

## Exchange Rate Developments October 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)	\$48.61	-\$2.14	\$50.75
Reserve Bank of Australia	1.50%	0.00	October 4, 2016	whole milk powder (US\$/t)	\$2,681.00	\$563.00	\$2,118.00
US Federal Reserve	0.25% - 0.50%	0.00	September 21, 2016				
European Central Bank	0.00%	0.00	October 20, 2016				
Bank of England	0.25%	0.00	October 13, 2016				

### A. Currency Watch

In October, the overall nominal effective value of the **Samoa Tala depreciated 0.07 percent** against the currency basket. This was due to the weakening of the Tala against the United States dollar (**by 0.68 percent**) and the Australian dollar (**by 1.15 percent**), which offset the Tala strengthening against the New Zealand dollar (**by 1.38 percent**) and the Euro (**by 1.00 percent**).

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

The United States dollar (USD) was generally strong in the month of October following:

- A string of solid US economic releases out of the US over the month (i.e. employment, retail sales, inflation, housing and durable goods orders);
- Increased expectations the US Federal Reserve will raise interest rates before the end of the year in December.

The Euro traded lower at around US\$1.10 to USD\$1.09 on:

- Rate hike expectations by the US Federal Reserve;
- Upbeat economic releases out of the US;
- Speculations the European Central Bank (ECB) will increase its monetary stimulus program in the upcoming months.

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

- Oil prices rebounded;
- Increase in equity and other commodity prices;
- Stronger than expected Australian data on retail sales, trade and consumer sentiment.

- Retail sales in Australia increased 0.4 percent in August from 0.0 percent in July.
- Trade deficit narrowed to A\$2.010 billion in August from A\$2.121 billion in July.
- Consumer sentiment index for October rose 1.1 percent from 0.3 percent in September.

The New Zealand dollar (NZD) weakened to around USD\$0.72 to USD\$0.71 on:

- Unfavourable global dairy prices data;
  - Global dairy prices fell 3 percent.
- Weak expectations of a lower inflation in New Zealand for September quarter;
- Disappointing trade data out of New Zealand.
  - The September trade balance came at a deficit of NZ\$1.436 billion wider than August's deficit reading of NZ\$1.243 billion.

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

- Japan's manufacturing index showed a reading of 6 in the third quarter unchanged from the previous 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:

- Downbeat Chinese trade data;
  - Trade surplus narrowed to \$41.99 billion in September from \$52.05 billion in the previous month.
- Drop in Chinese stock prices.

## 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 October 2016, compared to the previous month and October 2015.

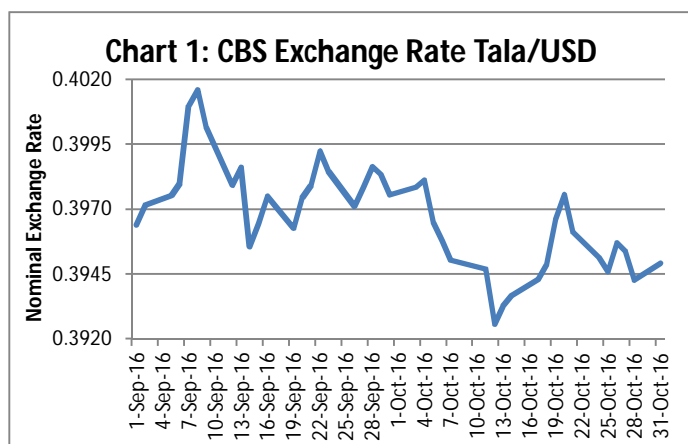
Table 1					
USD per other currencies (month average)					
				Movement of other currencies against the USD over the previous month and the previous year	
				(+ appreciation / (-) depreciation	
	Oct-15	Sep-16	Oct-16	Sep-16 (%)	Oct-15 (%)
NZD/USD	0.6673	0.7309	0.7159	-2.05	7.28
AUD/USD	0.7195	0.7593	0.7620	0.36	5.91
USD/YEN	120.1000	101.9507	103.7230	-1.74	13.64
USD/CNY	6.3519	6.6730	6.7291	-0.84	-5.94
EUR/USD	1.1221	1.1209	1.1030	-1.60	-1.70
FJD/USD	0.4692	0.4883	0.4867	-0.33	3.73

Source: Central Bank of Samoa

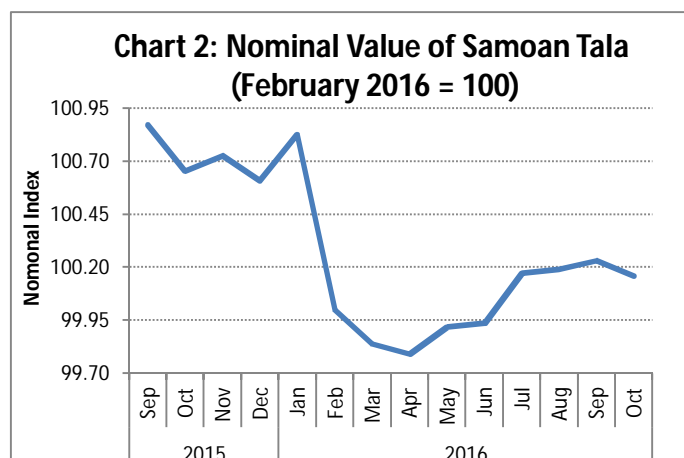
Table 2 shows the movement of the Tala against the currencies in the basket as well as against the FJD, the Yuan and the Yen in October 2016, compared to the previous month and October 2015.

Table 2					
Tala per foreign currencies (month average)					
				Movement of the Tala over the previous month and the previous year	
				(+ appreciation / (-) depreciation	
	Oct-15	Sep-16	Oct-16	Sep-16 (%)	Oct-15 (%)
USD/TALA	2.6210	2.5123	2.5294	-0.68	3.49
NZD/TALA	1.7487	1.8361	1.8107	1.38	-3.55
AUD/TALA	1.8855	1.9055	1.9274	-1.15	-2.22
EUR/TALA	2.9408	2.8160	2.7877	1.00	5.21
FJD/TALA	1.2295	1.2269	1.2310	-0.33	-0.12
TALA/YEN	45.8253	40.5800	41.0062	1.05	-10.52
TALA/CNY	2.4236	2.6561	2.6603	0.16	9.77
Nominal Index	102.51	100.23	100.16	-0.07	-2.30

Source: Central Bank of Samoa

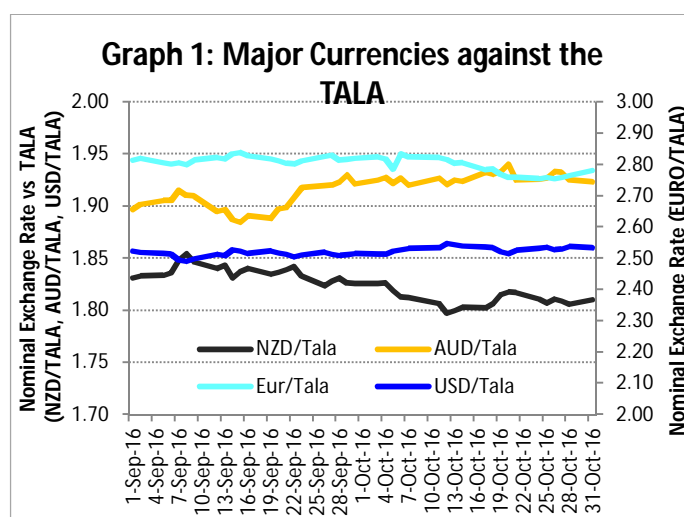


Source: Central Bank of Samoa



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## C. Major currencies against the Tala



Source: Central Bank of Samoa

## D. Market Outlook for Q4 2016 (as at 7 Nov 2016):

**AUD/USD:** We expect the AUD/USD to trade around USD\$0.75 on expectations that the Reserve Bank of Australia will likely keep interest rates unchanged at 1.50 percent this year and during 2017.

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

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

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