

OVERVIEW

International Developments

In June 2013, the US dollar, on average, depreciated vis-à-vis the euro, Japanese yen and Pound sterling. From a four-month low against a basket of currencies at the start of the month, the US dollar gradually recovered in the wake of confirmation by the US Federal Reserve that it would begin to scale back its stimulus this year as the economic outlook improves.

The euro traded at an average of US\$1.3195 in June 2013 compared to an average of US\$1.2978 in May 2013. The euro rose to an intra-month high of US\$1.3388, largely driven by the US dollar's weakness rather than the European Central Bank's widely expected decision to leave its key refinancing rate at a record low of 0.5 per cent. The common currency was also supported by falling Italian and Spanish bond yields and the release of some good economic data from Germany.

The Pound sterling appreciated vis-à-vis the US dollar in June 2013, trading at an average of US\$1.5489 compared to an average of US\$1.5292 in May 2013. The British currency rose to an intra-month high of US\$1.5705 against a faltering US dollar as signs that the UK economy was improving led to a trimming of expectations that the Bank of England might ease policy further soon.

The rally in global equities came to an end in May 2013 and the major stock markets suffered further losses in June 2013 as investors fretted over the US Federal Reserve's plan to begin reducing its stimulus later this year. The major stock markets suffered losses in June 2013. Over the month, FTSE, CAC-40, the NASDAQ, Dow Jones Industrial Average, and Nikkei fell by 5.6 per cent, 5.3 per cent, 1.5 per cent, 1.4 per cent and 0.7 per cent, respectively. Among emerging stock markets, Shanghai SEC, JALSH and Bombay SENSEX lost 14.0 per cent, 5.8 per cent and 1.8 per cent, respectively.

NYMEX WTI (West Texas Intermediate crude oil) averaged US\$95.8 a barrel in June 2013, up from US\$94.8 a barrel in May 2013. ICE Brent Crude averaged US\$103.4 a barrel during the month under review, slightly up from US\$103.3 a barrel in May 2013. NYMEX and ICE Brent Crude settled at intra-month highs of US\$98.4 a barrel on 18 June 2013 and US\$106.1 a barrel on 19 June 2013, respectively.

COMEX gold futures, on average, went down from US\$1,416.5/Oz in May 2013 to US\$1,342.7/Oz in June 2013 and traded within an intra-month closing range of US\$1,211.6/Oz-US\$1,415.8/Oz compared to US\$1,364.7/Oz-US\$1,473.7/Oz in the preceding month. Gold prices peaked at an intra-month high of US\$1,415.8/Oz on 6 June 2013.

Domestic Developments

In the June 2013 issue of National Accounts published by Statistics Mauritius, the growth forecast for 2013 has been revised downwards to 3.3 per cent, from 3.5 per cent estimated in March 2013. The downward revision is mainly attributed to a sharper downturn at the rate of -7.7 per cent in ‘construction’ instead of -6.9 per cent as forecasted earlier. Other key sectors where lower growth is expected are ‘professional, scientific and technical activities’, forecast to grow by 7.7 per cent instead of 7.9 per cent and ‘accommodation and food service activities’ which would grow by 2.5 per cent compared to an earlier forecast of 3.5 per cent, based on lower tourist arrivals of 990,000.

May 2013 data on tourist arrivals showed an increase of 4.5 per cent to 74,596 from 71,396 a year earlier. Gross tourist receipts increased by 20.1 per cent, from Rs3,045 million in May 2012 to Rs3,656 million in May 2013. The sharp rise in gross tourist earnings was, to a large extent, due to the FIFA annual general meeting held towards end of May 2013. For the period June 2012 to May 2013, tourist arrivals increased by 0.2 per cent to 969,570 from 967,157 recorded over the previous corresponding period. Tourist receipts for the period June 2012 to May 2013 decreased by 3.4 per cent to Rs43,405 million from Rs44,920 million in the previous corresponding period.

The Consumer Price Index (CPI) went up from 103.3 in May 2013 to 103.4 in June 2013. The main contributors to the rise in the index between May 2013 and June 2013 were vegetables and other food products, each registering an increase of 0.1 index point whilst a decline of 0.1 index point in interest on housing loan was noted. Division-wise, increases were recorded for “Food and non alcoholic beverages” (+0.6 per cent) followed by “Restaurants and hotels” (+0.5 per cent), “Health” (+0.3 per cent), “Alcoholic beverages and tobacco” (+0.1 per cent), “Furnishings, household equipment and routine household

maintenance” (+0.1 per cent) and “Communication” (+0.1 per cent). “Clothing and footwear” and “Housing, water, electricity, gas and other fuels” recorded decreases of 0.6 per cent and 0.5 per cent, respectively, while the remaining divisions recorded no change in their indices.

The rate of inflation for the twelve-month period ended June 2013 stood at 3.6 per cent, unchanged from the previous month. Year-on-Year inflation rate edged down from 3.7 per cent in May 2013 to 3.6 per cent in June 2013.

Between May 2013 and June 2013, for the twelve month period, CORE1 inflation edged down from 2.9 per cent to 2.8 per cent and CORE2 inflation stood unchanged at 2.8 per cent. TRIM10 inflation, which trims 5% of the most volatile items in the CPI on both sides of the distribution, remained unchanged at 2.5 per cent for the twelve-month period ended June 2013.

Net foreign assets of depository corporations went up by Rs32,733 million, or 8.1 per cent, from Rs406,538 million at the end of April 2013 to Rs439,271 million at the end of May 2013. Net foreign assets of the Bank of Mauritius increased by Rs8,203 million to Rs104,073 million at the end of May 2013 while the net foreign assets of the other depository corporations went up by Rs24,531 million to Rs335,199 million at the end of May 2013.

Domestic claims of depository corporations, including claims on GBL holders, went down by Rs5,082 million, or 1.3 per cent, from Rs400,652 million at the end of April 2013 to Rs395,570 million at the end of May 2013. Net claims on central Government decreased by Rs3,399 million, or 12.5 per cent, from Rs27,103 million at the end of April 2013 to Rs23,704 million at the end of May 2013. Claims on other sectors dropped by Rs1,683 million, or 0.5 per cent, to Rs371,866 million in May 2013.

Broad Money Liabilities (BML) went up by Rs147 million, from Rs346,565 million at the end of April 2013 to Rs346,712 million at the end of May 2013.

The monetary base increased by Rs3,930 million, or 8.1 per cent, from Rs48,816 million at the end of April 2013 to Rs52,746 million at the end of May 2013. Currency in circulation went down by Rs332 million, or 1.3 per cent, from Rs24,920 million to Rs24,588 million

whereas liabilities to other depository corporations increased by Rs4,258 million, or 17.9 per cent, from Rs23,831 million to Rs28,089 million.

In June 2013, the Bank issued Government of Mauritius Treasury Bills (GMTBs) for a total nominal amount of Rs2,700 million through the auctions of single maturity instruments. There was a net redemption of Treasury Bills of Rs1,050 million in June 2013 compared to a net redemption of Rs160 million in May 2013. Given the excess liquidity conditions prevailing in the banking system, the auctions of the 182-Day, the 273-Day and 364-Day GMTBs were oversubscribed with the bid cover ratio ranging between 1.77 and 2.91. The 91-Day auction was, however, under-subscribed with a bid cover ratio of 0.86. One auction for each tenor of the GMTBs was held during the month of June 2013.

On a point-to-point basis, the weighted yield of the 91-Day increased by 34 basis points at the auction held in June 2013 compared with the last auction held in March 2013 while the weighted yields for the 182-Day, 273-Day and 364-Day Bills at the last auctions held in June 2013 increased by 35 basis points, 40 basis points and 61 basis points respectively, compared with their last auctions held in May 2013. The weighted yields of the 91-Day, 182-Day, 273-Day and 364-Day stood at 2.60 per cent, 2.65 per cent, 2.81 per cent and 2.91 per cent, respectively, at the last auctions for each maturity in June 2013. The overall weighted yield on GMTBs in June 2013 went up sharply from 2.32 per cent in May 2013 to 2.72 per cent in June 2013.

The 3.52% Three-Year Government of Mauritius Treasury Notes due 24 May 2016, was re-opened for a nominal amount of Rs1,300 million, through an auction held on Wednesday 12 June 2013 for settlement on 14 June 2013. The auction was oversubscribed with bid yields ranging from 3.65 per cent to 4.40 per cent. Out of the 20 bids received for a total nominal value of Rs3,210 million, 14 bids for a total nominal value of Rs1,080 million were accepted up to a highest yield of 3.90 per cent and at a weighted yield of 3.78 per cent.

The 4.30 % Five-Year Government of Mauritius Bonds due 22 February 2018 was re-opened through an auction held on Wednesday 19 June 2013 for an amount of Rs1,200 million for settlement on 21 June 2013. The auction was oversubscribed with bid yields ranging from 4.20 per cent to 5.50 per cent. Out of the 22 bids received at the auction for a total nominal amount of Rs2,590 million, 12 bids for a total nominal value of Rs1,200 million were

accepted. The highest accepted yield and the weighted yield on accepted bids stood at 4.35 per cent and 4.29 per cent, respectively.

To reduce the excess liquidity prevailing in the banking system in June 2013, a total nominal amount of Rs760 million of Bank of Mauritius Bills and Rs758 million nominal 4.30 % Five-Year Bank of Mauritius Bonds were issued as against Rs890 million nominal BoM securities maturing.

During the month under review, the amount transacted by primary dealers on the secondary market went up from Rs387.8 million in May 2013 to Rs1,318.7 million in June 2013. Additionally, an amount of Rs4.0 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 June 2013 totalled Rs10,472 million compared to Rs13,190 million in May 2013. The daily average amount transacted stood at Rs361 million in June 2013 down from a daily average of Rs440 million in May 2013. Transactions with a high of Rs865 million and a trough of Rs25 million were recorded in June 2013. The weighted average overnight interbank rate went up to 1.69 per cent in June 2013 from 1.25 per cent in May 2013.

In June 2013, the Bank intervened on the domestic foreign exchange market and purchased an equivalent of US\$44.6 million whilst it sold US\$29.9 million to its customers.

Under the Special Line of Credit in Foreign Currency, an amount of EUR8.1 million was disbursed during the month under review and the total amount disbursed as at end of June 2013 stood at EUR38.6 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 Euro and the Pound sterling but appreciated vis-à-vis the US dollar between May 2013 and June 2013.

At the end of June 2013, the gross foreign exchange reserves of the Bank of Mauritius decreased to Rs103,392 million, from Rs103,886 million as at end-May 2013. The end-June

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 5.6 months of imports, unchanged from May 2013.