Aon Hewitt (Mauritius)
Investment Consulting Dashboard

Empower Results®

November-2019

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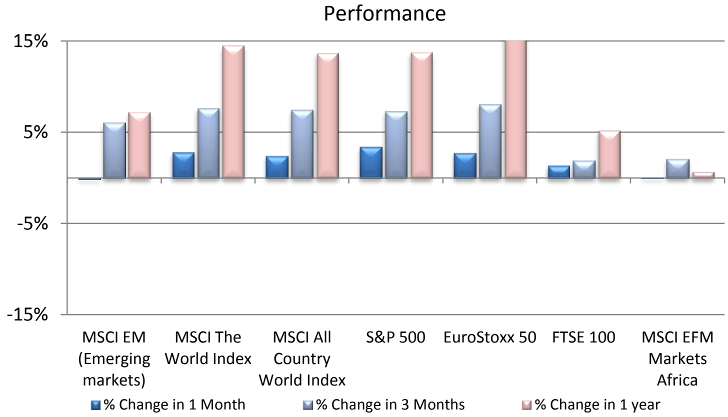
Foreign Equity Indices		% Change in				
30/11/2019	**Current Value (USD)**	**Last Month**	**Last 3 Months**	**Last 12 Months**	**Last 3 Years ***	**Last 5 Years ***
MSCI EM (Emerging markets)	490.93	-0.1%	6.1%	7.3%	9.0%	3.1%
MSCI The World Index	6,708.68	2.8%	7.6%	14.5%	12.4%	7.7%
MSCI All Country World Index	272.71	2.4%	7.5%	13.7%	11.9%	7.2%
S&P 500	3,140.98	3.4%	7.3%	13.8%	12.6%	8.7%
EuroStoxx 50	3,703.58	2.8%	8.1%	16.7%	6.7%	2.6%
FTSE 100	7,346.53	1.4%	1.9%	5.2%	2.7%	1.8%
MSCI EFM Markets Africa	1,050.24	0.1%	2.1%	0.7%	3.2%	-2.8%

* annualised



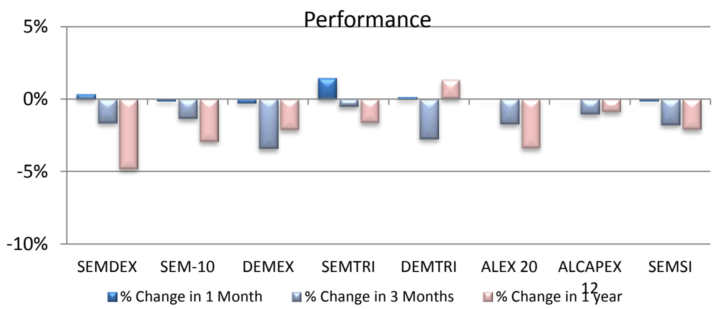
The **MSCI World** gained 2.8% during the month; followed by the **MSCI ACWI** which returned +2.4%. **MSCI Emerging Markets** in turn shrunk by 0.1%.

The **S&P 500** closed the month at 3,140. It gained 3.4% during November. This represents its biggest one-month gain since the financial crisis.

However, the optimism that prevailed over the previous month around the US-China trade negotiations has been affected after Trump supported protesters in Hong Kong.

The **EuroStoxx 50** rose by 2.8% this November while **FTSE 100** rose by 1.4%; boosted by gain in Burberry after Louis Vuitton owner's deal for Tiffany and hope for progress to end the US-China trade war.

Local Equity Indices		% Change in				
30/11/2019	**Current Value (MUR)**	**Last Month**	**Last 3 Months**	**Last 12 Months**	**Last 3 Years ***	**Last 5 Years ***
SEMDEX	2,126.62	0.4%	-1.6%	-4.8%	5.7%	0.2%
SEM-10	417.03	-0.1%	-1.3%	-2.9%	6.7%	1.1%
DEMEX	230.75	-0.2%	-3.4%	-2.1%	4.8%	2.8%
SEMTRI	8,101.21	1.4%	-0.5%	-1.6%	8.9%	3.5%
DEMTRI	331.97	0.2%	-2.7%	1.3%	8.3%	6.1%
ALEX 20	1,089.00	0.0%	-1.7%	-3.4%	6.1%	0.9%
ALCAPEX 12	1,547.00	0.0%	-1.0%	-0.9%	5.3%	1.8%
SEMSI	121.22	-0.1%	-1.8%	-2.1%	NA	NA



On the domestic side, the local equity markets registered mixed returns during the month under review.

The **SEMDEX and SEMTRI rose by** 0.4% and 1.4% respectively. On the other hand, the **SEM-10** fell by -0.1%.

It should be noted that the SEMDEX has lost nearly 5% over the past 12 months. The SEMTRI return over the same period amounted to -1.6%. The difference is mainly due to dividends declared.

The **DEM indices** remained range bound during November.

At its meeting of 27th November 2019, the **Monetary Policy Committee of the Bank of Mauritius** has, by majority vote, decided to keep the Key Repo Rate unchanged at 3.35% per annum.

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Commodities 30/11/2019	Current Value (USD)	% Change in Last Month	Last 3 Months	Last 12 Months	Last 3 Years *	Last 5 Years *
Gold	1,472.70	-3.2%	-3.7%	20.1%	7.9%	5.1%
Oil	62.43	3.7%	3.3%	6.3%	7.3%	-1.8%
Sugar	12.94	3.7%	16.2%	0.8%	-13.2%	-3.6%

Gold price fell by 3.2% over the last month; the biggest monthly decline since June 2018. Investors turned to riskier assets on signs of economic growth following reports of an expanding Chinese factory sector and a rising US Dollar. *(Source: Forbes)*

Brent crude oil price experienced an increase of 3.7% as signs of rising manufacturing activity in China pointed to increase fuel demand and hints that the OPEC may deepen output cuts indicated lower supply expectations. *(Source: S&P Global)*

The **sugar price** rose by 3.7% during November. However, the price is ony up by 0.8% over the past 12 months.

30/11/2019 Weighted Average:	T-Bill Yield
91-Day	2.86%
182-Day	3.01%
364-Day	3.12%
30/11/2019	
Repo Rate	3.35%
Deposit Rate *	1.61%

**Weighted Average Deposit Rate of Banks for the previous month*

Foreign Indices 30/11/2019	Current Value (USD)	Last Month	Last 3 Months	Last 12 Months
S&P Global Property	534.69	-1.1%	4.0%	15.2%
S&P Listed Private Equity	359.54	3.8%	9.1%	29.0%
S&P Global Infrastructure	5,542.74	-0.8%	2.9%	13.1%
S&P Africa Sovereign Bond	794.58	0.7%	2.6%	13.6%
S&P 500 Bond Index	488.77	0.3%	0.1%	14.9%
S&P International CBI	133.68	-1.0%	1.1%	8.7%
Barclays Global Aggregate Bond	508.70	-0.8%	-1.1%	8.4%

Currencies 30/11/2019	In MUR Current Value	Past Month	% Change in Last Month	Last 3 Months	Last 12 Months	Last 3 Years *
GBP	47.06	46.65	0.9%	7.4%	7.4%	1.6%
USD	36.63	36.25	1.0%	1.3%	6.3%	0.5%
EUR	40.12	40.28	-0.4%	1.0%	2.8%	1.6%

The **pound** appreciated by 0.9% relative to the MUR during November.

The **US Dollar** strengthened by 1.0% relative to the MUR. This can be to a certain extent be attributed to better hopes for US-China trade deal and seemingly reduced risk of a "no-deal" Brexit outcome.

The **Euro** lost 0.4% relative to the MUR in November. It should be highlighted that recent data showed weakening growth prospects in the German economy.

Monetary & Fiscal Policy – Impact on Exchange Rates

Over the last 12 months, the US Dollar has appreciated considerably against the Mauritian Rupee. In other terms, our local currency has depreciated versus the Greenback. The Mauritian Rupee has also significantly depreciated versus the other major currencies (see above section on Currencies) in recent months. In this month's Dashboard, we analyse the Mundell-Fleming model, which evaluates the impact of **monetary and fiscal policies** on interest rates and consequently on exchange rates.

Controlled by the Central Bank, the **Monetary Policy** generally involves influencing the supply and availability of money, in an attempt to influence the overall level of economic activity in line with Central Bank's objectives.

Locally, the central bank is the Bank of Mauritius. The central bank has many ways of intervening and steering the economy in the desired direction.

On the other hand, the **Fiscal Policy**, led by the Government, refers to the use of government spending and levels of taxation to influence economic conditions, including demand for goods and services, employment, inflation, and economic growth.

The **Monetary and Fiscal policies** both **aim at creating a more stable economy characterised by controlling inflation and higher economic growth.** They attempt to reduce economic fluctuations and smooth out the economic cycle. Fiscal policy can also be used as a tool for redistribution of income and wealth. A different tactic is the use of the unconventional monetary policy such as quantitative easing in which a central bank purchases government bonds or other financial assets in order to inject liquidity directly into the economy. **However, all these strategies have a side effect on the level of the exchange rates of the country.**

In a high capital mobility environment, where international capital flows are relatively unrestricted, the exchange rates are primarily affected by the inflow and outflow of money generated by financial instruments such as deposits, bonds, stocks, etc. **The Mundell-Fleming Model analyses two variations of the Monetary & Fiscal Policy; Expansionary and Contractionary.**

Expansionary monetary policy is when the central bank uses its tools, such as increasing the money supply by reducing yields on local treasury instruments to stimulate the economy and encourage economic growth. Under this policy, as the **interest rates are lowered**, corporations and consumers are able to borrow more cheaply. The declining interest rate makes **government bonds and savings accounts less attractive.** This gives households greater disposable income and **inspires more spending** instead of saving and may even encourage people to develop new businesses. The final result is a **positive impact on the country's GDP** (as people would normally spend more). However, the **lower interest rates would be unattractive for foreign investors;** As such, the demand for the country's domestic currency decreases and finally there is a **negative impact on the level of the exchange rates.**

On the other side of the coin, a **Contractionary Monetary policy (increase in interest rates)** will tend to decrease economic growth, **increase market (bank) interest rates – more saving/investing, less spending** – **decrease inflation**, and lead to a**ppreciation of the domestic currency** due to the higher demand for the local currency.

Expansionary fiscal policy is when the government expands the money supply in the economy using budgetary tools to either increase spending or decrease taxes, hence providing consumers and businesses with more money to spend. Generally, the increased spending comes together with increased government borrowings and as a result, **sending interest rates higher.** This will attract foreign investment, improve the financial account and consequently **increase the demand for the domestic currency** and thus having a positive impact on the level of the exchange rates.

Likewise, **Contractionary Fiscal policy involves increasing taxes, decreasing government expenditures** in an attempt to fight high inflation. This results in lower interest rates and has a negative impact on the domestic exchange rate.

Both expansionary and contractionary policies have their own advantages and disadvantages. However, as explained above, **expansionary monetary policy and expansionary fiscal policy are likely to have opposite effects on exchange rates.** This is summarised in the table below.

	Expansionary Monetary Policy	Contractionary Monetary Policy
Expansionary Fiscal Policy	Uncertain effect on Local Currency	Local Currency Appreciation
Contractionary Fiscal Policy	Local Currency Depreciation	Uncertain effect on Local Currency

In the light of the above, based on the objectives of the central bank and the Government, the policies can be expansionary or contractionary. All four scenarios will have a different impact on the level of interest rates, inflation, economic growth and exchange rates.

We would also like to highlight that the Monetary and Fiscal Policies are not the only factors which affect the level of the exchange rates. There are many other factors involved. Nonetheless, as John Maynard Keynes, a famous British economist once said, "*It is better to be roughly right than precisely wrong.*"

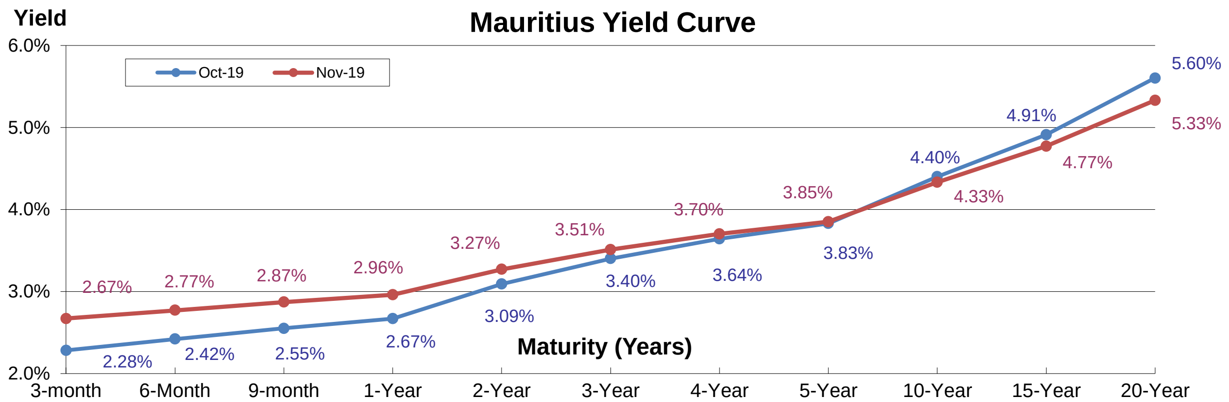
Consumer Price Index (Mauritius)		**% Change in**				
30/11/2019	**Current Value**	**Last Month**	**Last 3 Months**	**Last 12 Months**	**Last 3 Years**	(Annualised)
CPI	116.81	0.3%	-0.6%	0.3%	2.2%	

The above figures represent the CPI as at November 2019. The year-on-year inflation rate for November 2019, as measured by the change in the CPI for November 2019 relative to November 2018 works out to 0.3%. *(Source: Statistics Mauritius Website)*

General News

Global debt hit a record high of over USD 250 trillion in the first half of the year, led by a surge in borrowing in the US and China. Debt in emerging markets rose to USD 71.4 trillion (220% of GDP). *(Source: CNBC)*

Chinese data showed weaker-than-expected growth in key areas. As a result of weaker growth in manufacturing and mining sectors, industrial production grew by 4.7% on the year in October, down sharply from 5.8% in September.



Aon Hewitt has developed an in-house Yield Curve based on average buy-and-sell yields for Government of Mauritius instruments. Key information is obtained from primary dealers. **We note that over the month, short-term yields on treasury bills and bonds picked up while local yields on government bonds of longer maturities further decreased.**

Disclaimer: *Nothing in this document should be considered as being financial advice. Our consultants will be pleased to answer questions on its contents but cannot give individual financial advice.*

** All performance figures in this document have been annualised for 3 and 5 years.*

Source: Stock Exchange of Mauritius, Bank of Mauritius, Statistics Mauritius, Axys Stockbrokers, MSCI, Bloomberg, etc.