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EXCHANGE RATE DEVELOPMENTS AUGUST 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	August 10, 2017	crude oil (US\$/bbl)	\$52.86	-\$0.01	\$52.87
Reserve Bank of Australia	1.50%	0.00	August 1, 2017	whole milk powder (US\$/t)	\$3,155.00	\$44.00	\$3,111.00
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	August 3, 2017				

A. CURRENCY WATCH

In August, 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 0.20 percent**) and the New Zealand dollar (**by 0.68 percent**) offsetting the Tala's depreciation against the Australian dollar (**by 1.48 percent**) and the Euro (**by 2.43 percent**).

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

- A string of upbeat US economic releases during the month (e.g job openings increased, weak inflation, faster than expected increase in retail sales, improved consumer confidence);
- Investors' speculation ahead of the US and EURO central bankers' annual meeting in Jackson Hole during the month;
- Continued expectation for a third interest rate hike from the Federal Reserve this year;

The **Euro** traded higher at around US\$1.17 to USD\$1.18 due to:

- Strong economic releases out of the region:
 - The unemployment rate in the Euro area ticked down to 9.1% in June, from 9.2% in May, its lowest level since February 2009.
- Expectations the European Central Bank will scale back its monetary stimulus program in the near future.

The **Australian dollar** (AUD) traded between US\$0.79 to US\$0.80, appreciating slightly against the USD on:

- Favourable domestic data releases during the month including an expected increase in wage price index;

- Market traders' uncertainty on US policies;
- Investors opting for higher-yielding currencies;
- The Reserve Bank of Australia maintaining its cash rate unchanged at 1.50 percent.

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

- Inflation expectations ticked down to 2.1% in the Q2 from 2.2% in the three months to March.
- Comments from the RBNZ Governor indicated a lower NZD was required to boost the export sector and inflationary pressures.
- Favourable US data releases propped up the greenback against some of the major currencies;
- 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:

- Political tensions between the US and North Korea during the month boosted safe haven demand;
- Consumer prices data met expectations.

The **Chinese Yuan** (CNY) recorded its strongest gain so far against the US currency following:

- favourable Chinese domestic data (e.g. better than expected growth, increases in stock prices and 7.2 percent increase in exports in July);
- Increased investor risk appetite in view of political tensions between the US and North Korea;
- A firmer guidance by the People's Bank of China, with a stronger fixing of the Yuan against the USD in over a year.

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 August 2017, compared to the previous month and August 2016.

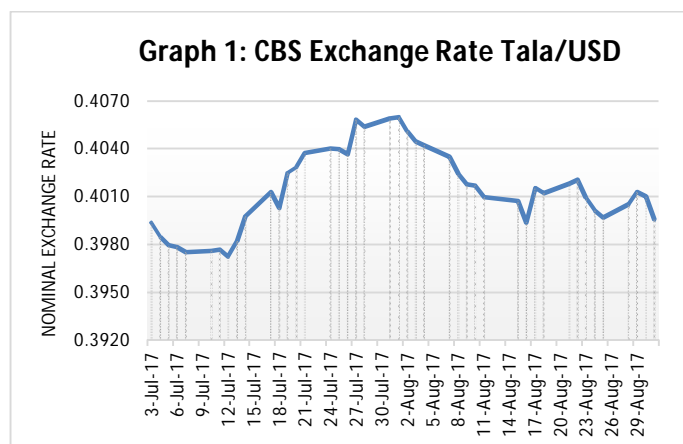
Table 1					
USD per other currencies (month average)					
				Movement of other currencies against the USD over the previous month and the previous year (+) appreciation / (-) depreciation	
	Aug-16	Jul-17	Aug-17	Jul-17 (%)	Aug-16 (%)
NZD/USD	0.7226	0.7354	0.7323	-0.42	1.34
AUD/USD	0.7625	0.7789	0.7920	1.68	3.87
USD/YEN	101.2805	112.4495	109.8598	2.30	-8.47
USD/CNY	6.6480	6.7750	6.6753	1.47	-0.41
EUR/USD	1.1206	1.1512	1.1816	2.64	5.44
FJD/USD	0.4890	0.4907	0.4957	1.02	1.37

Source: Central Bank of Samoa

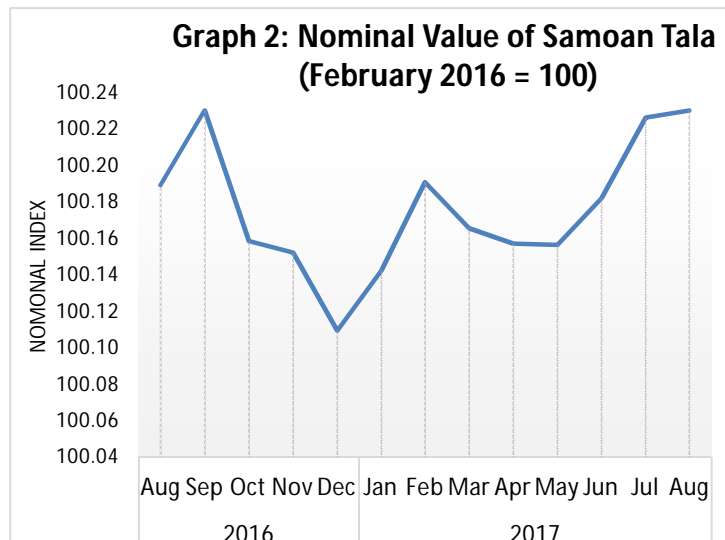
Table 2 shows the movement of the Tala against the currencies in the basket as well as against the FJD, the Yuan and the Yen in August 2017, compared to the previous month and August 2016.

Table 2					
Tala per foreign currencies (month average)					
				Movement of the Tala over the previous month and the previous year (+) appreciation / (-) depreciation	
	Aug-16	Jul-17	Aug-17	Jul-17 (%)	Aug-16 (%)
USD/TALA	2.5203	2.4939	2.4888	0.20	1.25
NZD/TALA	1.8211	1.8339	1.8214	0.68	-0.02
AUD/TALA	1.9216	1.9422	1.9710	-1.48	-2.57
EUR/TALA	2.8241	2.8707	2.9406	-2.43	-4.13
FJD/TALA	1.2323	1.2238	1.2337	-0.81	-0.11
TALA/YEN	40.1859	45.0890	44.1503	-2.08	9.87
TALA/CNY	2.6378	2.7167	2.6822	-1.27	1.68
Nominal Index	100.1900	100.2262	100.2300	0.004	0.04

Source: Central Bank of Samoa

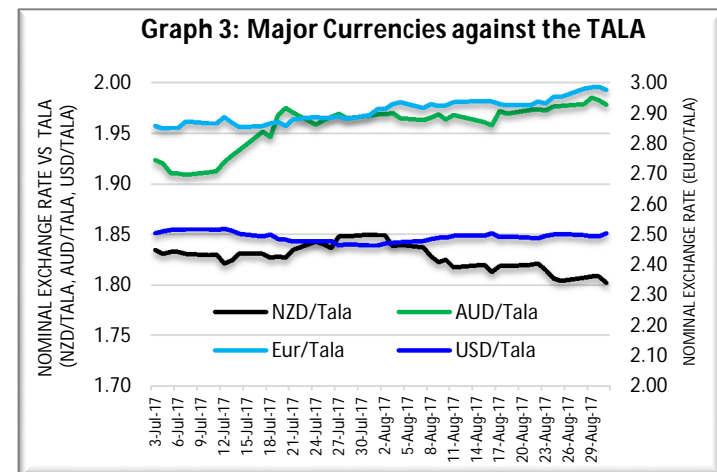


Source: Central Bank of Samoa



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C. MAJOR CURRENCIES AGAINST THE TALA



Source: Central Bank of Samoa

D. MARKET OUTLOOK FOR Q4 2017 (as at 5th September 2017):

AUD/USD: Markets expectations are for the AUD/USD to trade around USD\$0.78, with 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 unchanged 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\$1.17 on expectations the European Central Bank will slowly decrease its asset purchases program in the near future.

ECONOMIC & FINANCIAL FORECASTS

Policy Interest rate forecasts

	Latest (06 Sept)	Sep 17 (f)	Dec 17 (f)	Mar 18 (f)	Jun 18 (f)	Sep 18 (f)	Dec 18 (f)
USA							
Fed Funds Rate	1.125	1.125	1.375	1.375	1.625	1.875	1.625
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	0.00	0.00	0.00	0.00	0.00	0.00	0.00
United Kingdom							
BOE Base Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25

Exchange rate forecasts

	Latest (06 Sept)	Dec 17 (f)	Mar 18 (f)	Jun 18 (f)	Sep 18 (f)	2018 (f)	2019 (f)
AUD/USD	0.7998	0.78	0.78	0.77	0.75	0.78	0.79
NZD/USD	0.7242	0.72	0.71	0.71	0.72	0.72	0.74
EUR/USD	1.1923	1.17	1.18	1.18	1.16	1.20	1.22
USD/JPY	108.6650	112.00	114.00	113.00	110.00	111.00	113.00
GBP/USD	1.3037	1.29	1.29	1.29	1.28	1.32	1.36
USD/CNH	6.5388	6.75	6.81	6.83	6.71	6.80	6.75

US economic indicators and outlook

	Dec 2016	Mar 17	Jun 17	Sep 17 (f)	Dec 17 (f)	Mar 18 (f)	Jun 18 (f)
GDP % qtr	1.8	1.2	2.6	2.7	2.0	1.9	2.1
% yr	1.8	2.0	2.1	2.1	2.1	2.3	2.2
Unemployment rate %	4.7	4.7	4.4	4.3	4.3	4.3	4.3
CPI % yr	1.8	2.6	2.0	1.9	1.6	1.4	1.8

Australian economic indicators and outlook

	Dec 2016	Mar 17	Jun 17	Sep 17 (f)	Dec 17 (f)	Mar 18 (f)	Jun 18 (f)
GDP % qtr / yr avg	1.1	0.3	0.7	1.1	0.8	0.7	0.7
% yr	2.4	1.7	1.7	3.0	2.8	3.2	3.3
Unemployment rate %	5.7	5.8	5.6	5.6	5.7	5.8	5.8
CPI % qtr	0.5	0.5	0.2	0.8	0.5	0.5	0.4
% yr	1.5	1.8	1.8	1.8	1.9	2.1	2.2

New Zealand economic indicators and outlook

	Dec 2016	Mar 17	Jun 17	Sep 17 (f)	Dec 17 (f)	Mar 18 (f)	Jun 18 (f)
GDP % qtr	0.4	0.5	0.8 (f)	0.9	0.7	0.8	0.7
Annual avg change	3.1	3.0	2.8 (f)	2.6	2.6	2.8	2.9
Unemployment rate %	5.2	4.9	4.8	4.5	4.5	4.5	4.5
CPI % qtr	0.4	1.0	0.0	0.5	0.4	0.6	0.1
Annual % change	1.3	2.2	1.7	1.9	1.9	1.5	1.5

Source: Bloomberg, Westpac Economics Update (4 September 2017), Trading Economics