Local Economy

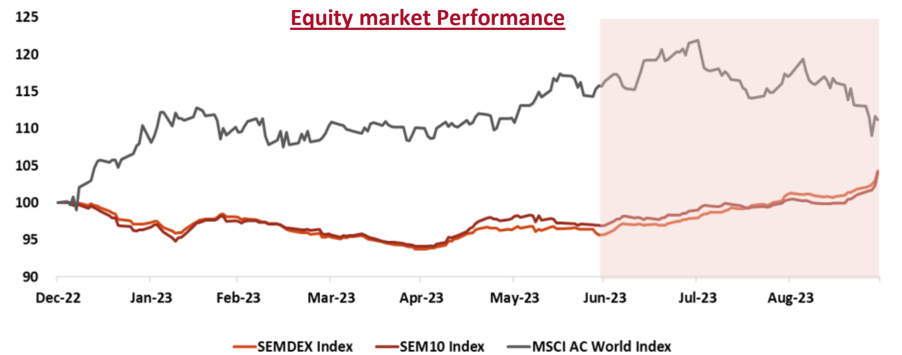
The Mauritian economy in 2023 pursues its recovery underpinned, by the continued expansion in tourism and the good performances across in the financial services and ICT sectors. Economic growth would also benefit from a pickup in nationwide investment notably reflecting the execution of large public infrastructure projects as well as the implementation of property development ventures and smart city projects. Real GDP growth for this year is projected by the IMF at close to 5%, with the outlook being, however, subject to the testing conditions in key export markets and the still elevated inflation environment. In fact, whilst moderating to 9.0% in September 2023 from a peak of 11.3% in February, the annual average headline inflation rate is set to remain above historical levels at close to 7% in December 2023. Moreover, disruptions stemming from global price shocks, including higher energy prices, could tilt the balance of risks to inflation to the upside, should they materialise.

On the fiscal front, General Government debt stood at 69.2% of GDP as at end June 2023, as per latest statistics, while public sector gross debt stood at 79.7% of GDP as at June 2023. The external front continues to deserve a close scrutiny, with the value of the merchandise trade deficit set to widen this year, amidst a higher import bill, after factoring in the purchase of one-off items such as machinery for metro terminals and the still elevated, albeit gradually moderating, cost of energy and commodity imports. As for the Balance of Payments, while it recorded a deficit of MUR 51.7 billion during the first semester of 2023, a pickup is expected in capital and financial flows during the latter part of the year.

Market Overview

After a poor first-half year performance (-4.29%), the SEMDEX reversed trend, gaining 8.9% in Q3 (YTD: +4.2%), driven mainly by Hotels, Financials and large Conglomerates. In contrast, the Global Equities Index contracted by 4.5% in MUR terms (YTD: +11.1%). The SEMDEX rally was supported by markedly improved corporate earnings and higher dividends as overall market dividend yield reached 4.1% at the end of the quarter. This good market performance was sustained despite foreign disinvestment of MUR 265 million in Q3 (YTD: Outflow of MUR 105 million).

Equity market Performance



Source: MCB PWM, Bloomberg

Over the quarter, the MUR yield curve shifted downwards by around 100 basis points or more, as BOM capped the issuance of the 7-day BOM bill. BOM also maintain the Key Rate at 4.50%, citing declining inflation. They indicated that their gradual monetary policy normalization in 2022 should continue to influence the broader economy and prevent core inflation from accelerating.

Market Outlook

The momentum in the local equities market will likely be sustained by relatively attractive valuation, underpinned by strong earnings and attractive dividend yield, close to 10YR Government Bond yield.

SEMDEX Dividend yield vs 10 YR Govt Bond yield

	SEMDEX Div Yield	10Y Govt Bond Yield	Spread
9/29/2023	4.07	4.41	-0.34
9/30/2022	3.31	4.79	-1.48
9/30/2021	1.95	4.56	-2.61
9/30/2020	4.35	4.25	0.10

Source: MCB PWM, Bloomberg

We therefore maintain our portfolio positioning on equities, trading a cheap valuations and prefer those companies vying for the significant growth potential outside of Mauritius.

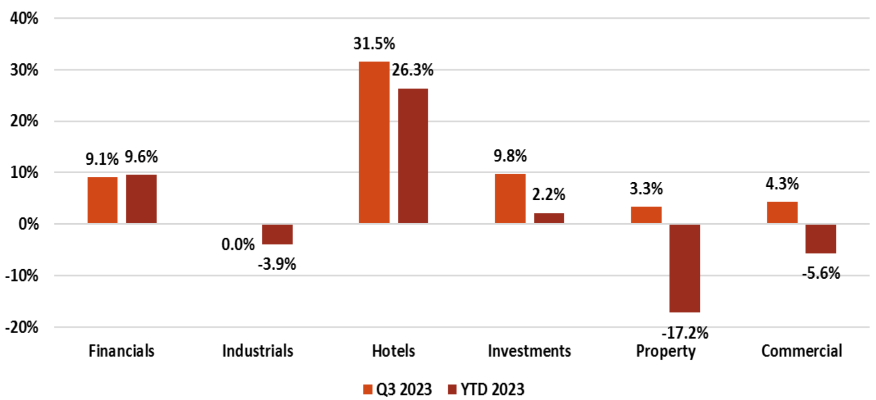
Going forward, we await to have more visibility with regard to the monetary policy framework, along with the date of the next MPC meeting. As for the yield curve, we anticipate a further flattening, with the short end remaining relatively stable while the longer end faces potential downward pressure due to limited issuance of longer-dated bonds. In terms of duration, we favor short to medium term, notably government bonds. We shall also consider a shift to corporate bonds with attractive yields, subject to availability.

Equity Market Overview

During the quarter, despite the challenging economic context, local companies reported significant improved results when compared to the previous year.

The market performance was driven by Hotels, Investment and Financials stocks. MCBG was the biggest contributor to the SEMDEX performance (+3.1%) as NMH (Q3: +61.4%), SUN (Q3: +28.8%) and LUX (Q3: +19.6%) together contributed +2.4% to the SEMDEX performance.

Sectoral Performance



Source: MCB PWM

After three years impacted by COVID-19, the hotel groups saw strong growth in revenue and were back to healthy profitability levels as two of the large hotel groups, SUN and LUX announced the return of dividend payments. The financial performance of the hotel groups was boosted by the MUR depreciation coupled with tourist arrivals which almost reached pre-COVID levels, increased length of stay, and thus higher average spending and occupancy.

The hotel groups are expected to maintain their strong momentum with solid forward bookings for their peak season at the end of year 2023.

			EPS			DPS		
Sector	Stock	Period	2023	2022	Change	2023	2022	Change
BANKS & INSURANCE	SBMH	Half Year	0.65	0.29	↑	0.20	0.20	-
	MCBG	Full Year	57.67	40.14	↑	20.25	13.90	↑
COMMERCE	Innodis	Full Year	3.06	0.63	↑	1.85	1.15	↑
	IBL	Full Year	4.50	1.72	↑	0.66	0.60	↑
INDUSTRY	PBL	Full Year	44.50	25.37	↑	16.00	12.62	↑
	UBP	Full Year	5.04	-2.55	↑	0.00	3.00	↓
INVESTMENTS	Medine	Full Year	11.35	9.62	↑	2.50	1.15	↑
	CIEL	Full Year	1.57	0.94	↑	0.28	0.21	↑
	ENL	9 months	2.41	0.79	↑	1.00	0.80	↑
	Rogers	9 months	4.18	1.70	↑	1.24	0.91	↑
LEISURE & HOTELS	NMH	Full Year	3.86	-0.12	↑	0.00	0.00	-
	SUN	Full Year	8.42	1.06	↑	2.00	0.00	↑
	LUX	Full Year	10.63	3.49	↑	2.00	0.00	↑
PROPERTY	Ascencia	Full Year	2.18	2.06	↑	0.95	0.90	↑

Source: MCB PWM

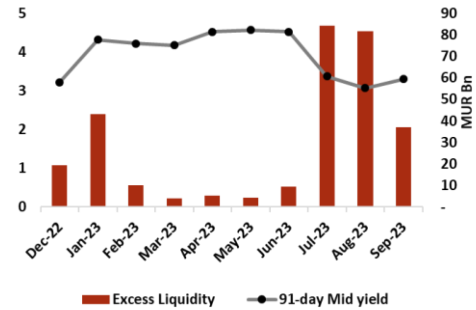
The banking sector benefitted from the high-interest rate environment, especially on their foreign activities. Despite the recent amendments to the Bank special levy, the two large listed banks reported significant growth in earnings. In Q3, following MCBG's strong results and final dividend announcement, its share price appreciated by 8.9%, while SBMH ended the quarter up by 6.7%. Given that the global economic environment remains highly uncertain and volatile, banks are upholding a cautious approach moving forward.

The conglomerates' results were boosted by their associates and subsidiaries which operate in sectors such as Sugar, Hotel & Leisure, Financials, and Property. According to the Mauritius Sugar Syndicate, FY 2023/24 should see a persistent global sugar production shortfall against rising consumption, which would imply high sugar prices for crop 2023 (MUR 25,554 per ton sugar for Crop 2022).

Fixed Income Market Overview

In July, BOM's abruptly changed the issuance process for 7-day BOM bills from a full allotment to just MUR 2-5 billion weekly. This led to banks being flooded with liquidity as overnight deposits rose to around MUR 81 billion. Following the change, MUR yields across all maturities dropped by 100 basis points or more by the end of August.

MUR Excess liquidity vs 91- BOM bill

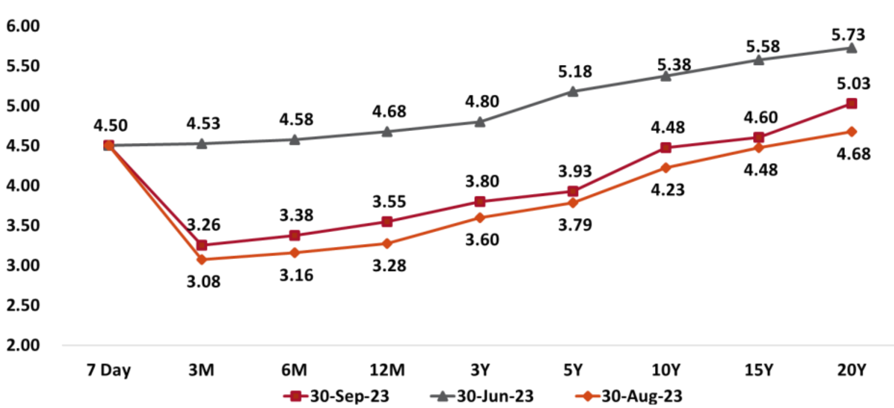


Source: MCB PWM, BoM

In response, over the quarter, BOM increased its weekly short-term bill issuance up to MUR 8 billion and re-issued a 2-year note and 3-year note totaling MUR 60 billion as overnight deposits dropped to MUR 35 billion by September's end.

MUR yields across the curve increased modestly by approximately 20 basis points by the end of September, although we have yet to see the auctions on longer tenor bonds.

MUR Yield Curve (based on MCB Mid rates)

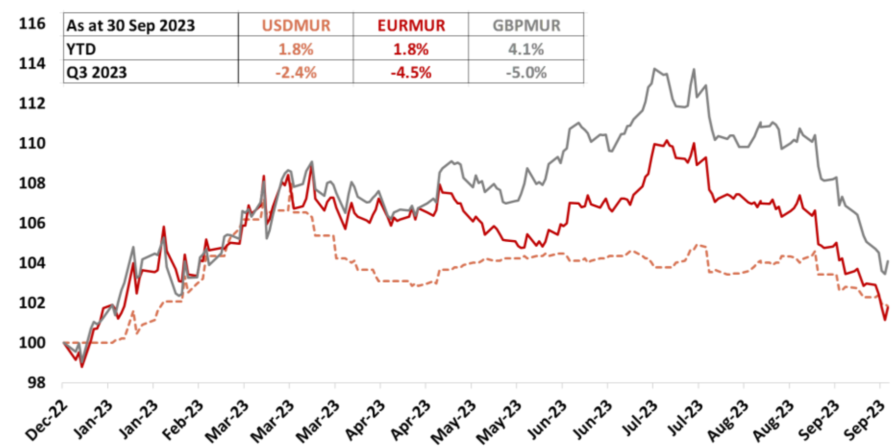


Source: MCB PWM, MCB Treasury

In the corporate bond segment, notable announcements include MCB Group's issuance of MUR2.5bn bonds through a private placement following the maturity of its two bonds this year. Additionally, Cim Financial Services Ltd revealed their second Green bond issuance of MUR1.5bn via private placement, while ENL Ltd announced a MUR2.5bn bond issuance through a public offering.

Currency Market Overview

USD, EUR & GBP vs MUR (31 Dec 2022 = 100)



As at 30 Sep 2023	USDMUR	EURMUR	GBPMUR
YTD	1.8%	1.8%	4.1%
Q3 2023	-2.4%	-4.5%	-5.0%

Source: MCB PWM, Bloomberg

To alleviate the pressure on the MUR, the Bank of Mauritius accelerated its intervention on the Forex market in Q3, as it intervened 5 times, selling a total of USD 110m between MUR 44.50 – 45.20. This resulted in an appreciation the MUR versus the USD by 2.4%. The MUR also appreciated v/s GBP by 5.0% and against EUR by 4.5% in Q3. Going forward, the BOM expects that the exchange rate of the MUR will be reflective of market forces and evolve in line with domestic macroeconomic fundamentals over the medium-term.