

OVERVIEW

International Developments

In June 2014, the US dollar appreciated against the euro and Japanese yen but depreciated against the Pound sterling. The US dollar started the month on a weak note following the release of disappointing US private sector employment data. Thereafter, the US currency was bolstered by stronger-than-expected US economic data and higher bond yields. Following the two-day Federal Open Market Committee meeting on 17-18 June 2014, the asset purchase program was reduced by a further US\$10 billion to US\$35 billion while the federal funds rate was left unchanged. Federal Reserve Chief Janet Yellen stated that the Fed would maintain its commitment to low interest rates but hinted at a slightly more aggressive pace of interest rate increases starting next year. Towards the end of the month, the US currency weakened following the release of revised US first-quarter GDP data, which showed real output falling by 2.9 per cent compared to “second” estimates of a 1.0 per cent decline.

The euro depreciated against the US dollar in June 2014, trading at an average of US\$1.3597 compared to an average of US\$1.3738 in May 2014. The single currency fell to an intra-month low of US\$1.3538 on 5 June 2014 as the European Central Bank (ECB) took the decision to cut the interest rate on its deposit facility to -0.10 per cent and on its key refinancing facility to 0.15 per cent. At the post-meeting conference, ECB president Mario Draghi also unveiled a series of measures to combat disinflation and give a push to the faltering economic recovery. He said that interest rates would stay low over a longer period and that large-scale asset purchases were still part of the central bank's toolkit. In the second half of the month, the single currency managed to recoup some of its losses on the US dollar's broad-based weakness. The euro gained some support as the Eurozone posted a trade surplus, and closed the month trading at an intra-month high of US\$1.3657.

The Pound sterling strengthened against the US dollar in June 2014, trading at an average of US\$1.6900 compared to an average of US\$1.6850 in May 2014. The UK currency was under pressure at the start of the month and hit an intra-month low of US\$1.6721 on 4 June 2014 as

data showed a slowdown in the UK manufacturing sector. On 5 June 2014, the Bank of England (BoE) kept its bank rate unchanged at 0.5 per cent and its asset purchases unchanged at GBP375 billion. Thereafter, the Pound sterling reversed its trend, boosted by expectations of an increase in interest rates later this year. The UK currency surrendered some of its gains after comments by BoE Governor Mark Carney did little to bolster expectations of an increase in interest rates. The Pound sterling regained support on further evidence that the UK economy was steadily improving, and hit an intra-month high of US\$1.7046 on 30 June 2014.

The major stock market indices rallied in June 2014 on the back of an improving global economy and comprehensive policies in major economies although the crisis in Iraq and ongoing tensions between Russia and Ukraine weighed on sentiment. The MSCI Developed Market index, MSCI Emerging Market and Global Equity indices rose by 2.5 per cent, 2.3 per cent and 1.7 per cent, respectively. European indices, namely the CAC 40, FTSE100 and DAX fell by 2.1 per cent, 1.5 per cent and 1.1 per cent, respectively. In the US, S&P 500 and DJIA rose by 1.9 per cent and 0.7 per cent, respectively; the Nasdaq Composite has recorded its longest streak of quarterly gains since 2000 and increased by 3.9 per cent in June 2014. The Nikkei 225 also gained 3.6 per cent. Among emerging markets, the Bombay SENSEX, the JALSH, Hang Seng and the Shanghai Stock Exchange Composite Index rose by 4.9 per cent, 2.6 per cent, 0.5 per cent and 0.5 per cent, respectively.

NYMEX WTI (West Texas Intermediate crude oil) averaged US\$105.1 a barrel in June 2014, up from US\$101.8 a barrel in May 2014. ICE Brent Crude averaged US\$111.9 a barrel in June 2014, up from US\$109.2 a barrel in May 2014. NYMEX and ICE Brent Crude touched intra-month highs of US\$107.3 and US\$115.1 a barrel on 20 June 2014 and 19 June 2014, respectively.

COMEX gold futures, on average, fell from US\$1,287.5/Oz in May 2014 to US\$1,282.2/Oz in June 2014 and traded in an intra-month closing range of US\$1,243.7/Oz - US\$1,322.2/Oz in June 2014 compared to US\$1,245.6/Oz - US\$1,309.0/Oz in the preceding month. Gold prices hit an intra-month high of US\$1,322.2/Oz on 25 June 2014.

Domestic Developments

The May 2014 data on tourist arrivals showed an increase of 5.3 per cent to 78,555 from 74,596 a year earlier. Gross tourism receipts increased by 3.9 per cent, from Rs3,656 million in May 2013 to Rs3,799 million in May 2014. For the period June 2013 to May 2014, tourist arrivals increased by 3.8 per cent to 1,006,701 from 969,570 recorded over the previous corresponding period. Tourism receipts for the period June 2013 to May 2014 decreased by 7.5 per cent to Rs40,140 million from Rs43,405 million in the corresponding period a year earlier.

The Consumer Price Index (CPI) stood at 106.8 in June 2014, unchanged from the previous period. The rate of inflation for the twelve-month period ended June 2014 stood at 4.0 per cent, unchanged from the previous period. The year-on-year inflation rate edged down from 3.4 per cent in May 2014 to 3.3 per cent in June 2014.

Between May 2014 and June 2014, on a twelve-month average basis, both CORE1 and CORE2 inflation stood unchanged at 2.9 per cent. TRIM10 inflation, which trims 5 per cent of the most volatile items in the CPI on both sides of the distribution, also remained unchanged at 3.2 per cent in June 2014.

Net foreign assets of depository corporations declined by Rs12,899 million, or 3.3 per cent, from Rs396,120 million at the end of April 2014 to Rs383,221 million at the end of May 2014. Net foreign assets of the Bank of Mauritius increased by Rs2,334 million to Rs117,055 million at the end of May 2014 while the net foreign assets of the other depository corporations fell by Rs15,234 million over the month to Rs266,165 million at the end of May 2014.

Domestic claims of depository corporations, including claims on GBL holders, dropped by Rs2,887 million, or 0.7 per cent, from Rs436,792 million at the end of April 2014 to Rs433,905 million at the end of May 2014. Net claims on Central Government increased by Rs2,996 million, or 9.1 per cent, from Rs32,821 million at the end of April 2014 to Rs35,817 million at

the end of May 2014. Claims on other sectors decreased by Rs5,883 million, or 1.5 per cent, to Rs398,087 million in May 2014.

Broad Money Liabilities (BML) rose by Rs1,773 million, or 0.5 per cent, from Rs372,675 million at the end of April 2014 to Rs374,448 million at the end of May 2014.

The monetary base increased by Rs512 million, or 0.8 per cent, from Rs62,070 million at the end of April 2014 to Rs62,582 million at the end of May 2014. Currency in circulation decreased by Rs699 million, or 2.6 per cent, from Rs26,721 million to Rs26,022 million while liabilities to other depository corporations increased by Rs1,217 million, or 3.5 per cent, to Rs36,481 million in May 2014.

During the month of June 2014, the Bank issued Government of Mauritius Treasury Bills (GMTBs) for a total nominal amount of Rs2,000 million through the auctions of single maturity instruments. For the month, there was a net issue of Treasury Bills of Rs460 million as against a net redemption of Rs115 million in May 2014.

All auctions of GMTBs were oversubscribed with the bid cover ratio ranging between 3.82 and 5.25, reflecting significant excess liquidity prevailing in the system. One auction for each of 91-Day, 182-Day, 273-Day and 364-Day GMTBs was held during the month of June 2014.

On a point-to-point basis, the weighted yields of the 182-Day, 273-Day and 364-Day GMTBs at the respective last auction held in June 2014 decreased by 30, 23 and 17 basis points, respectively, compared with the respective last auction held in May 2014. The weighted yield of the 91-Day GMTBs decreased by 35 basis points at the last auction held in June 2014 compared to the last auction held in March 2014. The weighted yields of the 91-Day, 182-Day, 273-Day and 364-Day GMTBs stood at 2.43 per cent, 2.32 per cent, 2.56 per cent and 2.61 per cent, respectively, in June 2014. The overall weighted yield on GMTBs declined to 2.48 per cent in June 2014 from 2.78 per cent in May 2014.

The benchmark 4.10% Three-Year Government of Mauritius Treasury Notes (GMTN) due on 11 April 2017, was re-opened for a nominal amount of Rs1,300 million, through an auction held on Wednesday 18 June 2014 for settlement on Friday 20 June 2014. The auction was oversubscribed with a bid cover of 2.9 and bid yields ranging from 4.02 per cent to 4.30 per cent. A nominal amount of Rs1,300 million was accepted out of bids received for a total nominal amount of Rs3,720 million. The highest and weighted yields accepted stood at 4.09 per cent and 4.06 per cent, respectively.

The benchmark 5.20% Five-Year Government of Mauritius Bonds due on 25 April 2019, was re-opened for a nominal amount of Rs1,600 million, through an auction held on Wednesday 25 June 2014 for settlement on Friday 27 June 2014. The auction was oversubscribed with a bid cover of 3.2 and bid yields ranging from 5.18 per cent to 6.00 per cent. A nominal amount of Rs1,600 million was accepted out of bids received for a total nominal amount of Rs5,105 million. The highest and weighted yields accepted stood at 5.40 per cent and 5.32 per cent, respectively.

To manage the growing excess liquidity prevailing in the banking system, Bank of Mauritius (BoM) Bills maturing during the month were renewed. BoM Bills for a total nominal amount of Rs2,500 million were issued against BoM bills for a total nominal amount of Rs2,465 million maturing.

During the month under review, the amount transacted by primary dealers on the secondary market increased from Rs1,237.7 million in May 2014 to Rs1,556.3 million.

Transactions on the overnight interbank money market in June 2014 totalled Rs7,940 million compared to Rs9,525 million in May 2014. The daily average amount transacted dropped to Rs331 million in June 2014 from a daily average of Rs340 million in May 2014. Transactions with a high of Rs1,100 million and a trough of Rs100 million were recorded in June 2014. The weighted average overnight interbank rate fell to 1.46 per cent in June 2014 from 1.77 per cent in May 2014.

In June 2014, the Bank intervened on the domestic foreign exchange market and purchased an equivalent amount of US\$70.3 million whilst it sold US\$49.5 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 appreciated, on average, against the Euro but depreciated against the US dollar and Pound sterling between May and June 2014.

At the end of June 2014, the gross foreign exchange reserves of the Bank of Mauritius increased to Rs119,629 million, from Rs117,036 million as at end-May 2014. The end-June 2014 level of gross official international reserves of the country, based on the value of imports of goods, *fob* and non-factor services for calendar year 2013, represented 6.0 months of imports, compared to 5.9 months as at end-May 2014.