

O V E R V I E W

International Developments

During May 2007, the US dollar, on average, depreciated against the euro but appreciated vis-à-vis the Pound sterling and Japanese yen. Data releases in the US at the start of the month were mixed. Upbeat figures on manufacturing as well as non-manufacturing sectors and business productivity were somewhat offset by weak housing and disappointing jobs data that pointed to signs of slower growth. On 9 May 2007, the Fed, at its Federal Open Market Committee (FOMC) meeting, as expected, left its key federal funds rate steady at 5.25 per cent. In its accompanying statement, the Fed stood by its view that the economy was likely to expand at a moderate pace in the coming quarters. It emphasised that in spite of recent milder readings on non-energy, non-food inflation, core inflation remained somewhat elevated. The US dollar drew only short-lived support from the Fed's statement, undermined by position adjustment as investors shifted funds to higher-yielding currencies. Inflation data for April 2007, both headline and core, came in below expectations, thereby reviving talk that the Federal Reserve could cut interest rates this year. The US dollar, however, managed to regain footing towards the close of the month in the wake of the release of reports showing unexpectedly strong growth in housing starts and industrial output in April 2007 and an unexpectedly large rise in business activity, which supported the view that interest rates might stay on hold for some time, prompting some investors to rebuild their US dollar positions.

The euro edged higher against the US dollar during May 2007, trading at an average of US\$1.3512 from an average of US\$1.3502 in April 2007. From US\$1.3576 at the beginning of the month, the euro moved higher against the US dollar amid ongoing expectations that the European Central Bank (ECB) would raise interest rate in June 2007. The single currency was also supported, according to the European Commission, by the fact that the euro's gains in recent years have not damaged exports of euro zone countries. The euro hit its intra-month high of US\$1.3615 on 8 May 2007, benefiting from optimistic comments on the euro's strength from European finance ministers. On 10 May 2007, as expected, the ECB held its key refinancing rate steady at 3.75 per cent and, in his post-meeting conference, ECB President Jean-Claude Trichet stressed the need for strong vigilance to ensure stable prices in the euro zone, signalling higher interest rate for June 2007. Such expectations were reinforced after three members of the ECB's rate-setting Governing Council reiterated their determination to fight inflation in the euro area. The euro's upward movement against the US dollar also benefited from the rise of the single currency to record highs against the Japanese yen. Meanwhile, markets were already pricing in two more quarter point rate rises from the ECB this year to 4.25 per cent. On 25 May 2007, the euro hit its intra-month low of US\$1.3417, undermined by the release of weaker-than-expected business confidence surveys in Germany, France and Italy. The single currency thereafter recouped some of its losses, amid stiff warnings by ECB policymakers on inflation, to close May 2007 trading around US\$1.3434.

The Pound sterling depreciated against the US dollar during May 2007, trading at an average of US\$1.9838, down from US\$1.9865 in April 2007. Starting the month trading around US\$1.9936, the Pound sterling fell against the US dollar on the back of weaker-than-expected mortgage data that signalled a cooling housing market as well as figures indicating a slowdown in service sector expansion. The British currency thereafter recouped all its losses to hit its intra-month high of US\$1.9959 on 8 May 2007 in the wake of the broad-based weakness of the US dollar and amid expectations of a near-term UK interest rate hike. On 10 May 2007, as expected, the Bank of England's Monetary Policy Committee (MPC) raised its key repo rate to 5.5 per cent, but the accompanying statement mentioned that future interest rate hikes were clearly dependent on the outcome of future data. That was viewed as a modest disappointment to some extent by market players who had fully priced in another rate increase before year-end. The Pound sterling traded in tight ranges amid the release of mixed data and position adjustment by market players. The British currency hit its intra-month low of US\$1.9713 on 22 May 2007. Minutes of the Bank of England MPC's meeting of 9-10 May 2007 released thereafter showed that some of the Bank of England policymakers considered raising interest rates by half a percentage point before all nine settled for a quarter point increase but agreed that a further increase might be needed. The Pound sterling closed May 2007 trading around US\$1.9762.

The Japanese yen edged down against the US dollar during May 2007, trading at an average of ¥120.72 per US dollar from an average of ¥118.80 per US dollar in April 2007. Starting May 2007 around ¥119.95 per US dollar, the Japanese yen traded in tight ranges before hitting its intra-month high of ¥119.79 per US dollar on 9 May 2007 amid profit taking by investors on carry trades. It also indirectly benefited from traders selling the euro against the yen. The Japanese currency, however, embarked on a general downward trend in the wake of the release of surprisingly weak Japanese machinery orders data. As widely expected, the Bank of Japan (BOJ) left its key interest rate unchanged at 0.5 per cent at the end of its two-day meeting on 17 May 2007. However, with Japan's steady expansion seen in good shape, expectations have mounted for the BOJ to lift rates to a 12-year high of 0.75 per cent in August or September 2007. The yen, however, continued to trade in tight ranges before hitting its intra-month low of ¥121.69 per US dollar on 28 May 2007 and closing the month trading around ¥121.55 per US dollar.

Oil price developments were mixed during May 2007. While improving data on US gasoline and crude stocks helped contain high oil prices, disturbances in Nigeria pressured prices upwards. Moreover, some US refinery problems added to supply fears of market players. On 25 May 2007, the head of OPEC's research division affirmed that crude oil supply did not need to increase because rising prices reflected bottlenecks in gasoline supply that arose more often due to refinery problems. The comments came a day after Brent crude rose to a nine-month high of above US\$71 a barrel and on the heels of calls from the International Energy Agency for OPEC to raise output. With the start of the summer driving season in the US in the third week of May 2007, leading analysts expect gasoline and crude oil demand to pick up. Consequently, oil prices are expected to trade above US\$65 a barrel in the near-term.

NYMEX WTI (West Texas Intermediate benchmark crude oil) averaged US\$63.5 a barrel in May 2007, down from US\$64.0 a barrel in April 2007 and US\$71.0 a barrel in May 2006. IPE Brent futures averaged US\$67.8 a barrel during the period under review, up from US\$67.6 a barrel in April 2007 but down from US\$71.0 a barrel in May 2006.

Gold prices moved lower during the period under review as US dollar sentiment improved to some extent. Moreover, at some point the market was characterized by heavy fund selling by institutional investors and central banks. COMEX gold futures, on average, traded in an intra-month closing range of US\$653.3/Oz-US\$690.4/Oz compared to a range of US\$669.7/Oz-US\$695.8/Oz in April 2007. COMEX averaged US\$669.5/Oz during May 2007, compared to an average of US\$684.2/Oz in April 2007.

Domestic Developments

Tourist arrivals went up by 22.6 per cent, from 57,361 in April 2006 to 70,297 in April 2007, while gross tourism receipts grew by 45.7 per cent, from Rs2,381 million in April 2006 to Rs3,468 million in April 2007. On a cumulative basis, over the period July 2006 to April 2007, tourist arrivals reached 742,367, representing an increase of 9.4 per cent compared to arrivals of 678,361 recorded over the corresponding period of the previous fiscal year. Tourism receipts for the period July 2006 to April 2007 rose by 25.2 per cent to reach Rs30,750 million compared to Rs24,569 million recorded over the corresponding period of the previous fiscal year.

The Consumer Price Index (CPI) increased from 137.5 in April 2007 to 138.1 in May 2007. The largest rise was noted in the sub-Division "Clothing and footwear", which went up by 1.3 per cent followed by "Restaurants and hotels (+1.2 per cent)", "Miscellaneous goods and services" (+1.2 per cent), "Food and non alcoholic beverages" (+0.7 per cent), "Recreation and culture" (+0.2 per cent), "Furnishings, household equipment and routine household maintenance" (+0.1 per cent), "Alcoholic beverages and tobacco" (+0.1 per cent), "Health" (+0.1 per cent) and "Housing, water, electricity, gas and other fuels" (+0.1 per cent). The sub-division "Transport" registered a decline of 0.2 per cent. "Communication" and "Education" recorded no change in their sub-indices. The main contributors to the rise in the index between April 2007 and May 2007 were milk and milk preparations, fresh vegetables, fish, meat, ready made clothing, food and drinks in bars and restaurants and goods for personal care and hygiene, each registering an increase of 0.1 index point. This was partially offset by a decrease of 0.1 index point in ginger. The rate of inflation for the twelve-month period ended May 2007 stood at 10.5 per cent, up from 10.1 per cent for the twelve-month period ended April 2007.

While headline inflation for May 2007 stood at 10.5 per cent, CORE1, CORE2 and TRIM10 inflation rates stood at 7.8 per cent, 7.9 per cent and 7.6 per cent, respectively. Consequently, for May 2007, core inflation was between 2.6 and 2.9 percentage points lower than the headline inflation.

Net foreign assets of depository corporations expanded by Rs15,626 million or 24.3 per cent, from Rs64,202 million at the end of June 2006 to Rs79,828 million at the end of April 2007. This expansion reflects the increase in net foreign assets of both other depository corporations and the Bank of Mauritius.

Net foreign assets of other depository corporations grew by Rs7,736 million or 35.3 per cent to Rs29,624 million while those of the Bank of Mauritius increased by Rs7,889 million or 18.6 per cent to Rs50,204 million. Claims on non-residents rose by Rs65,169 million or 26.6 per cent, from Rs245,127 million at the end of June 2006 to Rs310,296 million at the end of April 2007. Liabilities to non-residents increased by Rs49,543 million or 27.4 per cent, from Rs180,925 million at the end of June 2006 to Rs230,468 million at the end of April 2007.

Domestic claims of depository corporations, excluding claims on GBL holders, went up by Rs7,816 million or 3.9 per cent, from Rs198,606 million at the end of June 2006 to Rs206,422 million at the end of April 2007. Net claims on budgetary central Government contracted by Rs5,004 million or 10.3 per cent, from Rs48,544 million at the end of June 2006 to Rs43,540 million at the end of April 2007. Claims on other sectors, exclusive of claims on GBL holders but inclusive of extra budgetary units, grew by Rs12,821 million or 8.5 per cent to Rs162,882 million over the first ten months of the current fiscal year.

Net claims on budgetary central Government from the Bank of Mauritius contracted by Rs605 million or 59.8 per cent, from Rs1,011 million at the end of June 2006 to Rs406 million at the end of April 2007. Net claims on budgetary central Government from other depository corporations fell by Rs4,400 million or 9.3 per cent, from Rs47,533 million to Rs43,133 million.

Claims on other sectors from the Bank of Mauritius declined by Rs16 million or 6.7 per cent, from Rs244 million at the end of June 2006 to Rs228 million at the end of April 2007 while claims on other sectors, exclusive of claims on GBL holders but inclusive of claims on extra budgetary units, from other depository corporations expanded by Rs12,837 million or 8.6 per cent, from Rs149,817 million to Rs162,654 million.

Broad Money Liabilities (BML) grew by Rs13,899 million or 7.0 per cent, from Rs198,415 million at the end of June 2006 to Rs212,314 million at the end of April 2007. Of the components of BML, currency with public rose by Rs1,266 million or 12.1 per cent to Rs11,698 million while transferable deposits went up by Rs5,900 million or 16.4 per cent to Rs41,835 million. Savings deposits increased by Rs3,044 million or 5.0 per cent to Rs63,975 million while time deposits expanded by Rs4,116 million or 4.6 per cent to Rs92,787 million. Securities other than shares included in broad money contracted by Rs427 million or 17.5 per cent to Rs2,019 million.

The monetary base went up by Rs468 million, or 2.1 per cent, from Rs22,015 million at the end of June 2006 to Rs22,483 million at the end of April 2007. Currency in circulation grew by Rs1,576 million, or 12.9 per cent, from Rs12,248 million to Rs13,824 million while liabilities to other depository corporations contracted by Rs1,201 million or 13.3 per cent, from Rs9,048 million to Rs7,847 million.

Broad Money Liabilities multiplier rose from 9.0 at the end of June 2006 to 9.4 at the end of April 2007, reflecting the higher increase in Broad Money Liabilities as compared to the monetary base.

The Bank issued Government of Mauritius Treasury Bills/Bank of Mauritius Bills for a total nominal amount of Rs4,000 million through the Primary Market in May 2007. Between end-April and end-May 2007, the weighted average yields on the 91-day and 182-day Bills decreased from 11.82 per cent to 11.46 per cent and from 11.95 per cent to 11.70 per cent respectively whereas the weighted average yield on the 364-day Bill increased from 10.69 per cent to 11.00 per cent.

During the month, the Bank carried out 3 reverse repos at the key Repo rate less 50 basis points, that is, at 8.00 per cent. No repo transaction was carried out. Overnight interbank transactions for the month of May amounted to Rs11,017 million with a high of Rs895 million and a trough of Rs30 million. The weighted average overnight interbank rate for May 2007 was 8.37 per cent compared to 8.10 per cent for the previous month.

During May 2007, total transactions in Government of Mauritius Treasury/Bank of Mauritius Bills effected through primary dealers amounted to Rs990.2 million, while trading of Treasury Bills on the Stock Exchange of Mauritius amounted to Rs10.7 million.

At the monthly auction of Treasury Notes held in May 2007, a total nominal amount of Rs1,200 million of Treasury Notes with maturities of 2, 3, and 4 years, and with interest payable semi-annually at the rates of 10.15, 10.55, and 10.75 per cent per annum, respectively, was put on tender. Bids received for the three maturities totalled Rs1,986.8 million, of which Rs1,200 million was accepted. The weighted average yields on bids accepted for the 2, 3, and 4-year maturities were 12.24, 12.05 and 12.25 per cent per annum, respectively.

The last issue of Government of Mauritius Bonds for 2006-07 was undertaken on 25 May 2007, through an auction held on 23 May 2007. Bonds with maturities of 7, 13 and 20 years for a total nominal amount of Rs1,395.2 million were put on tender at coupon rates of 11.25, 11.50 and 11.75 per cent per annum, respectively. Bids received for the three maturities totalled Rs3,359.1 million, of which an amount of Rs1,395.2 million was accepted. The weighted average yields on bids accepted were 12.54, 12.73 and 13.03 per cent per annum respectively.

Between April and May 2007, the rupee, on average, appreciated vis-à-vis all the major currencies. 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 effected by banks showed that the rupee, on average, appreciated against the US dollar, the Pound Sterling and the Euro between April and May 2007.

At the end of April 2007, the net international reserves of the country amounted to Rs85,284 million. The end-April 2007 level of net international reserves of the country, based on the value of the import bill for calendar year 2006, exclusive of the purchase of aircraft and ship, represented 40.8 weeks of imports, up from 38.6 weeks of imports at the end of March 2007. The gross foreign exchange reserves of the Bank of Mauritius fell from Rs50,736 million at the end of April 2007 to Rs49,992 million at the end of May 2007.