International Developments

In September 2010, the US dollar, on average, depreciated against the euro and Japanese yen but appreciated vis-à-vis the Pound sterling. The US dollar started the month on a weak note after upbeat worldwide economic data, including China, soothed worries about the health of the global economy, thereby boosting investors' appetite for riskier assets. The US currency remained on the back foot amid market expectations that the Fed might extend its quantitative easing in a bid to stimulate the US economy, which in turn drove down treasury yields. Around mid-September, the US dollar jumped against the yen after the Bank of Japan intervened, for the first time in six years, and sold an estimated 2 trillion yen (US$23 billion) in a move to curb yen strength. The greenback, however, remained weak against other major currencies. In its accompanying statement after the FOMC meeting on 21 September 2010, the Fed indicated that it stood ready to further stimulate the US economy and expressed greater concern about sluggish US growth and low levels of inflation while holding its benchmark interest rate at record low of 0-0.25 per cent. Towards the end of the month, the fall in the US dollar accentuated with a decline in US consumer confidence to its lowest level since February 2010 and following the release of other weak US economic data, which increased speculation that the Fed could embark on a second round of quantitative easing soon.

The euro traded at an average of US$1.3069 in September 2010 compared to an average of US$1.2907 in August 2010. The euro rallied against the US dollar on the back of positive results at Spanish and French bond auctions. At its Governing Council meeting on 2 September 2010, the ECB left its key refinancing rate unchanged at 1 per cent and extended its liquidity safety-net on worries about vulnerable banks. The single currency also benefited from upward revisions of growth forecasts by the ECB and comments from President Jean-Claude Trichet that risks were to the downside while the recovery would be moderate. After a brief retreat on fears about the viability of European banks and the weakness of Euro zone stress tests, the euro rebounded following strong demand at a Spanish bond auction that reinforced confidence in Europe's economic recovery. Moreover, the euro also gained from newly agreed Basel rules, which were not as onerous as expected, and robust investor demand for Irish and Greek government papers that eased concerns about Eurozone peripheral sovereign debt. However, data released showing that Ireland's economy shrank by 1.2 per cent in the second quarter and the downgrade of Anglo Irish Bank's lower-grade debt slowed the euro's upward momentum. The euro reached an intra-month high of US$1.3594 on 30 September 2010 as Eurozone economic sentiment unexpectedly rose in September, which added to the positive economic numbers released earlier.

The Pound sterling depreciated against the US dollar during September 2010, trading at an average of US$1.5572 compared to an average of US$1.5663 in August 2010. The British currency hovered within a tight range in the first half of the month amid weaker-than-expected manufacturing, housing and construction data releases, which raised concerns that the fragile UK economic recovery could be running out of steam. However, other economic data releases eased worries about a slowing housing market while gains in stock markets supported risk-taking sentiment, which helped the Pound sterling. On 9 September 2010, the Bank of England (BoE) at its MPC meeting maintained its Bank Rate at 0.5 per cent and announced no new quantitative easing measures. In the second half of the month, the British currency soared against a broadly weaker US dollar, aided by stubborn UK inflation data (above the BoE's 2% target), which raised speculation that the BoE would hold off from extending quantitative easing in the near term and data released showing a rise in the number of people in work by a record 286,000 in the three months to July. The Pound sterling thereafter pared some gains as UK retail sales fell unexpectedly in August and investors remained wary about the negative impact on the UK economy of forthcoming hefty spending cuts planned by the government. Towards the end of month, a string of positive UK data releases brought some support to the Pound sterling with the latter reaching an intra-month high of US$1.5841 on 30 September 2010.

Overall, all major stock markets posted positive performances in September 2010. In the first two weeks, a series of positive news and events pushed the markets upwards. Investors' mood brightened after better-than-expected data from the US and China boosted sentiment. The ability of Eurozone peripheral countries in raising finance soothed fears about government funding in Europe, which sent positive momentum to major stock markets. However, some bearish forces also manifested when the Fed's Beige book compilation of anecdotal reports confirmed that the US economy had began to slow. Thereafter, strong Chinese trade data, new global banking rules and stronger-than-expected US retail sales fed optimism that the global economic recovery was proceeding, while a flurry of positive corporate news also boosted equity markets.

Over the month, NASDAQ, Dow Jones Industrial Average and FTSE rose by 8.81 per cent, 5.05 per cent and 3.40 per cent, respectively. NIKKEI, CAC-40 and DAX increased by 4.95 per cent, 2.52 per cent and 2.39 per cent, respectively. Among emerging stock markets, JALSH and Shanghai SEC posted positive returns of 5.28 per cent and 1.25 per cent, respectively, while Bombay SENSEX and the Hang Seng registered the best performances of 10.23 per cent and 8.41 per cent, respectively.

NYMEX WTI (West Texas Intermediate crude oil) averaged US$75.5 a barrel in September 2010, down from US$76.7 a barrel in August 2010. ICE Brent Crude averaged US$78.4 a barrel during the month under review, up from US$77.1 a barrel in August 2010. Both NYMEX and ICE Brent Crude settled at intra-month highs of US$80.0 a barrel and US$82.3 a barrel, respectively, on 30 September 2010.

COMEX gold futures, on average, went up during September 2010, trading in an intra-month closing range of US$1,246.5/Oz-1,310.3/Oz compared to US$1,185.4/Oz-1,250.3/Oz in August 2010. Gold prices peaked at US$1,310.3/Oz on 29 September 2010, driven by technical buying and sharp decline of the US dollar against the euro.

Domestic Developments

Tourist arrivals went up by 2.7 per cent, from 63,365 in August 2009 to 65,093 in August 2010, while gross tourism receipts increased by 20.9 per cent, from Rs2,364 million in August 2009 to Rs2,858 million in August 2010. On a cumulative basis, for the period January to August 2010, tourist arrivals reached 581,252 representing an increase of 5.9 per cent compared to the corresponding period of last year. Tourism receipts for the period January to August 2010 rose by 9.4 per cent to reach Rs25,310 million.

In the September 2010 issue of its National Accounts Estimates, the Central Statistics Office revised the growth rate of the Mauritian economy for 2010 to around 4.1 per cent, slightly down from the 4.2 per cent forecast made in June 2010. This downward revision resulted mainly from lower growths expected in banking activities (6.0 per cent instead of 6.5 per cent) and in 'Transport, storage and communication' (5.5 per cent instead of 5.8 per cent).

The Consumer Price Index (CPI) rose from 120.6 in August 2010 to 120.7 in September 2010. The main contributors to the rise in the index between August 2010 and September 2010 were vegetables, rice, meat and other goods and services, each registering an increase of 0.1 index point. A decline of 0.3 index point for gasoline was noted. The largest rise of 0.9 per cent was noted in the division "Food and non alcoholic beverages" followed by "Furnishings, household equipment and routine household maintenance" (+0.4 per cent), "Restaurants and hotels" (+0.4 per cent), "Health" (+0.3 per cent), "Alcoholic beverages and tobacco" (+0.2 per cent) and "Clothing and footwear" (+0.2 per cent). The divisions "Housing, water, electricity, gas and other fuels" and "Transport" recorded decreases of 0.1 per cent and 2.0 per cent, respectively while "Communication", "Recreation and culture", "Education" and "Miscellaneous goods and services" recorded no change in their indices.

The rate of inflation for the twelve-month period ended September 2010 stood at 2.0 per cent, up from 1.9 per cent for the twelve-month period ended August 2010. However, Year-on-Year inflation rate edged down to 2.5 per cent in September 2010, from 2.6 per cent in August 2010.

CORE1 and CORE2 inflation rates remained unchanged at 2.4 per cent and 2.5 per cent, respectively, for the twelve-month period ended September 2010. TRIM10 inflation edged up to 2.2 per cent in September 2010, from 2.1 per cent in August 2010.

Net foreign assets of depository corporations went up by Rs49 million, or 0.1 per cent, from Rs96,156 million at the end of July 2010 to Rs96,205 million at the end of August 2010. This increase reflected the rise in the net foreign assets of the Bank of Mauritius, which rose by Rs926 million, or 1.4 per cent to Rs66,098 million and fully offset the drop in the net foreign assets of other depository corporations which decreased by Rs876 million or 2.8 per cent, to Rs30,108 million.

Domestic claims of depository corporations, excluding claims on GBL holders, increased by Rs2,485 million or 0.9 per cent, from Rs290,253 million at the end of July 2010 to Rs292,739 million at the end of August 2010. Net claims on budgetary central Government decreased by Rs1,908 million or 3.9 per cent, from Rs49,029 million at the end of July 2010 to Rs47,121 million at the end of August 2010. Claims on other sectors, that is, credit to the private sector went up by Rs4,394 million or 1.8 per cent, to Rs245,618 million in August 2010.

Net claims on budgetary central Government from the Bank of Mauritius decreased by Rs724 million or 8.4 per cent, from negative Rs8,571 million at the end of July 2010 to negative Rs9,295 million at the end of August 2010. Net claims on budgetary central Government from other depository corporations fell by Rs1,184 million or 2.1 per cent, from Rs57,600 million to Rs56,416 million.

Claims on Other Sectors from the Bank of Mauritius increased marginally by 1.0 per cent to Rs135 million at the end of August 2010 while claims on other sectors from other depository corporations increased by Rs4,392 million, or 1.8 per cent, from Rs241,090 million to Rs245,482 million.

Broad Money Liabilities (BML) went down by Rs376 million or 0.1 per cent, from Rs296,922 million at the end of July 2010 to Rs296,546 million at the end of August 2010. Of the components of BML, currency with public decreased by Rs88 million or 0.5 per cent, to Rs16,281 million while transferable deposits decreased by Rs3,898 million or 5.9 per cent to Rs62,566 million. Savings deposits went up by Rs4,460 million or 4.8 per cent to Rs98,121 million while time deposits decreased by Rs1,770 million or 1.5 per cent, to Rs117,815 million. Securities other than shares included in broad money increased by Rs921 million, from Rs841 million at the end of July 2010 to Rs1,762 million at the end of August 2010.

The monetary base went down by Rs1,674 million or 4.4 per cent, from Rs38,197 million at the end of July 2010 to Rs36,523 million at the end of August 2010. Currency in circulation increased by Rs140 million or 0.7 per cent, from Rs18,959 million to Rs19,099 million while liabilities to other depository corporations decreased by Rs1,825 million or 9.6 per cent, from Rs19,009 million to Rs17,184 million.

Broad Money Liabilities multiplier went up from 7.8 at the end of July 2010 to 8.1 at the end of August 2010 as a result of a higher decline in Monetary Base as compared to Broad Money Liabilities.

In September 2010, the Bank issued Government of Mauritius Treasury Bills for a total nominal amount of Rs3,500 million through the weekly Primary Auctions. Between end-August 2010 and end-September 2010, the weighted yields on the 91-Day and 182-Day Bills increased from 2.38 per cent to 3.18 per cent and from 2.54 per cent to 3.24 per cent, respectively, while the weighted yield on the 364-Day Bills declined marginally from 3.29 per cent to 3.28 per cent. The overall weighted yield in September 2010 stood at 2.81

per cent, down from 2.92 per cent in the previous month. Market preference was skewed towards the 91-Day Bills in September 2010 with bids representing around 55.6 per cent of total bids received. As part of its liquidity management, the Bank issued 91-Day, 182-Day and 364-Day Bank of Mauritius Bills for a total amount of Rs3,736 million at the weighted accepted yields of each of the three maturities of Treasury Bills.

Transactions on the interbank money market in September 2010 totalled Rs7,090 million with a daily average of Rs253 million compared to Rs101 million for the previous month. A high of Rs490 million and a trough of Rs60 million were recorded in September 2010. The weighted average overnight interbank rate in September 2010 stood at 2.04 per cent, down from 2.52 per cent in August 2010.

During the month under review, Rs7.45 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 Rs174.0 million.

At the monthly auction of Government of Mauritius Treasury Notes (GMTN) held in September 2010, Treasury Notes for a total nominal amount of Rs1,500 million with maturities of 2, 3 and 4 years and bearing interest at the rate of 5.50, 5.75 and 6.00 per cent per annum, respectively, were put on tender. Bids received for the three maturities totalled Rs2,785 million and the amount accepted was Rs1,500 million. The weighted yields on bids accepted for the 2-Year, 3-Year and 4-Year maturities were 5.21, 5.79 and 5.99 per cent per annum, respectively. The market preference remained skewed towards the 2-Year maturity with bids accounting for 39.7 per cent of total bids received. In addition to Bank of Mauritius Bills, the Bank also issued 2-Year, 3-Year and 4-Year Bank of Mauritius Notes for a total nominal amount of Rs1,285 million at the weighted accepted yields of each of the three maturities of GMTN.

During the period under review, the Bank intervened on the domestic foreign exchange market and purchased US$60.35 million and EUR7.55 million from banks and foreign exchange dealers and sold US$24.327 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, depreciated, on average, against the US dollar, Euro and Pound sterling between August and September 2010.

At the end of August 2010, the net international reserves of the country stood at Rs97,233 million. The end-August 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 40.7 weeks of imports, marginally higher than 40.6 weeks of imports as at end-July 2010. The gross foreign exchange reserves of the Bank of Mauritius increased from Rs70,224 million as at end-August 2010 to Rs73,296 million at the end of September 2010.