DEBT MARKET

INTEREST RATE EVOLUTION

29-MAY-2020

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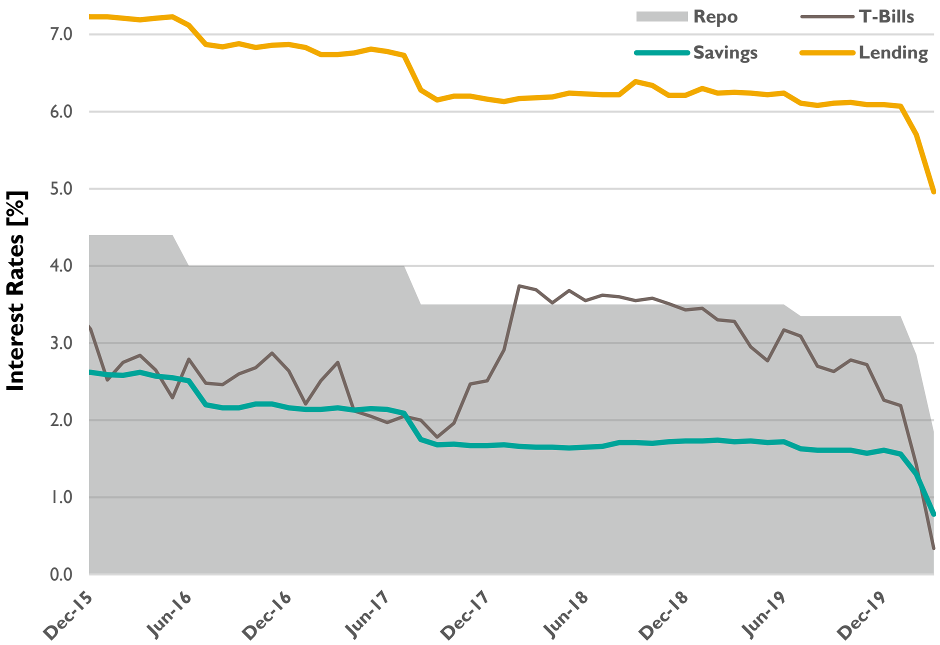
YIELDS

KEY INTEREST RATE EVOLUTION

SPREADS ARE FAIRLY STABLE

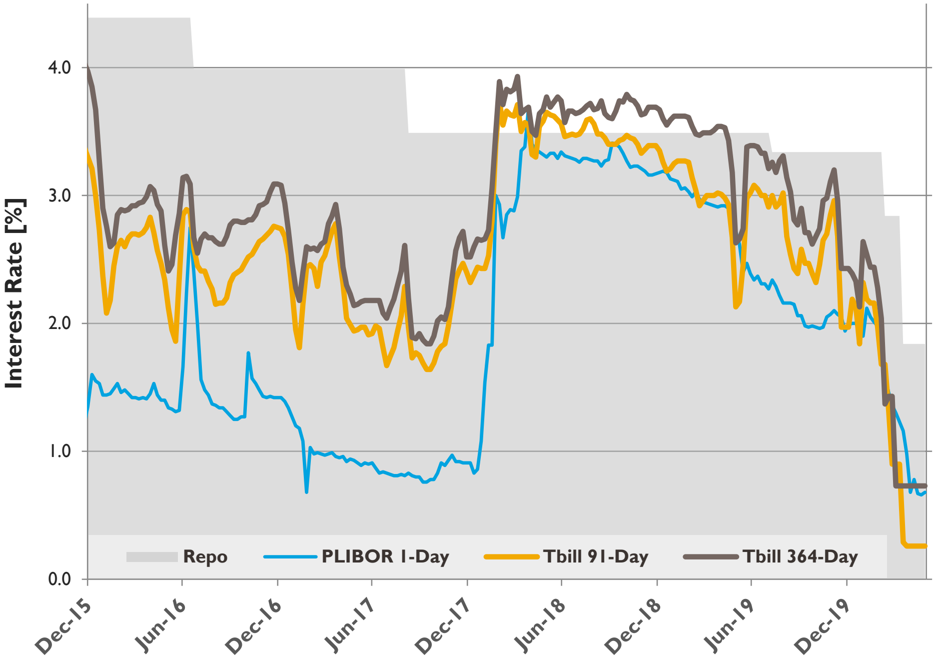
- All rates charted on the right hand side are weighted averages, except for the benchmark Key Repo Rate (Repo). By '*weighted*' it implies, e.g. that '*Savings*' also includes fixed-deposits.
- Savings rate spreads have been fairly stable at ~1.8% below the Repo, as have lending rate spreads at ~2.8% above Repo in recent years
- In spite of the stability noted above, upon finer inspection, one notices that the spread between **Savings** and **Lending** rates have narrowed slightly from an average 4.6% between 2016-17 to 4.5% between 2018-19.



SHORT MATURITY RATE EVOLUTION

THESE SPREADS ARE BROADER

- Short-term rates lingered under the Bank of Mauritius' Key Repo Rate (Repo) until 2017.
- In early 2018, **rates suddenly surged** which helped boost bank Net Interest Income (NII) during the course of the next 18 months.
- A changing regulatory landscape (transition to Basel III liquidity requirements becoming effecting on Jan 1st 2020), coupled with tepid domestic demand for lending, resulted in sliding yields as from H2-2019.
- A **flight to safety** amid the coronavirus outbreak appears to have dragged yields even lower. Short-Term Bills haven't been this far below the Repo since the middle of 2017



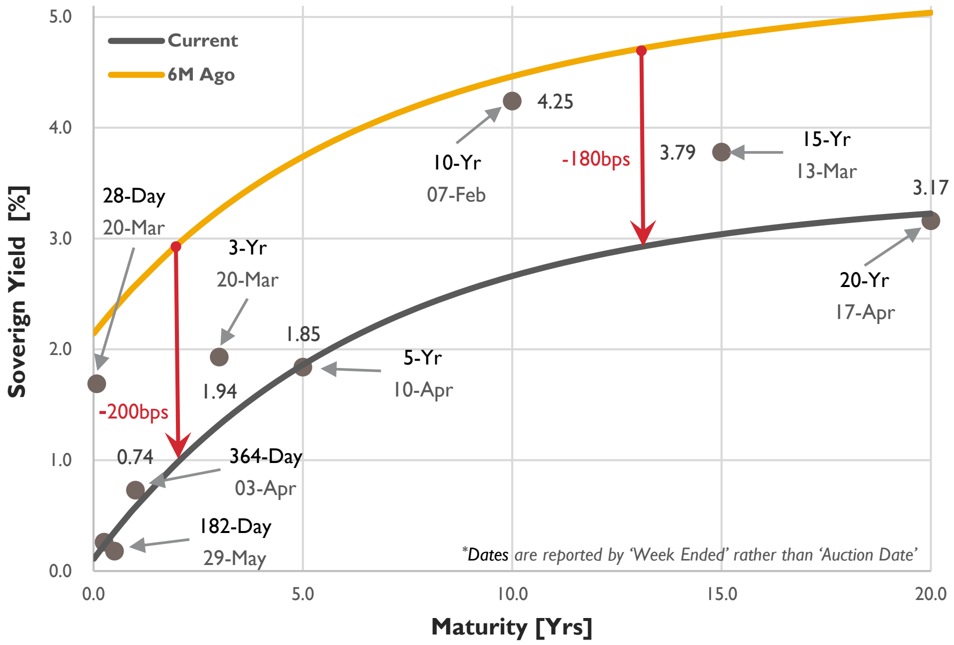
YIELD CURVE DOWNSHIFT

YIELDS HAVE DROPPED

- The Mauritian **Sovereign Yield Curve** has shifted downwards by 180-200bps since November 2019.

- We didn't witnessed any primary auctions during the month of May until Friday 29th when Rs3bn worth of 182-Day T-Bills were issued at 0.19%. Lower than the previous auction held on Apr 24th when 119-Day Bills were issued at 0.27%

- Bank concerns of '*continuing excess liquidity*' in spite of a significant need for working capital financing during the pandemic, suggests that, at this stage, the Mauritian Government will be able to finance itself at low-low rates for the foreseeable future

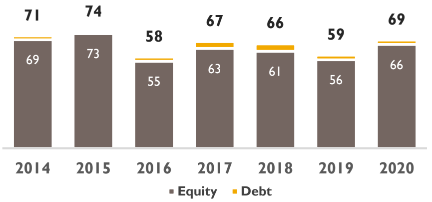


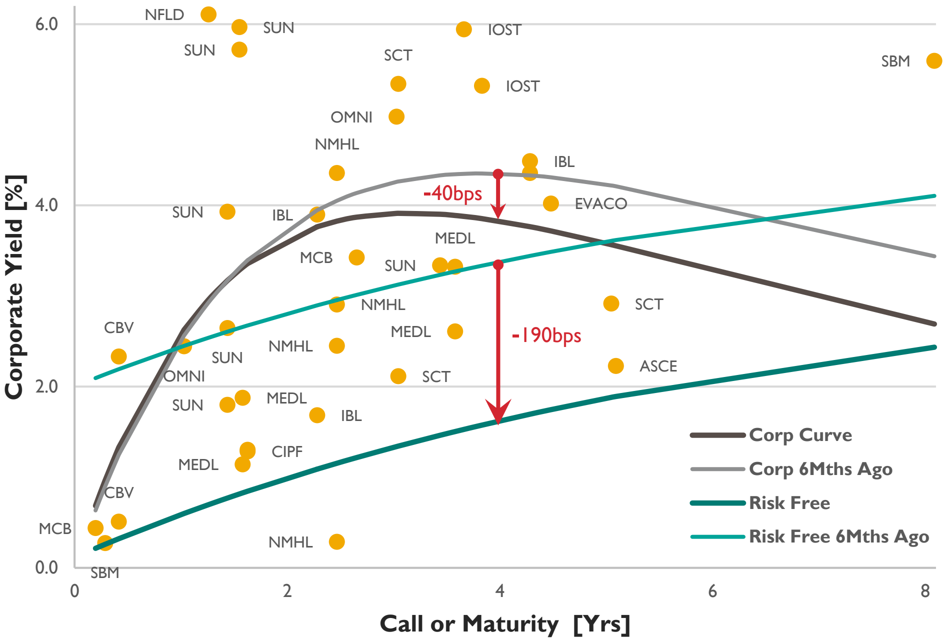
CORPORATE DEBT

BUT CORPORATE YIELDS HAVENT BUDGED…

- While the vast majority of corporate bonds are currently trading above the risk free rate, this largely stems from the fact that the risk free curve has dropped by ~190bps at 4-Year maturity.
- The **corporate debt curve** at a similar 4-Year maturity has fallen by less than 40bps and is non-existent for maturities under 1½ years. The question is, should this corporate curve be dropping or rising?
- In the wake of Covid-19, we would've expected greater activity on the secondary corporate debt market reflecting the heightened risk of default. However the **limited liquidity** – exchanges being skewed towards banks – on the debt market, at 4-5% of daily trading down from 7-8% in 2017-18, could be hampering price discovery

Ave. Daily Turnover [RsM]





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