

OVERVIEW

International Developments

In July 2013, the US dollar appreciated against the euro, Pound sterling and Japanese yen. The greenback started the month on a high note, benefiting from an improving US economy as well as rising yields amid expectations of a reduction in the US Federal Reserve's US\$85 billion asset purchasing program that enhanced the appeal of dollar-denominated assets. However, by mid-July 2013, the US currency came under pressure following dovish comments from Fed Chairman Ben Bernanke, thereby dampening expectations that the asset purchasing program would be ending sooner than previously expected. The US dollar's general downtrend continued and it surrendered some of the gains made earlier in the month.

The euro weakened against the US dollar in July 2013, trading at an average of US\$1.3086 compared to an average of US\$1.3195 in June 2013. From around US\$1.3025 at the beginning of July 2013, the single currency started on a general downward trend against the US dollar. Concerns about the political instability in Portugal that pushed up the borrowing costs of the lower-rated Eurozone countries pressured the single currency. The latter was also adversely affected by the European Central Bank President Mario Draghi's pledge to keep interest rates low for an extended period of time after the central bank kept its key refinancing rate unchanged at 0.50 per cent on 5 July 2013, as widely expected. The bearish sentiment towards the euro continued to prevail with Italy's downgrade by Standard & Poor and it hit an intra-month low of US\$1.2754 on 9 July 2013. The single currency, however, recouped some of its earlier losses around the mid-month on news that foreign lenders would be providing aid to Greece and on the loosening of political tensions in Portugal. The US dollar's broad-based weakness also indirectly supported the euro, which hit an intra-month high of US\$1.3296 before closing the month trading around US\$1.3258.

The Pound sterling depreciated against the US dollar in July 2013, trading at an average of US\$1.5189 compared to an average of US\$1.5489 in June 2013. The British currency was supported at the beginning of the month by the release of better-than-expected economic data coupled with the arrival of the new governor, Mark Carney, at the Bank of England. On 4 July 2013, as widely expected, the UK central bank kept the extent of its bond-buying as well

as its Bank Rate unchanged at 0.5 per cent. The Pound sterling thereafter suffered heavy losses, hitting an intra-month low of US\$1.4855 on 5 July 2013, after the Bank of England surprised markets by voicing concern that rising gilt yields were not warranted by the state of the British economy and signalled that it could give forward guidance on interest rates the following month. The British currency managed to recover on better labour market data whilst also capitalising on the US currency's broad-based weakness. From then on, the Pound sterling remained range-bound with improved domestic economic data releases being offset by doubts about the future course of monetary policy in Britain. The UK currency briefly hit its intra-month low of US\$1.5435 on 26 July 2013 before closing the month trading around US\$1.5224.

Stock markets worldwide bounced back in July 2013 as investors became comfortable with the planned tapering of bond purchases in the US. Economic data pointed toward a broader recovery, especially in the Eurozone, which helped boost developed markets. Emerging markets also had their best performance this year. Over the month, among the developed countries' stock markets, the Dow Jones Industrial Average, CAC-40, FTSE and NASDAQ rose by 4.0 per cent, 6.8 per cent, 6.5 per cent and 6.6 per cent, respectively while Nikkei registered a decrease of 0.07 per cent. Among the emerging stock markets, JALSH and Shanghai Stock Exchange Composite recorded positive returns of 4.3 per cent and 0.7 per cent, respectively while Bombay SENSEX lost 0.26 per cent.

NYMEX WTI (West Texas Intermediate crude oil) averaged US\$104.7 a barrel in July 2013, up from US\$95.8 a barrel in June 2013. ICE Brent Crude averaged US\$107.4 a barrel during the month under review, up from US\$103.4 a barrel in June 2013. NYMEX and ICE Brent Crude settled at intra-month highs of US\$108.1 a barrel on 19 July 2013 and US\$109.4 a barrel on 16 July 2013, respectively.

COMEX gold futures, on average, went down from US\$1,342.7/Oz in June 2013 to US\$1,285.6/Oz in July 2013 and traded in an intra-month closing range of US\$1,212.7/Oz-US\$1,336.0/Oz compared to US\$1,211.6/Oz-US\$1,415.8/Oz in the preceding month. Gold prices peaked at an intra-month high of US\$1,336.0/Oz on 22 July 2013.

Domestic Developments

June 2013 data on tourist arrivals showed an increase of 0.7 per cent to 55,007 from 54,625 a year earlier. Gross tourist receipts decreased by 17.6 per cent, from Rs2,957 million in June 2012 to Rs2,437 million in June 2013. For the period July 2012 to June 2013, tourist arrivals increased by 0.3 per cent to 969,952 from 967,191 recorded over the previous corresponding period. Tourist receipts for the period July 2012 to June 2013 decreased by 4.6 per cent to Rs42,885 million from Rs44,961 million in the corresponding period of the preceding year.

The Consumer Price Index (CPI) went up from 103.4 in June 2013 to 103.6 in July 2013. The main contributors to the rise in the index between June 2013 and July 2013 were TV licence fee (+0.2 index point), other food products (+0.2 index point), fruits (+0.1 index point), air tickets (+0.1 index point) and other goods and services (+0.1 index point). Negative contributions came from vegetables and motor vehicles which declined by 0.4 index point and 0.1 index point, respectively. Division-wise, an increase of 3.4 per cent was recorded for “Recreation and culture” followed by “Clothing and footwear” (+0.7 per cent), “Furnishings, household equipment and routine household maintenance” (+0.5 per cent), “Restaurants and hotels” (+0.5 per cent), “Miscellaneous goods and services” (+0.5 per cent) and “Alcoholic beverages and tobacco” (+0.1 per cent). “Food and non alcoholic beverages”, “Health” and “Transport” recorded decreases of 0.2 per cent, 0.1 per cent and 0.2 per cent, respectively, while the remaining divisions recorded no change in their indices.

The rate of inflation for the twelve-month period ended July 2013 stood at 3.6 per cent, unchanged from the previous month. Year-on-Year inflation rate also remained unchanged at 3.6 per cent in July 2013.

Between June 2013 and July 2013, for the twelve month period, CORE1 and CORE2 inflation stood unchanged from the previous period at 2.8 per cent, respectively. TRIM10 inflation, which trims 5% of the most volatile items in the CPI on both sides of the distribution, edged up from 2.5 per cent for the twelve-month period ended June 2013 to 2.6 per cent for the twelve-month period ended July 2013.

Net foreign assets of depository corporations went down by Rs45,149 million, or 10.3 per cent, from Rs439,271 million at the end of May 2013 to Rs394,122 million at the end of June

2013. Net foreign assets of the Bank of Mauritius decreased by Rs493 million to Rs103,580 million at the end of June 2013 while the net foreign assets of the other depository corporations went down by Rs44,657 million to Rs290,542 million at the end of June 2013.

Domestic claims of depository corporations, including claims on GBL holders, went up by Rs372 million, or 0.1 per cent, from Rs395,570 million at the end of May 2013 to Rs395,942 million at the end of June 2013. Net claims on central Government increased by Rs786 million, or 3.3 per cent, from Rs23,704 million at the end of May 2013 to Rs24,490 million at the end of June 2013. Claims on other sectors dropped by Rs414 million, or 0.1 per cent, to Rs371,452 million in June 2013.

Broad Money Liabilities (BML) went up by Rs4,664 million, or 1.3 per cent, from Rs346,712 million at the end of May 2013 to Rs351,376 million at the end of June 2013.

The monetary base increased by Rs348 million, or 0.7 per cent, from Rs52,746 million at the end of May 2013 to Rs53,094 million at the end of June 2013. Currency in circulation went down by Rs183 million, or 0.7 per cent, from Rs24,588 million to Rs24,405 million whereas liabilities to other depository corporations increased by Rs288 million, or 1.0 per cent, from Rs28,089 million to Rs28,377 million.

In July 2013, the Bank issued Government of Mauritius Treasury Bills (GMTBs) for a total nominal amount of Rs2,400 million through the auctions of single maturity instruments. During the month under review, there was a net issue of Treasury Bills of Rs568 million compared to a net redemption of Rs1,050 million in June 2013. Given the excess liquidity conditions prevailing in the banking system, the auctions of the 273-Day and 364-Day GMTBs were oversubscribed with the bid cover ratio ranging between 1.42 and 2.42. Two auctions each for 273-Day and 364-Day GMTBs were held during the month of July 2013.

On a point-to-point basis, the weighted yield of the 273-Day and 364-Day GMTBs increased by 7 and 16 basis points, respectively, at the last auctions held in July 2013 compared with the last auctions held in June 2013. The weighted yields of the 273-Day and 364-Day GMTBs stood at 2.88 per cent and 3.07 per cent, respectively, in July 2013. Consequently,

the overall weighted yield on GMTBs in July 2013 went up from 2.72 per cent in June 2013 to 2.94 per cent.

The 3.52% Three-Year Government of Mauritius Treasury Notes due 24 May 2016, was re-opened for a nominal amount of Rs1,300.0 million, through an auction held on Wednesday 24 July 2013 for settlement on Friday 26 July 2013. The auction was oversubscribed with bid yields ranging from 3.65 per cent to 4.24 per cent. Out of the 27 bids received for a total nominal value of Rs2,100.0 million, 9 bids for a total nominal value of Rs675.0 million were accepted up to a highest yield of 3.95 per cent and at a weighted yield of 3.88 per cent.

Ten-Year Government of Mauritius Bonds due on 19 July 2023 were issued through an auction held on Wednesday 17 July 2013 for a nominal amount of Rs1,200 million for settlement on Friday 19 July 2013. Out of the 57 bids received for a total nominal amount of Rs3,405.8 million, 8 bids for a total nominal amount of Rs1,200 million were accepted up to the highest yield of 6.80 per cent and at a weighted yield of 6.52 per cent. The coupon rate, which was market determined, was set at 6.24 per cent.

In July 2013, a total nominal amount of Rs422.2 million Bank of Mauritius Bills was issued compared to Rs1,040.0 million nominal BoM securities maturing.

During the month under review, the amount transacted by primary dealers on the secondary market went down from Rs1,318.7 million in June 2013 to Rs44.7 million in July 2013. Additionally, an amount of Rs4.05 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 July 2013 totalled Rs17,340 million compared to Rs10,472 million in June 2013. The daily average amount transacted stood at Rs559 million in July 2013 down from a daily average of Rs361 million in June 2013. Transactions with a high of Rs1,355 million and a trough of Rs75 million were recorded in July 2013. The weighted average overnight interbank rate went up to 1.75 per cent in July 2013 from 1.69 per cent in June 2013.

In July 2013, the Bank intervened on the domestic foreign exchange market and purchased an equivalent of US\$90.8 million whilst it sold US\$47.5 million to its customers.

Under the Special Line of Credit to Small and Medium Planters the total amount disbursed during the month and the amount outstanding as at end July 2013 stood at Rs158.8 million.

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 appreciated against the Euro and the Pound sterling between June 2013 and July 2013.

At the end of July 2013, the gross foreign exchange reserves of the Bank of Mauritius decreased to Rs100,495 million, from Rs103,424 million as at end-June 2013. The end-July 2013 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 5.4 months of imports, compared to 5.6 months as at end June 2013.