International Developments

In July 2010, the US dollar, on average, depreciated against the euro, Pound sterling and Japanese Yen. The US dollar started the month quite strongly at around US$1.2212 vis-à-vis the euro but fell as weak manufacturing data, lower than expected US private payrolls for June and a decrease in overall employment for the first time this year raised concerns about the strength of the US economy. Moreover, the greenback was negatively affected by easing debt and liquidity problems in the Eurozone where European banks borrowed less money than expected from the European Central Bank (ECB). The US dollar remained on the back foot in the second and third week of the month as a lacklustre report on business activity in the US services sector added to selling pressure on fears of further slowdown of the US economy. By the end of the month, weaker-than-expected US durable goods orders and consumer confidence, as well as a Federal Reserve report saying that overall US economic activity was not rising robustly increased risk aversion and dollar weakness. Data showing that US gross domestic product expanded at a 2.4 per cent annual rate in the second quarter of 2010 after an upwardly revised 3.7 per cent pace in the period January to March 2010 did not help to support the US dollar, which ended the month at US$1.3074 against the euro.

The euro traded at an average of US$1.2759 in July 2010 compared to an average of US$1.2216 in June 2010. The euro initially rose on the back of easing debt woes and smooth bond auctions in Eurozone countries and was also supported by strong industrial production data and a cautiously optimistic ECB, which left its key refinancing rate unchanged at 1 per cent at its monthly monetary policy meeting, stating that the economic recovery in the euro area continued in the first quarter of 2010. Moreover, a strong start to the US corporate earnings season and stunningly strong Australian jobs data restored faith in global economic recovery and boosted investors' appetite for higher-yielding currencies, including the euro. The single currency pared some gains in the third week of the month as investors booked profits on its rally with news that the International Monetary Fund and the European Union had suspended a review of Hungary's funding programme ahead of the European banks’ stress test results while disappointing quarterly results from Goldman Sachs and some other companies rattled US stock markets. However, the euro resumed its uptrend against the US dollar after most Eurozone banks passed the stress tests and money market rates rose. The euro traded around highs of US$1.30 against the US dollar towards the end of the month as sentiment towards the single currency remained bullish.

The Pound sterling appreciated against the US dollar during July 2010, trading at an average of US$1.5269 compared to an average of US$1.4745 in June 2010. The Pound initially jumped against the US dollar, as weak US employment data hit the US currency and investors were optimistic that Britain would be able to cut its budget deficit. However, weaker-than-expected data on UK jobs growth and services sector highlighted the fragility of the country's economic recovery, leading the UK currency to pare some gains in the second week of the month. Despite data showing a bigger-than-expected rise in industrial production, falling house prices and a report from Standard & Poor's saying that the country was still in danger of losing its triple-A rating because of its large public debt further pressured the Pound. This was short-lived and the Pound gained subsequently against the US dollar, helped by better UK employment data that suggested the economy continued to emerge from recession, boosting hopes for a sustainable recovery, and expectations that stubbornly high UK inflation data might lead to higher interest rates. The UK currency experienced a brief period of retreat as investors took profit from its dramatic rise while rising European money market rates and higher equities stoked demand for the single currency. However, towards the end of the month, the Pound strengthened again after UK retail sales rose strongly and UK Gross Domestic Product jumped 1.1 per cent in the second quarter, the strongest growth in four years and almost twice as fast as forecasts which suggested that the economy was improving. The Pound ended the month at US$1.5628 against the US dollar.

Overall, major stock markets closed on a positive note in July 2010, with some of them attaining fresh highs in 2010. Major stock markets trended upwards in the first half of the month on the back of rising banks and mining stocks, bullish forecast for a solid earnings season that improved risk appetite and fall in US jobless claims. Around the middle of the month, however, stock markets briefly retreated when the US Federal Reserve suggested that additional measures may be required to combat a weakening US economy but they soon resumed their uptrend following strong earnings results in the US, positive results of European banks on stress tests and a generally buoyant banking sector. Some selling bouts triggered by the dour assessment of the US economy by Fed's Chairman Ben Bernanke in his semi-annual testimony to Congress, other Fed officials and by the Fed Beige Book took place towards the end of the month but they were not important and lasting enough to dent the overall monthly stock markets performance.

Over the month, NASDAQ and FTSE rose by 7.30 per cent and 9.41 per cent, respectively, while NIKKEI, CAC-40 and DAX increased by 3.76 per cent, 9.08 per cent and 4.96 per cent, respectively. Among emerging stock markets, Shanghai SEC and JALSH posted the best performances of 11.11 per cent and 9.02 per cent, respectively, while Bombay SENSEX and the Hang Seng recorded lower positive returns of 2.05 per cent and 4.48 per cent, respectively.

NYMEX WTI (West Texas Intermediate crude oil) averaged US$76.4 a barrel in July 2010, up from US$75.4 a barrel in June 2010. ICE Brent Crude averaged US$75.4 a barrel during the month under review, down from US$75.7 a barrel in June 2010. NYMEX and ICE Brent Crude settled at intra-month highs of US$79.3 a barrel on 22 July 2010 and US$78.2 a barrel on 30 July 2010, respectively.

COMEX gold futures, on average, went down during July 2010, trading in an intra-month closing range of US$1,158.0/Oz-1,213.5/Oz compared to US$1,210.0/Oz-1,258.3/Oz in June 2010. Gold prices peaked at US$1,213.5/Oz on 13 July 2010 amid a rally on Wall Street that was sparked by optimism about US earnings.

Domestic Developments

Tourism arrivals went up by 13.8 per cent, from 46,866 in June 2009 to 53,327 in June 2010, while gross tourism receipts increased by 1.3 per cent, from Rs2,580 million in June 2009 to Rs2,613 million in June 2010. On a cumulative basis, over the fiscal year 2009-10, tourism arrivals reached 897,002 representing a marginal increase of 1.0 per cent over the last fiscal year. Tourism receipts for the period July 2009 to June 2010, however, declined by 0.1 per cent to reach Rs37,253 million.

The Consumer Price Index (CPI) rose from 119.9 in June 2010 to 120.2 in July 2010. The main contributors to the rise in the index between June 2010 and July 2010 were 'other food products', which registered an increase of 0.3 index point, 'other goods and services', which showed an increase of 0.2 index point, and vegetables, ready-made clothing and air tickets, each registering an increase of 0.1 index point. Declines of 0.1 index point for rice and diesel oil and 0.3 index point for gasoline were noted. The largest rise of 1.2 per cent was noted in the division "Health" followed by "Clothing and footwear" (+1.1 per cent),),"Furnishings, household equipment and routine household maintenance" (+1.0 per cent), "Miscellaneous goods and services" (+1.0 per cent), "Food and non alcoholic beverages" (+0.7 per cent), "Restaurants and hotels" (+0.3 per cent) and Housing, water, electricity, gas and other fuels" (+0.2 per cent). The divisions "Transport" and "Recreation and culture" recorded decreases of 1.7 per cent and 0.5 per cent, respectively, while "Alcoholic beverages and tobacco", "Communication" and "Education" recorded no change in their indices.

The rate of inflation for the twelve-month period ended July 2010 stood at 1.8 per cent, up from 1.7 per cent for the twelve-month period ended June 2010. However, Year-on-Year inflation rate dropped to 2.0 per cent in July 2010, from 2.4 per cent in June 2010.

CORE1 inflation remained unchanged at 2.2 per cent for the twelve-month period ended July 2010. CORE2 inflation edged down to 2.5 per cent in July 2010, from 2.6 per cent for the twelve month period ended June 2010. TRIM10 inflation stood at 2.1 per cent in July 2010, unchanged from the previous period.

Reflecting decreases in both of its components, the net foreign assets of depository corporations went down by Rs4,380 million, or 4.1 per cent, from Rs106,113 million at the end of May 2010 to Rs101,733 million at the end of June 2010. Net foreign assets of other depository corporations decreased by Rs2,927 million, or 7.4 per cent, to Rs36,729 million while those of the Bank of Mauritius decreased by Rs1,452 million, or 2.2 per cent, to Rs65,005 million.

Domestic claims of depository corporations, excluding claims on GBL holders, increased by Rs4,496 million, or 1.5 per cent, from Rs290,225 million at the end of May 2010 to Rs294,721 million at the end of June 2010. Net claims on budgetary central Government increased by Rs1,293 million, or 2.5 per cent, from Rs50,979 million at the end of May 2010 to Rs52,272 million at the end of June 2010. Claims on other sectors, that is, credit to the private sector went up by Rs3,204 million, or 1.3 per cent, to Rs242,449 million in June 2010.

Net claims on budgetary central Government from the Bank of Mauritius increased by Rs580 million, or 6.4 per cent, from negative Rs9,086 million at the end of May 2010 to negative Rs8,506 million at the end of June 2010. Net claims on budgetary central Government from other depository corporations rose by Rs712 million, or 1.2 per cent, from Rs60,066 million to Rs60,778 million.

Claims on Other Sectors from the Bank of Mauritius increased by Rs3 million, or 2.1 per cent, to Rs133 million at the end of June 2010 while claims on Other Sectors from other depository corporations rose by Rs3,201 million, or 1.3 per cent, from Rs239,115 million to Rs242,316 million.

Broad Money Liabilities (BML) went up by Rs2,088 million, or 0.7 per cent, from Rs300,856 million at the end of May 2010 to Rs302,944 million at the end of June 2010. Of the components of BML, currency with public decreased by Rs323 million, or 2.0 per cent, to Rs15,905 million while transferable deposits increased by Rs1,046 million, or 1.5 per cent, to Rs72,695 million. Savings deposits went up by Rs420 million, or 0.5 per cent, to Rs92,471 million while time deposits increased by Rs933 million, or 0.8 per cent, to Rs121,031 million. Securities other than shares included in broad money increased by Rs12 million, or 1.5 per cent, to Rs842 million.

The monetary base went up by Rs648 million, or 1.8 per cent, from Rs35,104 million at the end of May 2010 to Rs35,752 million at the end of June 2010. Currency in circulation decreased by Rs263 million, or 1.4 per cent, from Rs18,912 million to Rs18,649 million while liabilities to other depository corporations increased by Rs557 million, or 3.5 per cent, from Rs16,002 million to Rs16,559 million.

Broad Money Liabilities multiplier went down from 8.6 at the end of May 2010 to 8.5 at the end of June 2010 as a result of a higher expansion in Broad Money Liabilities compared to Monetary Base.

In July 2010, the Bank issued Government of Mauritius Treasury Bills for a total nominal amount of Rs2,900 million through the weekly Primary Auctions. Between end-June 2010 and end-July 2010, the weighted average yields on the 91-day Bills, 182-day Bills and 364-day Bills decreased from 3.64 per cent to 3.01 per cent, from 4.40 per cent to 3.46 per cent and from 4.73 per cent to 3.92 per cent, respectively. The overall weighted yield during July 2010 increased to 3.77 per cent, from 3.48 per cent for the previous month, mainly as a result of a shift in market preference, which was evenly distributed.

Transactions on the interbank money market in July 2010 totalled Rs7,431 million with a daily average of Rs240 million, a high of Rs1,150 million and a trough of Rs5 million. The weighted average overnight interbank rate for July 2010 increased to 3.41 per cent, from 3.26 per cent for the previous month.

During July 2010, a total amount of Rs35.45 million Treasury Bills/Treasury Notes was sold over the counter at the Bank to members of the public. Bills traded by primary dealers during the month amounted to Rs199.6 million.

At the monthly auction of Treasury Notes with maturities of 2, 3 and 4 years held in July 2010, a total nominal amount of Rs1,200 million of Treasury Notes 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 Rs4,136 million and the amount accepted was Rs1,200 million. The weighted average yields on bids accepted for the 2-year, 3-year and 4-year maturities were 4.99, 5.57 and 5.93 per cent per annum, respectively. The market preference remained skewed towards the 2-year maturity with a market share of 40 per cent of total bids received.

An issue of Ten-Year Government of Mauritius Bonds was undertaken on 9 July 2010 through an auction held on 7 July 2010. Bids for a total nominal amount of Rs3,197.6 million were received as against a tender amount of Rs2,000 million. The amount accepted was Rs2,000 million and the coupon rate was set at 8.75 per cent per annum. The weighted average yield on bids accepted was 9.66 per cent per annum.

As part of market operations, the Bank carried out two reverse repo transactions for a period of 14 days each for a total amount of Rs2.9 billion.

Moreover, during the period under review, the Bank intervened on the domestic foreign exchange market and purchased USD27.0 million and EUR4.7 million from banks and foreign exchange dealers. The Bank also undertook a spot-to-three month forward swap transaction for an amount of EUR4.55 million.

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

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

At the end of June 2010, the net international reserves of the country stood at Rs102,773 million. The end-June 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 46.3 weeks of imports, down from 48.2 weeks of imports at the end of May 2010. The gross foreign exchange reserves of the Bank of Mauritius increased from Rs69,065 million at the end of June 2010 to Rs69,238 million at the end of July 2010.