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## Exchange Rate Developments May 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	May 11, 2017	crude oil (US\$/bbl)	\$50.76	-\$1.61	\$52.37
Reserve Bank of Australia	1.50%	0.00	May 2, 2017	whole milk powder (US\$/t)	\$3,233.00	\$309.00	\$2,924.00
US Federal Reserve	0.75 - 1.00%	0.00	May 3, 2017				
European Central Bank	0.00%	0.00	April 27, 2017				
Bank of England	0.25%	0.00	May 11, 2017				

### A. Currency Watch

In May, the overall nominal effective value of the **Samoa Tala depreciated by 0.001 percent** against the currency basket. This was due to the weakening of the Tala against the United States dollar (**by 0.37 percent**) and the Euro (**by 3.42 percent**), offsetting the Tala's appreciation against the New Zealand dollar (**by 0.06 percent**) and the Australian dollar (**by 0.96 percent**).

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

- A string of upbeat US economic releases during the month (i.e. manufacturing, construction, housing and consumer confidence);
- Safe-haven demand amid weak economic data from around the globe;
- The Federal Reserve Bank of New York holding its funds rates unchanged at a target range of 0.75 to 1.00 percent.

The **Euro** traded higher at around US\$1.09 to USD\$1.12 due to:

- Better than expected economic data out of the Euro area;
  - Euro-area annual inflation rose by 1.9 percent in April, the highest level in over three years.
  - Euro-zone GDP grew by 0.5 percent in the first three months of the year.
- Candidate Emmanuel Macron winning the second round of the French presidential election;
- Speculations the European Central Bank will scale back its stimulus program in the near future.

The **Australian dollar** (AUD) traded between US\$0.73 to US\$0.75, weakening against the USD on:

- Better than expected economic data out of the US;
- Weak domestic data releases during the month;
  - Australia reported its trade balance for March at AUD\$3.107 billion, narrower than the expected figure of AUD\$3.4 billion.
- The Reserve Bank of Australia maintaining its cash rate unchanged at 1.50 percent.

The **New Zealand dollar** (NZD) slipped to around USD\$0.68 to USD\$0.71 as:

- Equity and commodity prices dropped;
- The release of upbeat economic releases out of the US;
- The Reserve Bank of New Zealand held its cash rate unchanged at 1.75 percent.

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

- Investors opted into the safety of the Greenback following upbeat economic releases out of the US.

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

- Consumer prices rose higher than expected in April to 1.2%, more than the 1.1% gain seen.
- 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 May 2017, compared to the previous month and May 2016.

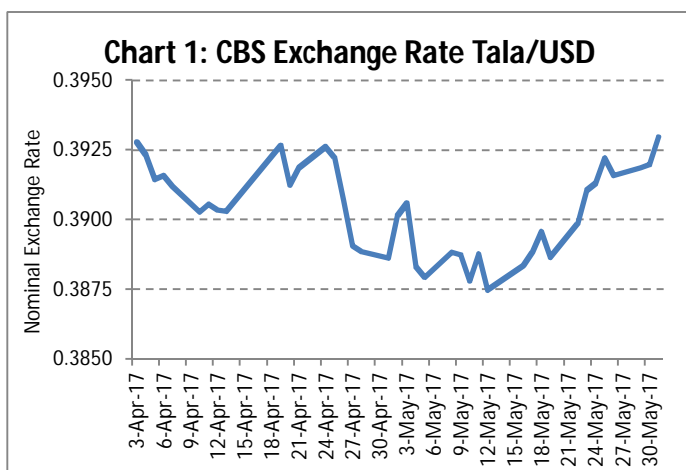
Table 1					
USD per other currencies (month average)					
	Movement of other currencies against the USD over the previous month and the previous year (+) appreciation / (-) depreciation				
	May-16	Apr-17	May-17	Apr-17 (%)	May-16 (%)
NZD/USD	0.6802	0.6974	0.6942	-0.46	2.06
AUD/USD	0.7322	0.7539	0.7437	-1.35	1.57
USD/YEN	108.8710	110.2850	112.2339	-1.77	-3.09
USD/CNY	6.5291	6.8900	6.8863	0.05	-5.47
EUR/USD	1.1309	1.0723	1.1041	2.97	-2.37
FJD/USD	0.4765	0.4803	0.4776	-0.56	0.23

Source: Central Bank of Samoa

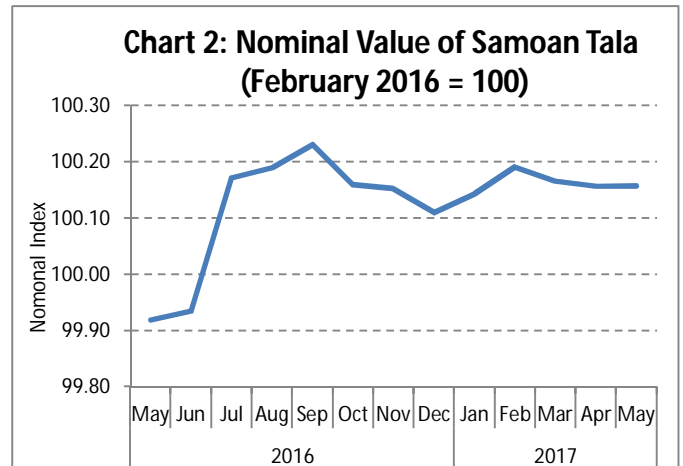
Table 2 shows the movement of the Tala against the currencies in the basket as well as against the FJD, the Yuan and the Yen in May 2017, compared to the previous month and May 2016.

Table 2					
Tala per foreign currencies (month average)					
	Movement of the Tala over the previous month and the previous year (+) appreciation / (-) depreciation				
	May-16	Apr-17	May-17	Apr-17 (%)	May-16 (%)
USD/TALA	2.5939	2.5560	2.5655	-0.37	1.09
NZD/TALA	1.7641	1.7823	1.7813	0.06	-0.98
AUD/TALA	1.8990	1.9268	1.9083	0.96	-0.49
EUR/TALA	2.9332	2.7406	2.8344	-3.42	3.37
FJD/TALA	1.2360	1.2277	1.2254	0.19	0.86
TALA/YEN	41.9697	43.1477	43.7336	1.36	4.20
TALA/CNY	2.5171	2.6957	2.6842	-0.43	6.64
Nominal Index	101.76	100.1571	100.1564	-0.001	-1.58

Source: Central Bank of Samoa

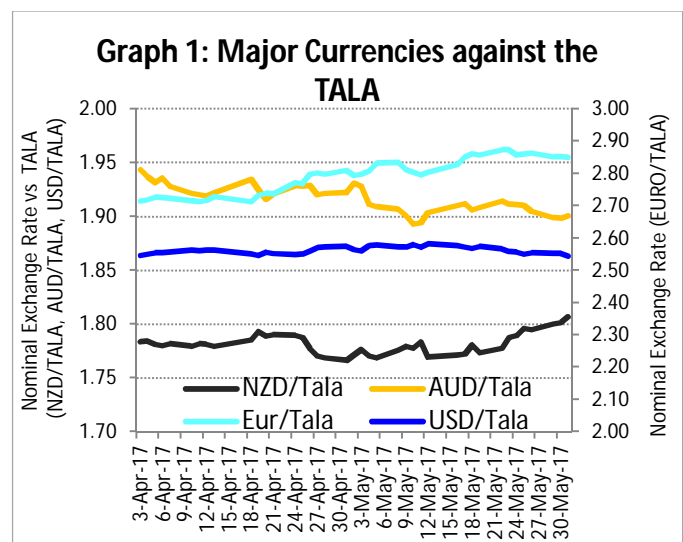


Source: Central Bank of Samoa



Source: Central Bank of Samoa

## C. Major currencies against the Tala



Source: Central Bank of Samoa

## D. Market Outlook for Q3 2017 (as at 7<sup>th</sup> June 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\$0.69; subject to US data.

**EUR/USD:** The Euro is expected to trade around US\$1.10 on expectations the European Central Bank will slowly decrease its asset purchases program in the future.

**Financial Markets Department  
Central Bank of Samoa  
8<sup>th</sup> June 2017**

# Economic & financial forecasts

## Policy Interest rate forecasts

	Latest (7 May)	Jun 17 (f)	Sep 17 (f)	Dec 17 (f)	Mar 18 (f)	Jun 18 (f)	Sep 18 (f)
<b>USA</b>							
Fed Funds Rate	0.875	1.125	1.125	1.375	1.625	1.625	1.875
<b>Australia</b>							
RBA Cash Rate	1.50	1.50	1.50	1.50	1.50	1.50	1.50
<b>New Zealand</b>							
RBNZ Cash Rate	1.75	1.75	1.75	1.75	1.75	1.75	1.75
<b>China</b>							
PBOC Interest Rate	4.35	4.35	4.35	4.35	4.35	4.35	4.35
<b>Euro-Area</b>							
ECB Refinance Rate	-0.40	-0.40	-0.40	-0.40	-0.30	-0.30	0.20
<b>United Kingdom</b>							
BOE Base Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25

## Exchange rate forecasts

	Latest (7 June)	Sep 17 (f)	Dec 17 (f)	Mar 18 (f)	Jun 18 (f)	2018 (f)	2019 (f)	2020 (f)
AUD/USD	0.7509	0.74	0.74	0.74	0.76	0.75	0.74	0.77
NZD/USD	0.7183	0.69	0.69	0.70	0.71	0.71	0.72	0.70
EUR/USD	1.1273	1.10	1.11	1.12	1.13	1.15	1.20	1.20
USD/JPY	109.4850	114.00	115.00	115.00	115.00	114.00	117.00	115.00
GBP/USD	1.2895	1.27	1.28	1.28	1.28	1.32	1.30	1.33
USD/CNH	6.7584	6.96	7.00	7.05	7.00	7.08	7.17	7.14

## US economic growth forecasts

	Dec 2016	Mar 17	Jun 17 (f)	Sep 17 (f)	Dec 17 (f)	2017 (f)	2018 (f)
GDP % qtr	2.1	1.2 (e)	3.3	2.1	1.9	2.1	2.4
% yr	2.0	2.0 (e)	2.4	2.0	2.0	-	-
Unemployment rate %	4.7	4.5	4.5	4.4	4.4	4.5	4.4
CPI % yr	1.8	2.4	2.1	2.1	1.8	2.1	1.8

## Australian economic growth forecasts

	Dec 2016	Mar 17	Jun 17 (f)	Sep 17 (f)	Dec 17 (f)	2017 (f)	2018 (f)
GDP % qtr / yr avg	1.1	0.3	0.8	0.8	0.7	2.5	2.7
% yr	2.4	1.7	2.0	3.3	3.0	3.0	2.5
Unemployment rate %	5.8	5.9	5.6	5.6	5.7	5.7	6.2
CPI % qtr	0.5	0.5	0.5	0.8	0.3	-	-
% yr	2.1	2.1	2.2	2.3	2.1	2.1	2.2

## New Zealand economic growth forecasts

	Dec 2016	Mar 17 (f)	Jun 17 (f)	Sep 17 (f)	Dec 18 (f)	2017 (f)	2018 (f)
GDP % qtr	0.4	0.8	0.8	0.9	0.7	-	-
Annual avg change	3.1	3.0	2.9	2.8	2.9	2.9	3.1
Unemployment rate %	5.2	4.9	4.9	4.6	4.4	4.4	4.4
CPI % qtr	0.4	1.0	0.2	0.4	0.2	-	-
Annual % change	1.3	2.2	1.9	2.0	1.8	1.8	1.9