

Exchange Rate Developments August 2016

Highlights:

Policy Interest Rates	Current	Change (basis point)	Last Updated	Commodity Prices	Average Price (in USD)	Change	Previous Month
Reserve Bank of NZ	2.00%	-0.25	August 11, 2016	crude oil (US\$/bbl)	\$46.97	\$2.99	\$43.98
Reserve Bank of Australia	1.50%	-0.25	August 2, 2016	whole milk powder (US\$/t)	\$2,118.00	\$0.00	\$2,118.00
US Federal Reserve	0.25% - 0.50%	0.00	July 27, 2016				
European Central Bank	0.00%	0.00	July 21, 2016				
Bank of England	0.25%	-0.25	August 4, 2016				

A. Currency Watch

The overall nominal effective value of the **Samoan Tala appreciated 0.02 percent** against the currency basket. This was due to the strengthening of the Tala against the United States dollar (**by 0.71 percent**), which offset the weakening of the Tala against the Australian dollar (**by 0.63 percent**), the New Zealand dollar (**by 0.56 percent**) and the EURO (**by 0.59 percent**).

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

The United States dollar (USD) was generally weak throughout the month of August on:

- Disappointing US domestic data on economic growth for the second quarter, manufacturing activity and factory orders, offsetting strong releases on employment, consumer confidence and durable orders in July;
 - The US economy grew at a 1.1 percent annualised rate in the June quarter, slightly down from an initial estimate of 1.2 percent. GDP growth was revised down to 0.8 percent from 1.1 percent in the first quarter.
- 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 higher between US\$1.11 to USD\$1.13 due to:

- Rise in European stocks;
- Downbeat economic releases out of the US;
- Strong Germany business climate data in August;
- Indications the European Central Bank will increase its monetary stimulus in the upcoming months.

The Australian dollar (AUD) traded between US\$0.75 to US\$0.77, strengthening against the USD following:

- The drop in Australian unemployment rate to 5.7 percent in July from 5.8 percent in the previous month;
- Upbeat Australian building approvals data in July;
 - After a 4.7 percent drop in June, the Australian building approvals increased 11.3 percent in July, beating expectations for a 0.5 percent fall.
- Rise in commodity prices;
- A rebound in consumer confidence within Australia in July.

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

- Positive inflation expectations data out of NZ in the second quarter;
- Unfavourable economic releases out of the US.

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

- Strong Japanese machinery orders data in July;
- Weak economic data released out of the US.

The Chinese (CNY) also advanced against the US currency due to strong domestic data, namely:

- Rise in Chinese stock prices;
- Favourable Chinese data on trade in July.

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

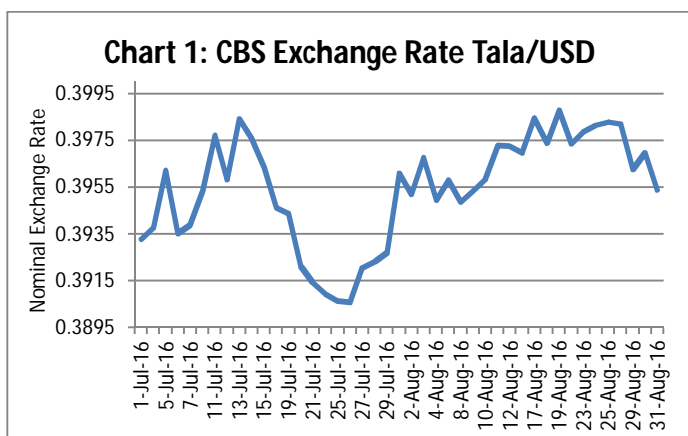
Table 1					
USD per other currencies (month average)					
	Movement of other currencies against the USD over the previous month and the previous year (+) appreciation / (-) depreciation				
	Aug-15	Jul-16	Aug-16	Jul-16	Aug-15
				(%)	(%)
NZD/USD	0.6555	0.7135	0.7226	1.28	10.24
AUD/USD	0.7300	0.7524	0.7625	1.34	4.45
USD/YEN	123.1298	104.1833	101.2805	2.79	17.74
USD/CNY	6.3372	6.6765	6.6480	0.43	-4.90
EUR/USD	1.1143	1.1061	1.1206	1.31	0.57
FJD/USD	0.4669	0.4842	0.4890	0.99	4.73

Source: Central Bank of Samoa

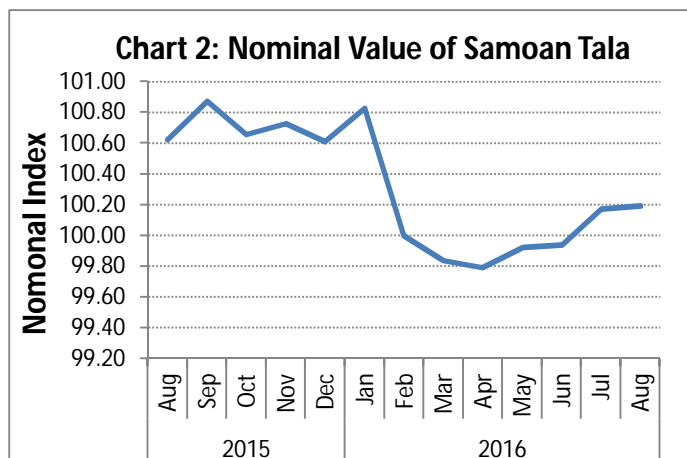
Table 2 shows the movement of the Tala against the currencies in the basket as well as against the FJD, the Yuan and the Yen in August 2016, compared to the previous month and August 2015.

Table 2					
Tala per foreign currencies (month average)					
	Movement of the Tala over the previous month and the previous year (+) appreciation / (-) depreciation				
	Aug-15	Jul-16	Aug-16	Jul-16	Aug-15
				(%)	(%)
USD/TALA	2.6285	2.5383	2.5203	0.71	4.12
NZD/TALA	1.7227	1.8110	1.8211	-0.56	-5.71
AUD/TALA	1.9186	1.9097	1.9216	-0.62	-0.16
EUR/TALA	2.9289	2.8075	2.8241	-0.59	3.58
FJD/TALA	1.2270	1.2290	1.2323	-0.27	-0.43
TALA/YEN	46.8486	41.0437	40.1859	-2.09	-14.22
TALA/CNY	2.4110	2.6304	2.6378	0.28	9.41
Nominal Index	100.62	100.17	100.19	0.02	-0.43

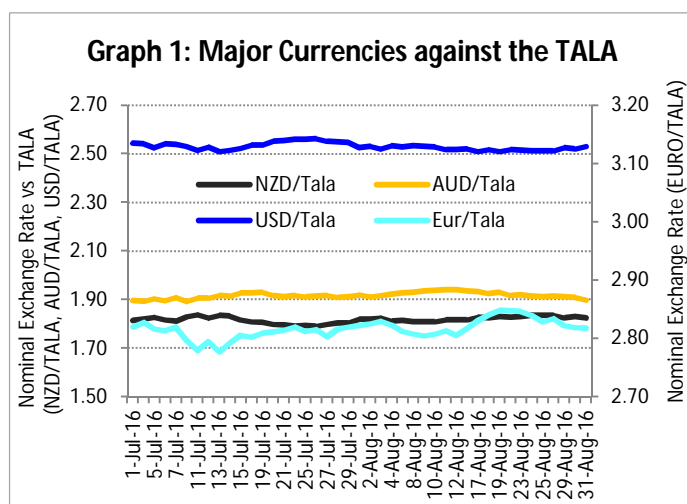
Source: Central Bank of Samoa



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C. Major currencies against the Tala



Source: Central Bank of Samoa

D. Market Outlook for Q4 2016 (as at 5 Sept 2016):

AUD/USD: We expect the AUD/USD to trade around USD\$0.74 on expectations of a rate hike by the Federal Reserve before the end of 2016 and the likelihood of a sharp fall in iron ore and coal prices.

NZD/USD: The markets are expecting a further 25 basis points cut to 1.75 percent by the RBNZ in November and a likely US Federal Rate hike in December. These factors would drive the NZD/USD down towards USD\$0.70.

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 September 2016