traders' rice, fish, other food products, workman's wages, doctors' fees, air tickets, private school and tuition fees and other goods and services, each registering an increase of 0.1 index point. Division-wise, the largest increase was registered in 'Food and non alcoholic beverages', due to the seasonal price increase in vegetables, which contributed 1.4 index point to the increase of the CPI while 'Housing, water, electricity, gas and other fuels', 'Health', 'Transport', 'Education' and 'Restaurants and hotels' recorded contributions of 0.1 index point each.

The rate of inflation for the twelve-month period ended January 2014 rose to 3.7 per cent from 3.5 per cent for the twelve-month period ended December 2013. Year-on-Year inflation rate surged from 4.0 per cent in December 2013 to 5.1 per cent in January 2014.

CORE1 inflation for the twelve-month period ended January 2014 rose to 2.8 per cent from 2.6 per cent for the twelve-month period ended December 2013, while CORE2 inflation stood unchanged at 2.6 per cent from the previous period. TRIM10 inflation, which trims 5 per cent of the most volatile items in the CPI on both sides of the distribution, rose from 2.9 per cent in December 2013 to 3.1 per cent in January 2014.

Net foreign assets of depository corporations grew by Rs20,377 million, or 5.4 per cent, from Rs375,923 million at the end of November 2013 to Rs396,300 million at the end of December 2013. Net foreign assets of the Bank of Mauritius increased by Rs4,237 million to Rs103,498 million at the end of December 2013 while net foreign assets of the other depository corporations rose by Rs16,140 million to Rs292,802 million at the end of December 2013.

Domestic claims of depository corporations, including claims on GBL holders, increased by Rs9,524 million, or 2.2 per cent, from Rs438,651 million at the end of November 2013 to Rs448,175 million at the end of December 2013. Net claims on central Government rose by Rs2,537 million, or 7.9 per cent, from Rs32,222 million at the end of November 2013 to Rs34,759 million at the end of December 2013. Claims on other sectors grew by Rs6,987 million, or 1.7 per cent, to Rs413,416 million in December 2013.

Broad Money Liabilities (BML) rose by Rs10,916 million, or 3.1 per cent, from Rs354,693 million at the end of November 2013 to Rs365,609 million at the end of December 2013.

The monetary base grew by Rs8,593 million, or 16.0 per cent, from Rs53,757 million at the end of November 2013 to Rs62,350 million at the end of December 2013, reflecting the increase in demand for cash balances due to the festive season. Currency in circulation increased by Rs4,772 million, or 18.8 per cent, from Rs25,356 million to Rs30,128 million whereas liabilities to other depository corporations increased by Rs3,670 million, or 13.0 per cent, from Rs28,225 million to Rs31,895 million.

During the month of January 2014, the Bank issued Government of Mauritius Treasury Bills (GMTBs) for a total nominal amount of Rs3,000 million through the auctions of single maturity instruments. During the month, there was a net redemption of Treasury Bills to the tune of Rs500 million compared to Rs620 million in December 2013.

All auctions of the GMTBs were oversubscribed with the bid cover ratio ranging between 1.82 and 4.37, reflecting the level of excess liquidity prevailing in the system. Two auctions for each of 182-Day and 273-Day GMTBs and one auction for 364-Day GMTBs were held during the month of January 2014.

On a point-to-point basis, the weighted yield of the 182-day GMTBs increased by 1 basis point at the auctions held in January 2014 compared with the auction held in November 2013, while the weighted yields of the 273-Day and 364-Day GMTBs decreased by 13 and 15 basis points, respectively, at their respective auctions held in January 2014 compared with those held in December 2013. The weighted yields of the 182-Day, 273-Day and 364-Day GMTBs stood at 3.47 per cent, 3.52 per cent and 3.70 per cent, respectively, in January 2014. The overall weighted yield on GMTBs in January 2014 decreased to 3.53 per cent from 3.64 per cent in December 2013.

A new benchmark issue of Three-Year Government of Mauritius Treasury Notes due 20 January 2017 was held through auction on 15 January 2014 for issue on 20 January 2014. Out of the 27 bids received for a total nominal amount of Rs3,556.2 million at the auction against a tender amount of Rs1,400.0 million, 3 bids were accepted for the full amount. The lowest yield received and the highest yield accepted stood at 4.50 per cent and 4.70 per cent, respectively, whilst the weighted yield on accepted bids was 4.54 per cent compared to the last weighted yield of 4.96 per cent accepted in December 2013. The coupon rate, which was market determined, was set at 4.50 per cent at the auction.

An issue of Ten-Year Government of Mauritius Bonds due 20 January 2017 was held through auction on 22 January 2014 for issue on 24 January 2014. Out of the 33 bids received for a total nominal amount of Rs2,418.2 million at the auction, 19 bids were accepted for the full tender amount of Rs1,400.0 million. The lowest yield received and the highest yield accepted stood at 6.80 per cent and 7.20 per cent, respectively, whilst the weighted yield on accepted bids was 7.07 per cent. The coupon rate, which was market determined, was set at 6.80 per cent.

To manage the growing excess liquidity prevailing in the banking system, Bank of Mauritius securities for a total nominal amount of Rs3,736.3 million were issued in January 2014 against Rs3,020.8 million nominal maturing. The Bank also conducted a reverse repurchase transaction for a total nominal amount of Rs1,000.0 million at the rate of 3.40 per cent, the floor of the corridor of the Key Repo Rate, for a period of 21 days.

During the month under review, the amount transacted by primary dealers on the secondary market increased from Rs110.7 million in December 2013 to Rs430.6 million. An amount of Rs1.6 million nominal Government of Mauritius securities was sold over the counter at the Bank to members of the public.

Transactions on the overnight interbank money market in January 2014 totalled Rs4,845 million compared to Rs21,030 million in December 2013. The daily average amount transacted decreased to Rs220 million in January 2014 from a daily average of Rs678 million in December 2013. Transactions with a high of Rs1,200 million and a trough of Rs5 million were recorded in January 2014. The weighted average overnight interbank rate rose to 3.19 per cent in January 2014 from 3.00 per cent in December 2013.

In January 2014, the Bank intervened on the domestic foreign exchange market and purchased an equivalent amount of US$89.3 million whilst it sold US$54.4 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 depreciated, on average, against the US dollar and Pound sterling but appreciated against the Euro between December 2013 and January 2014.

At the end of January 2014, the gross foreign exchange reserves of the Bank of Mauritius decreased slightly to Rs102,732 million, from Rs103,258 million as at end-December 2013. The end-January 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 2012, represented 5.5 months of imports, compared to 5.6 months as at end December 2013.