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Exchange Rate Developments September 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%	0.00	September 22, 2016	crude oil (US\$/bbl)	\$44.88	-\$2.09	\$46.97
Reserve Bank of Australia	1.50%	0.00	September 6, 2016	whole milk powder (US\$/t)	\$2,788.00	\$670.00	\$2,118.00
US Federal Reserve	0.25% - 0.50%	0.00	September 21, 2016				
European Central Bank	0.00%	0.00	September 8, 2016				
Bank of England	0.25%	0.00	September 14, 2016				

A. Currency Watch

In September, the overall nominal effective value of the **Samoa Tala appreciated 0.04 percent** against the currency basket. This was due to the strengthening of the Tala against the United States dollar (**by 0.32 percent**), the Australian dollar (**by 0.84 percent**) and the Euro (**by 0.29 percent**), which offset the Tala weakening against the New Zealand dollar (**by 0.82 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 September on:

- Weaker than expected domestic economic data released including feeble manufacturing activity, unfavourable employment figures which left the unemployment rate unchanged at 4.8 percent for the month and a further declined in retail and new home sales;
- Positive economic releases from around the world;
- Lower market speculation of a US Federal Reserve interest rate hike this year.

The Euro edged higher at around US\$1.11 to USD\$1.12 reflecting strong domestic data:

- Eurozone consumer price inflation rose by 0.2 percent;
- Strong factory orders and business climate data confirmed out of Germany;
- European Central Bank (ECB) held its interest rate unchanged at 0.0 percent and has not discussed extending its quantitative easing program beyond March 2017 at its September monetary policy meeting.

The Australian dollar (AUD) traded between US\$0.75 to US\$0.76, weakening against the USD as:

- Australian current account deficit widened to AUD\$15.5 billion in Q2 from AUD\$14.9 billion in Q1;
- Australian GDP growth slowed down;
 - GDP rose by 0.5 percent in the second quarter from 1.0 % in the first quarter.
- Private capital expenditure declined (5.4 % in Q2 from 5.2% in Q1) and retail sales data in the second quarter were flat at 0.1 percent;
- Reserve Bank of Australia (RBA) expects interest rates to remain unchanged in the near future.

The New Zealand dollar (NZD) traded around USD\$0.72 to USD\$0.73; gaining against the USD reflecting:

- Favourable global dairy prices data;
 - Headline global dairy price index rose by 7.7 percent;
- Rise in Oil prices;
- NZ GDP increased by 0.9 percent in the June quarter (from 0.7 percent in the March quarter).

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

- Japan's GDP second reading revised up to 0.2 percent from first reading of 0.0 percent in the second quarter;
- Bank of Japan (BOJ) left interest rate at -0.10 percent.

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

- Continuous decline in Chinese stocks;

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

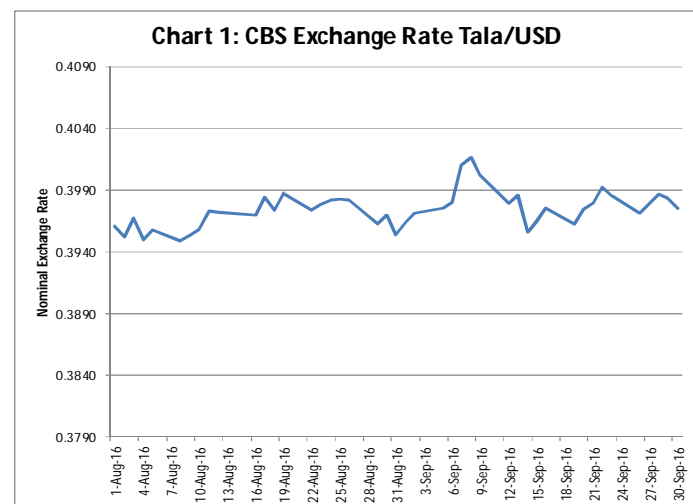
Table 1					
USD per other currencies (month average)					
	Movement of other currencies against the USD over the previous month and the previous year				
	(+ appreciation / (-) depreciation				
	Sep-15	Aug-16	Sep-16	Aug-16	Sep-15
				(%)	(%)
NZD/USD	0.6338	0.7226	0.7305	1.09	15.26
AUD/USD	0.7061	0.7625	0.7593	-0.42	7.53
USD/YEN	120.1489	101.2805	101.9507	-0.66	15.15
USD/CNY	6.3696	6.6480	6.6730	-0.38	-4.76
EUR/USD	1.1236	1.1206	1.1209	0.03	-0.24
FJD/USD	0.4624	0.4890	0.4883	-0.14	5.60

Source: Central Bank of Samoa

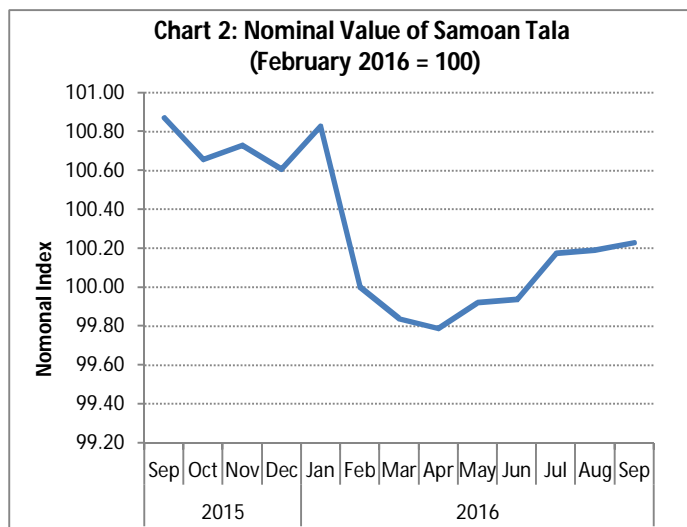
Table 2 shows the movement of the Tala against the currencies in the basket as well as against the FJD, the Yuan and the Yen in September 2016, compared to the previous month and September 2015.

Table 2					
Tala per foreign currencies (month average)					
	Movement of the Tala over the previous month and the previous year				
	(+ appreciation / (-) depreciation				
	Sep-15	Aug-16	Sep-16	Aug-16	Sep-15
				(%)	(%)
USD/TALA	2.6724	2.5203	2.5123	0.32	5.99
NZD/TALA	1.6936	1.8211	1.8361	-0.82	-8.41
AUD/TALA	1.8869	1.9216	1.9055	0.84	-0.99
EUR/TALA	3.0026	2.8241	2.8160	0.29	6.21
FJD/TALA	1.2356	1.2323	1.2269	0.44	0.70
TALA/YEN	44.9586	40.1859	40.5800	0.98	-9.74
TALA/CNY	2.3834	2.6378	2.6561	0.69	11.44
Nominal Index	102.73	100.19	100.23	0.04	-2.44

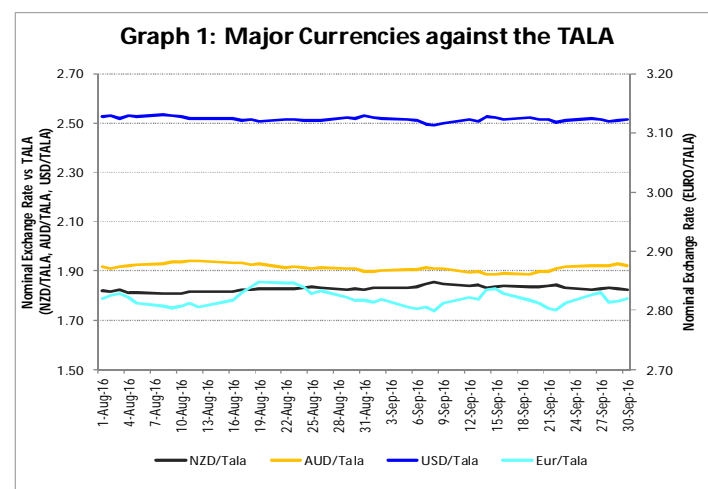
Source: Central Bank of Samoa



Source: Central Bank of Samoa



C. Major currencies against the Tala



Source: Central Bank of Samoa

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

AUD/USD: We expect the AUD/USD to trade around USD\$0.74 on expectations that the Reserve Bank of Australia will likely keep interest rates unchanged at 2.00 percent this year.

NZD/USD: Markets are expecting further interest rates cut by the RBNZ by 25 basis points in the upcoming months. This factor would drive the NZD/USD down towards USD\$0.71.

EUR/USD: The Euro is expected to trade lower around US\$1.10 as the European Central Bank is unsure of the timing of increasing its monetary stimulus in the near future.

Financial Markets Department
Central Bank of Samoa
06 October 2016