Overview

International Developments

During June 2004, the US dollar, on average, depreciated against all major currencies. At the beginning of June 2004, the US dollar weakened as oil prices, which rose considerably on fears of supply disruption and Middle East instability, were seen as a key obstacle to the healthy path of growth taken by the US economy. After OPEC's decision to raise output, oil prices gradually settled lower, although they still remained on the high side. The US dollar recovered in the second week of June. In the same week, comments from Fed Chairman Alan Greenspan that the Fed "will do what it takes" to keep inflation in check, led the market to believe that a 25 basis points increase in interest rates was on the cards for the Federal Open Market Committee (FOMC) meeting on 29-30 June 2004. US CPI data came out mixed. Whereas the headline inflation rate stood at 0.6 per cent quarter-on-quarter, which was above expectations, the core inflation rate was low. Data showing a major increase in the US trade deficit and an unexpected drop of 1.6 per cent in US durable goods orders in May 2004, after a 2.6 per cent slide in April 2004, weighed on the US dollar in the closing week of June. On 30 June 2004, the FOMC, as widely expected, raised its federal funds rate by 25 basis points to 1.25 per cent.

The euro benefited from the broad-based US dollar weakness in the first week of June 2004. On 3 June, the ECB, as expected, held its key interest rates steady at 2.0 per cent, shrugging off concerns that runaway oil prices could choke off the tentative economic recovery in the euro zone. ECB President Jean-Claude Trichet appeared to be more concerned about the possible inflationary effects of the surge in oil prices. Eurostats showed an inflation rate of 2.5 per cent year-on-year in May 2004 for the euro area, above the ECB target rate of 2.0 per cent. However, it is quite unlikely that the ECB will hike interest rates very soon unless there are clear indications that the euro area's economic recovery is well under way. The euro traded between US$1.1976 and US$1.2323 in June 2004, compared to a range of US$1.1812-US$1.2271 in May 2004.

The Pound sterling also benefited from the broad-based US dollar weakness in the first week of June 2004 and from its high yield advantage. In early June, the Pound sterling was supported by upbeat UK retail sales and manufacturing surveys and on expectations that the BoE Monetary Policy Committee (MPC) will raise interest rate further at its June meeting. As expected, the BoE raised its key repo rate by 25 basis points to 4.50 per cent. Minutes of the MPC showed that members voted unanimously for a rate hike but there was little to suggest another hike soon. The Pound sterling, which was trading around US$1.83 in early June, traded at around US$1.81 in the third week of June. BoE Governor King, testifying before a parliamentary committee on 23 June 2004, said that the BoE had not abandoned its "gradualist" approach to raising interest rates. These comments indicated that rate hikes were not expected in July 2004, but might be on the cards in the months ahead.

The Japanese yen was weak in early June 2004 on concerns over soaring oil prices. But, as these concerns appeased a little, the market focused on Japanese fundamentals. With data showing strength in the Japanese economy, the Japanese yen recovered sharply by the third week of June. The Japanese yen also benefited from the broad-based US dollar weakness and closed the month of June 2004 on a strong note.

OPEC's decision to increase the export quota of member countries stabilized the oil market to some extent. However, growing Middle East instability and attacks over export infrastructure in Iraq and threats on Saudi Arabia's oil infrastructure kept oil prices at a relatively high level. A general strike in Nigeria and a strike in the oil industry in Norway also weighed on oil prices. The transfer of sovereignty to Iraq on 28 June 2004 did appease oil prices but the effect was short-lived as violence escalated in Iraq at the close of June 2004. A comment by Saudi Arabian oil minister, saying that current oil prices were fair, kept oil prices buoyant. Looking ahead, it is quite unlikely that oil prices would drop below US$30 a barrel. Instead they should be trading in the range of US$31-36 a barrel.

For the month of June 2004, NYMEX WTI (West Texas Intermediate benchmark crude oil) averaged US$38.1 a barrel, compared to US$30.5 a barrel in June 2003. On 1 June 2004, NYMEX hit a peak of US$42.85, the highest since NYMEX launched the crude oil contract 21 years ago. IPE Brent futures averaged US$35.6 a barrel in June 2004, compared to US$27.3 a barrel in June 2003.

On the domestic front, as prescribed under the Automatic Price Mechanism, prices of petroleum products were adjusted upward with effect from 2 July 2004. The price of mogas and diesel went up by 15 per cent from Rs21.35 per litre to Rs24.55 per litre and from Rs13.05 per litre to Rs15.00 per litre, respectively, reflecting trends in prices of petroleum products in the international market as well as exchange rate fluctuations.

COMEX gold futures gained some strength during the period 1 to 28 June 2004, with an intra-month closing range of US$384.2 to US$403.5 per ounce compared to a range of US$374.9 to US$394.9 per ounce in May 2004. With growing instability in the Middle East and rising inflation worldwide, the price of gold rose given its safe haven and inflation hedge status. Gold was also supported by US dollar weakness. COMEX averaged US$392.8 per ounce in June 2004 compared to US$357.1 per ounce for June 2003.

Domestic Developments

Tourist arrivals declined by 1.3 per cent, from 54,710 in May 2003 to 53,974 in May 2004, while gross tourism receipts increased by 35.5 per cent, from Rs1,395 million in May 2003 to Rs1,890 million in May 2004. Cumulatively, over the period July 2003 to May 2004, tourist arrivals reached 660,563, up 1.3 per cent on the corresponding figure of 652,406 for 2002-03. Tourism receipts for the period July 2003 to May 2004 reached Rs20,967 million, representing an increase of 26.2 per cent on the corresponding figure of Rs16,609 million for the previous fiscal year.

The Consumer Price Index (CPI) increased from 110.7 in May 2004 to 111.3 in June 2004. The rate of inflation for fiscal year 2003-04 stood at 3.9 per cent, as compared to a higher rate of 5.1 per cent in 2002-03.

Money supply M2 went up by Rs14,634 million or 11.9 per cent, from Rs123,405 million at the end of June 2003 to Rs138,039 million at the end of May 2004. Narrow money supply M1, one of the components of M2, rose by Rs3,285 million or 18.8 per cent to Rs20,724 million, while quasi-money, the other component of M2, increased by Rs11,349 million or 10.7 per cent to Rs117,315 million.

Net foreign assets of the banking system increased by Rs3,098 million or 6.5 per cent, from Rs47,568 million at the end of June 2003 to Rs50,666 million at the end of May 2004. Net foreign assets of Bank of Mauritius rose by Rs4,239 million or 10.7 per cent to Rs43,823 million, while net foreign assets of Category 1 banks fell by Rs1,141 million or 14.3 per cent to Rs6,843 million.

Domestic credit went up by Rs17,340 million or 16.2 per cent, from Rs106,927 million at the end of June 2003 to Rs124,267 million at the end of May 2004. Net credit to Government from the banking system went up by Rs12,706 million or 59.2 per cent to Rs34,182 million, driven by the increase of Rs10,616 million or 96.9 per cent in net credit to Government from Bank of Mauritius as a result of Government running down its cash balances. Net credit to Government from Category 1 banks rose by Rs2,090 million or 6.4 per cent to Rs34,522 million. Credit to the private sector from Category 1 banks went up by Rs4,684 million or 5.5 per cent, from Rs85,080 million to Rs89,764 million at the end of May 2004. Over that period, credit was directed to "Construction" (Rs2,577 million), "Traders" (Rs1,022 million), "New Economy" (Rs999 million), "Personal" (Rs847 million) and "Financial & Business Services" (Rs360 million). A drop in credit was registered at "Agriculture & Fishing" (Rs799 million), "Tourism" (Rs457 million), "Statutory and Parastatal Bodies" (Rs365 million) and "Manufacturing" (Rs240 million).

Reserve money expanded by Rs9,165 million or 62.0 per cent, from Rs14,776 million at the end of June 2003 to Rs23,941 million at the end of May 2004, reflecting essentially the issue of BOM Bills to Category 1 banks.

Taking into account liquidity conditions in the market in June 2004, the Bank carried out four reverse repurchase transactions. All the transactions were conducted for a period of 7 days at a fixed yield of 1.15 per cent.

The Bank also conducted foreign exchange swap transactions with banks for a total amount of US$12.0 million in June 2004. The swap transactions, which are exchange rate neutral, were carried out for a period of two months.

On 30 June 2004, the Bank undertook the fourth and last quarterly auction of Five-Year Government of Mauritius Bonds for fiscal year 2003-04. Bonds for a total nominal amount of Rs500 million were put on tender at a coupon rate of 8.00 per cent per annum. Bids for a total nominal amount of Rs1,101.8 million were received, of which an amount of Rs500 million was accepted. The weighted yield on bids accepted was 7.37 per cent, slightly down from 7.38 per cent at the auction held on 31 March 2004.

During June 2004, total transactions in Treasury/Bank of Mauritius Bills effected through primary dealers amounted to Rs1,511 million while trading of Treasury Bills on the Stock Exchange of Mauritius amounted to Rs1.7 million.

Spot sales of foreign currencies by the Mauritius Sugar Syndicate to the banking sector during June 2004 amounted to an equivalent of US 5.1 million.

Between May 2004 and June 2004, the rupee, on average, depreciated against all major currencies.

At the end of May 2004, the net international reserves of the country amounted to Rs51,573 million. Based on the value of the import bill for calendar year 2003, exclusive of the purchase of aircrafts, the end-May 2004 level of net international reserves of the country represented 41.1 weeks of imports, up from 39.9 weeks at the end of April 2004. At the end of June 2004, the foreign exchange reserves of the Bank of Mauritius amounted to Rs43,342 million, down from Rs43,894 million at the end of May 2004.