OVERVIEW

International Developments

In the Euro zone, weak economic data releases provided more evidence that the economy remained stagnant in November 2014. On 6 November 2014, the European Central Bank (ECB) kept its key refinancing rate at 0.05 per cent against a backdrop of worsening economic conditions. ECB President Mario Draghi said that inflation was dropping to levels considered excessively low and affirmed the Bank's pledge to use unconventional measures to stimulate the economy. The euro, after falling to a two-year low, jumped briefly as German business investors' sentiment increased for the first time in nearly a year.

Firm US data continued to work in favour of a strong dollar and bolstered the view that the US economy was steadily recovering. The US dollar was buoyed by the broad-based dollar-buying trend and positive manufacturing data in the US, which stood in sharp contrast to trends in Asia and Europe. The victory by Republicans in the United States' mid-term elections was also viewed as dollar-positive. Better-than-expected US retail sales and housing data releases and the minutes of the Federal Open Market Committee meeting further raised expectations that the US Federal Reserve was on track to hike interest rates early in 2015.

A lower-than-expected performance of the UK service sector, more evidence of a cooling housing market and a widening of Britain's goods trade deficit (due to weak export growth) pointed to an end-of-year slowdown in the UK economy. As widely expected, the Bank of England (BoE) Monetary Policy Committee on 6 November 2014 maintained its Bank Rate at 0.5 per cent and its bond-buying program at GBP375 billion. The BoE, in its November 2014 Inflation Report, highlighted that inflation could fall below 1.0 per cent in the following six months and also trimmed its growth forecasts, pushing back expectations of when rates would rise. A boost in UK retail sales allowed the Pound sterling to recoup some of its earlier losses.

The international foreign exchange market offered more evidence of the US economy outperforming Europe and Japan. Differing monetary policy outlooks between the US Federal Reserve and its major global peers led to a sustained strength of the US dollar against the euro, Pound sterling and Japanese yen. The euro slipped to a two-year low of US$1.2375 on 7 November 2014 on heightened expectations that the ECB was ready to take more policy action to revive a struggling Euro zone economy. The Pound sterling traded at an average of US$1.5788 in November 2014 compared to an average of US$1.6083 in October 2014.

Global equity markets edged higher on signs of a strengthening US economy, Japan's extension of its bond-buying programme and expectations of further stimulus measures by the ECB. The MSCI Global Equity Index rose by 1.8 per cent while the MSCI Emerging Markets Index fell by 1.1 per cent. The NASDAQ and Dow Jones rose by 3.5 per cent and 2.5 per cent, respectively. The Nikkei surged by 6.4 per cent, boosted by the Japanese yen's continuing weakness. European shares also inched higher, with the DAX, CAC-40 and the FTSE rising by 7.01 per cent, 3.7 per cent and 2.7 per cent, respectively. Asian equity markets also edged higher with the Bombay SENSEX and Shanghai Stock Exchange Composite Index rising by 3.0 per cent and 10.9 per cent, respectively while the Hang Seng was unchanged. The JALSH inched higher by 0.4 per cent.

Both international energy prices and food prices remained on a declining trend. Global oil prices continued to drop amid increasing supplies and sluggish global growth. Crude oil NYMEX WTI (West Texas Intermediate crude oil) averaged US$75.7 a barrel in November 2014, down from US$84.3 a barrel in October 2014. ICE Brent Crude averaged US$79.6 a barrel in November 2014, down from US$88.1 a barrel in October 2014. The Food and Agriculture Organisation's (FAO) Food Price Index remained virtually stable in November 2014 on expectations of improved supply prospects. The November 2014 FAO Dairy Price Index dropped by 3.4 per cent, compared to the previous month – the ninth consecutive month-to-month decline – and was 29 per cent lower than in November 2013.

Domestic Developments

Tourist arrivals and tourism earnings increased during the first ten months of 2014, compared to the same period in 2013. For the period January to October 2014, tourist arrivals stood at 826,950, representing a growth of 5.1 per cent over the corresponding period of 2013. The year-on-year growth in arrivals for October 2014 reflected mainly increases from Europe (+9.0 per cent) and Asia (+17.2 per cent). Gross tourism earnings rose to Rs3,703 million in October 2014, from Rs3,126 million in October 2013, representing a growth of 18.5 per cent. For the period January to October 2014, tourism earnings rose by 11.5 per cent to Rs35,935 million, from Rs32,231 million in the corresponding period of 2013.

Latest CPI data released by Statistics Mauritius showed that inflation has eased further in November 2014. Headline inflation dropped from 3.8 per cent in October 2014 to 3.5 per cent in November 2014, while y-o-y inflation fell from 1.9 per cent to 0.9 per cent over the same period. The core measures of inflation remained at moderate levels in November 2014.

Monetary aggregates grew at a strong pace through October 2014. Monetary expansion, measured by the year-on-year growth rate of Broad Money Liabilities (BML), picked up for the third consecutive month and stood at 10.3 per cent in October 2014, while growth in banks' credit remained subdued. The annual growth rate of the monetary base was 25.4 per cent in October 2014 compared with 27.1 per cent in September 2014. The growth reflected mainly increases in liabilities to Other Depository Corporations (reserve deposits) and currency in circulation.

All the auctions of Government of Mauritius Treasury Bills (GMTBs) held in November 2014 were oversubscribed with the bid cover ratio ranging between 2.4 and 4.7, reflecting the high level of excess rupee liquidity prevailing in the banking system. Only three maturities of GMTBs were issued during the month. The weighted yield on the 182-Day GMTB increased, while the weighted yields on the 273-Day and 364-Day GMTBs fell. The overall weighted yield on GMTBs decreased to 1.44 per cent in November 2014, from 1.47 per cent in October 2014.

The auctions for the benchmark Three-Year GoM Treasury Notes (Re-opening) and the Five-Year GoM Bonds were also oversubscribed, with both issues having bid cover ratios of 3.6.

The weighted average dealt selling rates of the rupee depreciated, on average, against the US dollar but appreciated against the euro and Pound sterling between October and November 2014. The rupee/USD rate depreciated, averaging Rs31.607/USD in November 2014 compared to Rs31.451/USD in October 2014, while the rupee exchange rates against the euro and Pound sterling averaged Rs39.470/EUR and Rs50.004/GBP in November 2014 compared to Rs39.925/EUR and Rs50.721/GBP, respectively, in October 2014. The rates are calculated on the basis of transactions of US$30,000 and above, or the equivalent in other foreign currencies, conducted by banks and foreign exchange dealers.

At the end of November 2014, the gross foreign exchange reserves of the Bank of Mauritius declined to Rs117,680 million, from Rs119,549 million as at end-October 2014. The end-November 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 6.0 months of imports, unchanged from end-October 2014.