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Exchange Rate Developments June 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	June 22, 2017	crude oil (US\$/bbl)	\$48.77	-\$2.32	\$51.09
Reserve Bank of Australia	1.50%	0.00	June 6, 2017	whole milk powder (US\$/t)	\$3,143.00	-\$90.00	\$3,233.00
US Federal Reserve	1.00 - 1.25%	+0.25	June 14, 2017				
European Central Bank	0.00%	0.00	June 8, 2017				
Bank of England	0.25%	0.00	June 15, 2017				

A. Currency Watch

In June, the overall nominal effective value of the **Samoa Tala appreciated by 0.03 percent** against the currency basket. This was due to the strengthening of the Tala against the United States dollar (**by 1.65 percent**), the Australian dollar (**by 0.02 percent**) and the Euro (**by 0.04 percent**), offsetting the Tala's depreciation against the New Zealand dollar (**by 2.44 percent**).

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

- The release of weak US economic releases during the month (i.e. employment, factory orders, retail sales, inflation, housing, consumer sentiment and durable goods orders);
- Concerns of a slowdown in the US economy in the second half of the year;
- Doubts over US Administration's ability to deliver on tax cuts and fiscal spending;
- The US Federal Reserve raised its Funds rate by 25 basis point to a target range of 1.00 to 1.25 percent.

The **Euro** traded higher at around US\$1.11 to USD\$1.14 due to:

- Signs the Euro-area economy is strengthening;
- The IMF and the region's 19 finance ministers supporting a pay-out of €8.5 billion to Greece in order to avoid another debt crisis;
- Weak economic data out of the US;
- Speculations the European Central Bank will scale back its stimulus program in the near future.

The **Australian dollar** (AUD) traded between US\$0.74 to US\$0.76, strengthening against the USD on:

- Worse than expected economic data out of the US;
- Strong domestic data releases during the month;
 - GDP rose 0.3 percent in the first quarter, beating expectations for a 0.2 percent expansion.
 - Australia's unemployment rate dropping to 5.5 percent in May from 5.7 percent in the previous month.
- The Reserve Bank of Australia maintaining its cash rate unchanged at 1.50 percent.

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

- Equity and commodity prices rallied;
- The release of downbeat 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) strengthened against the USD as:

- Investors opted into the safety of the Yen following downbeat economic releases out of the US;
- The Bank of Japan decision to keep interest rate unchanged.

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

- Consumer prices rose 1.5 percent in May 2017, following a 1.2 percent rise in April;
- 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 June 2017, compared to the previous month and June 2016.

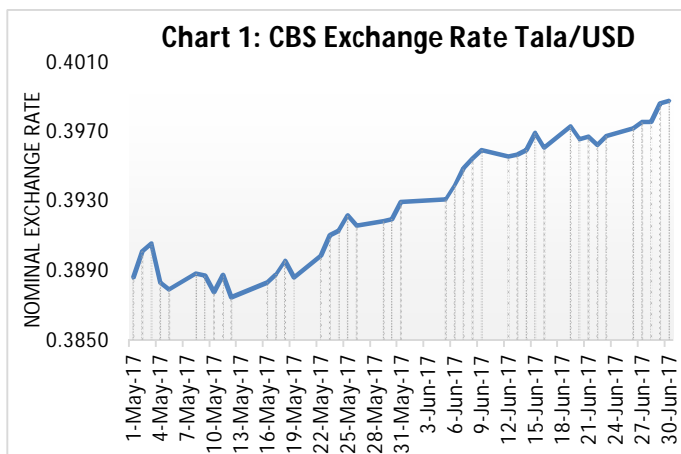
Table 1					
USD per other currencies (month average)					
	Movement of other currencies against the USD over the previous month and the previous year (+) appreciation / (-) depreciation				
	Jun-16	May-17	Jun-17	May-17 (%)	Jun-16 (%)
NZD/USD	0.7046	0.6942	0.7233	4.19	2.65
AUD/USD	0.7413	0.7437	0.7563	1.69	2.02
USD/YEN	105.3448	112.2339	110.8365	1.25	-5.21
USD/CNY	6.5896	6.8863	6.8100	1.11	-3.34
EUR/USD	1.1248	1.1041	1.1230	1.71	-0.16
FJD/USD	0.4806	0.4776	0.4846	1.47	0.83

Source: Central Bank of Samoa

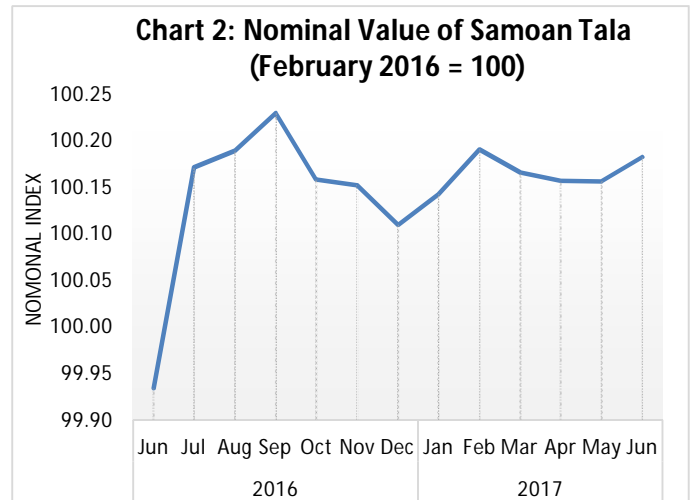
Table 2 shows the movement of the Tala against the currencies in the basket as well as against the FJD, the Yuan and the Yen in June 2017, compared to the previous month and June 2016.

Table 2					
Tala per foreign currencies (month average)					
	Movement of the Tala over the previous month and the previous year (+) appreciation / (-) depreciation				
	Jun-16	May-17	Jun-17	May-17 (%)	Jun-16 (%)
USD/TALA	2.5563	2.5655	2.5231	1.65	1.30
NZD/TALA	1.8010	1.7813	1.8247	-2.44	-1.32
AUD/TALA	1.8946	1.9083	1.9080	0.02	-0.71
EUR/TALA	2.8750	2.8344	2.8333	0.04	1.45
FJD/TALA	1.2285	1.2254	1.2226	0.23	0.48
TALA/YEN	41.2100	43.7336	43.9308	0.45	6.60
TALA/CNY	2.5779	2.6842	2.6991	0.56	4.70
Nominal Index	101.78	100.1564	100.1822	0.026	-1.57

Source: Central Bank of Samoa

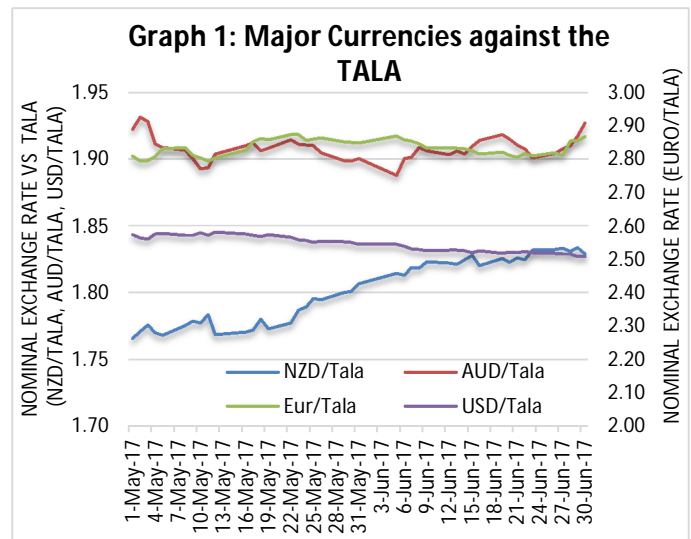


Source: Central Bank of Samoa



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C. Major currencies against the Tala



Source: Central Bank of Samoa

D. Market Outlook for Q3 2017 (as at 12th July 2017):

AUD/USD: We expect the AUD/USD to trade around USD\$0.75 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\$0.71; subject to US data.

EUR/USD: The Euro is expected to trade around US\$1.12 on expectations the European Central Bank will slowly decrease its asset purchases program in the near future.

**Financial Markets Department
Central Bank of Samoa
12th July 2017**

Economic & financial forecasts

Policy Interest rate forecasts

	Latest (12 July)	Sep 17 (f)	Dec 17 (f)	Mar 18 (f)	Jun 18 (f)	Sep 18 (f)	Dec 18 (f)
USA							
Fed Funds Rate	1.125	1.375	1.375	1.625	1.625	1.875	1.875
Australia							
RBA Cash Rate	1.50	1.50	1.50	1.50	1.50	1.50	1.50
New Zealand							
RBNZ Cash Rate	1.75	1.75	1.75	1.75	1.75	1.75	1.75
China							
PBOC Interest Rate	4.35	4.35	4.35	4.35	4.35	4.35	4.35
Euro-Area							
ECB Refinance Rate	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40
United Kingdom							
BOE Base Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25

Exchange rate forecasts

	Latest (12 July)	Sep 17 (f)	Dec 17 (f)	Mar 18 (f)	Jun 18 (f)	2018 (f)	2019 (f)	2020 (f)
AUD/USD	0.7634	0.75	0.75	0.75	0.75	0.76	0.73	0.80
NZD/USD	0.7236	0.71	0.70	0.71	0.72	0.71	0.72	0.70
EUR/USD	1.1468	1.12	1.13	1.13	1.14	1.15	1.20	1.20
USD/JPY	113.8700	112	114	115	114	113	113	110
GBP/USD	1.2848	1.26	1.27	1.26	1.27	1.31	1.30	1.33
USD/CNH	6.8003	6.84	6.91	6.88	6.99	6.99	7.00	7.00

US economic growth forecasts

	Dec 2016	Mar 17	Jun 17 (f)	Sep 17 (f)	Dec 17 (f)	Mar 18 (f)	Jun 18 (f)
GDP % qtr	2.1	1.4	2.8	2.1	1.9	2.4	-
% yr	2.0	2.1	2.4	2.0	2.0	2.3	-
Unemployment rate %	4.7	4.7	4.3	4.3	4.3	4.4	-
CPI % yr	1.8	2.6	2.0	1.7	1.5	0.1	-

Australian economic growth forecasts

	Dec 2016	Mar 17	Jun 17 (f)	Sep 17 (f)	Dec 17 (f)	Mar 18 (f)	Jun 18 (f)
GDP % qtr / yr avg	1.1	0.3	0.5	1.1	0.8	0.7	0.7
% yr	2.4	1.7	1.5	3.0	2.8	3.2	3.4
Unemployment rate %	5.7	5.8	5.6	5.6	5.7	5.9	5.8
CPI % qtr	0.5	0.5	0.5	0.8	0.3	0.4	0.5
% yr	1.5	2.1	2.3	2.3	2.0	2.0	2.0

New Zealand economic growth forecasts

	Dec 2016	Mar 17	Jun 17 (f)	Sep 17 (f)	Dec 17 (f)	Mar 18 (f)	Jun 18 (f)
GDP % qtr	0.4	0.5	1.0	0.9	0.7	0.8	0.7
Annual avg change	3.1	3.0	2.8	2.7	2.8	3.0	3.1
Unemployment rate %	5.2	4.9	4.9	4.6	4.4	4.5	4.5
CPI % qtr	0.4	1.0	0.2	0.4	0.2	0.6	0.3
Annual % change	1.3	2.2	1.9	2.0	1.8	1.4	1.5