O V E R V I E W

International Developments

In November 2010, the US dollar, on average, appreciated against the euro and Japanese yen but depreciated vis-à-vis the Pound sterling. At the start of the month, the US dollar remained under pressure against the euro as the market awaited the Fed's move towards further money printing. Effectively, at the end of the two-day Federal Open Market Committee (FOMC) meeting on 3 November 2010, the Fed unveiled plans to buy $600 billion of government bonds to help stimulate the economy and said that it would regularly review the pace and size of the program and adjust it as needed, depending on the pace of the recovery. At the same time, it held its benchmark interest rate at a record low of 0-0.25 per cent. Thereafter, the US currency rallied on better-than-expected US employment data while budget problems in Ireland and euro zone debt issues prompted investors to seek safety in the greenback. The woes of the eurozone overshadowed attempts at the G-20 summit to ease global tensions over currency and trade policies while rising US bond yields prompted traders to cut bets against the US dollar. Between 18 to 22 November, the US dollar pared some gains following the release of subdued US inflation data. However, the US currency rebounded as risk appetite was undermined after the People's Bank of China said that it would increase banks' required reserves by 50 basis points, its fifth such announcement this year, and on geopolitical tensions in Asia. The upward revision of annualised US third quarter real GDP growth to 2.5 per cent from 2.0 per cent , and above the 2.4 per cent consensus, reflecting stronger consumer spending and business investment, provided further support to the US dollar.

The euro weakened in November 2010, trading at an average of US$1.3642 against the US dollar compared to an average of US$1.3890 in October 2010. At the beginning of the month, the euro strengthened against the US dollar amid positive economic news in the euro zone and reached an intra-month high of US$1.4132 on 4 November 2010 as the US currency was under broad-based selling pressure. At its Governing Council meeting on that day, the European Central Bank (ECB) left its key refinancing rate unchanged at 1 per cent. Thereafter, the euro started a general downtrend on the back of worries about Ireland's ability to repay its debt. Furthermore, concerns that Ireland's problems might spread throughout the Eurozone triggered risk aversion, with investors moving away from the single currency. Portugal was also high on investors' alert list since there was a high risk that it would have to seek foreign financial aid. In the third week of the month, the euro got a brief respite as Ireland was nearing an EU-IMF rescue package to tackle its banking and budget crisis. It, however, came under renewed pressure on the possible "multi-notch" downgrade to Irish debt by rating agency Moody's, political instability in Ireland and effective downgrade of Ireland's sovereign rating by Standard & Poor's despite the fact that Ireland unveiled an ambitious austerity plan. The euro ended the month trading around US$1.3092 against the US dollar.

The Pound sterling appreciated against the US dollar during November 2010, trading at an average of US$1.5955 compared to an average of US$1.5847 in the previous month. On 4 November 2010, the Bank of England (BoE) maintained its Bank Rate at 0.5 per cent and refrained from taking any further easing measures, thereby providing some support to the Pound sterling. The British currency remained well bid in the first half of the month, trading in a tight range of US$1.6009-1.6142 against the US dollar, following the release of generally positive economic data, including unexpected rises in the UK manufacturing and services sectors. The BoE inflation report released during the month reported that further monetary easing in the UK would look less likely with the dovish outlook for inflation being dropped and economic recovery in the UK projected to gather pace in the following year. In the second half of the month, the British currency surrendered some gains against the US dollar as investors shunned risky assets, including the Pound sterling, on uncertainty over whether Ireland would take emergency funding. Comments by BoE Governor Mervyn King, who signalled that more quantitative easing could be possible, also dragged down the Pound sterling. The UK currency was further undermined by concerns over the UK's exposure to eurozone debt.

The Pound sterling was unable to capitalise on a widely expected rise in the growth forecast for 2010 by the UK's Office for Budget Responsibility. At the end of the month, data released showing that the number of mortgage approvals in Britain fell to its lowest in eight months in October and a decline in house prices also dented the Pound sterling, which closed the month trading around US$1.5535.

Overall, nearly all major stock markets posted negative performances in November 2010. Despite the fact that the Fed announced further quantitative easing (QE2) on 3 November, markets were, nonetheless, dragged down on investors' concerns that the stimulus that would be injected into the economy would be less than previously declared with uncertainty over the scope and pace of the bond purchase. Moreover, renewed worries about Eurozone debt problems and the strong US dollar adversely impacted on commodity prices, especially mining and energy stocks. Bearish forces also emanated at the prospect of more European bailouts and from the threat of rising interest rates in China that prompted investors to book profits and reassess bullish positions in equities. Investors feared that the Irish crisis would spread throughout Europe, raising the spectre of losses by exposed US banks.

Over the month, FTSE, Dow Jones Industrial Average and NASDAQ retreated by 2.91 per cent, 1.07 per cent and 0.26 per cent, respectively. CAC-40 decreased by 6.01 per cent while DAX rose slightly by 1.27 per cent. Among emerging stock markets, Shanghai SEC, Bombay SENSEX, Hang Seng and JALSH posted negative returns of 7.66 per cent, 4.10 per cent, 2.73 per cent and 1.21 per cent, respectively.

NYMEX WTI (West Texas Intermediate crude oil) averaged US$84.3 a barrel in November 2010, up from US$82.0 a barrel in October 2010. ICE Brent Crude averaged US$86.2 a barrel during the month under review, up from US$83.5 a barrel in October 2010. Both NYMEX and ICE Brent Crude settled at intra-month highs of US$87.8 a barrel and US$89.0 a barrel, respectively, on 10 November 2010.

COMEX gold futures, on average, went up during November 2010, trading in an intra-month closing range of US$1,336.9/Oz-1,410.1/Oz compared to US$1,316.8/Oz-1,377.6/Oz in October 2010. Gold prices peaked at US$1,410.1/Oz on 09 November 2010.

Domestic Developments

Tourist arrivals went up by 8.9 per cent, from 80,197 in October 2009 to 87,340 in October 2010. On a cumulative basis, for the period January to October 2010, tourist arrivals totalled 733,996 representing an increase of 6.5 per cent compared to the corresponding period of 2009.

The Consumer Price Index (CPI) rose from 121.0 in October 2010 to 121.9 in November 2010. The main contributors to this increase in the index were cigarettes which registered an increase of 0.3 index point, rum and other cane spirits which recorded an increase of 0.2 index point and fruits, fish, other food products, beer and stout and other goods and services, each registering an increase of 0.1 index point. A decline of 0.1 index point for mortgage interest on housing was noted. The largest rise of 5.9 per cent was noted in the division “Alcoholic beverages and tobacco” followed by “Food and non alcoholic beverages” (+0.7 per cent), “Restaurants and hotels” (+0.5 per cent), “Transport” (+0.3 per cent) and “Clothing and footwear” (+0.1 per cent). The divisions “Housing, water, electricity, gas and other fuels”, “Furnishings, household equipment and routine household maintenance”, “Recreation and culture” and “Miscellaneous goods and services” recorded decreases of 0.5 per cent, 0.3 per cent, 0.2 per cent and 0.2 per cent, respectively while “Health”, “Communication” and “Education” recorded no change in their indices.

The rate of inflation for the twelve-month period ended November 2010 stood at 2.5 per cent, up from 2.3

per cent for the twelve-month period ended October 2010. Year-on-Year inflation rate went up to 3.9 per cent in November 2010, from 3.2 per cent in October 2010.

CORE1 inflation went up to 2.9 per cent for the twelve-month period ended November, from 2.7 per cent for the twelve-month period ended October 2010. CORE2 inflation edged up from 2.5 per cent for the twelve-month period ended October 2010 to 2.6 per cent for the twelve-month period ended November 2010. TRIM10 inflation stood at 2.6 per cent in November 2010, up from 2.4 per cent for the twelve-month period ended October 2010.

In November 2010, the Bank issued Government of Mauritius Treasury Bills for a total nominal amount of Rs4,300 million through the weekly Primary Auctions. Between end-October and end-November 2010, the weighted yields for the three maturities, namely, 91-Day Bills, 182-Day Bills and 364-Day Bills, declined from 4.17 per cent, 4.44 per cent and 4.74 per cent to 3.00 per cent, 3.44 per cent and 3.87 per cent, respectively.

The overall weighted yield in November 2010 stood at 3.85 per cent, down from 4.42 per cent in the previous month. The market preference was slightly skewed towards the 91-Day Bills in November 2010, with bids in 91-Day, 182-Day and 364-Day maturities representing around 39.2 per cent, 29.8 per cent and 31.0 per cent, respectively, of total bids received.

At the monthly auction of Government of Mauritius Treasury Notes (GMTN) held in November 2010, Treasury Notes for a total nominal amount of Rs1,500 million with maturities of 2, 3 and 4 years and bearing interest at the rate of 4.50, 4.75 and 5.00 per cent per annum, respectively, were put on tender. Bids received for the three maturities totalled Rs3,557.4 million and the amount accepted was Rs1,061.7 million. Bids were accepted only in the 2-Year maturity and the weighted yield was 5.28 per cent. The market preference remained skewed towards the 2-Year maturity with bids accounting for 58.0 per cent of total bids received.

On 22 November 2010, the Bank re-opened the issue of the 6.69% Five-Year Government of Mauritius Bonds due on 04 June 2015 through an auction held on Wednesday 24 November 2010 for an amount of Rs2,000 million for settlement on Friday 26 November 2010. Out of the 36 bids received for a total nominal amount of Rs2,836.8 million at the auction, 9 bids for a total nominal amount of Rs257 million were accepted. The lowest yield received and the highest yield accepted stood at 6.25 per cent and 6.84 per cent, respectively, whilst the weighted yield was 6.81 per cent.

During the month under review, Rs3.25 million worth of Treasury Bills/Treasury Notes were sold over the counter at the Bank to members of the public. Bills traded by primary dealers during the month amounted to Rs384.4 million.

Transactions on the interbank money market in November 2010 totalled Rs9,951 million with a daily average of Rs332 million compared to Rs357 million for the previous month. A high of Rs730 million and a trough of Rs157 million were recorded in November 2010. The weighted average overnight interbank rate in November 2010 stood at 2.17 per cent, down from 2.23 per cent in October 2010.

Under the Special Line of Credit made available to Small and Medium Planters, the outstanding amount stood at Rs726 million at the end of November 2010. There has been no disbursement under the Special Line of Credit to the Small and Medium Hotels.

During the period under review, the Bank intervened on the domestic foreign exchange market and purchased a total amount of US$93.3 million and €2.575 million from the Government, banks and foreign exchange dealers and sold US$40.86 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 and Bank of Mauritius, appreciated, on average, against the Euro but depreciated against the US dollar and the Pound sterling between October and November 2010.

The gross foreign exchange reserves of the Bank of Mauritius increased from Rs72,732 million as at end-October 2010 to Rs75,061 million at the end of November 2010.

Provisional estimates for the first nine months of 2010 indicate that gross Foreign Direct Investment (FDI) inflows in Mauritius stood at Rs10,561 million. Investment was mainly directed to the "Human health and social work activities" sector (Rs2,732 million), the "Real estate activities" sector (Rs2,458 million), of which the IRS/RES accounted for Rs1,592 million, the "Financial and insurance activities" sector (Rs2,160 million), the "Manufacturing" sector (Rs1,026 million) and the "Construction" sector (Rs776 million). The main sources of FDI inflows were India, United Kingdom followed by France and South Africa. Outward direct investment is estimated at Rs3,759 million for the first nine months of 2010 with significant investment destined to the "Human health and social work activities" sector (Rs1,375 million), the "Financial and insurance activities" sector (Rs1,010 million) and the "Accommodation and food service activities" sector (Rs915 million).