

## Exchange Rate Developments February 2017

### 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%	0.00	February 9, 2017	crude oil (US\$/bbl)	\$56.51	\$0.60	\$55.91
Reserve Bank of Australia	1.50%	0.00	February 7, 2017	whole milk powder (US\$/t)	\$3,314.00	-\$279.00	\$3,593.00
US Federal Reserve	0.50 - 0.75%	0.00	February 1, 2017				
European Central Bank	0.00%	0.00	January 19, 2017				
Bank of England	0.25%	0.00	February 2, 2017				

### A. Currency Watch

In February, the overall nominal effective value of the **Samoan Tala appreciated by 0.05 percent** against the currency basket. This was due to the strengthening of the Tala against the United States dollar (**by 1.01 percent**) and the Euro (**by 0.84 percent**), offsetting the Tala weakening against the New Zealand dollar (**by 0.43 percent**) and the Australian dollar (**by 1.56 percent**).

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

The **United States dollar** (USD) weakened due to:

- A string of downbeat US economic releases during the month (i.e. slow wage growth and new home sales);
- Expectations that the Federal Reserve will avoid hiking interest rates too quickly in 2017;
- Uncertainty over the possible impact of President Trump's policies on the economy and statements regarding other countries' exchange rate position with the dollar.

The **Euro** traded lower at around US\$1.07 to USD\$1.05 on:

- Worse than expected economic data out of the Euro area (e.g low consumer confidence);
- Concerns over upcoming European elections and political risks in the region.

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

- Equity and commodity prices increased;
- Better than expected domestic data releases during the month:

- Widening trade surplus (AUD\$3.51 billion in December 2016 compared to AUD\$2.04 billion in November and expectations for AUD\$2.20 billion).
- National Australia Bank (NAB) business conditions survey showed improvements while Westpac consumer confidence index rose 2.3 percent in February up from 0.1 percent increase in January.

The **New Zealand dollar** (NZD) gained to around USD\$0.71 to USD\$0.73 after:

- The release of upbeat inflation data:
  - Expectations for inflation one year out rose to 1.56 percent compared to 1.29 percent in the Reserve Bank of New Zealand's last survey.
- Downbeat economic releases out of the US.

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

- The Bank of Japan left its monetary policy unchanged;
- The manufacturing Purchasing Managers Index (PMI) for February jumped to 53.5 from 52.7 in the previous month.

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

- House prices rose 12.2 percent in January from 12.4 percent gain in December.
- Increase in 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 February 2017, compared to the previous month and February 2016.

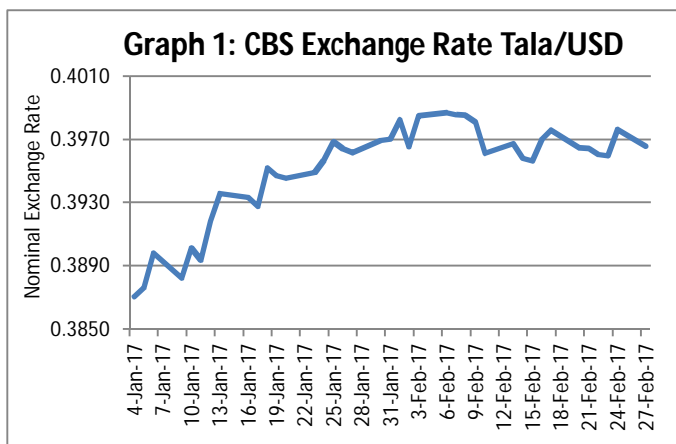
Table 1					
USD per other currencies (month average)					
	Movement of other currencies against the USD over the previous month and the previous year (+) appreciation / (-) depreciation				
	Feb-16	Jan-17	Feb-17	Jan-17 (%)	Feb-16 (%)
NZD/USD	0.6633	0.7127	0.7230	1.45	9.00
AUD/USD	0.7136	0.7467	0.7660	2.58	7.34
USD/YEN	114.9974	114.8088	113.0105	1.57	1.73
USD/CNY	6.5506	6.8939	6.8732	0.30	-4.92
EUR/USD	1.1102	1.0632	1.0650	0.17	-4.07
FJD/USD	0.4683	0.4793	0.4854	1.27	3.65

Source: Central Bank of Samoa

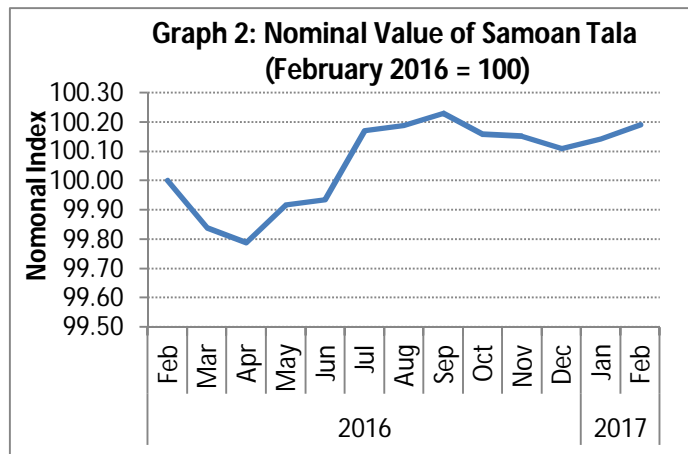
Table 2 shows the movement of the Tala against the currencies in the basket as well as against the FJD, the Yuan and the Yen in February 2017, compared to the previous month and February 2016.

Table 2					
Tala per foreign currencies (month average)					
	Movement of the Tala over the previous month and the previous year (+) appreciation / (-) depreciation				
	Feb-16	Jan-17	Feb-17	Jan-17 (%)	Feb-16 (%)
USD/TALA	2.6293	2.5440	2.5182	1.01	4.23
NZD/TALA	1.7438	1.8127	1.8205	-0.43	-4.40
AUD/TALA	1.8762	1.8993	1.9289	-1.56	-2.81
EUR/TALA	2.9188	2.7046	2.6818	0.84	8.12
FJD/TALA	1.2311	1.2191	1.2223	-0.26	0.71
TALA/YEN	43.7340	45.1293	44.8866	-0.54	2.64
TALA/CNY	2.4914	2.7100	2.7294	0.72	9.55
Nominal Index	100.00	100.14	100.19	0.05	0.19

Source: Central Bank of Samoa

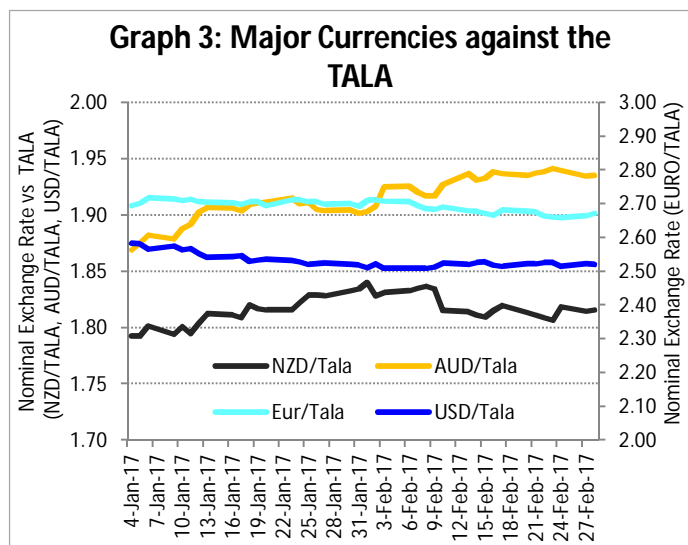


Source: Central Bank of Samoa



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## C. Major currencies against the Tala



Source: Central Bank of Samoa

## D. Market Outlook for Q2 2017 (as at 2 Mar 2017):

**AUD/USD:** We expect the AUD/USD to trade around USD\$0.74 on expectations that the Reserve Bank of Australia will keep its key interest rates unchanged at 1.50 percent throughout 2017 and 2018.

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

**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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