

International developments

In September 2009, the US dollar, on average, depreciated against the Japanese Yen and euro but appreciated against the Pound Sterling. Throughout the month, the general trend has been towards a weaker tone for the US dollar as mounting evidence of a global recovery encouraged investors to switch towards riskier currency trades.

The US dollar began the month mostly higher as fears of further US bank failures overshadowed unexpectedly strong Institute for Supply Management data for August. However, UNCTAD's call to reduce dependency on the US dollar as the world's reserve currency and rising evidence of global recovery weighed heavily on the greenback and sent it hovering near yearly lows. The US dollar was briefly able to pick up some lost ground in the second week as rising risk aversion in equity markets lent the greenback some support and the renewal of protectionism concerns between the US and China led to overnight sell-off in risk correlated trades. Upon the release of better-than-expected retail sales figures and positive comments from Federal Reserve Chairman Ben Bernanke boosting investor confidence in the global outlook, the US dollar traded lower against most currencies and extended its losses, hitting a fresh yearly low against the euro on 23 September 2009.

The Federal Reserve left its federal funds rate unchanged at 0-0.25 per cent at its September 2009 FOMC meeting although it upgraded the economic outlook and stated its intention to keep rates low for some time. Speculation from the market that stimulus would have to be withdrawn sooner rather than later helped pare back stock market gains which led to fresh US dollar strength and profit taking. The US dollar closed the month on a firmer note as news that US consumer confidence fell unexpectedly in September scaled up the risk aversion level.

The euro traded at an average of US\$1.4547 in September 2009 compared to an average of US\$1.4255 in August 2009. The European Central Bank left its refinancing rate unchanged at 1 per cent. The euro maintained a stronger position against the US dollar to reach a high of \$1.4817 on 23 September 2009 following rising optimism about global economic recovery which undermined the demand for US dollar.

The Pound sterling depreciated against the US dollar during September 2009, trading at an average of US\$1.6331 compared to an average of US\$1.6547 in August 2009. The Pound started the month supported by better-than-expected UK construction and services Purchasing Managers' Index data, all leading towards a rebound in risk sentiment and hit a one-month high against the US dollar on 11 September 2009 after the Bank of England (BoE) left its benchmark lending rate unchanged at a record low of 0.5 percent and said that it would maintain its £175 billion asset-buying programme in place. The BoE also decided not to lower interest rates on bank reserves to encourage lending as markets had speculated. Thereafter, the Pound retreated following Governor Mervyn King's dovish comments that the UK economic recovery would take a long time and a weak Pound was conducive for the economy. The Pound recouped some of its losses towards the end of the month on the back of MPC minutes not mentioning a cut in banks' reserves interest rates and unanimous vote on the current levels of quantitative easing.

The Japanese yen, on average, traded at ¥91.43 per USD in September compared to ¥94.80 per USD in August 2009. The Bank of Japan kept its rates unchanged on 17 September 2009 on the back of an improved assessment of the current economic situation. The yen gained ground against the US dollar peaking at ¥89.45 on 28 September 2009 following comments from Japanese Finance Minister Hirohisa Fuji that movements in the USD/JPY exchange rates were not abnormal. However, the yen closed the month on a weaker note after authorities conceded that actions might be taken if currency moves were irregular.

International oil prices moved down during September 2009, largely on account of a stronger dollar and demand worries following data showing sharp increases in inventories of U.S petroleum products. On 16 September 2009, IPE Brent hit its intra-month high of US\$71.7 a barrel and NYMEX reached a peak of US\$72.5. At its meeting held on 09 and 10 September 2009 in Vienna, Austria, OPEC decided to leave current production levels unchanged, and reiterated its determination to ensure sound supply fundamentals and an adequate level of spare capacity for the benefit of the world at large.

NYMEX WTI (West Texas Intermediate crude oil) averaged US\$69.5 a barrel in September 2009, down from US\$71.1 a barrel in August 2009. IPE Brent averaged US\$68.1 a barrel during the month under review, down from US\$73.1 in August 2009.

COMEX gold futures, on average, rose during September 2009, trading in an intra-month closing range of US\$956.5/Oz-1,020.2/Oz compared to US\$935.8/Oz-969.7/Oz in August 2009. Gold prices reached a peak of US\$1,020/Oz on 16 September 2009, due to a slide of the US dollar to a near one-year low against the Euro.

Domestic developments

Tourist arrivals declined by 11.5 per cent, from 71,605 in August 2008 to 63,365 in August 2009 while gross tourism receipts fell by 14.8 per cent, from Rs2,774 million in August 2008 to Rs2,364 million in August 2009. On a cumulative basis, over the period January 2009 to August 2009, tourism receipts contracted by 17.4 per cent to reach Rs23,139 million compared to Rs28,003 million recorded over the corresponding period of the previous year. Tourism arrivals for the period January to August 2009 contracted by 9.8 per cent to reach 548,741 compared to 608,532 for the period January to August 2008.

The Consumer Price Index (CPI) increased from 117.5 in August 2009 to 117.8 in September 2009. The main contributors to the rise in the index were gasoline which registered an increase of 0.3 index point and diesel oil and other goods and services, each registering an increase of 0.1 index point. A decrease of 0.1 index point for both fruits and fish was noted. The largest rise of 2.3 per cent was noted in the Division "Transport" followed by "Recreation and culture" (+0.8 per cent), "Health" (+0.4 per cent) and "Alcoholic beverages and tobacco" (+0.1 per cent). The divisions "Food and non alcoholic beverages", "Clothing and footwear" and "Furnishings, household equipment and routine household maintenance" recorded decreases of 0.3 per cent, 0.2 per cent and 0.1 per cent, respectively while "Housing, water, electricity, gas and other fuels", "Communication", "Education", "Restaurants and hotels" and "Miscellaneous goods and services" recorded no change in their indices. The rate of inflation for the twelve-month period ended September 2009 dropped to 4.4 per cent, from 5.2 per cent for the twelve month period ended August 2009. Year-on-Year inflation rate went down to 0.9 per cent in September 2009, from 1.0 per cent in August 2009.

CORE1 and CORE2 inflation maintained their downward paths in September 2009. CORE1 inflation fell from 4.6 per cent in August 2009 to 3.9 per cent in September 2009. CORE2 inflation dropped to 4.8 per cent in September 2009, from 5.1 per cent for the twelve month period ended August 2009. TRIM10 inflation remained unchanged at 2.7 per cent for the twelve-month period ended September 2009.

Net foreign assets of depository corporations went up by Rs4,469 million, or 4.7 per cent, from Rs95,815 million at the end of July 2009 to Rs100,284 million at the end of August 2009, largely on account of increases in both net foreign assets of the Bank of Mauritius and those of other depository corporations. Net foreign assets of other depository corporations rose by Rs813 million, or 2.5 per cent, to Rs33,303 million while those of the Bank of Mauritius increased largely by Rs3,657 million, or 5.8 per cent, to Rs66,982 million.

Domestic claims of depository corporations, excluding claims on GBL holders, rose by Rs686 million, or 0.2 per cent, from Rs277,173 million at the end of July 2009 to Rs277,859 million at the end of August 2009. Net claims on budgetary central Government rose by Rs394 million, or 0.8 per cent, from Rs50,956 million at the end of July 2009 to Rs51,349 million at the end of August 2009. Claims on other sectors, that is, credit to the private sector grew by Rs292 million, or 0.1 per cent, to Rs226,510 million in August 2009.

Net claims on budgetary central Government from the Bank of Mauritius dropped by Rs30 million, or 0.3 per cent, from negative Rs10,114 million at the end of July 2009 to negative Rs10,144 million at the end of August 2009. Net claims on budgetary central Government from other depository corporations edged up by Rs 424 million, or 0.7 per cent, from Rs61,069 million to Rs61,493 million.

Claims on Other Sectors from the Bank of Mauritius contracted by Rs0.3 million, or 0.3 per cent to Rs134 million at the end of August 2009 while claims on Other Sectors from other depository corporations expanded by Rs293 million, or 0.1 per cent, from Rs226,084 million to Rs226,376 million.

Broad Money Liabilities (BML) grew by Rs292 million, or 0.1 per cent, from Rs283,849 million at the end of July 2009 to Rs284,142 million at the end of August 2009. Of the components of BML, currency with public rose by Rs84 million, or 0.6 per cent, to Rs15,119 million while transferable deposits rose by Rs921 million, or 1.5 per cent, to Rs63,824 million. Savings deposits went up by Rs447 million, or 0.6 per cent, to Rs81,660 million while time deposits fell by Rs1,175 million, or 1.0 per cent, to Rs121,953 million. Securities other than shares included in broad money rose by Rs16 million, or 1.0 per cent, to Rs1,586 million.

The monetary base fell by Rs66 million, or 0.2 per cent, from Rs30,630 million at the end of July 2009 to Rs30,564 million at the end of August 2009. Currency in circulation grew by Rs70 million, or 0.4 per cent, from Rs17,422 million to Rs17,492 million while liabilities to other depository corporations fell by Rs139 million, or 1.1 per cent, from Rs13,036 million to Rs12,897 million.

Broad Money Liabilities multiplier stood unchanged at 9.3 at the end of August 2009 as compared to previous month.

In September 2009, the Bank issued Government of Mauritius Treasury Bills for a total nominal amount of Rs6,500 million through the weekly Primary Auctions. Between end-August and end-September 2009, the weighted average yields on the 91-day Bills, 182-day Bills and 364-day Bills increased from 4.32 per cent to 4.56 per cent, from 4.33 per cent to 4.82 per cent and from 4.74 per cent to 4.86 per cent. The overall weighted yield during September 2009 fell to 4.45 per cent from 4.50 per cent for the previous month. During September 2009, the market preference remained skewed towards the 91-day Bills.

Transactions on the interbank money market in September 2009 totalled Rs16,460 million with a daily average turnover of Rs549 million, a high of Rs1,090 million and a trough of Rs100 million. The weighted average overnight interbank rate for September 2009 increased slightly to 4.01 per cent from 4.00 per cent in August 2009.

A total amount of Rs34.5 million Treasury Bills/Treasury Notes was sold over the counter at the Bank to members of the public for individual amounts ranging from the minimum of Rs50,000 to the maximum amount of Rs2 million. Bills traded by primary dealers amounted to Rs120.8 million. No Bills were traded on the Stock Exchange of Mauritius.

At the auction of Treasury Notes held in September 2009, a total nominal amount of Rs1,200 million of Treasury Notes with maturities of 2, 3 and 4 years with interest payable semi-annually at the rates of 5.50,

5.75 and 6.00 per cent per annum, respectively, was put on tender. Bids received for the three maturities totalled Rs1,184.5 million and the amount accepted was Rs1,033.8 million. The weighted average yields on bids accepted for the 2-year, 3-year and 4-year maturities were 6.56, 7.08 and 7.49 per cent per annum, respectively. The market preference of bids received for Treasury Notes was skewed towards the 2-year maturity.

An issue of Long-Term Government of Mauritius Bonds with maturities of 7,13 and 20 years and interest payable semi-annually at the rates of 7.50,7.65 and 7.80 per cent per annum respectively were issued on 25 September 2009 through an auction held on 23 September 2009. Bids for a total nominal amount of Rs1,462.4 million were received against a tender amount of Rs1,000 million. The amount accepted was Rs1,000 million. The weighted average yields on bids accepted for the 7-year, 13-year and 20-year maturities were 9.24, 10.15 and 10.38 per cent per annum, respectively.

During the month under review, the Bank conducted Special Deposits Facility for a period of 14 days at the rate of 4.75 per cent per annum. A total amount of Rs1,185 million was received and accepted.

Between August and September 2009, the rupee, on average appreciated vis-à-vis the US dollar, the Pound sterling and the euro, but depreciated vis-à-vis the Japanese Yen.

The weighted average dealt selling rates of the rupee against the US dollar, euro and Pound sterling, 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 August and September 2009, the rupee, on average, appreciated against the US dollar, euro and the Pound sterling.

At the end of August 2009, the net international reserves of the country stood at an all-time high of Rs100,935 million. The end-August 2009 level of net international reserves of the country, based on the value of import bill for the fiscal year 2008-09 exclusive of the purchase of marine vessel, represented 42.8 weeks of imports, up from 40.9 weeks of imports at the end of July 2009. The gross foreign exchange reserves of the Bank of Mauritius decreased from Rs67,000 million as at end-August 2009 to Rs65,555 million at the end of September 2009.