

OVERVIEW

International Developments

The pace of economic growth slowed in the US, UK and the Euro zone in the quarter ending September 2015 and major central banks' policy stances remained accommodative. The Beige Book assessment of the US economy offered a cautious take on the economy. The US Federal Open Market Committee (FOMC), at its meeting on 27-28 October 2015, held the Federal funds rate near zero but indicated that a rate hike might be likely in December 2015. At its meeting on 22 October 2015, the European Central Bank (ECB) held its main refinancing rate unchanged at 0.05 per cent as expected and the €1 trillion sovereign-bond buying programme steady. The ECB President Mario Draghi said that the ECB discussed a further interest rate cut and raised the possibility of further easing measures to counter weak growth and inflation in the euro zone. At its meeting on 8 October 2015, the Bank of England (BoE) Monetary Policy Committee, maintained the Bank Rate unchanged at 0.5 per cent and kept its asset purchase programme untouched at £375 billion. The BoE Governor Mark Carney stated that a rise in interest rates was a "possibility not a certainty", but still warned on over-indebted households. The minutes of the MPC meeting confirmed BoE's projections for UK growth to slow to 0.6 per cent in the third quarter of 2015, down from 0.7 per cent in the second quarter of 2015.

In October 2015, currency markets were mainly influenced by the contrasting direction in monetary policy stances of major advanced economies' central banks which boosted the US dollar index. In the first half of the month, the US dollar came under renewed pressure after weaker-than-expected US economic data releases and further signs of economic weaknesses in China. The minutes of the September 2015 FOMC reinforced doubts that the central bank could hike interest rates this year and US long-term yields corrected substantially to the downside. Thereafter, the US dollar rebounded on stronger than expected US inflation data and after ECB policymakers raised expectations for further Eurozone monetary easing. Towards the end of the month, the US currency rose sharply. The euro was well-supported at the beginning of the month on its relative safe-haven appeal after a slowdown in China sparked a global growth scare and broad-based US dollar weakness. In the second half of the month, the single currency tumbled after ECB President signalled that the ECB would expand its program of quantitative easing at its December 2015 meeting. The euro traded at an average of

US\$1.1231 in October 2015 same as in September 2015, having touched an intra-month low of US\$1.1093. The Pound sterling strengthened in the first three weeks of October 2015 against the struggling US dollar, with some better-than-expected economic data releases in the UK. Thereafter, the Pound sterling was dampened on the back of a surprise fall in UK consumer prices in September 2015 and investors' pessimism that the BoE could raise interest rates in the second half of 2016 after data released showed that UK's growth was slowing. The Pound sterling traded at an average of US\$1.5326 in October 2015 – having touched an intra-month low of US\$1.5133 – compared to US\$1.5335 in September 2015.

During October 2015, global equity markets rebounded from their recent lows on the prospects of further stimulus to boost sagging inflation and growth in the euro zone and Japan. Solid quarterly results from large companies bolstered investors' confidence. The MSCI Developed Markets Index, MSCI Global Equity Index and MSCI Emerging Markets Index went up by 10.1 per cent, 7.8 per cent and 7.0 per cent, respectively. The NASDAQ and Dow Jones rose by 9.4 per cent and 8.5 per cent, respectively. Among the European market indices, DAX, CAC-40 and FTSE gained 12.3 per cent, 9.9 per cent and 4.9 per cent, respectively. The Shanghai Exchange Composite, Hang Seng, JALSH and Bombay SENSEX surged by 10.8 per cent, 8.6 per cent, 7.4 per cent and 1.9 per cent, respectively. The NIKKEI gained 9.7 per cent.

Both international energy and food prices rose in October 2015. Global oil prices rose on average in October 2015, reflecting uncertainty about economic and oil demand growth in emerging market countries. ICE Brent Crude averaged US\$49.3 a barrel in October 2015, up from US\$48.5 a barrel in September 2015. NYMEX WTI (West Texas Intermediate) crude oil averaged US\$46.3 a barrel in October 2015, up from US\$45.5 a barrel in September 2015. The Food and Agriculture Organisation's Food Price Index rose from 155.9 points in September 2015 to 162.0 points in October 2015, or by 3.9 per cent, but still stood 16.0 per cent below its level a year earlier. Major food commodity prices rose in October 2015 due to climatic concerns about sugar and palm oil supplies.

Domestic Developments

Tourist arrivals rose by 7.6 per cent to 109,015 in October 2015, from 101,327 a year earlier. The year-on-year growth in arrivals for October 2015 reflected mainly increases from Asia (+10.7 per cent), of which China recorded 65.6 per cent growth, and Europe (+8.4 per cent) with arrivals from UK, France and Germany rising by 6.9 per cent, 3.0 per cent and 19.9 per cent, respectively. . For the twelve-month period ended October 2015, tourist arrivals recorded an increase of 8.9 per cent compared to the corresponding period of 2014.

Latest CPI data released by Statistics Mauritius showed that inflationary pressures in the domestic economy remained moderate in October 2015. Headline inflation was unchanged at 1.2 per cent in October 2015, while year-on-year inflation eased to 1.5 per cent in October 2015, from 2.0 per cent in September 2015, reflecting decreases in the price of vegetables, other food products and other goods and services. The core measures of inflation remained subdued in October 2015.

The annual rate of growth in Broad Money Liabilities (BML) decelerated in September 2015 compared to the previous month. Monetary expansion, measured by the year-on-year growth rate of BML, slowed to 11.7 per cent in September 2015, from 12.3 per cent in August 2015 while growth in banks' credit edged down from 5.5 per cent in August 2015 to 5.2 per cent in September 2015. The annual growth rate of monetary base accelerated to 5.0 per cent in September 2015, from 0.1 per cent in August 2015.

All the auctions of Government of Mauritius Treasury Bills (GMTBs) held in October 2015 were oversubscribed, with bid-cover ratios ranging between 1.7 and 3.0 compared to a range of 2.0 and 3.3 in September 2015. During October 2015, the Bank issued GMTBs for a total nominal amount of Rs5,000 million, of which Rs1,900 million was issued for liquidity management purposes. Over the same period, maturing GMTBs amounted to Rs4,665 million. Weighted yields on the three maturities, namely 91-Day, 182-Day and 364-Day went up by 47 bps¹, 39 bps and 20 bps, respectively. The overall weighted yield increased by 38 bps, from 1.96 per cent in September 2015 to 2.34 per cent in October

¹ bps stands for basis points.

2015. During the month, the Bank of Mauritius carried out one auction of Five-Year Government of Mauritius (GoM) Bonds (Re-opening) and two auctions of Three-Year GoM Notes (Re-opening). The Five-Year GoM Bonds auction was marginally oversubscribed, with a bid-cover ratio of 1.1, and with weighted yield increasing by 42 bps, from 4.53 per cent in August 2015 to 4.95 per cent. The two auctions of the Three-Year GoM Notes were also oversubscribed with bid-cover ratios of 1.6 and 2.6, respectively. The weighted yield went up by 32 bps from 4.24 per cent in September 2015 to 4.56 per cent in October 2015 for the second auction.

With regards to liquidity management, in addition to the issue of GMTBs for a nominal amount of Rs1,900 million, the Bank also conducted one auction of Two-Year Bank of Mauritius Notes, for a total nominal amount of Rs1,000 million. The issue was oversubscribed with a bid-cover ratio of 1.5 and the weighted yield went up by 94 bps, from 3.12 per cent in September 2015 to 4.06 per cent in October 2015. Maturing Bank of Mauritius securities during the month amounted to Rs1,925 million. Overall, there were a net issue of Rs975 million of both GoM and Bank of Mauritius securities. To further absorb excess liquidity in the system, the Bank also conducted sterilised interventions twice during the month, issuing one-year deposits for a total nominal amount of Rs700 million at interest rates in the range of 3.09 – 3.20 per cent.

The weighted average dealt selling rates² of the rupee depreciated, on average, against the three major currencies between September and October 2015. The average rupee exchange rates against the US dollar, the euro and Pound sterling were Rs35.614/USD, Rs40.072/EUR and Rs55.076/GBP in October 2015 compared to Rs35.461/USD, Rs39.864/EUR and Rs54.687/GBP, respectively, in September 2015.

The gross foreign exchange reserves of the Bank of Mauritius increased from Rs144,099 million at the end of September 2015 to Rs148,102 million at the end of October 2015. Based on the value of imports of goods (f.o.b.) and non-factor services for the year 2014, the end-October 2015 level of gross official international reserves of the country represented 7.5 months of import cover.

² The rates are calculated on the basis of transactions of US\$20,000 and above, or the equivalent in other foreign currencies, undertaken by banks and foreign exchange dealers.