

Exchange Rate Developments December 2016

Highlights:

Policy Interest Rates	Current	Change (basis point)	Last Updated	Commodity Prices	Average Price (in USD)	Change	Previous Month
Reserve Bank of NZ	1.75%	-0.25	November 10, 2016	crude oil (US\$/bbl)	\$56.82	\$4.29	\$52.53
Reserve Bank of Australia	1.50%	0.00	December 6, 2016	whole milk powder (US\$/t)	\$3,593.00	\$912.00	\$2,681.00
US Federal Reserve	0.50% - 0.75%	+0.25	December 14, 2016				
European Central Bank	0.00%	0.00	December 8, 2016				
Bank of England	0.25%	0.00	December 15, 2016				

A. Currency Watch

In December, the overall nominal effective value of the **Samoan Tala depreciated 0.04 percent** against the currency basket. This was due to the weakening of the Tala against the United States dollar (**by 0.90 percent**), offsetting the Tala strengthening against the New Zealand dollar (**by 0.38 percent**), the Australian dollar (**by 1.39 percent**) and the Euro (**by 1.79 percent**).

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

The **United States dollar** (USD) strengthened following:

- A string of solid US economic releases out of the U.S during the month (i.e. pending home sales, employment, inflation, manufacturing, housing, growth and consumer confidence);
- Expectations that the US Federal Reserve will continue to raise interest rates in 2017;
- Hopes that increased fiscal spending and tax cuts under U.S President Donald Trump's administration will spur economic growth and inflation.

The **Euro** traded lower at around US\$1.07 to US\$1.03 on:

- Worse than expected economic data out of the Euro-area;
- Upbeat economic releases out of the US;
- Rate hike expectations by the US Federal Reserve.

The **Australian dollar** (AUD) traded between US\$0.75 to US\$0.71, weakening against the USD as:

- Equity and commodity prices decreased;

- The Reserve Bank of Australia kept its official cash rate (OCR) unchanged at 1.50 percent;
- Weak Australian data releases during the month:
 - Australian building approvals dropped 12.6 percent in October, contrast to expectations for a 1.5 percent gain.
 - Australia's GDP fell 0.5 percent in the third quarter after an increase of 0.6 percent in the previous quarter.

The **New Zealand dollar** (NZD) weakened to around USD\$0.72 to USD\$0.68 after:

- Data showed NZ business confidence slipped in November from the previous month;
- Upbeat economic releases out of the US;
- Rate hike expectations by the US Federal Reserve.

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

- Strong economic releases out of the US;
- In Japan, the trade balance for November came in at ¥153 billion in surplus, disappointing expectations for a ¥227 billion surplus.

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

- Downbeat Chinese trade data;
 - China's trade balance for November at a surplus of \$44.61 billion, compared with a surplus of \$46.30 billion.
- 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 December 2016, compared to the previous month and December 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		
	Dec-15	Nov-16	Dec-16	Nov-16	Dec-15
				(%)	(%)
NZD/USD	0.6738	0.7144	0.7053	-1.27	4.67
AUD/USD	0.7248	0.7534	0.7363	-2.27	1.59
USD/YEN	121.7311	108.1689	115.7893	-7.04	4.88
USD/CNY	6.4490	6.8418	6.9196	-1.14	-7.30
EUR/USD	1.0882	1.0804	1.0553	-2.32	-3.02
FJD/USD	0.4696	0.4832	0.4772	-1.24	1.62

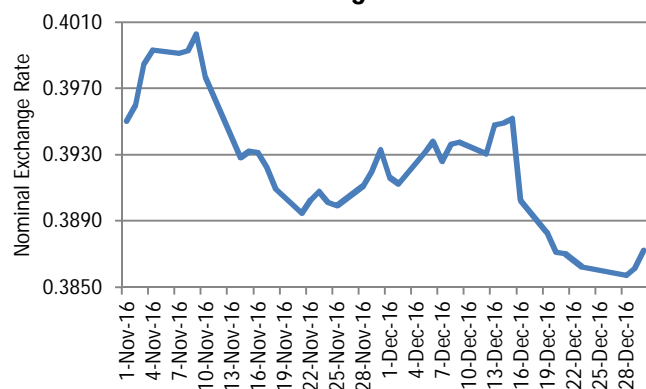
Source: Central Bank of Samoa

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

Table 2					
Tala per foreign currencies (month average)					
			Movement of the Tala over the previous month and the previous year		
			(+) appreciation / (-) depreciation		
	Dec-15	Nov-16	Dec-16	Nov-16	Dec-15
				(%)	(%)
USD/TALA	2.6108	2.5373	2.5601	-0.90	1.94
NZD/TALA	1.7589	1.8122	1.8053	0.38	-2.64
AUD/TALA	1.8920	1.9113	1.8848	1.39	0.38
EUR/TALA	2.8410	2.7409	2.6918	1.79	5.25
FJD/TALA	1.2259	1.2336	1.2217	0.96	0.34
TALA/YEN	46.6246	42.6238	45.2267	6.11	-3.00
TALA/CNY	2.4701	2.6965	2.7029	0.24	9.42
Nominal Index	100.61	100.15	100.11	-0.04	-0.50

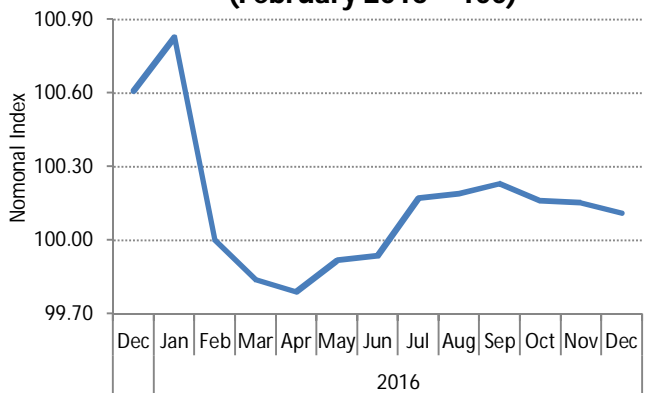
Source: Central Bank of Samoa

Chart 1: CBS Exchange Rate Tala/USD



Source: Central Bank of Samoa

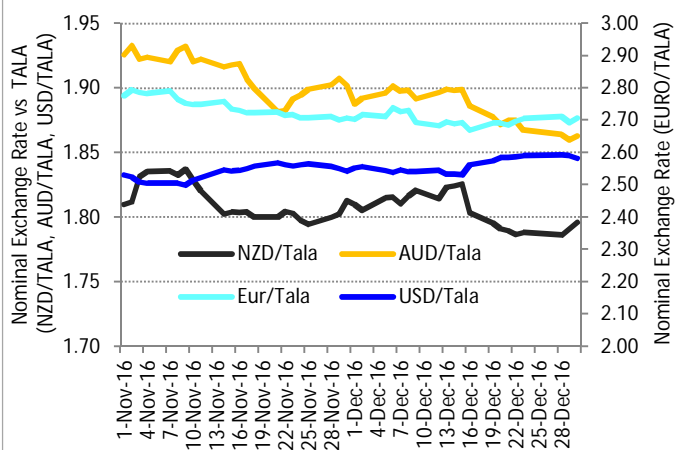
Chart 2: Nominal Value of Samoan Tala (February 2016 = 100)



Source: Central Bank of Samoa

C. Major currencies against the Tala

Graph 1: Major Currencies against the TALA



Source: Central Bank of Samoa

D. Market Outlook for Q1 2017 (as at 11 Jan 2017):

AUD/USD: We expect the AUD/USD to trade around USD\$0.73 on expectations that the Reserve Bank of Australia

will keep its key interest rates unchanged at 1.50 percent throughout 2017 and beyond.

NZD/USD: Markets are expecting the RBNZ's official cash rate to remain at 1.75 percent for some time. This factor would drive the NZD/USD towards USD\$0.70.

EUR/USD: The Euro is expected to trade lower around US\$1.04 on speculations the European Central Bank will increase its monetary stimulus program in the near future.

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