Overview

International Developments

During March 2004, the US dollar, on average, appreciated against all major currencies. Despite the release of disappointing data on jobs for February 2004, which had so far remained the weak link to the US economic recovery, and geopolitical unrest due to bombings in Madrid as well as numerous rumours of terrorist alerts, the US dollar managed to regain ground vis-à-vis major currencies. According to currency strategists, the US dollar's gains were partly attributed to the fact that the foreign exchange market was mostly driven by position adjustments rather than fundamentals. Hawkish remarks from St Louis Federal Reserve President, William Poole, and Federal Reserve Board Governor, Donald Kohn, that a future interest rate rise in the United States was inevitable given that the US economy was on track for solid growth this year, also benefited the US dollar. By the close of the month, however, the US dollar's gains were kept in check as dealers sold the US currency. At its FOMC meeting on 16 March 2004, the US Federal Reserve left its federal funds rate unchanged at 1.0 per cent and in its accompanying statement, signalled that it was in no hurry to raise borrowing costs with job creation sluggish and inflation tame.

The euro/US dollar movement, during March 2004, displayed excessive volatility. On 3 March 2004, the single currency witnessed its biggest one-day loss since its launch five years ago, falling by more than 2 per cent. But, as the US dollar came under downward pressure in the wake of the terrorist attacks in Spain and further terrorist alerts, the euro managed to move higher against the US currency. The euro, however, could not sustain its gains, falling to an intra-month low of US$1.2097, hurt by intensifying market speculation of an imminent ECB interest rate cut after ECB President, Jean-Claude Trichet, stated that the central bank would reassess its outlook if euro zone consumer spending failed to pick up. At its monthly governing council meeting on 4 March 2004, however, the ECB left its key refinancing rate unchanged at 2.0 per cent.

The Pound sterling, which started March 2004 at its intra-month high of US$1.8710, retreated against the US dollar after the Bank of England, at its monthly MPC meeting on 4 March 2004, left its key interest rate unchanged. Although the no-policy change decision was somewhat expected, a surprise interest rate hike was not ruled out after the earlier release of strong UK economic data. The Pound sterling, however, managed to maintain a bullish trend thereafter, capitalizing partly on the attacks in

Madrid and amid ongoing speculation that UK interest rates might be raised in the near future following the release of strong employment and retail sales data. Besides, minutes of the Bank of England MPC meeting released later in the month, while showing a unanimous vote to maintain rates at 4.0 per cent, also suggested that another rate hike was not far off. However, the Pound sterling weakened after Bank of England Governor, Mervyn King, had, in a testimony on 25 March 2004, highlighted the impact of its strength on UK's growth. The Pound sterling also incurred losses attributed partly to the euro's decline on foreign exchange markets. But, by the close of the month, the Pound sterling managed to recoup some of its losses as robust UK consumer credit and record mortgage lending data further bolstered expectations of a near-term interest rate rise.

Amid growing wariness over Japanese intervention, the yen reached an intra-month low of ¥112.07 against the US dollar during March 2004. The Japanese currency, subsequently, moved higher vis-à-vis the US currency, gathering strength from the release of strong economic data, showing that economic stagnation in Japan might finally be coming to an end and amid ongoing speculation that Japan would scale back its massive intervention. Even comments from Japanese officials saying that the authorities would remain present in the market did little to dampen the yen's uptrend. On 31 March 2004, in Asian trade, the yen, for the first time since June 2000, reached a high of ¥103.97 against the US dollar on optimism about the Japanese economy.

March 2004 heralds the end of the winter peak season and its seasonal bearish impact on international crude oil prices, and typically the second quarter witnesses a softening of demand pressures on the world oil futures markets. But OPEC's decision on 10 February 2004 to absorb the 1.5 million barrels per day (mbd) of excess oil output above the official quota of 24.5 mbd has neutralized this seasonality impact. OPEC basket of seven crudes traded at US$31.49 per barrel as at 31 March 2004, and peaked at US$33.03 per barrel on 18 March 2004 – a US$5.00 per barrel premium above the US$28 upper range level of the basket price. For the period between 01 and 31 March 2004, IPE Brent and NYMEX West Texas Intermediate crude oil futures averaged US$32.7 and US$36.7 per barrel, respectively, compared to US$30.4 and US$34.5 per barrel in February 2004. In a climate characterised by sustained US economic growth, strong Chinese oil demand growing annually by 10 per cent, and low US interest rates, there is little likelihood that global macro hedge funds, which invested heavily in their long positions in crude oil during March 2004, will change strategy. This is expected to exert a sustained bullish run in the futures market for oil in the short term.

On the domestic front, the Automatic Price Mechanism (APM) for petroleum products was set for implementation on 2 April 2004. The APM will accommodate, on a quarterly basis, world petroleum products price fluctuations in the range of 2.5 per cent to 15 per cent for diesel and motor gasoline (mogas), as well as exchange rate fluctuations vis-à-vis the Mauritian Rupee of the dollar-denominated world prices for oil. Effective 2 April 2004, the price of mogas increased by 4.7 per cent from Rs20.40 to Rs21.35 per litre, and that of diesel by 9.7 per cent from Rs11.90 to Rs13.05 per litre.

During the month of March 2004, COMEX gold futures prices averaged US$407.8/oz., fluctuating between a low of US$392.7/oz. and a high of US$428.3/oz. reached on the last day of the month. In February 2004, COMEX gold futures prices averaged US$404.4/oz. The wave of terrorism has highlighted the safe-haven status of the bullion and injected a bullish trend despite the periodic recovery of the U.S dollar. The short to medium term support level for gold futures is expected to remain above the US$400/oz. psychological benchmark.

Domestic Developments

Tourist arrivals rose by 0.9 per cent, from 53,647 in February 2003 to 54,104 in February 2004, while gross tourism receipts increased by 43.8 per cent, from Rs1,314 million in February 2003 to Rs1,889 million in February 2004. Cumulatively for the period July 2003 to February 2004, tourist arrivals increased by 2.1 per cent to 487,359, from 477,350 for the corresponding period in 2002-03. Over the same period, gross tourism receipts rose by 18.3 per cent to Rs14,468 million in 2003-04 from Rs12,230 million in 2002-03.

The Consumer Price Index (CPI) for March 2004 was 110.1, unchanged from the previous month. The rate of inflation for the 12-month period ended March 2004 stood at 3.9 per cent, up from 3.8 per cent for the 12-month period ended February 2004.

Money supply M2 went up by Rs10,328 million or 8.4 per cent, from Rs123,405 million at the end of June 2003 to Rs133,733 million at the end of February 2004. Narrow money supply M1, one of the components of M2, rose by Rs2,013 million or 11.5 per cent to Rs19,452 million while quasi-money, the other component of M2, increased by Rs8,315 million or 7.8 per cent to Rs114,281 million.

Net foreign assets of the banking system declined by Rs171 million or 0.4 per cent, from Rs47,568 million at the end of June 2003 to Rs47,397 million at the end of February 2004. Net foreign assets of Bank of Mauritius went up by Rs1,053 million or 2.7 per cent to Rs40,637 million, while the net foreign assets of Category 1 banks fell by Rs1,224 million or 15.3 per cent to Rs6,760 million.

Domestic credit went up by Rs11,607 million or 10.9 per cent, from Rs106,927 million at the end of June 2003 to Rs118,534 million at the end of February 2004. Net credit to Government increased by Rs7,424 million or 34.6 per cent to Rs28,900 million, solely driven by the increase of Rs8,058 million or 73.5 per cent in net credit from the Bank of Mauritius as a result of Government running down its cash balances. Net credit to Government from Category 1 banks, however, dropped by Rs634 million or 2.0 per cent to Rs31,799 million. Credit to the private sector from Category 1 banks rose by Rs4,193 million or 4.9 per cent, from Rs85,080 million at the end of June 2003 to Rs89,273 million at the end of February 2004. Over that period, credit was directed to "Construction" (Rs1,749 million), "New Economy" (Rs1,090 million), "Traders" (Rs951 million), "Financial and Business Services" (Rs646 million), "Personal" (Rs554 million) and "Manufacturing" (Rs220 million). A drop in credit was registered at "Agriculture & Fishing" (Rs456 million), "Tourism" (Rs347 million), "Statutory and Parastatal Bodies" (Rs282 million), and "Infrastructure" (Rs184 million).

Reserve money expanded by Rs8,406 million or 56.9 per cent, from Rs14,776 million at the end of June 2003 to Rs23,182 million at the end of February 2004, reflecting essentially the issue of BOM Bills to Category 1 banks.

Taking into account liquidity conditions in the market, the Bank carried out three reverse repurchase transactions in March 2004 for periods varying between 2 to 3 days. The highest yield accepted was 0.90 per cent per annum.

During March 2004, total transactions in Treasury/Bank of Mauritius Bills effected through primary dealers amounted to Rs1,247.7 million while trading on the Stock Exchange totalled Rs59.6 million.

Spot sales of foreign currencies by the Mauritius Sugar Syndicate to the banking sector during March 2004 amounted to an equivalent of US$4.09 million.

Three Stocks, namely 8¼% MDLS 2011, 8½% MDLS 2015 and 8¾% MDLS 2019 were put on tender for a total amount of Rs1,282.3 million at the auction of Mauritius Development Loan Stocks (MDLS) on 19 March 2004. Bids received amounted to Rs2,360.3 million. The weighted average yields on bids accepted for the three Stocks were 8.20 per cent, 9.46 per cent and 9.78 per cent, respectively.

The third quarterly auction of Five-Year Bonds for fiscal year 2003-04 was held on 31 March 2004. Bonds for a total nominal amount of Rs500.0 million were put on tender at a coupon rate of 8.00 per cent. Bids were received for a total amount of Rs1,691.1 million, of which Rs500 million was accepted. The weighted yield on bids accepted was 7.38 per cent.

Between February 2004 and March 2004, the rupee, on average, appreciated vis-à-vis the euro, Pound sterling and Japanese yen but depreciated against the US dollar.

At the end of February 2004, the net international reserves of the country amounted to Rs48,218 million. Based on the value of the import bill for calendar year 2003, exclusive of purchase of aircrafts, the end-February 2004 level of net international reserves of the country represented 38.4 weeks of imports, up from 38.3 weeks at the end of January 2004. At the end of March 2004, the foreign exchange reserves of the Bank of Mauritius amounted to Rs42,340 million, up from Rs40,689 million at the end of February 2004.

Provisional estimates of the balance of payments suggest that the current account recorded a surplus of Rs3,581 million during the year 2003. In relation to GDP, the surplus on the current account represented 2.3 per cent in 2003. The deficit on the merchandise account of the balance of payments, inclusive of transactions of the Freeport, amounted to Rs7,690 million. The services account posted a surplus of Rs10,548 million, which stemmed mainly from the travel account. Gross earnings from tourism amounted to Rs19,397 million while expenditure on foreign travel by residents reached Rs5,835 million in 2003. The income account registered a net outflow of Rs821 million. The net surplus on the current transfers account is estimated at Rs1,544 million. The capital and financial account, inclusive of reserve assets, recorded a net outflow of Rs3,528 million in 2003. The overall balance of payments for 2003, representing the increase in reserve assets excluding valuation changes, showed a surplus of Rs6,205 million. Quarterly estimates of the balance of payments for the year 2003 are provided in Table 39 of this bulletin.