

OVERVIEW

International Developments

In October 2013, the US dollar depreciated against the euro, Pound sterling and Japanese yen. The US Government shutdown from 1 to 16 October 2013 due to a budget impasse was the main cause of the US dollar sell-off. Towards the end of the month, the US dollar recouped some of its previous losses ahead of the two-day Federal Open Market Committee (FOMC) meeting on 29-30 October 2013, at which the US Fed maintained its monthly purchases of US\$85 billion and its federal funds rate unchanged at 0-0.25 per cent, as expected. The FOMC also announced that the committee would await more evidence of a sustained recovery before adjusting the pace of quantitative easing.

The euro strengthened against the US dollar in October 2013, trading at an average of US\$1.3630 compared to an average of US\$1.3348 in September 2013. At the start of the month, the European Central Bank (ECB), as expected, left its the key refinancing rate unchanged at 0.50 per cent. At the post-meeting conference, ECB president Mario Draghi said that risks to inflation in the medium term remained broadly balanced and the central bank could pour liquidity into the banking system with another long-term refinancing operation (LTRO) of cheap three-year loans or it could cut rates. The euro remained range-bound trading between US\$1.35 and US\$1.36 until the second week of the month. It thereafter started to rally, benefiting from the US dollar's broad-based weakness and better-than-expected economic data releases in the Euro area. The euro hit an intra-month high of US\$1.3819 on 25 October 2013 following a statement by the ECB President about the rigorous stress tests that would be imposed when reviewing Euro zone banks. From then on, the euro trended downwards after data showed a significant decline in the annual inflation rate to 0.7 per cent, with a possibility that the ECB could cut interest rates in November 2013. The single currency closed the month around US\$1.3582.

The Pound sterling appreciated against the US dollar, trading at an average of US\$1.6097 in October 2013 compared to US\$1.5856 in September 2013. In the first

half of the month, the British currency came under pressure on growing concerns that the UK economic recovery was not as robust as expected, hitting an intra-month low of US\$1.5935 on 16 October 2013. Thereafter, the Pound sterling reversed its downward movement, benefiting from the broad-based US dollar weakness and better-than-expected economic data releases. It reached an intra-month high of US\$1.6237 on 23 October 2013, before closing the month around US\$1.6040.

The major equity markets recorded significant gains in October 2013. Favourable US jobs data, expectations that the Fed would keep its quantitative easing program unchanged as well as Europe's latest plan to tackle the debt crisis boosted investor confidence across the globe. American and European stock indices touched new heights: the S&P 500, DJIA and NASDAQ rose by 3.63 per cent, 2.75 per cent and 3.93 per cent, respectively, and the FTSE 100, CAC 40 and DAX gained 4.17 per cent, 3.78 per cent and 5.1 per cent, respectively, in October 2013. Japan's Nikkei, on the other hand, lost 0.88 per cent. Among the emerging markets, JALSH, Hang Seng and Bombay SENSEX rose by 3.37 per cent, 1.52 per cent and 9.21 per cent, respectively, while the Shanghai Stock Exchange Composite index fell by 1.52 per cent, in October 2013.

NYMEX WTI (West Texas Intermediate crude oil) averaged US\$100.6 a barrel in October 2013, down from US\$106.2 a barrel in September 2013. Likewise, ICE Brent Crude averaged US\$109.4 a barrel during the month of October, down from US\$111.1 a barrel in September 2013. NYMEX and ICE Brent Crude settled at intra-month highs of US\$104.1 and US\$111.8 a barrel, respectively, on 2 October 2013 and 10 October 2013, respectively.

COMEX gold futures, on average, fell from US\$1,348.2/Oz in September 2013 to US\$1,317.0/Oz in October 2013 and traded in an intra-month closing range of US\$1,268.2/Oz - US\$1,352.5/Oz compared to US\$1,307.8/Oz- US\$1,348.2/Oz in the preceding month. Gold prices hit an intra-month high of US\$1,352.5.0/Oz on 25 October 2013.

Domestic Developments

September 2013 data on tourist arrivals showed an increase of 8.4 per cent to 71,951 from 66,369 a year earlier. Gross tourism receipts decreased by 6.3 per cent, from Rs2,504 million in September 2012 to Rs2,345 million in September 2013. For the period October 2012 to September 2013, tourist arrivals increased by 1.9 per cent to 984,300 from 965,843 recorded over the previous corresponding period. Tourism receipts for the period October 2012 to September 2013 decreased by 6.7 per cent to Rs41,529 million from Rs44,522 million in the corresponding period a year earlier.

The Consumer Price Index (CPI) increased from 103.5 in September 2013 to 103.9 in October 2013. The main contributors to the rise in the index between September 2013 and October 2013 were vegetables (+0.3 index point), milk (+0.1 index point), and ready-made clothing (+0.1 index point). A decrease of 0.1 index point in other food products was noted. Division-wise, “Clothing and footwear” recorded an increase of 1.2 per cent followed by “Food and non alcoholic beverages” (+1.1 per cent), “Restaurants and hotels” (+0.7 per cent), “Miscellaneous goods and services” (+0.7 per cent), “Transport” (+0.3 per cent), “Communication” (+0.3 per cent), “Furnishings, household equipment and routine household maintenance” (+0.3 per cent) and “Recreation and culture” (+0.1 per cent). “Alcoholic beverages and tobacco” recorded a decrease of 0.2 per cent while the remaining divisions recorded no change in their indices.

The rate of inflation for the twelve-month period ended October 2013 dropped to 3.4 per cent from 3.5 per cent for the twelve-month period ended September 2013. Year-on-Year inflation rate edged up from 3.3 per cent in September 2013 to 3.4 per cent in October 2013.

Both CORE1 and CORE2 inflation for the twelve-month period ended October 2013 edged down to 2.6 per cent from 2.7 per cent for the twelve-month period ended September 2013, while TRIM10 inflation, which trims 5% of the most volatile items in the CPI on both sides of the distribution, stood unchanged at 2.7 per cent.

Net foreign assets of depository corporations decreased by Rs6,412 million, or 1.7 per cent, from Rs388,410 million at the end of August 2013 to Rs381,998 million at the end of September 2013. Net foreign assets of the Bank of Mauritius increased by Rs1,642 million to Rs100,933 million at the end of September 2013 while the net foreign assets of the other depository corporations fell by Rs8,054 million to Rs281,065 million at the end of September 2013.

Domestic claims of depository corporations, including claims on GBL holders, rose by Rs3,928 million, or 0.9 per cent, from Rs434,804 million at the end of August 2013 to Rs438,732 million at the end of September 2013. Net claims on central Government decreased by Rs2,711 million, or 8.6 per cent, from Rs31,589 million at the end of August 2013 to Rs28,879 million at the end of September 2013. Claims on other sectors rose by Rs6,638 million, or 1.6 per cent, to Rs409,853 million in September 2013.

Broad Money Liabilities (BML) fell by Rs920 million, or 0.3 per cent, from Rs351,418 million at the end of August 2013 to Rs350,498 million at the end of September 2013.

The monetary base decreased by Rs1,267 million, or 2.5 per cent, from Rs51,452 million at the end of August 2013 to Rs50,185 million at the end of September 2013. Currency in circulation went down by Rs411 million, or 1.6 per cent, from Rs25,317 million to Rs24,906 million whereas liabilities to other depository corporations decreased by Rs932 million, or 3.6 per cent, from Rs26,046 million to Rs25,114 million.

In October 2013, the Bank issued Government of Mauritius Treasury Bills (GMTBs) for a total nominal amount of Rs1,975 million through the auctions of single maturity instruments. During the month, there was a net redemption of Treasury Bills of Rs1,250 million compared to Rs1,046 million in September 2013.

As a result of the increase in the Cash Reserve Ratio, with effect from the fortnight beginning 4 October 2013, liquidity conditions prevailing in the banking system came

down resulting in a decline in the bid cover ratio at the auctions of GMTBs ranging between 0.82 and 1.15. One auction for 182-Day and two auctions each for 273-Day and 364-Day GMTBs were held during the month of October 2013.

On a point-to-point basis, the weighted yield of the 182-Day, 273-Day and 364-Day GMTBs increased by 44, 60 and 37 basis points, respectively, at the last auction held in October 2013 compared with the last auction held in September 2013. There was no auction of 91 Day-GMTB and the weighted yields of the 91-Day, 182-Day, 273-Day and 364-Day GMTBs stood at 2.51 per cent, 3.04 per cent, 3.28 per cent and 3.40 per cent, respectively, at end October 2013. The overall weighted yield on GMTBs increased from 2.73 per cent in September 2013 to 3.29 per cent in October 2013.

The 3.75% Three-Year Government of Mauritius Treasury Notes due 20 September 2016, was re-opened for a nominal amount of Rs1,500.0 million, through an auction held on Wednesday 23 October 2013 for settlement on Friday 25 October 2013. The auction was undersubscribed with bid yields ranging from 4.08 per cent to 5.00 per cent. Out of the total nominal value of Rs640.0 million received, 12 bids for a total nominal value of Rs580.0 million were accepted up to the highest yield of 4.18 per cent and at a weighted yield of 4.13 per cent.

Five-Year Government of Mauritius Bonds due on 18 October 2018 were issued through an auction held on Wednesday 16 October 2013 for an amount of Rs1,200.0 million for settlement on Friday 18 October 2013. Out of the bids for a total nominal value of Rs920.0 million received, 11 bids for a total nominal value of Rs890.0 million were accepted at the weighted yield of 4.40 per cent. The coupon rate, which was market determined, was set at 4.30 per cent.

During the month under review, the amount transacted by primary dealers on the secondary market dropped from Rs595.2 million in September 2013 to Rs1.1 million in October 2013. An amount of Rs1.65 million nominal Government of Mauritius Securities was sold over the counter at the Bank to members of the public.

Transactions on the overnight interbank money market in October 2013 totalled Rs26,960 million compared to Rs16,960 million in September 2013. The daily

average amount transacted increased to Rs870 million in October 2013 from a daily average of Rs585 million in September 2013. Transactions with a high of Rs1,715 million and a trough of Rs170 million were recorded in October 2013. The weighted average overnight interbank rate rose to 2.35 per cent in October 2013 from 1.62 per cent in September 2013.

In October 2013, the Bank intervened on the domestic foreign exchange market and purchased an equivalent of US\$79.9 million whilst it sold US\$54.4 million to its customers.

An amount of Rs265.7 million was disbursed in October 2013 under the Special Line of Credit to Small and Medium Planters, bringing the total disbursements to-date to Rs865.7 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, foreign exchange dealers and the Bank of Mauritius appreciated, on average, against the US dollar and the Pound sterling but depreciated against the Euro between September and October 2013.

At the end of October 2013, the gross foreign exchange reserves of the Bank of Mauritius decreased to Rs100,016 million, from Rs100,729 million as at end-September 2013. The end-October 2013 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 2012, represented 5.4 months of imports, unchanged from September 2013.