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TO THE GOVERNOR

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## EXCHANGE RATE DEVELOPMENTS JULY 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)	\$52.72	\$3.68	\$49.04
Reserve Bank of Australia	1.50%	0.00	July 4, 2017	whole milk powder (US\$/t)	\$3,111.00	-\$32.00	\$3,143.00
US Federal Reserve	1.00 - 1.25%	0.00	July 26, 2017				
European Central Bank	0.00%	0.00	July 20, 2017				
Bank of England	0.25%	0.00	June 15, 2017				

### A. CURRENCY WATCH

In July, the overall nominal effective value of the **Samoa Tala appreciated by 0.04 percent** against the currency basket. This was due to the strengthening of the Tala against the United States dollar (**by 1.16 percent**) offsetting the Tala's depreciation against the New Zealand dollar (**by 0.50 percent**), the Australian dollar (**by 1.79 percent**) and the Euro (**by 1.32 percent**).

The **United States dollar** (USD) was considerably weak throughout the month following:

- The release of weak US economic releases during the month (i.e. employment, inflation, retail sales, manufacturing and housing);
- Doubts over US Administration's ability to deliver on tax cuts and fiscal spending;
- The US Federal Reserve decision to hold its Funds rate unchanged at a target range of 1.00 to 1.25 percent.

The **Euro** traded higher at around US\$1.13 to USD\$1.17 due to:

- Strong economic releases out of the region;
  - German trade surplus widened to EUR 22.0 billion in May 2017 from EUR 20.7 billion in the same month a year earlier.
  - German business survey rose to 116.0 in July from 115.2 in June.
- Weak economic data out of the US;
- Expectations the European Central Bank will scale back its monetary stimulus program in the future.

The **Australian dollar** (AUD) traded between US\$0.75 to US\$0.79, strengthening against the USD on:

- Worse than expected economic data out of the US;
- Strong domestic data releases during the month;
  - Trade surplus widened considerably to AUD\$2.47 billion in May 2017 from AUD\$0.09 billion in April and beating market consensus of AUD\$1.1 billion.
  - The NAB business confidence index rose to 9 in June 2017 from 7 a month earlier.
- The Reserve Bank of Australia maintaining its cash rate unchanged at 1.50 percent.

The **New Zealand dollar** (NZD) rose to around USD\$0.72 to USD\$0.75 as:

- Equity and commodity prices rallied;
- The release of downbeat economic releases out of the US;
- The trade surplus grew more than expected to NZD\$242 million in June from NZD\$74 million in the previous month.

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

- Japan's core machinery orders unexpectedly drop in May 2017;
- The Bank of Japan decided to keep interest rate unchanged.

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

- China Caixin manufacturing rose to an index of 50.4 in June from 49.6 in May;
- China's industrial production gained 7.6 percent from a year earlier in June and retail sales rose 11 percent in June.
- 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 July 2017, compared to the previous month and July 2016.

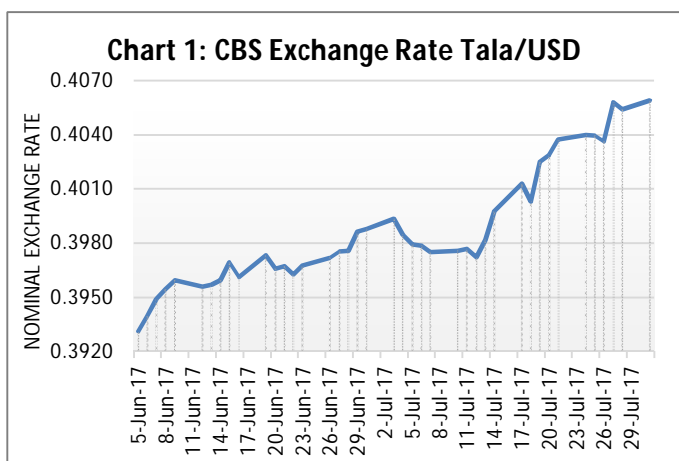
	Movement of other currencies against the USD over the previous month and the previous year (+) appreciation / (-) depreciation			
	Jul-16	Jun-17	Jul-17	Jul-16
				(%)
NZD/USD	0.7135	0.7233	0.7354	1.67
AUD/USD	0.7524	0.7563	0.7789	2.99
USD/YEN	104.1833	110.8365	112.4495	-1.46
USD/CNY	6.6765	6.8100	6.7750	0.51
EUR/USD	1.1061	1.1230	1.1512	2.51
FJD/USD	0.4842	0.4846	0.4907	1.26

Source: Central Bank of Samoa

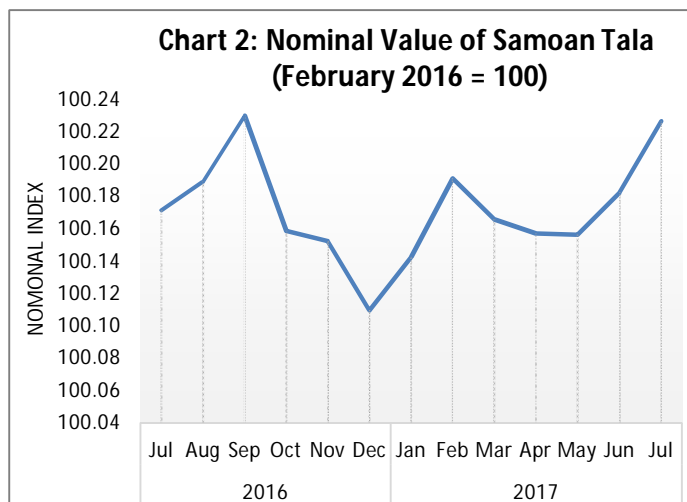
Table 2 shows the movement of the Tala against the currencies in the basket as well as against the FJD, the Yuan and the Yen in July 2017, compared to the previous month and July 2016.

	Movement of the Tala over the previous month and the previous year (+) appreciation / (-) depreciation			
	Jul-16	Jun-17	Jul-17	Jul-16
				(%)
USD/TALA	2.5383	2.5231	2.4939	1.16
NZD/TALA	1.8110	1.8247	1.8339	-0.50
AUD/TALA	1.9097	1.9080	1.9422	-1.79
EUR/TALA	2.8075	2.8333	2.8707	-1.32
FJD/TALA	1.2290	1.2226	1.2238	-0.10
TALA/YEN	41.0437	43.9308	45.0890	2.64
TALA/CNY	2.6304	2.6991	2.7167	0.65
Nominal Index	100.17	100.1822	100.2262	0.044

Source: Central Bank of Samoa

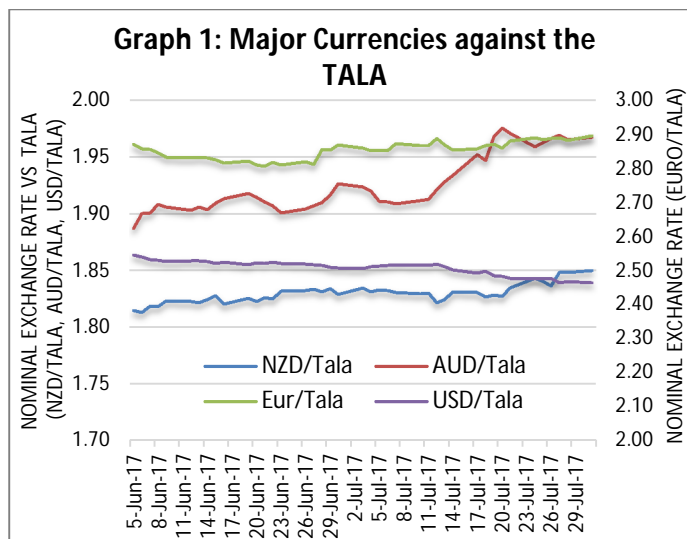


Source: Central Bank of Samoa



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## C. MAJOR CURRENCIES AGAINST THE TALA



Source: Central Bank of Samoa

## D. MARKET OUTLOOK FOR Q3 2017 (as at 4<sup>th</sup> August 2017):

**AUD/USD:** We expect the AUD/USD to trade around USD\$0.76 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\$0.72; subject to US data.

**EUR/USD:** The Euro is expected to trade around US\$1.14 on expectations the European Central Bank will slowly decrease its asset purchases program in the near future.

**FINANCIAL MARKETS DEPARTMENT**  
4<sup>th</sup> AUGUST 2017

# ECONOMIC & FINANCIAL FORECASTS

## Policy Interest rate forecasts

	Latest (04 Aug)	Sep 17 (f)	Dec 17 (f)	Mar 18 (f)	Jun 18 (f)	Sep 18 (f)	Dec 18 (f)
<b>USA</b>							
Fed Funds Rate	1.125	1.375	1.375	1.625	1.625	1.875	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	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<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 (04 Aug)	Sep 17 (f)	Dec 17 (f)	Mar 18 (f)	Jun 18 (f)	2018 (f)	2019 (f)	2020 (f)
AUD/USD	0.7944	0.76	0.76	0.75	0.76	0.77	0.77	0.82
NZD/USD	0.7437	0.72	0.71	0.72	0.72	0.72	0.74	0.72
EUR/USD	1.1865	1.14	1.15	1.15	1.16	1.18	1.20	1.23
USD/JPY	110.1350	113	115	115	115	114	114	110
GBP/USD	1.3133	1.29	1.29	1.28	1.28	1.32	1.34	1.32
USD/CNH	6.7172	6.81	6.90	6.86	6.90	6.95	6.88	6.65

## 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	2.5	2.1	2.2	2.5	-
% yr	2.0	2.1	2.4	2.0	2.0	2.3	-
Unemployment rate %	4.7	4.7	4.4	4.3	4.3	4.3	-
CPI % yr	1.8	2.6	2.0	1.9	1.6	1.4	-

## 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	0.2	0.8	0.4	0.5	0.4
% yr	1.5	2.1	1.9	2.0	1.8	1.8	2.1

## 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	4.7	4.6	4.5	4.5
CPI % qtr	0.4	1.0	0.0	0.4	0.2	0.6	0.3
Annual % change	1.3	2.2	1.7	1.8	1.6	1.2	1.5

Source: Bloomberg, Westpac Economics Update (31 July 2017)