OVERVIEW

International Developments

During October 2007, the US dollar, on average, depreciated against the euro and Pound sterling but appreciated against the Japanese yen. The US dollar started the month on a relatively firm note as market players reassessed the US economy and believed that the US currency sell off was a bit over done. Adding to the US dollar's strength was concern that the Group of Seven nations might address dollar weakness at their upcoming meeting scheduled on 20-21 October 2007. However, the US currency's firm tone was short lived as expectations of another interest rate cut by the Federal Reserve resurfaced on the market. Minutes from the US Federal Reserve's September 2007 policy meeting released on 9 October 2007, in fact, showed that the central bank was ready to cut interest rates further if needed as they noted that inflation fears that had dominated policy concerns in prior meeting had receded. Moreover, comments by former Fed Chairman Alan Greenspan and by San Francisco Fed President Janet Yellen heightened concerns about the economy, adding to fears that signs of slower growth would lead to lower interest rates. Weak US economic data relating to the housing market added further pressure on the US dollar. The US National Association of Realtors said that its Pending Home Sales Index fell to a reading of 85.5 in August 2007, the lowest since records started in January 2001, while its sales of existing homes dropped by 8 per cent to a 5.04 million unit annual pace in September 2007, the lowest on record dating to 1999. The G7 statement, which made no specific mention of the dollar, euro or yen in its statement, which analysts interpreted as reflecting general indifference to the dollar's current weakness and euro's record highs further undermined the US currency. News that Merrill Lynch & Co Inc reported the biggest quarterly loss in its history after writing down US$8.4 billion, mostly from bad investments related to risky subprime mortgages also strained the US dollar. In line with market expectations, the US Federal Reserve, at its FOMC meeting on 30-31 October, eventually reduced its benchmark interest rates by 25 basis points to 4.50 per cent. But, the Fed moderated expectations for further cuts in short-term rates by saying that inflation risks were equal to the possibility of slower growth.

The euro moved higher against the US dollar, trading at an average of US$1.4225 during October 2007 compared to an average of US$1.3886 during September 2007. The European Central Bank (ECB) left its benchmark borrowing rate unchanged at 4.0 per cent at its governing council meeting on 4 October. In his post-meeting press conference, ECB President Jean-Claude Trichet said that risks to European growth were weighed towards a weakening economy given the backdrop of market uncertainty. In subsequent comments, however, he said that the bank's policy stance had not changed to neutral, suggesting the next action, though not imminent, could be a rise in interest rates. Nonetheless, benefiting from its anti-dollar status, the euro broke key psychological levels of US$1.43 for the first time on 18 October in New York trade and beyond US$1.44 level to close October 2007 trading at its intra-month high of US$1.4435.

Benefiting mainly from persistent weakness of the US dollar, the Pound sterling moved higher against the US dollar, trading at an average of US$2.0432 during October 2007 compared to an average of US$2.0168 during September 2007. The Pound sterling started the month trading lower against the US dollar after data showed that British mortgage withdrawals for house purchases fell to 109,000 in August 2007, their lowest since April 2007. However, the decision by the Bank of England's (BoE) at the conclusion of its MPC meeting on 4 October to leave interest rates on hold at 5.75 per cent rather than cutting them benefited the Pound. The British currency subsequently drew support from a pick-up in risk appetite and stronger-than-expected data on British factory prices and manufacturing output. Expectations that the Bank of England (BoE) would not cut interest rates in the near-term also benefited the Pound particularly after British Finance Minister Alistair Darling echoed BoE Governor Mervyn King's concerns about inflation. The Pound, however, suffered its setback following the release of UK consumer price inflation, which stood at an annual 1.8 per cent in September 2007, unchanged from the August rate and below consensus expectations for a rise to 1.9 per cent. The release of dovish Bank of England minutes, which showed that one Monetary Policy Committee member, David Blanchflower, voted for a rate cut this month when markets were expecting a unanimous vote in favour of leaving policy unchanged at 5.75 per cent also pressured the Pound. However sterling's losses were reversed as investors turned their attention to stronger-than-expected average earnings, which rose at an annual 3.7 per cent in the three months to August, their fastest pace of growth since April 2007. The subsequent release of strong UK retail sales data rising to an annual 6.3 per cent rate on the year in September helped to further cool down expectations that the BoE’s next move was to cut inflation rate. Although the Pound eased back thereafter following the release of another batch of weak UK housing market data as well as a BoE report saying that trouble in the financial markets was not over yet, the British currency closed October at its intra-month high trading around US$2.0685 as traders bet that UK interest rates would not fall as fast as US ones.

The Japanese yen moved lower against the US dollar, trading at an average of ¥115.76 per USD during October 2007 compared to an average of ¥115.03 per USD during September 2007. The G7 communiqué released in the fourth week of October mentioned that exchange rates should reflect economic fundamentals. The Bank of Japan (BOJ) left its target interest rate unchanged at 0.50 per cent at the end of its two-day policy board meeting in October 2007.

Oil prices moved higher during October 2007 mainly on supply concerns and persistent US dollar weakness. Geopolitical tensions in the Middle East pushed oil prices upwards. Moreover, disappointing inventory reports from the US Energy Information Administration added further nervousness in the market. The fact that oil futures crossed the key psychological level of US$90 a barrel and the US dollar reached record lows against the euro supported fund buying in the oil market, which in turn, drove prices further to record high levels. NYMEX and IPE Brent reached record highs of US$94.5 a barrel and US$90.6 a barrel on 31 October, respectively. Effective 1 November 2007, OPEC increased its output quota by 500,000 barrels to 26.8 million barrels per day. But, given the current market conditions, the additional output might not have much effect on oil prices. In the weeks ahead, oil prices would most likely trade above US$94 a barrel ahead of the high oil-demand Northern Hemisphere winter season, in particular if the current US dollar weakness persists.

NYMEX WTI (West Texas Intermediate benchmark crude oil) averaged US$85.6 a barrel in October 2007, up from US$79.6 a barrel in September 2007 and US$59.1 a barrel in October 2006. IPE Brent futures averaged US$82.5 a barrel during the period under review, up from US$77.0 a barrel in September 2007 and US$59.8 a barrel in October 2006.

COMEX gold futures, on average, moved sharply higher during October 2007, trading in an intra-month closing range of US$735.7/Oz-US$795.40/Oz compared to a range of US$690.7/Oz-US$750.0/Oz in September 2007. Gold prices moved higher during the period under review on US dollar weakness and high oil prices. Moreover, investors started viewing US$800/Oz as an achievable price and indulged in fund buying. The bullion settled at a record 26-year high of US$795.4/Oz on 31 October 2007. COMEX averaged US$761.0/Oz during October 2007, compared to an average of US$723.4/Oz in September 2007.

Domestic Developments

Tourist arrivals went up by 16.8 per cent, from 56,138 in September 2006 to 65,542 in September 2007, while gross tourism receipts grew by 13.7 per cent, from Rs2,195 million in September 2006 to Rs2,495 million in September 2007. On a cumulative basis, over the period January to September 2007, tourist arrivals reached 644,821, representing an increase of 18.1 per cent over 546,122 arrivals recorded over the corresponding period of the previous year. Tourism receipts for the period January to September 2007 rose by 28.8 per cent to reach Rs28,404 million compared to Rs22,058 million recorded over the corresponding period of the previous year

As from July 2007, the Consumer Price Index (CPI) is calculated on the basis of an updated basket of goods and services derived from the 2006-07 Household Budget Survey. The base period for this new CPI series is the twelve-month period July 2006 to June 2007. The official CPI for the months of July, August, September and October 2007 are 103.7, 104.1, 105.3 and 106.8, respectively. The rate of inflation for the 12-month period ended July, August, September and October 2007 stood at 10.5 per cent, 10.1 per cent, 9.7 per cent and 9.4 per cent, respectively.

Net foreign assets of depository corporations expanded by Rs2,211 million or 2.7 per cent, from Rs83,162 million at the end of June 2007 to Rs85,373 million at the end of September 2007, on account of the increase in net foreign assets of other depository corporations offsetting the fall in those of the Bank of Mauritius. Net foreign assets of other depository corporations grew by Rs2,694 million or 8.7 per cent to Rs33,633 million while those of the Bank of Mauritius fell by Rs483 million or 0.9 per cent to Rs51,740 million. Claims on non-residents rose by Rs18,314 million or 5.7 per cent, from Rs319,995 million at the end of June 2007 to Rs338,309 million at the end of September 2007. Liabilities to non-residents increased by Rs16,103 million or 6.8 per cent, from Rs236,833 million at the end of June 2007 to Rs252,936 million at the end of September 2007.

Domestic claims of depository corporations, excluding claims on GBL holders, went up by Rs2,036 million or 1.0 per cent, from Rs210,443 million at the end of June 2007 to Rs212,479 million at the end of September 2007. Net claims on budgetary central Government rose by Rs641 million or 1.5 per cent, from Rs42,235 million at the end of June 2007 to Rs42,876 million at the end of September 2007. Claims on other sectors, that is, credit to the private sector grew by Rs1,395 million or 0.8 per cent to Rs169,603 million in September 2007.

Net claims on budgetary central Government from the Bank of Mauritius went up by Rs1,238 million or 87.4 per cent, from negative Rs1,417 million at the end of June 2007 to negative Rs179 million at the end of September 2007. Net claims on budgetary central Government from other depository corporations fell by Rs597 million or 1.4 per cent, from Rs43,653 million to Rs43,056 million.

Claims on Other Sectors from the Bank of Mauritius declined by Rs72 million or 30.1 per cent, from Rs238 million at the end of June 2007 to Rs166 million at the end of September 2007 while claims on Other Sectors from other depository corporations expanded by Rs1,467 million or 0.9 per cent, from Rs167,969 million to Rs169,436 million.

Broad Money Liabilities (BML) grew by Rs7,695 million or 3.6 per cent, from Rs215,408 million at the end of June 2007 to Rs223,103 million at the end of September 2007. Of the components of BML, currency with public rose by Rs483 million or 4.2 per cent to Rs12,081 million while transferable deposits rose by Rs3,361 million or 8.0 per cent to Rs45,510 million. Savings deposits declined by Rs2,293 million or 3.5 per cent to Rs63,051 million while time deposits went up by Rs6,125 million or 6.5 per cent to Rs100,603 million. Securities other than shares included in broad money rose by Rs19 million or 1.0 per cent to Rs1,859 million.

The monetary base, excluding Bank of Mauritius Bills, rose by Rs1,685 million, or 7.1 per cent, from Rs23,841 million at the end of June 2007 to Rs25,526 million at the end of September 2007. Currency in circulation grew by Rs529 million, or 3.9 per cent, from Rs13,512 million to Rs14,041 million while liabilities to other depository corporations increased by Rs1,270 million or 13.4 per cent, from Rs9,480 million to Rs10,750 million.

Broad Money Liabilities multiplier dropped from 9.0 at the end of June 2007 to 8.7 at the end of September 2007, reflecting a greater expansion of monetary base as compared to Broad Money Liabilities.

The Bank issued Government of Mauritius Treasury Bills/Bank of Mauritius Bills for a total nominal amount of Rs2,100 million through the Primary Market in October 2007. Between end-September and end-October 2007, the weighted average yields of the 91-day, 182-day and 364-day Bills decreased from 8.90 per cent to 8.32 per cent and from 9.60 to 8.98 per cent and from 9.91 per cent to 9.33 per cent respectively.

No repurchase transactions were carried out by the Bank during the month. Interbank transactions in October amounted to Rs5,229 million with a high of Rs580 million and a trough of Rs20 million. The weighted average overnight interbank rate for October 2007 was 8.84 per cent compared to 8.87 per cent for the previous month.

During October 2007, total transactions in Government of Mauritius Treasury/Bank of Mauritius Bills effected through primary dealers amounted to Rs118.9 million, while no trade of Treasury Bills occurred on the Stock Exchange of Mauritius. A total amount of Rs17.5 million Treasury Bills/Treasury Notes was sold over the counter to 42 individual members of the public for individual amounts ranging from the minimum of Rs100,000 to a maximum amount of Rs1 million.

At the monthly auction of Treasury Notes held in October 2007, a total nominal amount of Rs800 million of Treasury Notes with maturities of 2, 3, and 4 years, and with interest payable semi-annually at the rates of 10.05, 10.20, and 10.35 per cent per annum, respectively, were put on tender. Bids received for the three maturities totalled Rs1,882.6 million, of which Rs800 million was accepted. The weighted average yields on bids accepted for the 2, 3, and 4-year maturities were 9.99, 10.14 and 10.67 per cent per annum, respectively.

The second issue of Five-Year Government of Mauritius Bonds for 2007-08 was undertaken on 26 October, through an auction held on 24 October 2007. Bonds for a total nominal amount of Rs750 million were put on tender at a coupon rate equal to or higher than the lowest accepted yield of the auction. Bids for an amount of Rs502.2 million were received and accepted. The weighted average yield on bids accepted was 11.20 per cent per annum and the coupon rate was set at 10.50 per cent per annum.

Between September and October 2007, the rupee, on average, appreciated vis-à-vis the US dollar, Pound sterling and Japanese yen but depreciated against the euro. 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 effected by banks showed that the rupee, on average, appreciated against the US dollar and the Pound Sterling and depreciated against the Euro between September and October 2007.

At the end of September 2007, the net international reserves of the country amounted to Rs85,415 million. The end-September 2007 level of net international reserves of the country, based on the value of the import bill for fiscal year 2006-07, exclusive of the purchases of aircrafts, represented 40.0 weeks of imports, up from 39.5 weeks of imports at the end of August 2007. The gross foreign exchange reserves of the Bank of Mauritius increased from Rs52,271 million at the end of September 2007 to Rs52,977 million at the end of October 2007.