

## Exchange Rate Developments July 2016

### Highlights:

Interest Rate	Current	Change	Last Updated	Commodity Prices			
Reserve Bank of NZ	2.25%	0.00	June 9, 2016		Price (in USD)	Change	Previous Month
Reserve Bank of Australia	1.75%	0.00	July 5, 2016	Crude Oil (US\$/bbl)	\$43.53	-\$6.63	\$50.16
US Federal Reserve	0.25% - 0.50%	0.00	July 27, 2016	Milk powder (US\$/t)	\$2,118.00	\$0.00	\$2,118.00
European Central Bank	0.00%	0.00	July 21, 2016				
Bank of England	0.50%	0.00	July 14, 2016				

### A. Currency Watch

The overall nominal effective value of the **Samoa Tala**<sup>1</sup> **appreciated 0.24 percent** against the currency basket in July 2016. This was due to the strengthening of the Tala against the United States dollar (**by 0.70 percent**) and the EURO (**by 2.35 percent**), which offset the weakening of the Tala against the Australian dollar (**by 0.80 percent**) and the New Zealand dollar (**by 0.56 percent**).

Various drivers and risks determined the movements in the major internationally traded currencies during the month.

The generally weak United States dollar (USD) reflected:

- Disappointing US domestic data on employment and durable goods orders for June offsetting strong releases from the manufacturing, retail sales and housing sectors for the same period;
  - Increase in US unemployment rate in June to 4.9 percent, from 4.7 percent in May
- Favourable economic releases from around the globe;
- Market expectations the Federal Reserve will not raise its official interest rate in the upcoming months.

The Euro traded lower between US\$1.09 to US\$1.11 due to:

- Drop in European stocks;
- Weak Germany factory orders data in May;
- Better than expected US economic data;
- Indications the European Central Bank will increase its monetary stimulus in August.

The Australian dollar (AUD) traded between US\$0.74 to US\$0.76, strengthening against the USD following:

- The Reserve Bank of Australia's decision to leave its official cash rate unchanged at 1.75 percent;
- Increase in the Australian inflation rate to 0.4 percent in the second quarter after a 0.2 percent fall in the three months to March;
- Rise in commodity prices;
- Upbeat indicators of business confidence within Australia in June.

The New Zealand dollar (NZD) traded between USD\$0.69 to USD\$0.73; gaining against the USD reflecting:

- Positive trade data out of NZ in June;
- Market expectations that the US Federal Reserve will not raise interest rates in the upcoming months.

Of the currencies not in Samoa's currency basket, the Japanese Yen (JPY) strengthened on:

- Strong Japanese trade data;
- Expectations the Bank of Japan will not add more to its monetary policy stimulus at its next policy meeting.
- Weak economic data released out of its major neighbouring competition, China;

The Chinese (CNY) weakened against the US currency due to weak domestic data, namely:

- Fall in Chinese stock prices;
- Poor Chinese data on manufacturing and exports in June.

### B. Tables and charts

Table 1 shows the movements of the currencies in our currency basket together with the FJD, the Yuan and the Yen against the US dollar in July 2016, compared to the previous month and July 2015.

<sup>1</sup> The Nominal Exchange Rate Index was rebased to February 2016 (from August 2010) and took effect on 1<sup>st</sup> July 2016.

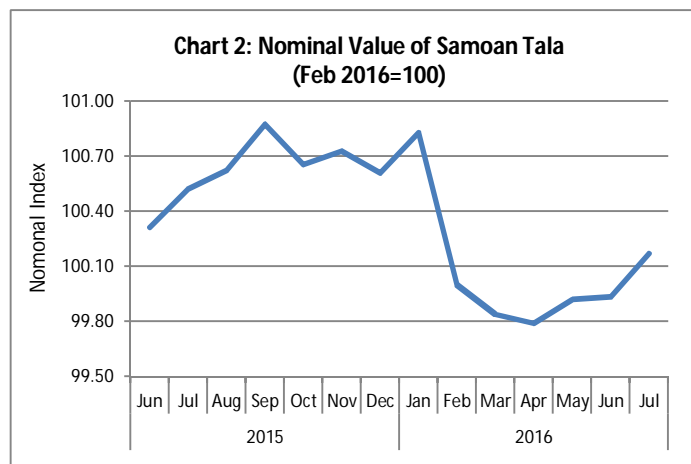
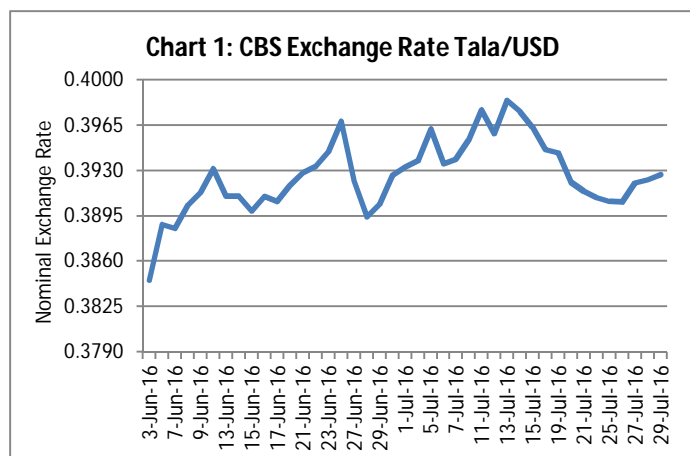
Table 1					
USD per other currencies (month average)					
			Movement of other currencies against the USD over the previous month and the previous year (+) appreciation / (-) depreciation		
	Jul-15	Jun-16	Jul-16	Jun-16 (%)	Jul-15 (%)
NZD/USD	0.6653	0.7046	0.7135	1.26	7.24
AUD/USD	0.7423	0.7413	0.7524	1.50	1.36
USD/YEN	123.1725	105.3448	104.1833	1.10	15.42
USD/CNY	6.2083	6.5896	6.6765	-1.32	-7.54
EUR/USD	1.0999	1.1248	1.1061	-1.66	0.56
FJD/USD	0.4722	0.4806	0.4842	0.75	2.54

Source: Central Bank of Samoa

Table 2 shows the movement of the Tala against the currencies in the basket as well as against the FJD, the Yuan and the Yen in July 2016, compared to the previous month and July 2015.

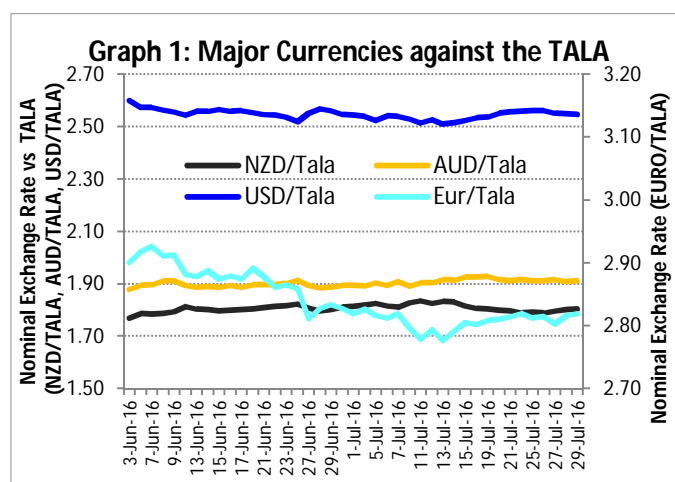
Table 2					
Tala per foreign currencies (month average)					
			Movement of the Tala over the previous month and the previous year (+) appreciation / (-) depreciation		
	Jul-15	Jun-16	Jul-16	Jun-16 (%)	Jul-15 (%)
USD/TALA	2.6085	2.5562	2.5383	0.70	2.69
NZD/TALA	1.7352	1.8009	1.8110	-0.56	-4.37
AUD/TALA	1.9359	1.8946	1.9097	-0.80	1.35
EUR/TALA	2.8689	2.8750	2.8075	2.35	2.14
FJD/TALA	1.2315	1.2285	1.2290	-0.04	0.20
TALA/YEN	47.2202	41.2100	41.0437	-0.40	-13.08
TALA/CNY	2.3801	2.5779	2.6304	2.04	10.52
Nominal Index	100.52	99.93	100.17	0.24	-0.35

Source: Central Bank of Samoa



Source: Central Bank of Samoa

### C. Graph: Major currencies against the Tala



Source: Central Bank of Samoa

### D. Market Outlooks for September Quarter<sup>2</sup>:

**AUD/USD:** We expect the AUD/USD to trend around USD\$0.73 on expectations of a 25 basis point rate cut by the RBA in August, rate hikes by the Federal Reserve, and weakness in commodity prices and continued uncertainty in the FX markets from BREXIT.

**NZD/USD:** The markets are pricing in further RBNZ easing (cut towards 2.0 percent in August) and a likely US Federal Rate hike. This interest rate parity, amongst other factors, would drive the NZD/USD down towards USD\$0.6900.

**EUR/USD:** The Euro is expected to trade lower around US\$1.09 on expectations the European Central Bank will increase its monetary stimulus in the near future.

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5<sup>th</sup> August 2016**

<sup>2</sup> Exchange rate forecast sourced from Bloomberg as at 4 Aug 2016)