

OVERVIEW

International Developments

In May 2014, the US dollar, on average, appreciated vis-à-vis the euro but depreciated against the Japanese Yen and Pound sterling. The US dollar started the month on a weak note following the release of disappointing US first quarter 2014 GDP data and amid a lack of conviction that the US Federal Reserve would soon be raising interest rates. Further, the crisis in Ukraine supported other safe-haven currencies such as the Japanese yen at the expense of the US currency. The US dollar then reversed its downward trend, supported by the Federal Reserve's hawkish stance in contrast to the European Central Bank's (ECB) stance. Towards the end of the month, the US dollar remained supported as better-than-expected US economic data releases showed a resumption of growth in economic activity, raising expectations for solid growth in the second quarter of 2014.

The euro depreciated against the US dollar in May 2014, trading at an average of US\$1.3738 in May 2014 compared to an average of US\$1.3806 in April 2014. At the beginning of the month, the single currency strengthened against the US dollar and reached an intra-month high of US\$1.3922 on 8 May 2014 after the ECB's decision to keep its key refinancing rate unchanged at 0.25 per cent. The euro was thereafter under pressure against the US dollar following dovish comments from ECB President Mario Draghi, who reinforced expectations that the ECB would be cutting interest rates soon and added quantitative easing remained an option. The euro continued its declining trend as German investor sentiment declined and investors were expecting the ECB to try to limit the single currency's longer-term strength in a bid to boost the Eurozone economy. Moreover, ECB officials continued to suggest that further easing measures were possible as early as June 2014, which sent the euro to an intra-month low of US\$1.3605 on 29 May 2014.

The Pound sterling appreciated against the US dollar trading at an average of US\$1.6850 in May 2014 compared to an average of US\$1.6737 in April 2014. At the start of the month, the UK currency continued its general uptrend against the US dollar and hit an intra-month high of

US\$1.6978 on better-than-expected UK services sector data. Thereafter, the Pound sterling came under pressure, tracking the weakness in the euro. As widely expected, on 8 May 2014, the Bank of England (BoE) kept its bank rate unchanged at 0.5 per cent and its asset purchases at £375 billion. The BoE inflation report on the UK economy released in May 2014 was dovish. The UK currency was briefly supported by the release of positive economic data, raising expectations of an increase in interest rates in 2015. Toward the end of the month, the Pound sterling fell against the US dollar, largely on account of the US currency's broad-based strength, and finished the month trading around US\$1.6735.

In May 2014, global equity markets rallied on expectations of stimulus from the European Central Bank at the start of June 2014 and on month-end buying from US funds. The MSCI Global Equity, Developed Market and Emerging Market Indices rose by 1.6 per cent, 0.3 per cent and 3.3 per cent, respectively. In Europe, the CAC 40 and FTSE 100 went up by 0.7 per cent and 1.0 per cent, respectively, while the DAX rose by 3.4 per cent. The S&P 500 and Dow Jones, both ended the month at record highs, going up by 2.1 per cent and 0.8 per cent, respectively. Likewise, the Nasdaq rose by 3.1 per cent on buoyant corporate activity. In contrast, the Nikkei fell by 2.3 per cent. The Bombay SENSEX, Shanghai Stock Exchange Composite Index and Hang Seng rose by 8.0 per cent, 0.6 per cent and 4.3 per cent, respectively.

NYMEX WTI (West Texas Intermediate crude oil) averaged US\$101.8 a barrel in May 2014, down from US\$102.1 a barrel in April 2014. ICE Brent Crude averaged US\$109.2 a barrel in May 2014, up from US\$108.2 a barrel in April 2014. NYMEX and ICE Brent Crude touched intra-month highs of US\$104.4 and US\$110.6 a barrel on 23 May 2014 and 21 May 2014, respectively.

COMEX gold futures, on average, fell from US\$1,298.2/Oz in April 2014 to US\$1,287.5/Oz in May 2014 and traded in an intra-month closing range of US\$1,245.6/Oz - US\$1,309.0/Oz in May 2014 compared to US\$1,279.6/Oz - US\$1,327.2/Oz in the preceding month. Gold prices hit an intra-month high of US\$1,309.0/Oz on 3 May 2014.

Domestic Developments

The April 2014 data on tourist arrivals showed an increase of 16 per cent to 88,404 from 76,223 a year earlier. Gross tourism receipts decreased by 0.3 per cent, from Rs3,898 million in April 2013 to Rs3,886 million in April 2014. For the period May 2013 to April 2014, tourist arrivals increased by 3.8 per cent to 1,002,742 from 966,370 recorded over the previous corresponding period. Tourism receipts for the period May 2013 to April 2014 decreased by 7 per cent to Rs39,997 million from Rs42,794 million in the corresponding period a year earlier.

The Consumer Price Index (CPI) fell from 107.7 in April 2014 to 106.8 in May 2014. The main contributor to the fall in the index between April 2014 and May 2014 were vegetables, which registered a decrease of 1.0 index point, more than offsetting the increase of 0.1 index point in other goods and services.

The rate of inflation for the twelve-month period ended May 2014 stood at 4.0 per cent, unchanged from the previous period. Year-on-Year inflation rate fell from 4.2 per cent in April 2014 to 3.4 per cent in May 2014.

Between April 2014 and May 2014, on a twelve-month average basis, CORE1 inflation stood unchanged at 2.9 per cent while CORE2 inflation edged up from 2.8 per cent to 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, remained unchanged at 3.2 per cent in May 2014.

Net foreign assets of depository corporations increased by Rs24,443 million, or 6.6 per cent, from Rs371,677 million at the end of March 2014 to Rs396,120 million at the end of April 2014. Net foreign assets of the Bank of Mauritius rose by Rs4,378 million to Rs114,721 million at the end of April 2014 while the net foreign assets of the other depository corporations increased by Rs20,065 million to Rs281,399 million at the end of April 2014.

Domestic claims of depository corporations, including claims on GBL holders, declined by Rs2,002 million, or 0.5 per cent, from Rs438,794 million at the end of March 2014 to Rs436,792 million at the end of April 2014. Net claims on Central Government decreased by Rs3,033 million, or 8.5 per cent, from Rs35,854 million at the end of March 2014 to Rs32,821 million at the end of April 2014. Claims on other sectors increased by Rs1,029 million, or 0.3 per cent, to Rs403,970 million in April 2014.

Broad Money Liabilities (BML) rose by Rs897 million, or 0.2 per cent, from Rs371,778 million at the end of March 2014 to Rs372,675 million at the end of April 2014.

The monetary base dropped by Rs413 million, or 0.7 per cent, from Rs62,483 million at the end of March 2014 to Rs62,070 million at the end of April 2014. Currency in circulation decreased by Rs48 million, or 0.2 per cent, from Rs26,769 million to Rs26,721 million and liabilities to other depository corporations decreased by Rs363 million, or 1.0 per cent, to Rs35,264 million in April 2014.

During the month of May 2014, the Bank issued Government of Mauritius Treasury Bills (GMTBs) for a total nominal amount of Rs2,600 million through the auctions of single maturity instruments. For the month, there was a net redemption of Treasury Bills to the tune of Rs115 million compared to Rs740 million in April 2014.

All auctions of the GMTBs were oversubscribed with the bid cover ratio ranging between 2.74 and 2.91 reflecting the level of excess liquidity prevailing in the system. Two auctions for 182-Day and 364-Day GMTBs each and one auction for 273-Day GMTBs were held during the month of May 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 May 2014 decreased by 29, 14 and 22 basis points, respectively, compared with the respective last auction held in April 2014. The weighted yields of the 182-Day, 273-Day and 364-Day GMTBs stood at 2.62 per cent, 2.79 per cent and 2.78 per

cent, respectively, at the end of May 2014. The overall weighted yield on GMTBs in May 2014 decreased to 2.78 per cent from 2.98 per cent in April 2014.

The benchmark 4.10% Three-Year Government of Mauritius Treasury Notes due on 11 April 2017, was re-opened for a nominal amount of Rs1,300 million, through an auction held on Wednesday 21 May 2014 for settlement on Friday 23 May 2014. The auction was oversubscribed with bid yields ranging from 4.09 per cent to 4.43 per cent. A nominal amount of Rs1,300 million was accepted out of the bids received for a total nominal amount of Rs4,500 million. The highest and weighted yields accepted stood at 4.15 per cent and 4.12 per cent, respectively.

An issue of Ten-Year Government of Mauritius Bonds due 30 May 2024 was held through auction on 28 May 2014 for issue on 30 May 2014. Out of the 69 bids received for a total nominal amount of Rs4,814 million at the auction, 17 bids were accepted for the full tender amount of Rs1,400 million. The lowest yield received and the highest yield accepted stood at 6.40 per cent and 7.00 per cent, respectively, whilst the weighted yield on accepted bids was 6.91 per cent. The coupon rate, based on market-determined rates, was set at 6.75 per cent. An additional amount of Rs400 million was accepted at the weighted yield of 6.91 per cent.

To manage the growing excess liquidity prevailing in the banking system, the Bank continued to issue Bank of Mauritius Securities. Bank of Mauritius Bills for a total nominal amount of Rs2,323 million were issued against Rs2,065 million nominal maturing as well as 3-year Bank of Mauritius Notes for a total nominal amount of Rs2,300 million.

During the month under review, the amount transacted by primary dealers on the secondary market decreased from Rs1,546.4 million in April 2014 to Rs1,237.7 million. No sale of Government Securities was effected over the counter at the Bank to members of the public.

Transactions on the overnight interbank money market in May 2014 totalled Rs9,525 million compared to Rs2,815 million in April 2014. The daily average amount transacted increased to Rs340 million in May 2014 from a daily average of Rs113 million in April 2014. Transactions with a high of Rs1,100 million and a trough of Rs105 million were recorded in May 2014. The

weighted average overnight interbank rate fell to 1.77 per cent in May 2014 from 2.03 per cent in April 2014.

In May 2014, the Bank intervened on the domestic foreign exchange market and purchased an equivalent amount of US\$94.95 million whilst it sold US\$27.72 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 April and May 2014.

At the end of May 2014, the gross foreign exchange reserves of the Bank of Mauritius increased to Rs117,036 million, from Rs114,698 million as at end-April 2014. The end-May 2014 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 2013, represented 5.9 months of imports, compared to 5.8 months as at end-April 2014.

Excluding cross-border transactions of GBC1s, provisional estimates for the first quarter of 2014 indicate that gross Foreign Direct Investment (FDI) inflows in Mauritius stood at Rs1,898 million. Investment was mainly channelled to the “Real estate activities” sector (Rs1,511 million, of which the IRS/RES/IHS accounted for Rs1,146 million), the “Accommodation and food service activities” sector (Rs117 million) and the “Information and communication” sector (Rs109 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 Rs668 million for the first three months of 2014 with investments of Rs274 million channelled to the “Accommodation and food service activities” sector.