

## OVERVIEW

### International Developments

**Major advanced economies' central banks, with the exception of the US Federal Reserve, have eased or hinted towards further easing of monetary policy in light of the latest turmoil in global financial markets and growth concerns.** As expected, the US Fed kept the federal funds rate unchanged in the target range of 0.25- 0.50 per cent after the December 2015 hike. Despite worries about weak global growth and unsettled financial markets, the Fed made clear that it still expected to raise interest rates gradually so long as US job growth remained firm. Meanwhile, the European Central Bank (ECB) kept interest rates at ultra-low levels, as anticipated, after the cut in its deposit rate in December 2015. The ECB, nonetheless, signalled that it could further ease monetary policy as early as March 2016 amid growing concerns over faltering economic growth in the region and fears of deflation. At its meeting on 13 January 2016, the Bank of England (BoE) Monetary Policy Committee maintained the Bank Rate unchanged at 0.5 per cent and kept its asset purchase programme untouched at £375 billion. According to the minutes of the meeting, members viewed that growth would likely be weaker than predicted and that inflation would likely stay lower for longer, given the fall in global oil prices and meager wage growth. The Bank of Japan surprised markets on 29 January 2016 by adopting a negative interest rate policy framework to stimulate its economy.

**In January 2016, global currency markets were mainly influenced by the anxieties stirring financial markets and contrasting monetary policy stances of major central banks.** The US dollar gained ground at the beginning of January amid a plunge in global equities and commodity currencies. It, however, came under pressure after the release of the December 2015 Federal Open Market Committee (FOMC) minutes, which indicated that some policymakers expressed concerns about the low inflation level even as they decided to raise interest rates. Weaker-than-expected US economic data coupled with tighter financial conditions and a weakening outlook for the global economy added another layer of uncertainty on the Fed's near-term policy path. The euro remained range-bound during January 2016, trading at an average of US\$1.0865 compared to US\$1.0880 in December 2015. Although the single currency started the month on a negative note as the ECB remained geared towards further monetary easing, it managed to recoup some losses thereafter, capitalizing on the US dollar's broad-based weakness. The Pound sterling weakened against the US dollar in January 2016 amid dovish comments from the BoE, which indicated that

UK interest rates were likely to remain on hold at record lows for a longer period. Moreover, concerns about whether the UK would continue to form part of the European Union also weighed on the currency. The Pound sterling traded at an average of US\$1.4413 in January 2016 compared to US\$1.4997 in December 2015.

**Most stock markets came under pressure as China's woes dampened risk appetite and as falling oil prices reflected the darkening outlook for the global economy.** Chinese stocks fell sharply to 13-month lows towards the end of January 2016 amid signs of a slowing economy. The MSCI Developed Markets Index, MSCI Emerging Markets Index and MSCI Global Equity Index retreated by 10.9 per cent, 6.5 per cent and 6.1 per cent, respectively. The NASDAQ and Dow Jones fell by 7.7 per cent and 5.6 per cent, respectively. Among the European market indices, DAX, CAC-40 and FTSE lost 8.8 per cent, 4.7 per cent and 2.5 per cent, respectively. The Shanghai Exchange Composite, Hang Seng, NIKKEI, Bombay SENSEX and JALSH fell by 22.6 per cent, 10.6 per cent, 8.0 per cent, 4.9 per cent and 0.4 per cent, respectively.

**Both international energy and food prices fell in January 2016, reflecting high global production and uncertainty over future global demand.** ICE Brent Crude per barrel averaged US\$31.9 in January 2016, down from US\$38.9 in December 2015. NYMEX WTI (West Texas Intermediate crude oil) per barrel averaged US\$31.7 in January 2016, down from US\$37.4 in December 2015. The Food and Agriculture Organisation (FAO) Food Price Index fell from 153.4 points in December 2015 to 150.4 points in January 2016, or by 1.9 per cent and was 15.9 per cent below its level a year earlier.

### **Domestic Developments**

**Tourist arrivals rose by 14.4 per cent to 118,551 in January 2016, from 103,606 a year earlier.** This improvement reflected to a large extent the pick-up in arrivals from Asia (+29.2 per cent) with major source countries like China, India and Singapore registering growth rates of 32.4 per cent, 20.9 per cent and 18.5 per cent, respectively, and Europe (+18.7 per cent).

**Inflation remained contained at low levels.** Headline inflation stood at 1.3 per cent in January 2016, unchanged from the previous month, while y-o-y inflation subsided from 1.3 per cent in

December 2015 to 0.4 per cent in January 2016. The core measures of inflation remained subdued in January 2016.

**The annual growth rate of Broad Money Liabilities (BML) slowed for the fourth consecutive month in December 2015.** BML slowed to 10.2 per cent in December 2015, down from 10.9 per cent in November 2015. Year-on-year growth in banks' credit went up from 3.7 per cent in November 2015 to 4.2 per cent in December 2015. The annual growth rate of monetary base dropped to 8.3 per cent in December 2015, from 11.3 per cent in November 2015.

**All the auctions of Government of Mauritius Treasury Bills (GMTBs) were oversubscribed in January 2016, as reflected by bid-cover ratios in the range of 1.8 - 3.9 compared to 1.1 - 2.7 in December 2015.** During January 2016, the Bank issued GMTBs for a total nominal amount of Rs7,400.0 million, of which Rs2,900.0 million was issued for liquidity management purposes. Over the same period, maturing GMTBs amounted to Rs5,901.3 million. Between end-December 2015 and end-January 2016, the weighted yields on the three maturities, namely, 91-Day, 182-Day and 364-Day went down by 101, 98 and 114 basis points, respectively. The overall weighted yield decreased by 27 basis points to 3.18 per cent in January 2016, from 3.45 per cent in December 2015.

**During January 2016, the Bank carried out auctions of Three-Year GoM Notes (Re-opening), Five-Year GoM Bonds (Re-opening) and Twenty-Year GoM Bonds.** The Three-Year Notes auction was oversubscribed, with a bid-cover ratio of 2.8 compared to 0.7 for the previous auction held in December 2015. The weighted yield went down by 27 basis points to 4.51 per cent. The Five-Year GoM Bond auction was also oversubscribed with a bid-cover ratio of 3.2 compared to 1.3 in December 2015. The weighted yield went down by 43 basis points to 4.53 per cent. The Twenty-Year GoM Bond was also oversubscribed by more than 2.6 times with a weighted yield of 7.44 per cent.

**As part of its open market operations, the Bank also conducted one auction of Two-Year BOM Notes for a nominal amount of Rs2,000.0 million.** The auction was oversubscribed with a bid-cover ratio of 1.7. The weighted yield decreased by 25 basis points to 3.98 per cent, from 4.23 per cent in November 2015. To further absorb excess liquidity in the system, the Bank conducted sterilised intervention during the month, issuing one-year special deposits for a total nominal

amount of Rs1,066.5 million at the rate of 3.40 per cent. Total value of securities issued for absorbing liquidity during January 2016 amounted to Rs5,966.5 million.

**Between December 2015 and January 2016, based on the weighted average dealt selling rate<sup>1</sup>, the rupee, on average, appreciated against the euro and the Pound sterling but depreciated against the US dollar.** The average rupee exchange rates against the US dollar, the euro and Pound sterling were Rs36.175/USD, Rs39.371/EUR and Rs52.426/GBP in January 2016 compared to Rs36.171/USD, Rs39.432/EUR and Rs54.527/GBP, respectively, in December 2015.

**The Gross Official International Reserves (GOIR) of the country stood at Rs154,964 million (equivalent to US\$4,303.5 million) at the end of January 2016, up from Rs152,902 million (equivalent to US\$4,260.5 million) at the end of December 2015.** Based on the value of imports of goods (f.o.b.) and non-factor services for the year 2014, the level of GOIR represented 7.7 months of imports as at end-January 2016, slightly higher than the 7.6 months as at end-December 2015.

---

<sup>1</sup> The rates are calculated on the basis of transactions of US\$20,000 and above, or the equivalent in other foreign currencies, conducted by banks and foreign exchange dealers and reported to the Bank.