

OVERVIEW

International Developments

In September 2013, the US dollar depreciated against the euro and Pound sterling but appreciated versus the Japanese yen. At the start of the month, the greenback strengthened against major currencies as better-than-expected US economic data led to expectations of a stimulus cutback by the US Federal Reserve. Thereafter, the US dollar came under pressure amid increasing risk appetite and easing of geopolitical tensions in the Middle East. The decision by the Federal Open Market Committee at its meeting on 17-18 September 2013 to maintain its economic stimulus programme at current levels, however, took markets by surprise and undermined the US currency. In its accompanying statement, Fed chairman Ben Bernanke highlighted the drags on economic growth and the low labour force participation rate. Toward the end of the month, the US dollar was further pressured by uncertainty over the US government shutdown.

The euro strengthened against the US dollar in September 2013, trading at an average of US\$1.3348 compared to an average of US\$1.3314 in August 2013. As widely expected, the European Central Bank (ECB) kept its key refinancing rate unchanged at 0.50 per cent on 5 September 2013. At the post-meeting conference, ECB President Mario Draghi reaffirmed the commitment to keep interest rates at record lows for an "extended period". He also said that the ECB was ready to cut interest rates or pump more money into the euro zone economy if needed to bring money market rates down and help the Euro zone's recovery, driving the euro to an intra-month low of US\$1.3129. Thereafter, better-than-expected economic data from the Euro zone combined with the pressure on the US dollar led to a steady appreciation of the euro against the US dollar. The single currency hit an intra-month high of US\$1.3533 on 20 September 2013. After losing some of its earlier gains on political tensions in Italy, the euro remained range-bound before closing September 2013 around US\$1.3496.

The Pound sterling appreciated against the US dollar in September 2013, trading at an average of US\$1.5856 compared to an average of US\$1.5477 in August 2013. On 5 September 2013, as widely expected, the Bank of England (BoE) maintained the

extent of its bond-buying and kept its Bank Rate unchanged at 0.5 per cent. The Pound sterling strengthened, rising from an intra-month low of US\$1.5546 on 3 September 2013, as a broad-based pick-up in the UK economy bolstered market expectations that the BoE might have to tighten policy in the near future. The British currency closed September 2013 trading at an intra-month high of around US\$1.6159.

The major stock market indices rose in September 2013, with markets benefitting from the US Fed's decision to maintain its asset-buying program. The FTSE 100, CAC 40 and DAX rose by 0.77 per cent, 5.3 per cent and 6.1 per cent, respectively, while the Dow Jones Industrial Average and NASDAQ gained 2.2 per cent and 5.1 per cent, respectively. Among the emerging stock markets, JALSH, Shanghai Stock Exchange Composite and Bombay SENSEX gained 4.3 per cent, 3.6 per cent and 4.1 per cent, respectively.

NYMEX WTI (West Texas Intermediate crude oil) averaged US\$106.2 a barrel in September 2013, down from US\$106.5 a barrel in August 2013. In contrast, ICE Brent Crude averaged US\$111.1 a barrel during the month under review, up from US\$110.4 a barrel in August 2013. Both NYMEX and ICE Brent Crude settled at intra-month highs of US\$110.5 a barrel and US\$116.1 a barrel, respectively, on 6 September 2013.

COMEX gold futures, on average, fell from US\$1,351.4/Oz in August 2013 to US\$1,348.2/Oz in September 2013 and traded in an intra-month closing range of US\$1,307.8/Oz- US\$1,348.2/Oz compared to US\$1,282.5/Oz- US\$1,420.2/Oz in the preceding month. Gold prices hit an intra-month high of US\$1,412.0/Oz on 3 September 2013.

Domestic Developments

In the September 2013 issue of National Accounts published by Statistics Mauritius, the growth rate forecast for 2013 has been revised down to 3.2 per cent from 3.3 per cent projected in June 2013. The downward revision is mainly attributed to a deeper contraction of 9.4 per cent in 'construction' compared with the June 2013 forecast of 7.7 per cent. Other key sectors where lower growth is expected are 'wholesale and

retail trade’, projected to grow at 3.5 per cent (3.8 per cent), ‘information and communication’, at 7.7 per cent (8.2 per cent) and ‘financial and insurance activities’, at 5.3 per cent (5.5 per cent).

August 2013 data on tourist arrivals showed an increase of 11.5 per cent to 73,454 from 65,896 a year earlier. Gross tourism receipts decreased by 17.8 per cent, from Rs2,832 million in August 2012 to Rs2,327 million in August 2013. For the period September 2012 to August 2013, tourist arrivals increased by 1.5 per cent to 978,718 from 964,354 recorded over the previous corresponding period. Tourism receipts for the period September 2012 to August 2013 decreased by 6.9 per cent to Rs41,688 million from Rs44,791 million in the corresponding period a year earlier.

The Consumer Price Index (CPI) increased from 103.3 in August 2013 to 103.5 in September 2013. The main contributors to the rise in the index between August 2013 and September 2013 were milk (+0.1 index point), other food products (+0.2 index point), and other goods and services (+0.1 index point). Decreases of 0.1 index point in both vegetables and air tickets were recorded. Division-wise, an increase of 0.6 per cent was recorded for “Clothing and footwear” followed by “Food and non alcoholic beverages” (+0.5 per cent), “Furnishings, household equipment and routine household maintenance” (+0.5 per cent), “Recreation and culture” (+0.5 per cent), “Restaurants and hotels” (+0.4 per cent), “Alcoholic beverages and tobacco” (+0.4 per cent), “Health” (+0.1 per cent) and “Miscellaneous goods and services” (+0.1 per cent). “Transport” and “Communication” recorded decreases of 0.6 per cent and 0.3 per cent, respectively, while the remaining divisions recorded no change in their indices.

The rate of inflation for the twelve-month period ended September 2013 stood at 3.5 per cent, unchanged from the previous period. Year-on-Year inflation rate went up from 3.1 per cent in August 2013 to 3.3 per cent in September 2013.

CORE1 inflation for the twelve-month period ended September 2013 edged down to 2.7 per cent from 2.8 per cent for the twelve-month period ended August 2013, while CORE2 stood unchanged at 2.7 per cent. TRIM10 inflation, which trims 5% of the most volatile items in the CPI on both sides of the distribution, rose from 2.6 per cent

for the twelve-month period ended August 2013 to 2.7 per cent for the twelve-month period ended September 2013.

Net foreign assets of depository corporations went down by Rs19,778 million, or 4.8 per cent, from Rs408,188 million at the end of July 2013 to Rs388,410 million at the end of August 2013. Net foreign assets of the Bank of Mauritius decreased by Rs1,402 million to Rs99,292 million at the end of August 2013 while the net foreign assets of the other depository corporations fell by Rs18,375 million to Rs289,118 million at the end of August 2013.

Domestic claims of depository corporations, including claims on GBL holders, increased by Rs24,093 million, or 5.9 per cent, from Rs410,711 million at the end of July 2013 to Rs434,804 million at the end of August 2013. Net claims on central Government increased by Rs2,395 million, or 8.2 per cent, from Rs29,194 million at the end of July 2013 to Rs31,589 million at the end of August 2013. Claims on other sectors rose by Rs21,698 million, or 5.7 per cent, to Rs403,215 million in August 2013.

Broad Money Liabilities (BML) declined by Rs1,527 million, or 0.4 per cent, from Rs352,945 million at the end of July 2013 to Rs351,418 million at the end of August 2013.

The monetary base decreased by Rs2,704 million, or 5.0 per cent, from Rs54,156 million at the end of July 2013 to Rs51,452 million at the end of August 2013. Currency in circulation went up by Rs96 million, or 0.4 per cent, from Rs25,221 million to Rs25,317 million whereas liabilities to other depository corporations decreased by Rs2,799 million, or 9.7 per cent, from Rs28,845 million to Rs26,046 million.

In September 2013, the Bank issued Government of Mauritius Treasury Bills (GMTBs) for a total nominal amount of Rs2,700 million through the auctions of single maturity instruments. During the month under review, there was a net redemption of Treasury Bills of Rs1,046 million compared to Rs280 million in August 2013. Given the excess liquidity conditions prevailing in the banking system all the auctions of the GMTBs were oversubscribed with the bid cover ratio ranging between 1.67 and 2.87. One auction each for 91-Day, 182-Day, 273-Day and 364-Day GMTBs were held during the month of September 2013.

On a point-to-point basis, the weighted yields of the 182-Day, 273-Day and 364-Day GMTBs at the respective last auction held in September 2013 decreased by 2, 6 and 4 basis points, respectively, compared with the respective last auction held in August 2013. The weighted yield of the 91-Day GMTB decreased by 9 basis points at the last auction held in September 2013 as compared to its last auction held in June 2013. The weighted yields of the 91-day, 182-Day, 273-Day and 364-Day GMTBs stood at 2.51 per cent, 2.60 per cent, 2.77 per cent and 3.04 per cent, respectively, in September 2013. Consequently, the overall weighted yield on GMTBs in September 2013 went down from 2.85 per cent in August 2013 to 2.73 per cent.

A new benchmark issue of Three-Year Government of Mauritius Treasury Notes due 20 September 2016 was held through tender on 18 September 2013 for settlement on 20 September 2013. Out of the 20 bids received for a total nominal value of Rs2,500.0 million, 12 bids for a total nominal value of Rs1,500.0 million were accepted. The lowest yield received and the highest yield accepted stood at 3.75 per cent and 3.95 per cent, respectively, whilst the weighted yield was 3.88 per cent. The coupon rate, which was market determined, was set at 3.75 per cent at the auction.

Ten-Year Government of Mauritius Bonds due on 13 September 2023 were issued through an auction held on Wednesday 11 September 2013 for an amount of Rs1,200.0 million for settlement on Friday 13 September 2013. Out of the 32 bids received for a total nominal amount of Rs2,750.0 million, 10 bids for a total nominal amount of Rs1,195.0 million were accepted. The lowest yield and the highest yield accepted stood at 6.10 per cent and 6.39 per cent, respectively, whilst the weighted

yield was 6.22 per cent. The coupon rate, which was market determined, was set at 6.10 per cent.

An auction for Fifteen-Year Government of Mauritius Bonds due on 27 September 2028 was carried out on Wednesday 25 September 2013 for an amount of Rs1,200.0 million for settlement on Friday 27 September 2013. Out of the 51 bids received for a total nominal amount of Rs3,376.8 million, 19 bids for a total nominal amount of Rs1,208.5 million were accepted. The lowest yield and the highest yield accepted stood at 6.75 per cent and 7.10 per cent, respectively, whilst the weighted yield was 6.96 per cent. The coupon rate, which was market determined, was set at 6.75 per cent.

In September 2013, a total nominal amount of Rs1,326.4 million Bank of Mauritius Bills were issued compared to a total nominal amount of Rs1,979.1 million Bank of Mauritius securities maturing during the month. The Bank of Mauritius intervened on the domestic foreign exchange market in September 2013 and purchased an equivalent of US\$4.9 million whilst it sold US\$37.6 million, which resulted in net sales of US\$32.7 million to its customers.

During the month under review, the amount transacted by primary dealers on the secondary market increased from Rs17.2 million in August 2013 to Rs595.2 million in September 2013. An amount of Rs1.2 million nominal Government of Mauritius Treasury Bills was sold over the counter at the Bank to members of the public.

Transactions on the overnight interbank money market in September 2013 totalled Rs16,960 million compared to Rs14,420 million in August 2013. The daily average amount transacted stood at Rs585 million in September 2013, up from a daily average of Rs465 million in August 2013. Transactions with a high of Rs1,625 million and a trough of Rs60 million were recorded in September 2013. The weighted average overnight interbank rate went down to 1.62 per cent in September 2013 from 1.64 per cent in August 2013.

Under the Special Line of Credit to Small and Medium Planters, the total amount disbursed during the month amounted to Rs161.5 million and the amount outstanding

at end September 2013 stood at Rs600.0 million. An amount of EUR1.75 million was disbursed under the Special Line of Credit in Foreign Currency and the total amount disbursed at end September 2013 stood at EUR40.3 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 but depreciated against the Euro and the Pound sterling between August and September 2013.

At the end of September 2013, the gross foreign exchange reserves of the Bank of Mauritius increased to Rs100,729 million, from Rs99,096 million as at end-August 2013. The end-September 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, compared to 5.3 months as at end August 2013.