

06 July 2010



## SBM MONTHLY MARKET COMMENTARY JUNE

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## UNITED STATES OF AMERICA

## Some Key Points:

**China impact fades...  
Uninspiring growth rate...**

The dollar index swayed in a range of 85.091 and 88.708 during the month of June. The US currency drew support from lingering concerns about the euro zone debt crisis while data in the US highlighted a sluggish recovery.

Mixed economic numbers emanated from the US with poor housing and job figures triggering a fresh bout of risk aversion on the market. However, the disappointing data contrasted with reports revealing an expanding manufacturing sector, a surge in industrial output and improving consumer sentiment. Concerns about a slower economic upturn were heightened with data showing the economy grew at a weaker than expected rate of 2.70 percent in the first quarter. However, the final GDP reading still marks the third consecutive quarter of growth after the country emerged from the worst recession since the Great Depression.

The dollar was hit as investors took the chinese commitment to allow more yuan

## US in figures

INTEREST RATE	GDP (Q-Q % CHG)	CONSUMER PRICE INDEX (M-M % CHG)	UNEMPLOYMENT RATE
0.25%	2.70%	-0.20%	9.50%

## Exchange rates

	1-Jun-10	30-Jun-10	MoM % CHG
USD INDEX	86.643	86.076	-0.65
USD MUR	34.100	33.050	-3.08



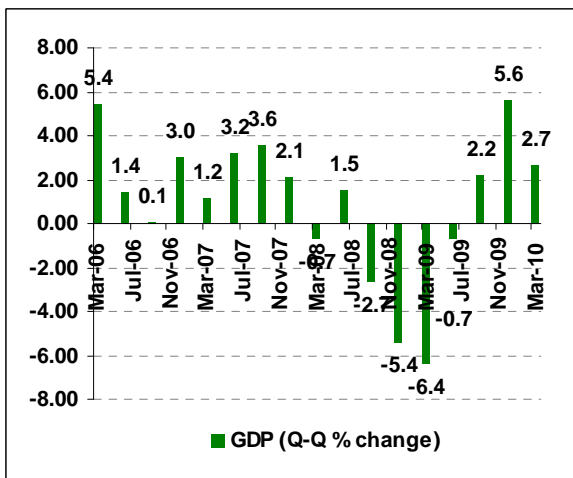
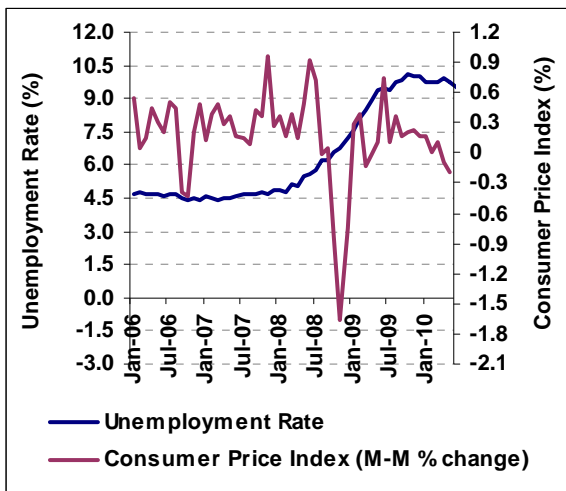
Period	USD INDEX		USD MUR	
	HIGH	LOW	HIGH	LOW
M/M	88.708 (07JUN10)	85.091 (21JUN10)	34.100 (01JUN10)	33.050 (28JUN10)
Y/Y	88.708 (07JUN10)	74.170 (26NOV09)	34.320 (27MAY10)	29.600 (10DEC09)



Stock Market

INDEX	US INDICES		
	1-Jun-10	30-Jun-10	MoM % CHG
DOW JONES	10,024.02	9,774.02	-2.49
S & P 500	1,070.71	1,030.71	-3.74
NASDAQ	2,222.33	2,109.24	-5.09

Macro economic figures



flexibility as a signal to buy riskier assets. Beijing decision to break the 23 month old US dollar peg is expected to boost purchasing power and demand in China and at the same time dampen the threat of a China-US trade war which could have endangered global growth. However, the US currency pared losses as the yuan-induced euphoria faded amid doubts over the overall impact of the chinese pledge. The greenback struggled after the US Central Bank struck a cautious tone about the US economy while reiterating that interest rates would remain low for an extended period.

After months of negotiations, US lawmakers agreed on a sweeping financial reform bill which aims at the practices and regulatory loopholes accused of undermining the global financial system. The bill introduces new regulatory oversight of the financial system and a new federal bureau within the Federal Reserve, the Bureau of Consumer Financial Protection, to oversee consumer financial products such as credit cards, mortgages, and loans.

A mixed US economic environment and sentiment towards risk remain at the centre stage and will likely continue to influence the dollar trend.



## UNITED KINGDOM

## Some Key Points:

**Presentation of new budget...**  
**Mixed british data...**

Relinquishing the poor levels of \$1.4300, the UK currency seemed well set for a new start after it briefly traded above \$1.5100. The month of June was marked by the challenges faced by the new government to provide a budget that would cut a ballooning deficit. Concerns about the euro zone also contributed to the pound sterling rise against the euro.

Hit by a fall in UK equities following an unsuccessful attempt by British Petroleum to halt an oil leak in the region of Louisiana in the US, the pound sterling opened the month on a bearish note. The slide was limited after british insurer Prudential Plc withdrew itself from a \$35.50 billion deal to buy the American International Group asian life insurance business.

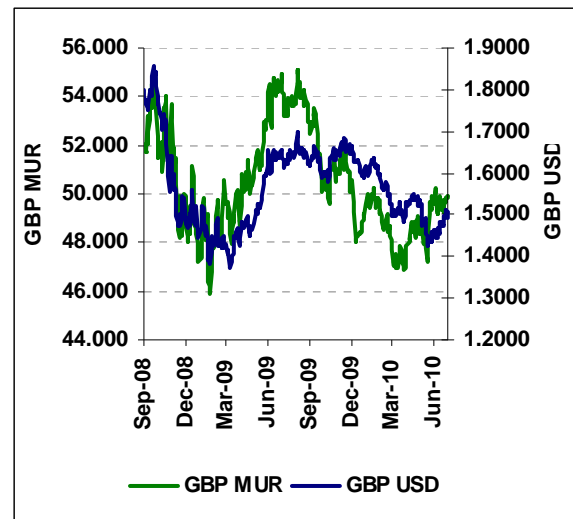
A round of positive data emanating from the manufacturing PMI, mortgage approvals and british manufacturing output also lent some support to the currency. British retail sales rose six times faster than expected in May at 0.60 percent as consumers flocked to

## UK in figures

INTEREST RATE	GDP (Q-Q % CHG)	CONSUMER PRICE INDEX (M-M % CHG)	UNEMPLOYMENT RATE
0.50%	0.30%	0.20%	7.90%

## Exchange rates

	01-Jun-10	30-Jun-10	MoM % CHG
GBP USD	1.4645	1.4940	2.01
GBP MUR	49.564	49.864	0.61



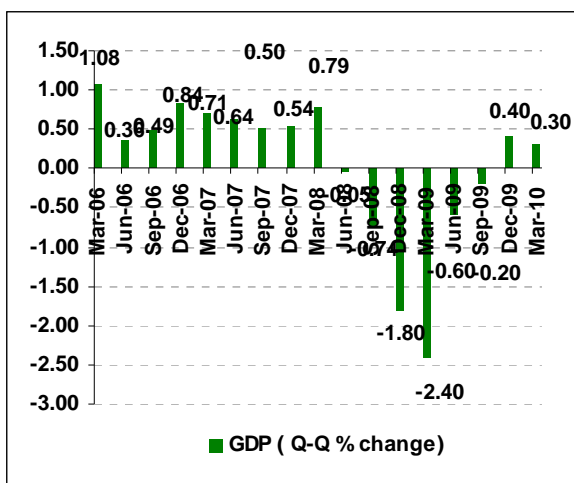
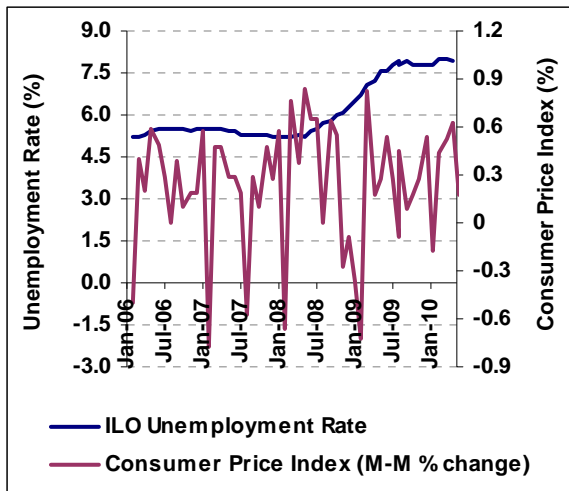
Period	GBP USD		GBP MUR	
	HIGH	LOW	HIGH	LOW
M/M	1.5128 (28 JUN 10)	1.4344 (08 JUN 10)	50.231 (02 JUN 10)	49.185 (09 JUN 10)
Y/Y	1.7042 (05AUG 09)	1.4230 (20 MAY 10)	55.123 (06 AUG 09)	46.895 (26 MAR 10)



Stock Market

INDEX	UK INDICES		MoM % CHG
	01-Jun-10	30-Jun-10	
FTSE 100	5,163.30	4,916.87	-4.77
FTSE ALL SHARE INDEX	2,661.70	2,543.47	-4.44

Macro economic figures



electrical goods ahead of the World Cup soccer tournament.

Leaving its borrowing rates on hold at 0.50 percent, the Bank of England also paused in its asset purchase programme. Risk appetite was inhibited as weak US retail sales data raised questions about the strength of the recovery in the United States. Decline was limited by an improvement in the labour market. The Chancellor of the Exchequer, George Osborne, conquered the market with his rhetoric measures like raising value-added tax to 20 percent in 2011 from 17.50 percent and putting a levy on banks as part of a drive to reduce a record public debt.

Towards the end of the month, the pound sterling rose to a two month high at \$1.5128 after a BOE policymaker stated that the tightening cycle might start soon. The pound hit a 19-month high against the beleaguered euro at 0.8065 after funding concerns in the euro zone highlighted the debt turmoil.

After presentation of the tightest budget in a generation, the pound gathered momentum but the UK currency might encounter difficulty to retain gains on anticipation that the government austerity measures could hamper economic growth in the longer term.



## EURO ZONE

## Some Key Points:

**Technical support to the euro...  
Successful debt auctions...**

The euro started June on a weak note on the back of the ongoing european debt turmoil and its impact on the global economic growth. However, it reversed its downward trend after nearing a 4½ year low of \$1.1875 as strong demand at european debt auctions eased worries about the fiscal crisis in the euro zone area.

The contagion fear that has been gripping the market for months seems to have spread to the banking system. The European Central Bank, in early June, warned that euro zone banks may face up to EUR 195 billion in losses in a second wave of potential loan losses over the next 18 months. The euro dropped below the \$1.1900 for the first time in more than four years as the debt wave hit Hungary and hammered investor confidence.

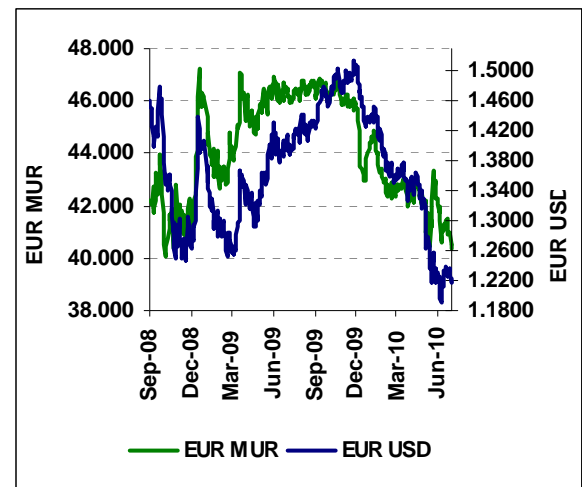
Economic activity in the euro zone area remains weak while manufacturing activity of the region expanded at a sluggish pace in May. However, the euro recovered some losses as strong german manufacturing data prompted some short covering along with a

## EU in figures

INTEREST RATE	GDP (Q-Q % CHG)	CONSUMER PRICE INDEX (M-M % CHG)	UNEMPLOYMENT RATE
1.00%	0.20%	-0.01%	10.00%

## Exchange rates

	1-Jun-10	30-Jun-10	MoM % CHG
EUR USD	1.2225	1.2234	0.07
EUR MUR	42.02	40.376	-3.91



Period	EUR USD		EUR MUR	
	HIGH	LOW	HIGH	LOW
M/M	1.2467 (21 JUN 10)	1.1875 (07 JUN 10)	42.020 (01 JUN 10)	40.376 (30 JUN 10)
Y/Y	1.5144 (25 NOV 09)	1.1875 (07 JUN 10)	46.870 (10 SEP 09)	40.376 (30 JUN 10)

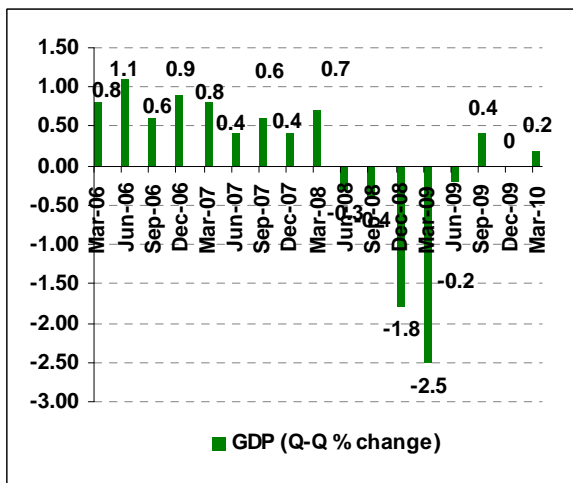
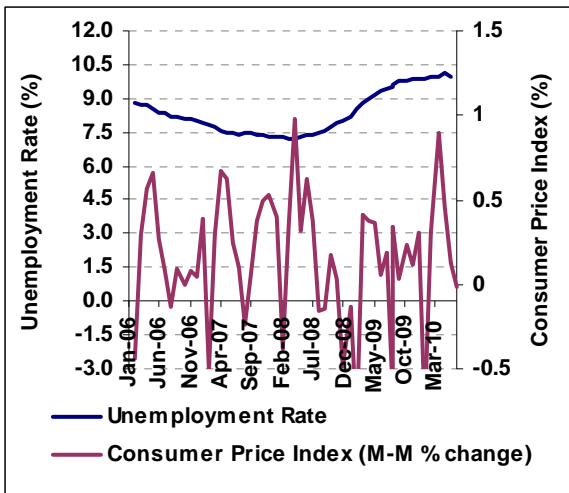


Stock Market

EURO ZONE INDICES

INDEX	1-Jun-10	30-Jun-10	MoM % CHG
DAX	5,981.27	5,965.52	-0.26
CAC 40	3,503.08	3,442.80	-1.72

Macro economic figures



reasonable demand at a debt auction in Belgium. A well covered spanish bond auction also eased concern over the health of the public finances after Spain sold around 3.50 million euros of 10 and 30 year bonds (Bonos del Estado) and raised 5.20 billion euros in 12 and 18 month bills in the latest auction.

The euro consolidated above \$1.2000 on options related buying but it initially failed to gain momentum on worries about the public finances in Spain as the IMF and US Treasury were suspected to be drawing an emergency credit line for Spain. The euro got a momentary lift after Germany modified its ban policy on naked short selling. A surprisingly large fall in the german investor sentiment index slowed the advance in the euro. The conclusion of the G20 meeting supported the euro but the rally has been fuelled after banks borrowed less money than expected from the ECB, soothing concerns about the funding issues.

As appetite for risk increased, the euro rallied. However, the market remains pessimistic as the debt turmoil is still affecting some parts of the euro zone.



## JAPAN

### Some Key Points:

**Election bounce...  
Risk aversion driving the yen...**

The Japanese currency kicked off the month in an environment of heightened political uncertainty after the former Prime Minister Yukio Hatoyama resigned from his post in an attempt to boost his party fortune in an election due on 11 July.

Investors sold the yen amid fears that the political turmoil would delay the long awaited fiscal reforms. Market players were also concerned about the outlook of the Japanese yen on high expectations that the Finance Minister Naoto Kan, who is an aggressive opponent of a lower yen, would replace Hatoyama.

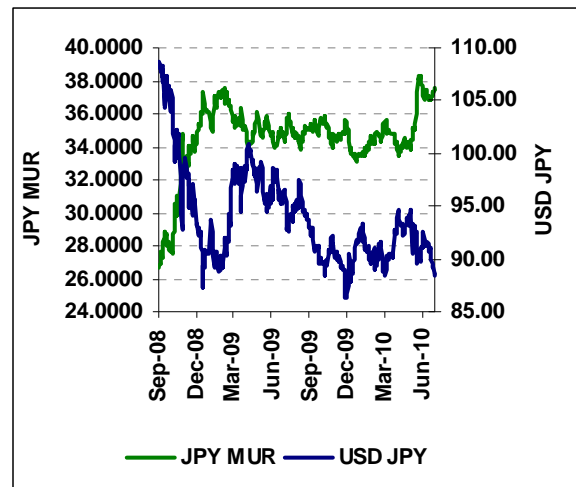
However, the yen losses were limited as investors remained hungry for the Japanese currency, which benefited from risk aversion stemming from the euro zone debt crisis. Funding concerns in the euro area and weak US and Chinese economic figures cast uncertainty about the global economic recovery, attracting investors to the safe haven yen.

### JAPAN in figures

INTEREST RATE	GDP (Q-Q % CHG)	CONSUMER PRICE INDEX (M-M % CHG)	UNEMPLOYMENT RATE
0.10%	1.20%	-0.20%	5.20%

### Exchange rates

	1-Jun-10	30-Jun-10	MoM % CHG
USD JPY	91.00	88.39	-2.87
JPY MUR	37.67	37.54	-0.35



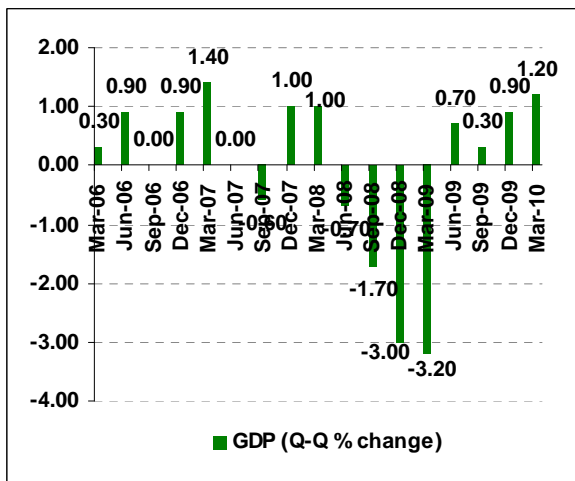
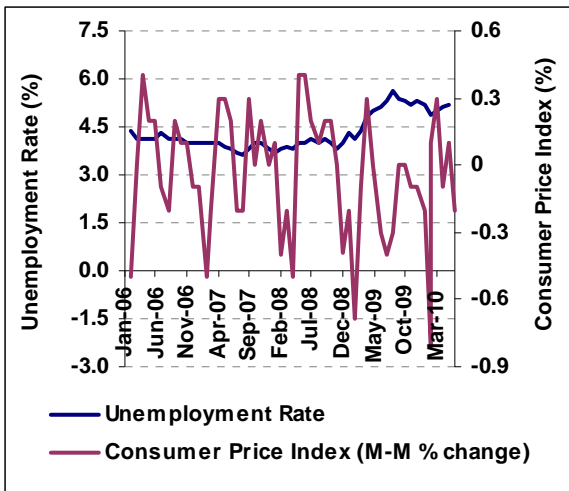
Period	USD JPY		JPY MUR	
	HIGH	LOW	HIGH	LOW
M/M	92.89 (04 JUN 10)	88.26 (29 JUN 10)	37.670 (01 JUN 10)	36.820 (04 JUN 10)
Y/Y	97.78 (07 AUG 09)	84.81 (27 NOV 09)	38.300 (27 MAY 10)	33.130 (22 DEC 10)



Stock Market

ASIAN INDICES			
INDEX	1-Jun-10	30-Jun-10	MoM % CHG
NIKKEI 225	9,711.83	9,382.64	-3.39
HANG SENG	19,496.95	20,128.99	3.24

Macro economic figures



Japanese retail sales rose slower than expected by 2.80 percent in May from a year earlier while industrial output fell by 0.10 percent after two straight months of gains, suggesting that the benefits of a rebound in exports to the fast growing asian economies may be moderating. After hitting a record high of 5.60 percent in July last year, unemployment rate stood at 5.20 percent.

Deflation continues to plague the japanese economy with consumer prices falling for the fifteenth straight month. The new japanese government with Naoto Kan sworn in as Prime Minister, undertook to achieve stable inflation in the fiscal year to March 2012, lower corporate taxes, stimulate demand in growth industries and ensure a strong social security system. The government also pledged to boost growth by reforming the country tattered public finances, which is about twice the size of its economy.

Amid lingering worries about the european debt turmoil and increased risk aversion, the yen is expected to trade in a firmer note. However, the market will be directed by the fiscally conservative policies of the leader of the new government.

**MAURITIUS****Some Key Points:**

**Unchanged repo rate...  
Increase in cash reserve ratio...**

Since the start of the year, the mauritian rupee has been on a weakening trend and the month of June has not been indifferent either, where it lost 0.97 percent against our SBM basket of currencies. However, the local currency had some mixed fortunes, especially against a bruised euro where it recovered 1.55 percent from on a month on month average basis. The rupee depreciated by 1.50 percent against the dollar and 1.90 percent against the pound sterling on a month on month average basis.

According to the Central Statistical Office, trade deficit widened sharply by 23.70 percent to 5.756 billion rupees in April from a year earlier. Further data showed forecast unemployment in 2010 will increase to 7.50 percent from 7.30 percent. Unemployment in the first quarter of this year rose to 8.40 percent from 8.00 percent during the same period in 2009.

In a move to tackle the prevailing excess liquidity and to maintain stability on the money market front, the Bank of Mauritius

**MAURITIUS in figures**

INTEREST RATE	GDP at Market Prices	CONSUMER PRICE INDEX	UNEMPLOYMENT RATE
5.75%	67.140 Bln	119.10	8.40%

**Exchange rates**

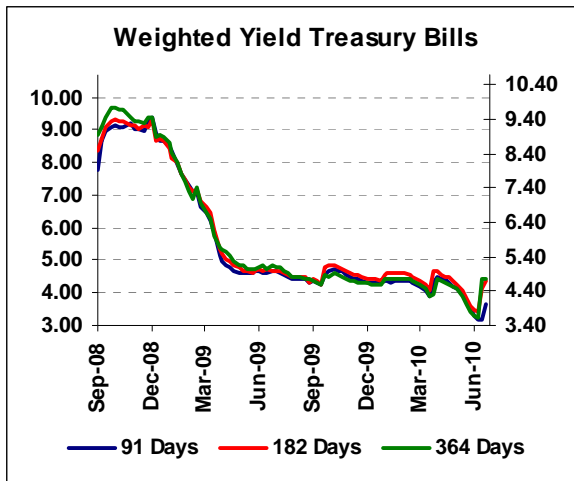
	1-Jun-10	30-Jun-10	MoM % CHG
AUD MUR	28.810	28.360	-1.56
ZAR MUR	4.480	4.380	-2.23
SGD MUR	24.480	23.790	-2.82
CAD MUR	32.860	31.570	-3.93

**Stock Market****MAURITIUS INDICES**

INDEX	1-Jun-10	30-Jun-10	MoM % CHG
SEMDEX	1,621.26	1,654.16	2.03
SEM-7	329.33	333.78	1.35
DEMEX	140.14	140.95	0.58

**Government Securities****TREASURY NOTES**

	June-10	May-10
2-Year	5.15	5.61
3-Year	5.75	5.90
4-Year	6.03	6.13



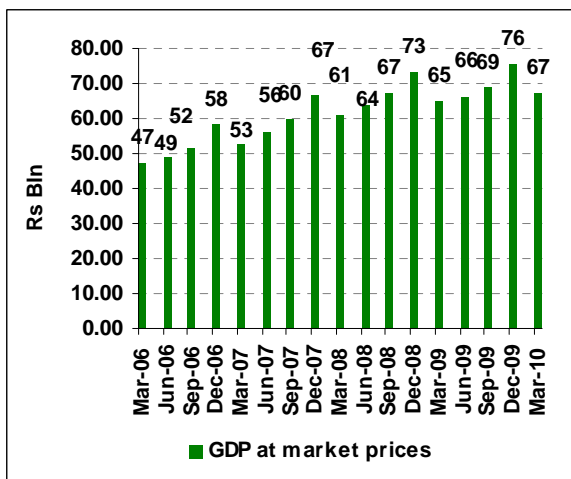
GOM BONDS

	December-09	September-09
7-Year	9.44	9.24
13-Year	10.37	10.15
20-Year	10.70	10.38

GOM BONDS

	November-09	August-09
5-Year	8.73	8.61

Macro economic figures



raised its cash reserve ratio by 50 basis points to 5.00 percent with effect from 1<sup>st</sup> July. With this measure in force, banks will have to keep additional reserves in their non interest bearing account at the central bank. This move helped the market into realigning the yields of the government Treasury bills where yields picked up from below the 4.00 percent mark for the 364 days to trade at 4.73 percent by the end of June. The 91-day and 182-day also closed the month on a higher note at 3.64 percent and 4.40 percent respectively.

As widely expected the Monetary Policy Committee (MPC) left the benchmark lending rate at 5.75 percent, citing uncertainty wrought by european debt crisis.

With the start of the new financial year for many companies, trading is expected to pick up which will provide direction for the local currency. However it remains to be seen whether activity on the local front will be able to gather momentum and drive the market out from the lull caused by the poor economic downturn.

**OIL****Some Key Points:****Drop in demand...  
European debt crisis still on the cards...**

June proved to be relatively less volatile with regards to oil prices, as compared to previous months, with the Brent crude front month futures contract fluctuating in a range of \$9 a barrel, trading between a low of \$70.50 and a high of \$79.86 per barrel.

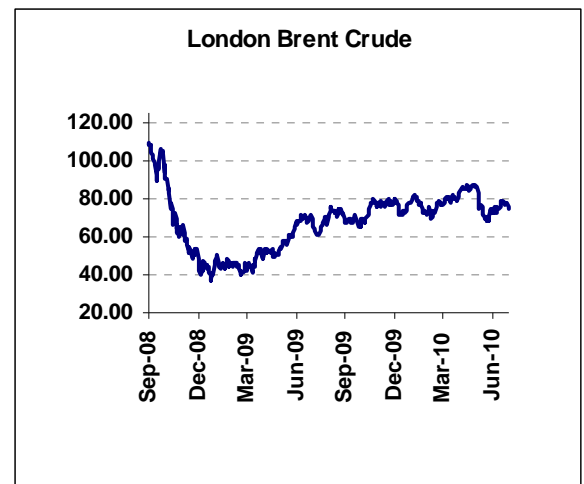
Prices fell as the European debt crisis and the weak US jobs picture led to a cut in oil demand projections as the leading forecasters figure in less than rosy economic growth. The US Energy Information Administration (EIA), one of the widely watched oil forecasters, was expected to claw back some of the oil demand growth it had been looking for. The EIA last month boosted its forecast of global oil demand by 110,000 barrels per day.

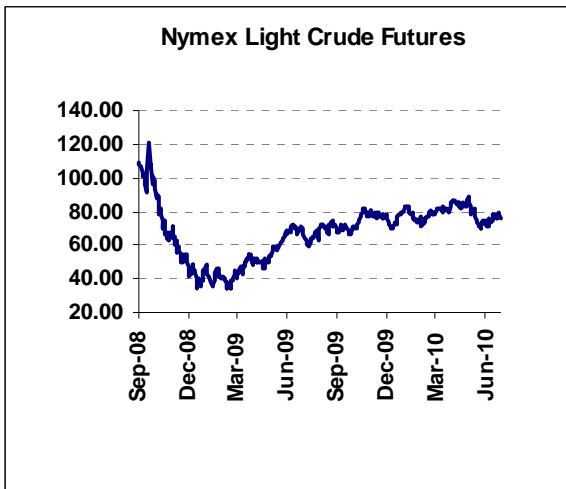
In its monthly oil report, OPEC led to a further drop in prices stipulating that the oil market has no room for more crude supplies. It also trimmed its forecast for world oil demand growth in 2010 and hiked its estimate for production from countries not in the group. The report showed that

**Oil prices**

	1-Jun-10	30-Jun-10	MoM % CHG
<b>NYMEX LIGHT CRUDE FUTURES</b>	72.58	75.63	4.20
<b>LONDON BRENT CRUDE</b>	72.71	75.01	3.16

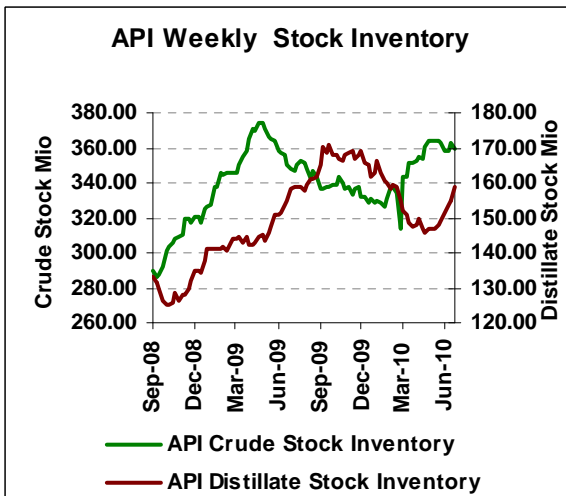
Period	NYMEX LIGHT CRUDE FUTURES		LONDON BRENT CRUDE	
	HIGH	LOW	HIGH	LOW
<b>M/M</b>	79.38 (28 JUN 10)	69.51 (07 JUN 10)	79.86 (21 JUN 10)	70.50 (07 JUN 10)
<b>Y/Y</b>	87.15 (03 MAY 10)	58.32 (13 JUL 09)	89.58 (03 MAY 10)	59.49 (13 JUL 09)

**Oil prices**

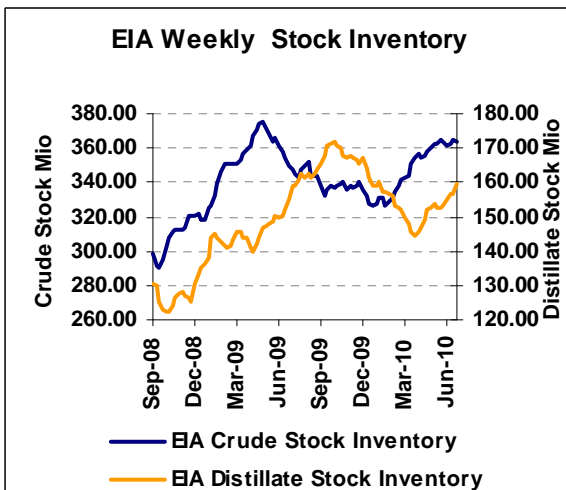


world oil demand would rise by 940,000 barrels per day in 2010, that is 10,000 barrels per day lower than previously forecast. More downside pressures emerged following reports from Iran about the discovery of 30 billion barrels of oil. This is expected to boost Iranian proven reserves by as much as 15 billion barrels, according to Reuters.

**Inventory**



US crude oil futures however bounced as a tropical disturbance in the Caribbean Sea looked more likely to develop into a storm and threaten the Gulf of Mexico production.



Prices were at the losing end again as Russia announced its "gas war" with Belarus was over after the neighbours agreed new transit tariffs for Russian gas exports to Europe. A dispute over gas payments and transit debts had triggered a four day stand-off between the ex-Soviet neighbours and resulted in Russia cutting gas supplies to Belarus, which in turn halted onward transit to the EU.

The oil market is expected to trade in a tight range in the coming weeks governed mostly by the current economic atmosphere.

**GOLD****Some Key Points:****Bullish trend...  
Gold at record high...**

The month of June has fully benefited gold reaching a high of \$1,256.35 an ounce. Renewed risk aversion on concern over financial and sovereign debt risks along with doubts about the resilience of the US economic recovery ensured markets remain bullish.

Gold edged higher tracking an increase in key exchange traded fund holdings as a combination of shakier equities, sluggish growth in US, expectation that interest rate will remain low and the threat of rising inflation in the years to come helped reinforce bullion safe status.

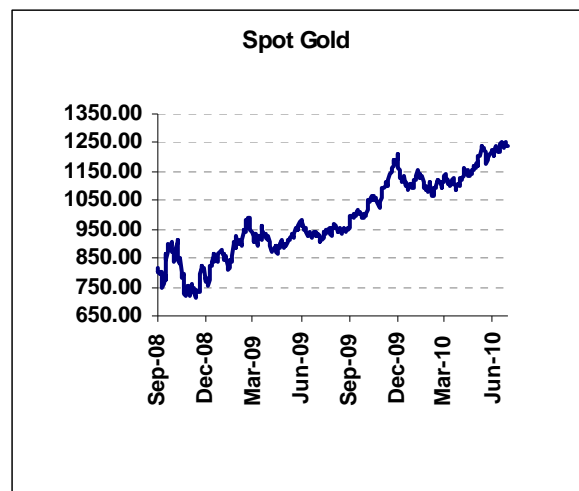
China announcement that it was to allow greater flexibility in its foreign exchange rate lifted gold to a record high of \$1,256.35. This news knocked the dollar adding impetus to the bullion rise.

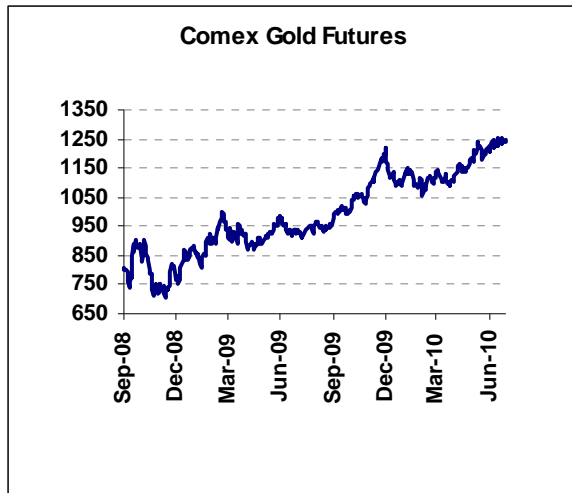
The yellow metal continued its bullish tendencies after another downgrade to Greece credit rating. This reawakened fears about excessive debt levels in several euro zone

**Gold prices**

	1-Jun-10	30-Jun-10	MoM % CHG
<b>SPOT GOLD</b>	1224.30	1224.80	0.04
<b>COMEX GOLD FUTURES</b>	1241.35	1245.50	0.33

Period	SPOT GOLD		COMEX GOLD FUTURES	
	HIGH	LOW	HIGH	LOW
<b>M/M</b>	1256.35 (18 JUN 10)	1207.55 (03 JUN 10)	1257.20 (18 JUN 10)	1208.30 (03 JUN 10)
<b>Y/Y</b>	1256.35 (18 JUN 10)	908.45 (08 JUL 09)	1257.20 (18 JUN 10)	909.00 (08 JUL 09)

**Gold prices**



countries thereby prolonging the bullish trend which was already prevailing on the market.

Gold prices accelerated their upward move as investors sought refuge from financial market uncertainty arising from agreement by US lawmakers to overhaul financial market regulation on Wall Street. Gold also rallied as world leaders debated the best way to ensure growth and fiscal responsibility at the G20 meeting.

However, gold erased some gains as strong export data from china whetted investor risk appetite and prompted a rise in equity.

In the coming weeks, gold is likely to be the ultimate insurance policy in the face of financial market uncertainty as investors continue to receive mixed messages with respect to the broader world economy. Gold will also remain a safe haven as long as sovereign fears continue to climb.



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