O V E R V I E W

International Developments

In October 2010, the US dollar, on average, depreciated against the euro, Japanese yen and Pound sterling. At the start of the month, the US dollar came under pressure following the release of a number of unsatisfactory US economic data. The US currency remained on the back foot following an unexpected drop in US payrolls for September, and after the minutes of the Federal Reserve's latest meeting indicated that members felt that further monetary easing would be appropriate. Around mid-month, the US dollar recouped some of its losses as Fed Chairman Ben Bernanke gave no details on the central bank's next step and with investors betting that the greenback's recent declines had gone too fast. The US currency garnered some support from a surprise interest rate increase in China, which prompted investors to cut their risk exposure. However, the US dollar reverted to its depreciating trend after an influential consultancy firm said, on 20 October, that the Federal Reserve was planning to buy US$500 billion of Treasuries over six months and would be leaving itself room for more buying. Furthermore, investors interpreted the G20 pledge to shun competitive currency devaluation as a green light to resume dollar selling. Towards the end of the month, the US dollar, however, benefited from rising US treasury yields as well as the Wall Street Journal saying that the Fed was likely to unveil plans for a gradual Treasury purchases compared with investors' base-case scenario of an initial commitment to buy at least $500 billion in Treasury debt.

The euro traded at an average of US$1.3890 in October 2010 compared to an average of US$1.3069 in September 2010. The euro rallied against the US dollar on the back of better economic figures from the euro zone and after surprisingly strong Chinese manufacturing data countered concerns about the global outlook. Meanwhile, Fitch downgraded Ireland's debt to A+ with an 'outlook negative', indicating that it might act to downgrade the country again in the future. At its Governing Council meeting on 7 October 2010, the European Central Bank (ECB) left its key refinancing rate unchanged at 1 per cent and ECB President Jean-Claude Trichet did not directly comment the euro's recent rise. The euro reached an intra-month peak of US$1.4072 on 14 October but, thereafter, shed some gains on the back of profit-taking and after Eurogroup Chairman, Jean-Claude Juncker, said that he was not happy with the euro's move to $1.40. Thereafter, the single currency remained supported, although, by the end of the month, it was undermined by renewed concerns about Greece and after euro zone banks took more cheap funding than expected at a three-month ECB lending operation.

The Pound sterling appreciated against the US dollar during October 2010, trading at an average of US$1.5847 compared to an average of US$1.5572 in the previous month. The British currency strengthened against the US dollar against the backdrop of better-than-expected construction, private sector services activity and firm factory output data. On 7 October 2010, the Bank of England (BoE) maintained its Bank Rate at 0.5 per cent and held back from taking any further easing measures, which lent support to the Pound sterling. The British currency continued its uptrend, benefiting from above-forecast UK producer price data, which somewhat reduced expectations that the BoE would need to pump more cash in the near term. The Pound sterling, thereafter, shed some gains as MPC member David Miles said that quantitative easing remained a potentially powerful tool and might be used while weak UK consumer confidence data together with a mixed employment report reinforced concerns about the UK's economic recovery. The Pound sterling reached an intra-month high of US$1.6015 on 15 October as hefty selling pressures on the greenback were exacerbated by Singapore widening the trading band of its currency. Thereafter, the British currency tumbled and reached an intra-month low of US$1.5722 on 22 October on risk aversion while a weak reading of UK factory orders raised concerns about the UK’s economic outlook ahead of the government's spending review. The Pound sterling got a brief respite against the US dollar as finance minister George Osborne outlined plans for public spending cuts but dipped again after the release of weak UK retail sales data. This raised concerns that BoE policymakers might opt to inject more stimulus into a faltering economy and after the minutes of the latest MPC meeting had shown a 3-way split, with one vote for more quantitative easing. At the end of the month, the Pound sterling was boosted by much better-than-expected UK economic growth data and a vote of confidence in the government's management of the economy from ratings agency Standard and Poor's.

Overall, all major stock markets maintained their positive performances in October 2010. US stocks started the first week of the month on a negative note following declining rate of growth in US factory activity coupled with profit-taking. However, optimism thereafter rose on a myriad of positive news. A weak US jobs report, which consolidated the case for more stimuli from the Federal Reserve, stronger-than-expected corporate earnings and US dollar weakness all sent US stocks to a five-and-a-half month high by the last week of October. However, some bearish forces also manifested when investors reduced their expectations of how aggressive the Fed would act to boost the economy and amid uncertainty over the forthcoming US elections.

Over the month, NASDAQ, Dow Jones Industrial Average and FTSE rose by 5.76 per cent, 2.67 per cent and 1.47 per cent, respectively. DAX and CAC-40 increased by 6.28 per cent and 3.83 per cent, respectively. Among emerging stock markets, Shanghai SEC, Hang Seng and JALSH posted positive returns of 12.17 per cent, 3.30 per cent and 3.98 per cent, respectively, while Bombay SENSEX registered a negative performance of 2.02 per cent.

NYMEX WTI (West Texas Intermediate crude oil) averaged US$82.0 a barrel in October 2010, up from US$75.5 a barrel in September 2010. ICE Brent Crude averaged US$83.5 a barrel during the month under review, up from US$78.4 a barrel in September 2010. Both NYMEX and ICE Brent Crude settled at intra-month highs of US$83.2 a barrel and US$85.1 a barrel, respectively, on 6 October 2010.

COMEX gold futures, on average, went up during October 2010, trading in an intra-month closing range of US$1,316.8/Oz-1,377.6/Oz compared to US$1,246.5/Oz-1,310.3/Oz in September 2010. Gold prices peaked at US$1,377.6/Oz on 14 October 2010.

Domestic Developments

Tourism arrivals went up by 8.7 per cent, from 60,144 in September 2009 to 65,404 in September 2010, while gross tourism receipts increased by 12.3 per cent, from Rs2,546 million in September 2009 to Rs2,858 million in September 2010. On a cumulative basis, for the period January to September 2010, tourism arrivals reached 646,656 representing an increase of 6.2 per cent compared to the same corresponding period last year. Tourism receipts for the first nine months of 2010 stood at Rs28,168 million, recording an increase of 9.7 per cent over the corresponding period of 2009.

The Consumer Price Index (CPI) rose from 120.7 in September 2010 to 121.0 in October 2010. The main contributors to the rise in October 2010 were gasoline which registered an increase of 0.2 index point and fruits, ready-made clothing and other goods and services, each registering an increase of 0.1 index point. A decline of 0.2 index point for interest on housing loans was recorded. The largest rise of 1.9 per cent was noted in the division “Clothing and footwear” followed by “Transport” (+1.4 per cent), “Restaurants and hotels” (+0.5 per cent), “Food and non alcoholic beverages” (+0.2 per cent), “Recreation and culture” (+0.2 per cent), “Miscellaneous goods and services” (+0.2 per cent) and “Alcoholic beverages and tobacco” (+0.1 per cent). The divisions “Housing, water, electricity, gas and other fuels” and “Furnishings, household equipment and routine household maintenance” recorded decreases of 1.1 per cent and 0.1 per cent, respectively, while no change was recorded in “Health”, “Communication” and “Education”.

The rate of inflation for the twelve-month ended October 2010 stood at 2.3 per cent, up from 2.0 per cent for the twelve-month ended September 2010. Year-on-Year inflation rate went up to 3.2 per cent in October 2010, from 2.5 per cent in September 2010.

CORE1 inflation went up to 2.7 per cent for the twelve-month ended October, from 2.4 per cent for the twelve-month ended September 2010. CORE2 inflation remained unchanged at 2.5 per cent in October 2010. TRIM10 inflation stood at 2.4 per cent in October 2010, up from 2.2 per cent for the twelve-month ended September 2010.

Net foreign assets of depository corporations went up by Rs304 million, or 0.3 per cent, from Rs96,205 million at the end of August 2010 to Rs96,509 million at the end of September 2010. The net foreign assets of the Bank of Mauritius rose by Rs3,102 million, or 4.7 per cent to Rs66,200 million while the net foreign assets of other depository corporations decreased by Rs2,799 million, or 9.3 per cent, to Rs27,309 million.

Domestic claims of depository corporations, excluding claims on GBL holders, increased by Rs2,224 million, or 0.8 per cent, from Rs292,739 million at the end of August 2010 to Rs294,963 million at the end of September 2010. Net claims on budgetary central Government increased by Rs1,064 million or 2.3 per cent from Rs47,121 million at the end of August 2010 to Rs48,185 million at the end of September 2010. Claims on other sectors, that is, credit to the private sector, went up by Rs1,160 million or 0.5 per cent to Rs246,778 million in September 2010.

Net claims on budgetary central Government from the Bank of Mauritius increased by Rs2,693 million or 29.0 per cent to negative Rs6,602 million at the end of September 2010. Net claims on budgetary central Government from other depository corporations fell by Rs1,629 million, or 2.9 per cent, from Rs56,416 million to Rs54,787 million.

Claims on Other Sectors from the Bank of Mauritius increased by Rs3 million, or 2.3 per cent to Rs138 million at the end of September 2010 while claims on Other Sectors from other depository corporations increased by Rs1,158 million or 0.5 per cent from Rs245,482 million to Rs246,640 million.

Broad Money Liabilities (BML) went up by Rs4,021 million or 1.4 per cent from Rs296,546 million at the end of August 2010 to Rs300,567 million at the end of September 2010. Of the components of BML, currency with public decreased by Rs39 million or 0.2 per cent to Rs16,242 million while transferable deposits increased by Rs1,214 million or 1.9 per cent to Rs63,780 million. Savings deposits went up by Rs1,595 million or 1.6 per cent, to Rs99,716 million while time deposits increased by Rs52 million to Rs117,867 million. Securities other than shares included in broad money increased by Rs1,200 million from Rs1,762 million at the end of August 2010 to Rs2,962 million at the end of September 2010.

The monetary base went up by Rs33 million or 0.1 per cent from Rs36,523 million at the end of August 2010 to Rs36,556 million at the end of September 2010. Currency in circulation edged down by Rs3 million to Rs19,096 million while liabilities to other depository corporations decreased by Rs102 million or 0.6 per cent from Rs17,184 million to Rs17,082 million.

Broad Money Liabilities multiplier went up from 8.1 at the end of August 2010 to 8.2 at the end of September 2010 as a result of a higher increase in Broad Money Liabilities compared to Monetary Base.

In October 2010, the Bank issued Government of Mauritius Treasury Bills for a total nominal amount of Rs4,385 million through the weekly Primary Auctions. Between end-September and end-October 2010, the weighted yield on the 91-Day Bills rose from 3.18 per cent to 4.17 per cent, with a peak of 4.37 per cent on 15 October 2010. Similarly, the weighted yield on the 182-Day Bills rose from 3.24 per cent to 4.44 per cent, with a peak of 4.64 per cent on 15 October 2010. As for the 364-Day Bills, the weighted yield rose from 3.28 per cent as at end of September 2010 to 5.00 per cent on 8 October 2010 and, thereafter, trended downwards to 4.74 per cent at the end of October 2010.

The overall weighted yield in October 2010 stood at 4.42 per cent up from 2.81 per cent in the previous month. Market preference which was skewed towards the 91-Day Bills in September 2010, became more evenly distributed in October 2010 with bids in 91-Day, 182-Day and 364-Day representing around 39.2 per cent, 26.8 per cent and 34.1 per cent, respectively, of total bids received.

Transactions on the interbank money market in October 2010 totalled Rs11,070 million, with a daily average of Rs357 million compared to Rs253 million for the previous month. A high of Rs670 million and a trough of Rs95 million were recorded in October 2010. The weighted average overnight interbank rate in October 2010 stood at 2.23 per cent, up from 2.04 per cent in September 2010.

During the month under review, Rs5.8 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 Rs264.6 million.

At the monthly auction of Government of Mauritius Treasury Notes (GMTN) held in October 2010, Treasury Notes for a total nominal amount of Rs1,600 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, was put on tender. Bids received for the three maturities totalled Rs1,321 million and the amount accepted was Rs741 million. The weighted yields on bids accepted for the 2-Year, 3-Year and 4-Year maturities were 5.68, 6.29 and 6.67 per cent per annum, respectively. The market preference remained skewed towards the 2-Year maturity with bids accounting for 56.8 per cent of total bids received.

During the period under review, the Bank intervened on the domestic foreign exchange market and purchased a total amount of USD103.69 million and EUR21.35 million from Government, banks and foreign exchange dealers and sold USD24.29 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 US dollar and the Pound sterling but depreciated against the Euro between September and October 2010.

At the end of September 2010, the net international reserves of the country stood at Rs97,542 million. The end-September 2010 level of net international reserves of the country, based on the value of import bill for the fiscal year 2009-10 exclusive of the purchase of aircraft, represented 40.8 weeks of imports, marginally higher than 40.7 weeks of imports as at the end-August 2010. The gross foreign exchange reserves of the Bank of Mauritius decreased from Rs73,296 million as at end-September 2010 to Rs72,732 million at the end of October 2010.