

Exchange Rate Developments May 2016

A. Currency watch

The United States dollar (USD) started off the month weak against most of its major peers after the release of downbeat US manufacturing data. It later strengthened on weaker than expected economic data from around the globe and subsequent release of upbeat US economic data on factory orders, trade and retail sales. Expectations that the Federal Reserve will raise interest rates in the coming months also saw the US dollar gain further, with further gains after the release of a better than expected US growth (of 0.8 percent) in the first quarter. **Overall, the USD strengthened from the previous month's level, which saw the Tala weaken from US\$0.3904 in April, to US\$0.3821 in May.** (See Graph 1)

The Euro opened the month firm at US\$1.1456 on strong growth data out of the Euro-region. However, a drop in European stocks, favourable US economic data and indications of the region sliding back to deflation in April underpinned the shared currency's drop to US\$1.1371. The Euro continued to slip against the US\$1.11 until it finally closed off the month weak at US\$1.1141 on speculation the European Central Bank will increase its monetary stimulus in the coming months. **Overall, the Tala depreciated by 0.99 percent against the Euro in May.** (See Table 2 and Graph 1)

The Australian dollar (AUD) opened the month at US\$0.7596 as oil prices rebounded. It then weakened to US\$0.7489 as equity and commodity prices dropped and after the Reserve Bank of Australia unexpectedly reduced its official cash rate by 25 basis points to 1.75 percent. The Australian dollar continued to weaken on better than expected economic releases out of the US. Expectations for a rate hike by the Federal Reserve and speculations the Reserve Bank of Australia will cut interest rates in the upcoming months also undermined the currency. The Australian dollar closed off the month at US\$0.7186. **Overall, the Tala appreciated by 3.23 percent against the AUD in the month under review.** (See Table 2 and Graph 1)

The New Zealand dollar (NZD) opened the month at US\$0.6971 as investor's risk appetite improved coupled

with the rise in oil prices. It then slid to US\$0.6915 as dairy prices dropped and after a report showed NZ unemployment rate rose to 5.7 percent in the first quarter from 5.4 percent in the previous quarter. Expectations that the US Federal Reserve will raise interest rates in the coming months also undermined the Kiwi dollar until it closed the month at US\$0.6696 as stock markets dropped. **On average, the Tala fell 0.06 percent against the NZD over the reviewed month.** (See Table 2, Graph 1)

The Japanese Yen was generally weak over the month on strong economic data out of the US and expectations of interest rate hikes by the Federal Reserve. Speculation the Bank of Japan will expand its monetary stimulus also weakened the safe-haven currency. The Chinese Yuan also slipped throughout the month following reductions in Chinese stock prices during May as well as decreases in the manufacturing index, exports and imports in April. **In the month under review, the YEN and the YUAN weakened against the Tala.** (See Graph 2)

Overall, the US dollar strengthened against the NZD, the AUD and the EURO when compared to April 2016. For currencies outside the Tala currency basket, the US dollar strengthened against the FJD and the YUAN but weakened against the YEN. (See Table 1)

By comparison, the Tala strengthened against the AUD but weakened against the USD, the NZD, and the EURO over the month under review. Against currencies outside the basket, the Tala strengthened against the FJD but weakened against the YEN and the YUAN. (See Table 2)

As shown by the Nominal Effective Exchange Rate (NEER) Index, the overall nominal value of the Tala appreciated by 0.13 percent against the currency basket from April 2016. (See Table 2 and Graph 2)

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 May 2016, compared to the previous month and May 2015.

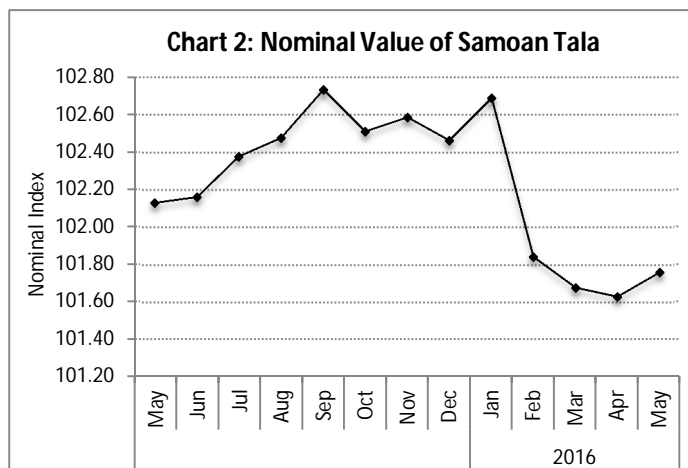
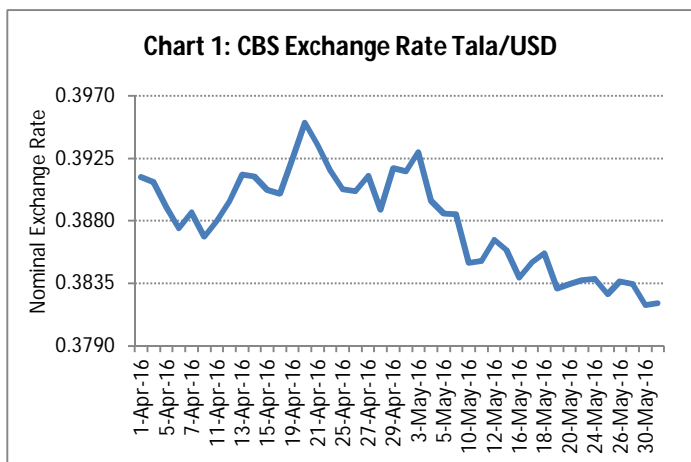
Table 1					
USD per other currencies (month average)					
				Movement of other currencies against the USD over the previous month and the previous year (+) appreciation / (-) depreciation	
	May-15	Apr-16	May-16	Apr-16 (%)	May-15 (%)
NZD/USD	0.7393	0.6884	0.6802	-1.19	-7.99
AUD/USD	0.7897	0.7661	0.7322	-4.43	-7.28
USD/YEN	120.6593	109.8012	108.8710	0.85	9.77
USD/CNY	6.2039	6.4765	6.5291	-0.81	-5.24
EUR/USD	1.1167	1.1339	1.1309	-0.26	1.27
FJD/USD	0.4889	0.4848	0.4765	-1.71	-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 May 2016, compared to the previous month and May 2015.

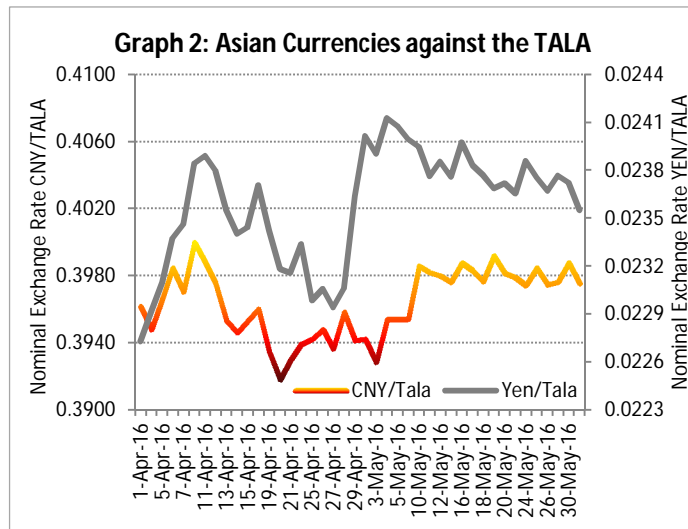
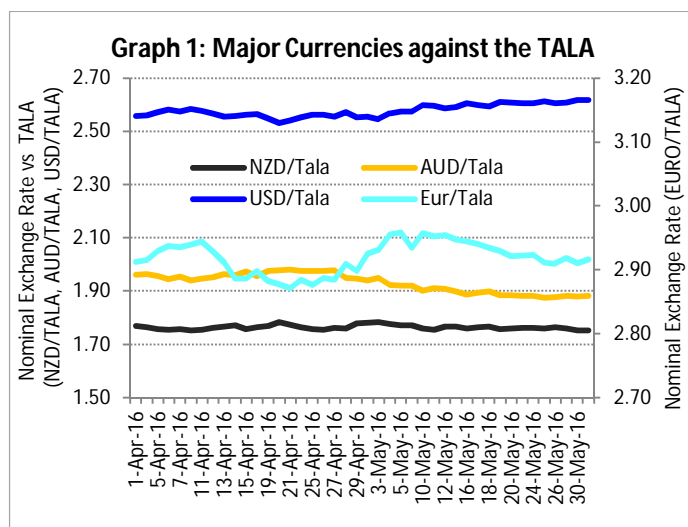
Table 2					
Tala per foreign currencies (month average)					
				Movement of the Tala over the previous month and the previous year (+) appreciation / (-) depreciation	
	May-15	Apr-16	May-16	Apr-16 (%)	May-15 (%)
USD/TALA	2.4895	2.5614	2.5938	-1.26	-4.19
NZD/TALA	1.8406	1.7631	1.7641	-0.06	4.16
AUD/TALA	1.9662	1.9621	1.8988	3.23	3.43
EUR/TALA	2.7802	2.9044	2.9332	-0.99	-5.50
FJD/TALA	1.2169	1.2417	1.2360	0.46	-1.57
TALA/YEN	48.4558	42.8678	41.9697	-2.10	-13.39
TALA/CNY	2.4922	2.5285	2.5171	-0.45	1.00
Nominal Index	102.13	101.63	101.76	0.13	-0.36

Source: Central Bank of Samoa



Source: Central Bank of Samoa

C. Graphs: Major currencies against the Tala



Source: Central Bank of Samoa

Financial Markets Department
Central Bank of Samoa
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