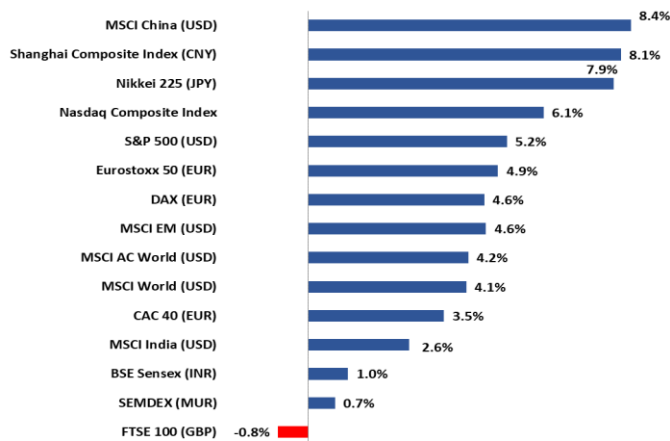


MARKET SUMMARY

Equities: Feb 24 performance (in Index currency)



- The US markets rallied over the month, with the S&P 500 reaching a record high, mainly driven by the earnings release of two 'Magnificent 7' components, namely Meta and Nvidia.
- The US CPI figure stood at 3.1% y-on-y in January, which was slightly higher than expected. This led investors to forecast that inflationary pressures were not over yet and that the US Federal Reserve will maintain current interest rates level for longer than anticipated.
- The Chinese equity markets were one of the best performers over the month as the Chinese government announced several supportive measures, including a cut to the 5-year loan prime rate (a benchmark for mortgage rates), curbs on short selling and stock purchases by state-owned investment firms.
- WTI and Brent prices rose by +3.2% and +2.3% respectively due to persistent geopolitical risks and a possible extension of voluntary oil output cuts by OPEC+ into Q2 2024.
- In Mauritius, y-on-y inflation settled at 6.2% in February (LY: 11.0%).
- The number of tourist arrivals increased from 997,290 in the year 2022 to 1,295,410 in the year 2023 (+30%).

BOJ POLICY CHANGES

- The Bank of Japan (BOJ) ended the world's only negative interest rate regime in March. The negative interest rate policy (NIRP) was introduced in January 2016 to stimulate economic growth and to overcome deflation. The economy suffered from secular stagnation and deflation

for the last 20 years.

- The main driver of the BOJ's policy changes was due to the recent annual spring-time wage negotiations before the BOJ's meeting.
- According to the initial shunto wage increase data agreements between labor unions and companies, the base pay increase for 2024 is 3.7% (above 3.0% for the first time since 1991) vs 2.1% in 2023.
- Moreover, the rate of increase in the CPI has been around 2.0% recently, the inflation target set by the BOJ. Annual inflation rate rose to 2.8% in February 2024 from 2.2% in January.

BOJ policy

- On March 19, the BOJ ended its NIRP and moved its key rate for short-term rates to a range of 0%-0.1% from -0.1% (first rate increase since 2007).
- The BOJ ceased the yield curve control and halted the purchase of ETFs and Japanese real estate investment trusts. However, it continues to purchase Japanese Government Bonds at the current monthly pace of ¥6 tn for the foreseeable future but purchases will be reduced at a later stage (timing was not mentioned).
- BOJ's Governor Kazuo Ueda did not give a clear outlook for the terminal rate but highlighted that the real rate is well below the real neutral rate. Hence monetary policy is still accommodative and the BOJ has room for further rate hikes in the future. The bank will conduct its monetary policy with the aim to achieve a sustainable price stability target of 2.0%.
- According to the forecasts of the BOJ's policy board members, in the fiscal years (FY) 2024 and 2025, the economy is expected to grow between 1.0%-1.2% while the year-on-year increase in the CPI in FY 2024 and FY 2025 are expected to be around 2.2%-2.5% and 1.6%-1.9% respectively.
- Governor Ueda also ruled out large interest rate hikes as it could cause a disruption in the economy.
- BOJ's accommodative monetary policy has caused a weakening of the JPY vs the USD and the JPY has reached a 34-years low against the dollar in March. The weakness in the JPY should continue to benefit the Japanese equity markets by boosting profits of exporters.

29th March 2024

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Source: BOJ, Bloomberg, Trading Economics, BOM, SEMDEX, Statistics Mauritius, MSCI.

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