**EXCHANGE RATE DEVELOPMENTS SEPTEMBER 2017**



1. **CURRENCY WATCH**

In September, the overall nominal effective value of the **Samoan Tala** **appreciated by 0.0002 percent** against the currency basket. This was due to the strengthening of the Tala against the New Zealand dollar (**by 0.81 percent**) offsetting the Tala’s depreciation against the United States dollar (**by 0.18 percent**), Euro (**by 0.97 percent**) and the Australian dollar (**by 0.81 percent**).

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

* A string of upbeat US economic releases during the month (e.g improved consumer confidence, higher than expected escalation in consumer prices, enhanced goods order data, higher than expected increase in producer price index , job openings increased);
* Continued rising expectation for a third interest rate hike from the Federal Reserve this year;

The **Euro** traded higher at around US$1.17 to USD$1.19 due to:

* Strong economic releases out of the region:
* German Business Climate Index dipped to a seasonally adjusted 115.2 this month from a reading of 115.7 in August.
* Posted its sixth straight months of gains as investors awaited.
* 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:

* Favorable domestic data releases during the month (e.g. expected rose in private capital expenditure, upbeat employment data and better than expected gain in house price index.)
* 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:

* NZ’s financial market priced in political risk ahead of the country’s general elections late in the month;
* Market traders’ focused on Federal Reserve’s policy meeting;
* Favourable US data releases supported 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) weakened against the USD as:

* Political tensions between the US and North Korea during the month boosted safe haven demand;
* Unfavorable Japanese domestic data (e.g. Disappointing wages data from Tokyo with Australia GDP; producer prices came in slightly below expectations in August);
* BOJ left its monetary policy unchanged with market expectations;

The **Chinese Yuan** (CNY) recorded its weakest loss in so far against the US currency following:

* A firmer guidance by the People’s Bank of China, with its lowest fixing of the Yuan against the USD in over a year.
* Relaxation of controls on capital outflows and market expectation towards a stable yuan in the long term;
* Disappointing Chinese data, which weighed on emerging market assets, and capping 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 September 2017, compared to the previous month and September 2016.

**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 September 2017, compared to the previous month and September 2016.

**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 Q4 2017 (as at 2nd October 2017):**

**AUD/USD:** Markets expectations are for the AUD/USD to trade around USD$0.79, with the Reserve Bank of Australia to 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.

**FINANCIAL MARKETS DEPARTMENT**

**2nd OCTOBER 2017**

**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 | 1.625 | 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 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **United Kingdom** |  |  |  |  |  |  |  |
| BOE Base Rate | 0.25 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 |

**Exchange rate forecasts**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Latest  (02 Oct) | Dec 17 (f) | Mar 18 (f) | Jun 18 (f) | Sep 18 (f) | 2018 (f) | 2019 (f) |  |
| AUD/USD | 0.7836 | 0.78 | 0.78 | 0.78 | 0.79 | 0.80 | 0.82 |  |
| NZD/USD | 0.7217 | 0.72 | 0.72 | 0.73 | 0.73 | 0.74 | 0.74 |  |
| EUR/USD | 1.1799 | 1.18 | 1.19 | 1.19 | 1.20 | 1.21 | 1.23 |  |
| USD/JPY | 112.6000 | 111.00 | 112.00 | 112.00 | 110.00 | 111.00 | 111.00 |  |
| GBP/USD | 1.3385 | 1.30 | 1.30 | 1.31 | 1.31 | 1.32 | 1.37 |  |
| USD/CNH | 6.6454 | 6.64 | 6.65 | 6.70 | 6.70 | 6.70 | 6.50 |  |

**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 | 3.0 | 2.6 | 1.9 | 1.9 | 2.1 |
| % yr | 1.8 | 2.0 | 2.2 | 2.1 | 2.2 | 2.4 | 2.1 |
| Unemployment rate % | 4.7 | 4.7 | 4.4 | 4.3 | 4.3 | 4.3 | 5.3 |
| CPI % yr | 1.8 | 2.6 | 1.9 | 2.0 | 1.7 | 1.4 | 2.0 |

**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 | 0.8 | 0.9 | 0.9 | 0.7 | 0.6 |
| % yr | 2.4 | 1.8 | 1.8 | 3.2 | 3.0 | 3.5 | 3.2 |
| 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 | 0.6 | 0.8 | 0.7 | 0.6 | 0.8 | 0.7 |
| Annual avg change | 3.0 | 2.9 | 2.7 | 2.5 | 2.6 | 2.7 | 2.8 |
| Unemployment rate % | 5.2 | 4.9 | 4.8 | 4.6 | 4.7 | 4.7 | 4.7 |
| CPI % qtr | 0.4 | 1.0 | 0.0 | 0.5 | 0.3 | 0.3 | 0.2 |
| Annual % change | 1.3 | 2.2 | 1.7 | 1.9 | 1.8 | 1.1 | 1.4 |

*Source:* Bloomberg, Westpac Economics Update (2 October 2017), Trading Economics