

## OVERVIEW

### **International Developments**

In October 2012, the US dollar, on average, depreciated vis-à-vis the euro, but appreciated versus the Japanese yen and, marginally, versus the Pound sterling. The safe-haven dollar fell versus the single currency as some encouraging U.S. economic data lent support to risky assets, including the euro. Thereafter, the greenback dropped further against a basket of major currencies following the U.S. Federal Reserve's decision to stand by its stimulus programme in order to support growth even as some parts of the economy looked a bit better.

The euro traded at an average of US\$1.2964 in October 2012 compared to an average of US\$1.2852 in September 2012. The euro rose as the European Central Bank, after its decision to hold its key interest rate steady at 0.75 per cent at its policy meeting on 4 October 2012, affirmed its readiness to buy bonds of troubled euro zone members. The single currency was also supported by an increase in risk appetite following better-than-expected U.S. economic data. It reached an intra-month high of US\$1.3107 after fears of a downgrade to junk status of Spain's credit rating were assuaged. Concerns about Spain's progress towards a bailout needed to shore up its public finances, however, capped the euro's gains.

The Pound sterling depreciated slightly against the US dollar in October 2012, trading at an average of US\$1.6072 compared to an average of US\$1.6098 in September 2012. Sterling fell as weak economic data weighed on confidence in the prospect of a sustained recovery in the UK economy. The Bank of England kept its bank rate on hold at 0.50 per cent and its quantitative easing programme unchanged at its policy meeting.

Global equities posted a mixed performance in October 2012, with U.S. markets registering losses on signs of weakness in the economy and European stocks posting gains largely on signs Spain was moving closer to a bailout. Over the month, the Dow Jones Industrial Average and NASDAQ fell by 2.5 per cent and 4.5 per cent respectively, while the Nikkei and FTSE each rose by 0.7 per cent and the CAC-40 by

2.2 per cent. Among emerging stock markets, Shanghai SEC and Bombay SENSEX dropped by 0.8 per cent and 1.4 per cent respectively, while JALSH gained 3.9 per cent.

NYMEX WTI (West Texas Intermediate crude oil) averaged US\$89.6 a barrel in October 2012, down from US\$94.6 a barrel in September 2012. ICE Brent Crude averaged US\$111.5 a barrel during the month under review, down from US\$113.0 a barrel in September 2012. NYMEX and ICE Brent Crude settled at intra-month highs of US\$92.5 a barrel on 1 October 2012 and US\$ 115.8 a barrel on 15 October 2012, respectively.

COMEX gold futures, on average, went down from US\$1,751.7/Oz in September 2012 to US\$1,746.1/Oz in October 2012 and traded in an intra-month closing range of US\$1,701.6/Oz-1,796.5/Oz compared to US\$1,694.0/Oz-1,780.5/Oz in the preceding month. Gold prices peaked at US\$1,796.5/Oz on 4 October 2012.

### **Domestic Developments**

September 2012 data on tourist arrivals showed an increase of 2.3 per cent to 66,369 from 64,880 a year earlier. Gross tourist receipts decreased by 9.7 per cent, from Rs2,773 million in September 2011 to Rs2,504 million in September 2012. In the period October 2011 to September 2012, tourist arrivals increased by 0.3 per cent to 965,843 from 962,554 recorded over the previous corresponding period. Tourist receipts in the period October 2011 to September 2012 rose by 7.4 per cent to Rs44,522 million, from Rs41,438 million in the previous corresponding period.

The Consumer Price Index (CPI) rose from 133.3 in September 2012 to 133.6 in October 2012. The main contributors to the rise in the index between September 2012 and October 2012 were milk, motor vehicles and other goods and services, each registering an increase of 0.1 index point. Division-wise, an increase of 0.7 per cent was recorded for “Miscellaneous goods and services” followed by “Health” (+0.6 per cent), “Transport” (+0.6 per cent), “Food and non alcoholic beverages” (+0.3 per cent), “Recreation and culture” (+0.2 per cent), “Alcoholic beverages and tobacco” (+0.1 per cent) and “Furnishings, household equipment and routine household

maintenance” (+0.1 per cent). “Clothing and footwear”, “Housing, water, electricity, gas and other fuels”, “Communication”, “Education” and “Restaurant and hotels” recorded no change in their indices.

The rate of inflation for the twelve-month period ended October 2012 stood at 4.3 per cent, down from 4.4 per cent for the twelve-month period ended September 2012. Year-on-Year inflation rate rose from 3.9 per cent in September 2012 to 4.2 per cent in October 2012.

Between September 2012 and October 2012, for the twelve month period, CORE1 inflation edged down from 3.7 per cent to 3.6 per cent while CORE2 inflation fell from 3.2 per cent to 3.1 per cent. TRIM10 inflation stood at 2.8 per cent in October 2012, down from 2.9 per cent for the twelve-month period ended September 2012.

Net foreign assets of depository corporations went up by Rs25,042 million, or 7.2 per cent, from Rs345,616 million at the end of August 2012 to Rs370,658 million at the end of September 2012, mainly as a result of the increase in the net foreign assets of the other depository corporations. Net foreign assets of the other depository corporations went up by Rs24,040 million to Rs286,567 million as at end-September 2012 while the net foreign assets of the Bank of Mauritius increased by Rs1,002 million to Rs84,091 million as at end-September 2012.

Domestic claims of depository corporations, including claims on GBL holders, increased by Rs1,555 million, or 0.4 per cent, from Rs382,250 million at the end of August 2012 to Rs383,805 million at the end of September 2012. Net claims on budgetary central Government increased by Rs136 million, or 0.3 per cent, from Rs43,371 million at the end of August 2012 to Rs43,507 million at the end of September 2012. Claims on other sectors, that is, credit to the private sector went up by Rs1,419 million, or 0.4 per cent, to Rs340,298 million in September 2012.

Broad Money Liabilities (BML) witnessed a marginal rise of Rs125 million, or 0.04 per cent, from Rs344,006 million at the end of August 2012 to Rs344,131 million at the end of September 2012.

The monetary base increased by Rs1,092 million, or 2.4 per cent, from Rs46,294 million at the end of August 2012 to Rs47,386 million at the end of September 2012. Currency in circulation went down by Rs119 million, or 0.5 per cent, from Rs22,572 million to Rs22,453 million and liabilities to other depository corporations went up by Rs1,051 million, or 4.5 per cent, from Rs23,541 million to Rs24,592 million.

In October 2012, the Bank issued Government of Mauritius Treasury Bills (GMTB) for a total nominal amount of Rs3,600 million against a total tender amount of Rs3,800 million through the auctions of single maturity instruments. There was a net issue of Treasury Bills for Rs885 million in October 2012 compared to a net redemption of Rs819 million in September 2012. Given the comfortable liquidity level in the banking system, all auctions of GMTB were oversubscribed with the bid cover ratio ranging between 2.56 and 3.48. One auction of 91-Day GMTB, two auctions each for 182-Day and 273-Day GMTB and three auctions of 364-Day GMTB were held during the month. The Bank continued its offer to buy-back Bank of Mauritius Notes from banks.

On a point-to-point basis, compared to the last auctions held in September 2012, the weighted yields of the 91 Day, 182 Day, 273 Day and 364-Day GMTB went down by 13 basis points, 23 basis points, 24 basis points and 61 basis points, respectively, to 2.97 per cent, 3.04 per cent, 3.22 per cent and 3.30 per cent.

The overall weighted yield for October 2012 stood at 3.23 per cent, down from 3.60 per cent for September 2012.

A new issue of the Three-Year Government of Mauritius Treasury Notes bearing a coupon rate of 4.90 per cent was put on auction on 10 October 2012 for issue on 12 October 2012. Out of the 22 bids received for a total nominal amount of Rs2,180 million at the auction, 8 bids for a total nominal amount of Rs445.0 million were accepted. The lowest yield received and the highest yield accepted stood at 4.69 per cent and 4.89 per cent, respectively, whilst the weighted yield on accepted bids was 4.75 per cent.

Five-Year Government of Mauritius Bonds due on 26 October 2017 were issued through an auction held on Wednesday 24 October 2012 for an amount of Rs1,400 million for settlement on Friday 26 October 2012. Out of the 42 bids received for a total nominal amount of Rs4,265.0 million, 10 bids for a total nominal amount of Rs965 million were accepted. The lowest yield and the highest yield accepted stood at 5.70 per cent and 5.85 per cent, respectively, whilst the weighted yield was 5.77 per cent. The coupon rate, which was market determined, was set at 5.70 per cent.

During the month under review, Government Securities for an amount of Rs0.45 million were sold over the counter at the Bank to members of the public. On the secondary market, the amount transacted by primary dealers increased from Rs184.6 million in September 2012 to Rs217.4 million in October 2012.

Transactions on the overnight interbank money market in October 2012 totalled Rs12,570 million compared to Rs6,885 million in September 2012. The daily average amount transacted stood at Rs433 million in October 2012 compared to a daily average of Rs287 million in September 2012. Transactions with a high of Rs980 million and a trough of Rs60 million were recorded in October 2012. The weighted average overnight interbank rate declined from 1.67 per cent in September 2012 to 1.57 per cent in October 2012.

During the period under review, the Bank intervened on the domestic foreign exchange market and purchased an equivalent of USD8.1 million whilst it sold USD41.7 million to its customers.

Under the Special Line of Credit made available to Small and Medium Planters, disbursement amounted to Rs258.3 million during the month under review and an amount of Rs772.1 million was outstanding as at end of October 2012. For the Special Line of Credit in Foreign Currency, an amount of EUR3.7 million had been disbursed bringing the total amount disbursed outstanding as at end October 2012 to EUR8.9 million.

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, forex dealers and Bank of Mauritius, depreciated, on average, against the US dollar, the Euro and the Pound sterling between September and October 2012.

At the end of October 2012, the gross foreign exchange reserves of the Bank of Mauritius increased to Rs87,972 million from Rs87,799 million as at end-September 2012. The end-October 2012 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 2011, represented 5.1 months of imports unchanged from September 2012.