OVERVIEW

International Developments

During July 2008, the US dollar, on average, depreciated vis-à-vis all major currencies. The US dollar started the month on a weak note as investors debated the outlook for the US economy while anticipating a rate hike from the European Central Bank (ECB). As the ECB cooled speculation of more interest rate rises and the release thereafter of US June 2008 payroll data, which came in close to expectations, thereby easing some fears about the health of the US jobs market managed to provide some respite to the US dollar. The US currency maintained its upward trend as the Federal Reserve's willingness to keep its emergency lending facility open into 2009 for some Wall Street firms calmed credit concerns and encouraged investors to buy US stocks. Even so, renewed financial worries took the steam out of the US dollar's uptrend as the fragility of Fannie Mae and Freddie Mac resurfaced and Federal Reserve Chairman Ben Bernanke said that US financial markets and institutions remained under "considerable stress." Moreover, US Treasury Secretary Henry Paulson stated that distressed housing finance giants had potential to pose systemic risks to the financial system. However, crude oil's largest price drop in 17 years diverted investors' attention away from the troubles in the financial sector, helping the dollar to pull back from its lows and regain some ground. In addition, the US Treasury and Federal Reserve both came up with emergency measures to restore investor confidence in embattled US mortgage lenders Fannie Mae and Freddie Mac. The US dollar also drew support from comments by Philadelphia Federal Reserve President Charles Plosser, who said that the US central bank might have to raise interest rates sooner rather than later to combat inflation. The release of upbeat readings on US durable goods orders, new-home sales, and a rebound in consumer sentiment from a 28-year low further allayed the recent gloom over the US economy and financial markets, giving a boost to the pressured US currency. Gains in US equities and a continued drop in oil prices to a seven-week low towards the close of the month further lifted sentiment towards the US dollar.

The euro appreciated against the US dollar trading at an average of US$1.5770 during July 2008 compared to an average of US$1.5552 in June 2008. The single currency moved higher at the start of the month, benefiting from widespread expectations of an imminent increase in euro zone's key interest rate to fight inflation, thus bolstering demand for euro-denominated assets. In a widely expected move on 3 July 2008, the ECB raised rates by 25 basis points to 4.25 per cent, to get the record euro zone inflation back under control. The single currency could not capitalise on the move as ECB President Jean-Claude Trichet, in its post-meeting conference, dampened expectations of another rate rise later this year saying he had "no bias" on monetary policy. However, comments by other ECB officials stating that the central bank should appear willing to raise interest rates further to keep prices under control, even if there was a risk that the economy might be slowing down, managed to prop up the euro. The single currency moved higher against the US dollar following deeper market expectations that rates were more likely to rise than fall in the euro zone after ECB President said that euro zone inflation, which was running at 4 per cent, would remain above the central bank's desired level for longer than first expected. Against a sliding US dollar and amid market perception that investors might shift funds into euro denominated assets, the euro, according to Reuters Dealing, hit a new record of $1.6037 towards mid-month. However, the single currency could not hold to its gains, undermined by the release of weaker than expected euro zone data, among which, weak June 2008 German Ifo business climate report. Towards the end of the month, the euro zone showed increasing signs of slowing, stirring doubts about whether the ECB could lift interest rates again to contain inflationary pressures. The euro closed July 2008 trading at its intra-month low of US$1.5576.

The Pound Sterling appreciated against the US dollar during July 2008, trading at an average of US$1.9885 from an average of US$1.9650 in June 2008. The Pound started the month on a rather weak note, following the release of a report revealing that consumer confidence in the UK had dropped in June 2008 to the lowest level since March 1990. Tumbling UK housing shares and falling Britain's services Purchasing Managers' Index (PMI) for the second consecutive month in June, and at its sharpest rate since October 2001, cast additional shadow over Britain's already slowing economy which further undermined the British currency. The Pound Sterling maintained its downward trend as survey results by the British Chamber of Commerce showed that firms faced their worst cash flow situation since records began in 1992, with the downturn particularly evident in the service sector. As expected, the Bank of England, at its Monetary Policy Committee (MPC) meeting on 10 July 2008 left its key repo rate on hold at 5 per cent, in its drive to balance an unhealthy mix of rising inflation and slowing growth. However, the Pound managed to gain ground vis-à-vis a broadly weaker dollar as jitters about the health of the US financial sector overshadowed poor sentiment on Britain's economy. By mid July, the British currency had reached its intra-month high of US$2.0016 after UK consumer inflation rose to nearly double the central bank's 2.0 per cent target to an annual rate of 3.8 per cent, its highest since the Bank of England was given the power to set interest rates in 1997, thereby dampening expectations of an early rate cut. However, the Pound could not sustain its gains after data showed that the number of Britons out of work jumped by the largest amount since 1992. Comments from Bank of England policy-maker David Blanchflower warning that the British economy was heading into recession and interest rates should fall to "well below" their current 5 percent further weighed on the Pound. However, the release of the MPC minutes revealing that a policymaker had favoured an interest rate rise, underlining fading expectations of a cut this year, managed to propel the British currency higher. The gains were short-lived as the release of the biggest slump in UK June 2008 retail sales in over two decades strengthened the case for the next move in interest rates to be a cut rather than a hike. The release thereafter of UK second quarter GDP data meeting expectations managed to provide some respite to the Pound, quelling fears that economic growth had slowed more sharply. Towards the close of the month, the Pound was weighed down by the release of weak UK house data, offering further proof that a deteriorating housing market was battering the overall economy.

International oil prices witnessed a decline during July 2008, trading at high levels only at the start of the month on account of an escalation in geopolitical tensions in the Middle East, supply concerns and the volatile US dollar. NYMEX and IPE Brent settled at record highs of US$145.3 a barrel and US$146.1 a barrel on 03 July 2008, respectively. Thereafter, oil prices declined on reports of a more conciliatory attitude in Tehran, a rising US dollar, and profit-taking. The US Energy Information Administration (EIA), which showed increases in stock level of crude oil, indicated that oil prices will likely trade around US$122 a barrel in the weeks ahead.

NYMEX WTI (West Texas Intermediate crude oil) averaged US$133.5 a barrel in July 2008, down from US$134.0 a barrel in June 2008 and US$74.1 a barrel in July 2007. IPE Brent figures averaged US$134.3 a barrel during the month under review, up from US$133.8 a barrel in June 2008 and US$75.8 a barrel in July 2007.

COMEX gold futures, on average, moved up during July 2008, trading in an intra-month closing range of US$871.2/Oz-US$978.7/Oz compared to US$865.0/Oz-US$931.3/Oz in June 2008. Gold prices reached a peak of US$978.7/Oz on 15 July 2008, supported by a weak US dollar and high oil prices. The bullion averaged US$934.8/Oz during July 2008, compared to an average of US$892.1/Oz in June 2008.

Domestic Developments

Tourist arrivals rose by 2.2 per cent, from 52,584 in June 2007 to 53,722 in June 2008, while gross tourism receipts went up by 16.9 per cent, from Rs2,523 million in June 2007 to Rs2,949 million in June 2008. On a cumulative basis, over the period July 2007 to June 2008, tourist arrivals reached 930,616 representing an increase of 8.2 per cent over 860,252 arrivals recorded in 2006-07. Tourism receipts for the period July 2007 to June 2008 grew by 18.9 per cent to reach Rs43,105 million compared to Rs36,243 million recorded over the corresponding period of the previous fiscal year.

The Consumer Price Index (CPI) increased from 113.4 in June 2008 to 115.6 in July 2008. The largest rise of 8.0 per cent was noted in the Division “Transport” followed by “Health” (+3.0 per cent), Food and non alcoholic beverages” (+1.7 per cent), “Furnishings, household equipment and routine household maintenance” (+1.4 per cent), “Restaurants and hotels” (+0.9 per cent), “Alcoholic beverages and tobacco” (+0.4 per cent), “Clothing and footwear” (+0.4 per cent) and “Housing, water, electricity, gas and other fuels” (+0.3 per cent). The divisions “Communication” and “Recreation and culture” each registered declines of 0.1 per cent while “Education” and “Miscellaneous goods and services” recorded no change in their indices. The main contributors to the rise in the index between June 2008 and July 2008 were Gasolene, which registered an increase of 0.8 index point, trader's rice and diesel, each registering an increase of 0.2 index point and cooking oil, chicken, cheese, other food products, domestic services, clinic fees, taxi fare, road tax, air tickets and other goods and services, each registering an increase of 0.1 index point. The rate of inflation for the twelve-month period ended July 2008 rose to 9.1 per cent, from 8.8 per cent for the twelve month period ended June 2008.

While headline inflation for July 2008 stood at 9.1 per cent, CORE1, CORE2 and TRIM10 inflation rates stood at 7.2 per cent, 5.7 per cent and 6.2 per cent, respectively. Consequently, for July 2008, core inflation was between 1.9 and 3.4 percentage points lower than the headline inflation.

Net foreign assets of depository corporations rose by Rs466 million, or 0.6 per cent, from Rs83,162 million at the end of June 2007 to Rs83,628 million at the end of June 2008, on account of the increase in the net foreign assets of Bank of Mauritius offsetting the decrease in those of the other depository corporations. Net foreign assets of the Bank of Mauritius rose by Rs4,804 million, or 9.2 per cent, to Rs57,026 million while those of other depository corporations fell by Rs4,338 million, or 14.0 per cent, to Rs26,601 million.

Domestic claims of depository corporations, excluding claims on GBL holders, went up by Rs48,261 million, or 22.9 per cent, from Rs210,443 million at the end of June 2007 to Rs258,704 million at the end of June 2008. Net claims on budgetary central Government rose by Rs10,936 million, or 25.9 per cent, from Rs42,235 million at the end of June 2007 to Rs53,171 million at the end of June 2008. Claims on other sectors, that is, credit to the private sector grew by Rs37,325 million, or 22.2 per cent, to Rs205,533 million.

Net claims on budgetary central Government from the Bank of Mauritius fell by Rs2,944 million, or 207.7 per cent, from negative Rs1,417 million at the end of June 2007 to negative Rs4,362 million at the end of June 2008. Net claims on budgetary central Government from other depository corporations rose by Rs13,880 million, or 31.8 per cent, from Rs43,653 million to Rs57,533 million.

Claims on Other Sectors from the Bank of Mauritius fell by Rs103 million or 43.5 per cent, from Rs238 million at the end of June 2007 to Rs135 million at the end of June 2008 while claims on Other Sectors from other depository corporations expanded by Rs37,429 million, or 22.3 per cent, from Rs167,969 million to Rs205,398 million.

Broad Money Liabilities (BML) grew by Rs36,767 million, or 17.1 per cent, from Rs215,408 million at the end of June 2007 to Rs252,175 million at the end of June 2008. Of the components of BML, currency with public rose by Rs1,317 million, or 11.4 per cent, to Rs12,914 million while transferable deposits rose by Rs11,248 million, or 26.7 per cent, to Rs53,397 million. Savings deposits rose by Rs8,554 million, or 13.1 per cent, to Rs73,898 million while time deposits went up by Rs15,949 million, or 16.9 per cent, to Rs110,427 million. Securities other than shares included in broad money fell by Rs300 million, or 16.3 per cent, to Rs1,540 million.

The monetary base rose by Rs3,486 million, or 14.6 per cent, from Rs23,841 million at the end of June 2007 to Rs27,327 million at the end of June 2008. Currency in circulation grew by Rs1,496 million, or 11.1 per cent, from Rs13,512 million to Rs15,008 million while liabilities to other depository corporations decreased by Rs2,453 million, or 25.9 per cent, from Rs9,480 million to Rs11,933 million.

Broad Money Liabilities multiplier rose from 9.0 at the end of June 2007 to 9.2 at the end of June 2008, reflecting a greater expansion of Broad Money Liabilities as compared to monetary base.

With a view to manage the excess liquidity in the Rupee market, the Bank issued during the month, 28-day and 56-day BOM Bills for a total nominal amount of Rs1,900 million. The auctions were carried out at a fixed rate of 7.15 per cent per annum for the 56-day BOM Bills and following the increase in the key repo rate on the 21 July 2008 by 25 basis points, 28-day and 56-day BOM Bills were issued at 7.30 per cent per annum and 7.40 per cent per annum respectively.

The Bank issued Government of Mauritius Treasury Bills for a total nominal amount of Rs5,150 million through the weekly Primary Auctions in July 2008. Between end-June and end-July 2008, the weighted average yields of the 91-day and 182-day decreased from 7.39 per cent to 7.38 per cent and from 7.74 per cent to 7.53 per cent respectively, while that of the 364-day Bills increased from 7.58 per cent to 8.20 per cent. During July 2008, the market preference remained skewed towards the 91-day Bills.

Transactions on the interbank money market in July 2008 amounted to Rs23,482 million with a daily average of Rs758 million and a high of Rs2,085 million and a trough of Rs120 million. The weighted average overnight interbank rate for July 2008 increased to 6.48 per cent, from 6.43 per cent in the previous month.

During July 2008, total transactions in Government of Mauritius Treasury Bills/Bank of Mauritius Bills effected through primary dealers amounted to Rs169.0 million. There were no transactions of Bills on the Stock Exchange of Mauritius. A total amount of Rs67.4 million Treasury Bills/Treasury Notes was sold over the counter at the Bank to 162 individual members of the public for individual amounts ranging from the minimum of Rs50,000 to the maximum amount of Rs2 million.

At the monthly auction of Treasury Notes held in July 2008, a total nominal amount of Rs1,200 million of Treasury Notes with maturities of 2, 3 and 4 years, and with interest payable semi-annually at the rates of 8.15, 8.40 and 8.90 per cent per annum, respectively, were put on tender. Bids received for the three maturities totalled Rs783.5 million only. The weighted average yields on bids accepted for the 2, 3, and 4-year maturities were 8.34, 8.74 and 9.99 per cent per annum, respectively.

Between June 2008 and July 2008, the rupee, on average appreciated vis-à-vis US dollar, Pound sterling, euro and the Japanese yen. 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 reported by banks, showed that between June and July 2008 the rupee, on average, appreciated against the US dollar, Euro and Pound Sterling.

At the end of June 2008, the net international reserves of the country amounted to Rs83,946 million. The end-June 2008 level of net international reserves of the country, based on the value of the import bill for calendar year 2007, exclusive of the purchase of aircraft, represented 36.9 weeks of imports, down from 38.5 weeks of imports at the end of May 2008. The gross foreign exchange reserves of the Bank of Mauritius decreased from Rs57,443 million at the end of June 2008 to Rs 56,088 million at the end of July 2008.