OVERVIEW

International Developments

During November 2004, the US dollar, on average, depreciated against all major currencies as currency traders continued to focus on persistent imbalances in the US economy. Even the US Federal Reserve's decision on 10 November 2004 to raise its federal funds rate by another 25 basis points to 2.0 per cent and its indication of a rate-rise campaign did little to stop the US dollar's decline. According to analysts, the US dollar was being sold aggressively on the belief that the United States wanted to see its currency weaken to ease its massive current account deficit. The US dollar's decline gathered further momentum after the Federal Reserve Chairman, Alan Greenspan, warned that the United States should correct its trade imbalances or face painful consequences. This view was further strengthened when the G20 communiqué failed to mention currency volatility, thereby ignoring the US dollar's weakness. By the end of the month, in the absence of efforts on the part of US officials to curb the US dollar's slide and amid speculation that some central banks were considering increasing euro holdings in their reserves, market sentiment towards the US currency remained bearish.

The US dollar's broad-based decline during the month has sent the euro surging to new record highs. On 10 November 2004, the single currency, during New York trade, for the first time ever, breached above the psychologically important level of US$1.30 to reach US$1.3006. With little in the way to limit the US dollar's losses, the euro continued its upward trend. On 30 November 2004, the euro had attained a fresh all-time high of US$1.3336 in New York trade as traders interpreted ECB President's ongoing remarks that the recent moves in currency markets were unwelcome as a sign that the ECB was not prepared to cut interest rates or intervene to head off further euro rise. On 4 November 2004, the ECB, at its governing council meeting, held, for the 17th month in a row, its key interest rate on hold at 2.0 per cent.

The Pound sterling, which started November 2004 at an intra-month low of US$1.8346, moved higher against the generally weak US dollar, brushing aside the release of soft UK economic data that had reinforced expectations that UK interest rates might have peaked. By the close of the month, the Pound, in London trade, had reached a 9-month high of US$1.9131 against a struggling US dollar, helped by the release of stronger-than-expected UK November 2004 retail sales and comments from the Bank of England Governor that fanned expectations that Britain's economic prospects were better than recently feared. At its monthly Monetary Policy Committee meeting on 3-4 November 2004, the Bank of England left its key interest rate unchanged at 4.75 per cent.

The Japanese yen, which was trading at around ¥106.20 per US dollar in early November, took advantage of the broad wave of US dollar selling to push higher against the US currency. By the close of November 2004, the yen was trading around a 4½ year high of ¥102.32 per US dollar, despite ongoing remarks by Japanese officials that the recent yen's strength did not reflect fundamentals, which according to currency traders, lacked conviction.

International oil prices fell during November 2004 as supply concerns eased with oil production level in the Gulf of Mexico improving to its normal level and weekly reports from the US Energy Information Administration (EIA) showing a build-up in US crude inventory during November 2004. Many of the hedge funds, which had accumulated long positions in October 2004, started liquidating their positions. Although the weekly EIA reports showed increases in US crude oil stock, the stock level of US distillate oil, which includes heating oil, was not convincing enough to drive oil prices further down amid the US winter season. However, in the week ended 24 November 2004, the rise in distillate oil stock was much larger than expected. Some OPEC members were very much concerned about the persistent US dollar weakness as the price of oil is denominated in US dollars. But, the President of the cartel, Mr. Purnomo Yusgiantoro, declared that OPEC had no plans to price its crude oil in euros. OPEC members are scheduled to meet in Cairo on 10 December 2004. The latest information on the oil market tends to suggest that oil prices may decline further, but are most likely to stay around US$40 a barrel till the end of December 2004.

In November 2004, NYMEX WTI (West Texas Intermediate benchmark crude oil) averaged US$48.5 a barrel, compared to US$53.1 a barrel in October 2004 and US$31.1 a barrel in November 2003. IPE Brent futures averaged US$44.6 a barrel in November 2004, compared to US$49.4 a barrel in October 2004 and US$28.9 a barrel in November 2003.

COMEX gold futures strengthened further during November 2004, trading in an intra-month closing range of US$420.8/Oz and US$453.7/Oz compared to a range of US$414.6/Oz and US$429.9/Oz in October 2004. During November 2004, persistent US dollar weakness supported the precious metal. COMEX averaged US$439.1/Oz in November 2004, compared to an average of US$422.3/Oz in October 2004.

Domestic Developments

Tourist arrivals rose by 9.1 per cent, from 64,917 in October 2003 to 70,793 in October 2004, while gross tourism receipts fell by 5.1 per cent, from Rs1,886 million in October 2003 to Rs1,789 million in October 2004. Cumulatively, for the period January to October, tourist arrivals reached 574,087, representing an increase of 1.5 per cent compared to arrivals of 565,763 in the corresponding period in 2003 while gross tourism receipts went up by 23.2 per cent, from Rs15,128 million in 2003 to Rs18,636 million in 2004.

The Consumer Price Index (CPI) increased from 114.6 in October 2004 to 114.7 in November 2004. The rate of inflation for the twelve-month period ended November 2004 stood at 4.6 per cent, compared to 4.4 per cent for the twelve-month period ended October 2004.

Money supply M2 went up by Rs1,396 million or 1.0 per cent, from Rs141,132 million at the end of June 2004 to Rs142,528 million at the end of October 2004. Narrow money supply M1, one of the components of M2, dropped by Rs79 million or 0.4 per cent to Rs21,243 million while quasi-money rose by Rs1,474 million or 1.2 per cent to Rs121,285 million.

Net foreign assets of the banking system rose by Rs721 million or 1.5 per cent, from Rs49,120 million at the end of June 2004 to Rs49,841 million at the end of October 2004. Net foreign assets of Bank of Mauritius went up by Rs767 million or 1.8 per cent to Rs44,029 million whereas net foreign assets of Category 1 banks dropped by Rs46 million or 0.8 per cent to Rs5,812 million.

Domestic credit went up by Rs3,038 million or 2.4 per cent, from Rs128,799 million at the end of June 2004 to Rs131,837 million at the end of October 2004. Net credit to Government from the banking system rose by Rs264 million or 0.7 per cent, from Rs35,346 million at the end of June 2004 to Rs35,610 million at the end of October 2004. Net credit to Government from Bank of Mauritius rose by Rs535 million or 77.0 per cent to a negative figure of Rs160 million while net credit to Government from Category 1 banks declined by Rs271 million or 0.8 per cent to Rs35,770 million. Credit to the private sector from Category 1 banks rose by Rs2,806 million or 3.0 per cent, from Rs93,120 million at the end of June 2004 to Rs95,926 million at the end of October 2004. Over that period, additional credit was directed to the following sectors: “Construction” (Rs830 million), “Tourism” (Rs740 million), “Statutory & Parastatal Bodies” (Rs755 million), “Personal” (Rs560 million), “Financial and Business Services” (Rs474 million), “Traders” (Rs277 million), “Professional” (Rs122 million) and “Transport” (Rs99 million). However, declines were noted at “Agriculture and Fishing” (Rs980 million) and “Manufacturing” (Rs330 million).

Reserve money declined by Rs862 million or 3.5 per cent, from Rs24,905 million at the end of June 2004 to Rs24,043 million at the end of October 2004.

Taking into account liquidity conditions in the market, the Bank carried out one reverse repurchase transaction for 2 days in November 2004. The highest yield accepted was 1.45 per cent per annum.

During November 2004, total transactions in Government of Mauritius Treasury/Bank of Mauritius Bills effected through primary dealers amounted to Rs273.3 million while trading of Treasury Bills on the Stock Exchange amounted to Rs5.7 million.

Effective 19 November 2004, the rate of interest offered on Treasury Notes was increased from 7.50 per cent per annum to 8.00 per cent per annum. A total amount of Rs1,846.4 million of maturing Treasury Bills was converted into Treasury Notes during November 2004.

Between October and November 2004, the rupee, on average, appreciated against the US dollar but depreciated against the Pound sterling, euro and Japanese yen.

Spot sales of foreign currencies by the Mauritius Sugar Syndicate to the banking sector during November 2004 amounted to an equivalent of US$8.9 million. The Bank intervened and sold US$4.7 million to banks during the month. The weighted average dealt selling rates of the rupee, which are calculated on transactions of US$30,000 and above, or the equivalent in other foreign currencies, effected by Category 1 banks, showed that the rupee, on average, appreciated against the US dollar but depreciated against the euro and the Pound sterling between October and November 2004.

At the end of October 2004, the net international reserves of the country amounted to Rs50,775 million. Based on the value of the import bill for fiscal year 2003-04, exclusive of the purchase of aircraft, the end-October 2004 level of net international reserves represented 38.0 weeks of imports, down from 38.3 weeks of imports at the end of September 2004. At the end of November 2004, the foreign exchange reserves of the Bank of Mauritius amounted to Rs45,187 million, up from Rs44,142 million at the end of October 2004.