

OVERVIEW

International Developments

In May 2013, the US dollar, on average, appreciated vis-à-vis the euro, Japanese yen and Pound sterling. The movement of the US dollar was underpinned by expectations that the US Federal Reserve was ready to scale back its massive stimulus programme, though unexpectedly weak US economic data dampened those expectations towards the end of the month. The European Central Bank (ECB) and the Bank of Japan were, for their part, committed to keeping an easy monetary policy stance.

The euro traded at an average of US\$1.2978 in May 2013 compared to an average of US\$1.3021 in April 2013. After the ECB cut its key refinancing rate by 25 basis points to a record low of 0.5 per cent, the euro came under pressure as the ECB held out the possibility of further monetary easing, including negative deposit rates. The common currency hit an intra-month low of US\$1.2846 against a resurgent US dollar, hurt further by poor euro zone growth data. It, thereafter, managed to recoup its losses drawing support from a weakening US dollar.

The Pound sterling depreciated marginally vis-à-vis the US dollar in May 2013, trading at an average of US\$1.5292 compared to an average of US\$1.5300 in April 2013. Signs of a pick-up in economic activity in the UK supported sterling but given the US economy's relative outperformance, the UK currency fell marginally versus the US dollar.

The rally in global equities continued in May 2013, with the US and European markets registering their seventh and twelfth straight month of gains, respectively. However, markets surrendered some gains in the last two weeks of the month mainly on concerns over the US Federal Reserve's monetary policy. Over the month, the NASDAQ and Dow Jones Industrial Average went up by 3.8 per cent and 1.9 per cent, respectively, the FTSE and CAC-40 both rose by 2.3 per cent, while the Nikkei fell by 0.6 per cent. Among emerging stock markets, JALSH, Shanghai SEC and Bombay SENSEX gained 8.5 per cent, 5.6 per cent, and 1.3 per cent, respectively.

NYMEX WTI (West Texas Intermediate crude oil) averaged US\$94.8 a barrel in May 2013, up from US\$92.1 a barrel in April 2013. ICE Brent Crude averaged US\$103.3 a barrel during the month under review, slightly down from US\$103.4 a barrel in April 2013. NYMEX and ICE Brent Crude settled at intra-month highs of US\$96.7 a barrel on 20 May 2013 and US\$105.5 a barrel on 6 May 2013, respectively.

COMEX gold futures, on average, went down from US\$1,486.3/Oz in April 2013 to US\$1,416.5/Oz in May 2013 and traded in an intra-month closing range of US\$1,364.7/Oz-US\$1,473.7/Oz compared to US\$1,361.1/Oz-US\$1,600.0/Oz in the preceding month. Gold prices peaked at US\$1,473.7/Oz on 8 May 2013.

Domestic Developments

April 2013 data on tourist arrivals showed a decrease of 3.7 per cent to 76,223 from 79,137 a year earlier. Gross tourist receipts increased by 3.2 per cent, from Rs3,778 million in April 2012 to Rs3,898 million in April 2013. For the period May 2012 to April 2013, tourist arrivals increased by 0.2 per cent to 966,370 from 963,975 recorded over the previous corresponding period. Tourist receipts for the period May 2012 to April 2013 decreased by 4.8 per cent to Rs42,794 million from Rs44,953 million in the previous corresponding period.

As from April 2013, the Consumer Price Index (CPI) is calculated on the basis of an updated basket of goods and services derived from the 2012 Household Budget Survey. The base period for this new CPI series is the twelve-month period January 2012 to December 2012.

The Consumer Price Index (CPI) fell from 103.4 in April 2013 to 103.3 in May 2013. The main contributor to the fall in the index between April 2013 and May 2013 was traders' rice, which registered a decline of 0.1 index point. Division-wise, a decrease of 0.4 per cent was recorded for "Food and non alcoholic beverages" followed by "Restaurants and hotels" (-0.2 per cent), "Miscellaneous goods and services" (-0.2 per cent), "Alcoholic beverages and tobacco" (-0.1 per cent) and "Furnishings, household equipment and routine household maintenance" (-0.1 per cent). "Clothing and footwear" recorded an increase of 0.2 per cent while the remaining divisions recorded no change in their indices.

The rate of inflation for the twelve-month period ended May 2013 stood at 3.6 per cent, unchanged from the previous month. Year-on-Year inflation rate edged down from 3.8 per cent in April 2013 to 3.7 per cent in May 2013.

Between April 2013 and May 2013, for the twelve month period, CORE1 and CORE2 inflation stood unchanged from the previous period, at 2.9 per cent and 2.8 per cent, respectively. 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 May 2013.

Net foreign assets of depository corporations went up by Rs10,250 million, or 2.6 per cent, from Rs396,288 million at the end of March 2013 to Rs406,538 million at the end of April 2013. Net foreign assets of the Bank of Mauritius decreased by Rs885 million to Rs95,870 million at the end of April 2013 while the net foreign assets of the other depository corporations went up by Rs11,135 million to Rs310,668 million at the end of April 2013.

Domestic claims of depository corporations, including claims on GBL holders, increased by Rs2,840 million, or 0.7 per cent, from Rs397,812 million at the end of March 2013 to Rs400,652 million at the end of April 2013. Net claims on central Government went down by Rs946 million, or 3.4 per cent, from Rs28,049 million at the end of March 2013 to Rs27,103 million at the end of April 2013. Claims on other sectors rose by Rs3,786 million, or 1.0 per cent, to Rs373,549 million in April 2013.

Broad Money Liabilities (BML) went down by Rs1,681 million, or 0.5 per cent, from Rs348,246 million at the end of March 2013 to Rs346,565 million at the end of April 2013.

The monetary base decreased by Rs3,148 million, or 6.1 per cent, from Rs51,963 million at the end of March 2013 to Rs48,816 million at the end of April 2013. Currency in circulation went down by Rs35 million, or 0.1 per cent, from Rs24,955 million to Rs24,920 million whereas liabilities to other depository corporations declined by Rs3,113 million, or 11.6 per cent, from Rs26,943 million to Rs23,830 million.

In May 2013, the Bank issued Government of Mauritius Treasury Bills (GMTB) for a total nominal amount of Rs3,000 million through the auctions of single maturity instruments. There was a net redemption of Treasury Bills of Rs160 million in May 2013 compared to a net issue of Rs90 million in April 2013. Given the excess liquidity conditions prevailing in the banking system, all auctions of GMTB were oversubscribed with the bid cover ratio ranging between 1.65 and 2.61. One auction for 182-Day and two auctions each for the 273-Day and 364-Day GMTB were held during the month.

On a point-to-point basis, the weighted yield of the last auctions held in April 2013 for the 182-Day remained unchanged whilst the weighted yield of 273-Day increased by 7 basis points and the weighted yield of the 364-Day GMTB went down by 1 basis point and stood at 2.30 per cent, 2.41 per cent and 2.30 per cent, respectively, at the last auctions for each maturity held in May 2013.

The overall weighted yield for May 2013 was marginally down at 2.32 per cent from 2.33 per cent for April 2013.

A new benchmark issue of Three-Year Government of Mauritius Treasury Notes due 24 May 2016 was held through tender on 22 May 2013 for issue on 24 May 2013. Out of the 28 bids received for a total nominal amount of Rs3,545 million at the auction, 9 bids for a total nominal amount of Rs1,210 million were accepted. The lowest yield received and the highest yield accepted stood at 3.43 per cent and 3.69 per cent, respectively, whilst the weighted yield on accepted bids was 3.62 per cent. The coupon rate was set at 3.52 per cent at the auction.

A new issue of Fifteen-Year Inflation-Indexed Government of Mauritius Bonds due on 17 May 2028 took place through an auction held on Wednesday 15 May 2013 for an amount of Rs1,000 million for settlement on Friday 17 May 2013. Out of the 45 bids received at the auction for a total nominal amount of Rs2,553.4 million, 28 bids for a total nominal amount of Rs1,000 million were accepted. The bid margins offered varied from 1.75 per cent to 4.25 per cent. The weighted bid margin on accepted bids stood at 2.39 per cent.

To reduce the excess liquidity prevailing in the banking system in May 2013, a total nominal amount of Rs297 million Bank of Mauritius Bills with maturities of 273 and 364 days and Rs2,140 million Bank of Mauritius Notes of 3 year maturity were issued during the month.

During the month under review, the amount transacted by primary dealers on the secondary market fell from Rs800.6 million in April 2013 to Rs387.8 million while transactions carried out on the Over the Counter at the Bank amounted to Rs6.7 million.

Transactions on the overnight interbank money market in May 2013 totalled Rs13,190 million compared to Rs20,271 million in April 2013. The daily average amount transacted stood at Rs440 million in May 2013 compared to a daily average of Rs676 million in April 2013. Transactions with a high of Rs1,435 million and a trough of Rs70 million were recorded in May 2013. The weighted average overnight interbank rate went down to 1.25 per cent in May 2013 from 1.26 per cent in April 2013.

In May 2013, the Bank intervened on the domestic foreign exchange market and purchased an equivalent of US\$153.3 million whilst it sold US\$37.5 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, depreciated, on average, against the US dollar and the Pound sterling but appreciated against the Euro between April 2013 and May 2013.

At the end of May 2013, the gross foreign exchange reserves of the Bank of Mauritius reached a record high of Rs103,886 million, from Rs95,706 million as at end-April 2013. The end-May 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, compared to 5.1 months at the end of April 2013.

Excluding cross-border transactions of GBC1s, provisional estimates for the first quarter of 2013 indicate that gross Foreign Direct Investment (FDI) inflows in Mauritius stood at Rs2,677 million. Investment was mainly directed to the “Real estate activities” sector (Rs1,438 million), of which the IRS/RES/IHS accounted for Rs1,166 million, the

“Construction” sector (Rs513 million) and the “Financial and insurance activities” sector (Rs342 million). The main sources of FDI inflows were France followed by South Africa. Outward direct investment, excluding cross-border transactions of GBC1s, is estimated at Rs612 million for the first three months of 2013 with significant investment channeled to the “Accommodation and food service activities” sector (Rs383 million).