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TO THE GOVERNOR

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EXCHANGE RATE DEVELOPMENTS OCTOBER 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	September 28, 2017	crude oil (US\$/bbl)	\$60.94	\$4.15	\$56.79
Reserve Bank of Australia	1.50%	0.00	October 3, 2017	whole milk powder (US\$/t)	\$3,037.00	-\$63.00	\$3,100.00
US Federal Reserve	1.00 - 1.25%	0.00	November 2, 2017				
European Central Bank	0.00%	0.00	October 26, 2017				
Bank of England	0.25%	0.00	September 14, 2017				

A. CURRENCY WATCH

In October, the overall nominal effective value of the **Samoa Tala depreciated by 0.0408 percent** against the currency basket. This was due to the weakening of the Tala against the United States dollar (**by 1.36 percent**) and Euro (**by 0.08 percent**) offsetting the Tala's appreciation against the New Zealand dollar (**by 1.35 percent**) and the Australian dollar (**by 0.87 percent**).

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

- A string of upbeat US economic releases during the month (e.g improved Q2 GDP figures, higher than expected gain on wholesale inflation, rose on U.S. factory data, better than expected import prices data);
- Continued rising expectation for a third interest rate hike from the Federal Reserve this year;
- Speculation continued over who will be the next head of the Federal Reserve.

The **Euro** traded lower at around US\$1.19 to USD\$1.18 due to:

- Weak economic releases out of the region:
 - German economic sentiment rose much less than expected in October.
- Ongoing political turmoil in Catalonia, Spain;
- Speculations the European Central Bank will scale back its monetary stimulus program in the near future;
- The central bank also left the benchmark interest rate unchanged at 0.0%.

The **Australian dollar** (AUD) traded between US\$0.80 to US\$0.78, depreciating slightly against the USD on:

- Unfavorable domestic data releases during the month (e.g. Decline in retail sales, weaker services

PMI figures out of China and lower than expected slump on consumer inflation expectations);

- Reserve Bank of Australia (RBA) Board Minutes, which pointed to continue concerns over household debt levels; and
- The RBA maintaining its cash rate unchanged at 1.50 percent.

The **New Zealand dollar** (NZD) weakened to around USD\$0.72 to USD\$0.71 as:

- Investors remain uncertain about the incoming Labor Government and the pursuit of new policies to weaken the currency;
- 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:

- Favorable Japanese domestic data (e.g. better-than-expected current account figures, upbeat retail sales data);
- BOJ left its monetary policy unchanged with market expectations.

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

- The People's Bank of China (PBOC) stated that its holdings of short foreign currency positions versus the yuan was unchanged for a third month in a row in August.
- A firmer guidance by PBOC, with its stronger fixing of the Yuan against the USD in over a year.
- Better than expected economic data (e.g. better than expected Q3 GDP figures, industrial production, fixed asset investment and retail sales);

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

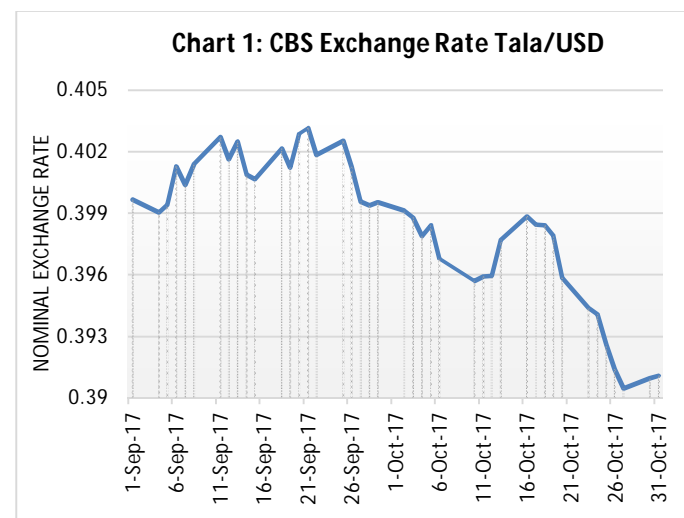
Table 1					
USD per other currencies (month average)					
	Movement of other currencies against the USD over the previous month and the previous year (+) appreciation / (-) depreciation				
	Oct-16	Sep-17	Oct-17	Sep-17 (%)	Oct-16 (%)
NZD/USD	0.7159	0.7247	0.7054	-2.66	-1.47
AUD/USD	0.7620	0.7970	0.7795	-2.20	2.30
USD/YEN	103.7230	110.7052	112.9079	1.99	-8.86
USD/CNY	6.7291	6.5675	6.6300	0.95	1.49
EUR/USD	1.1030	1.1910	1.1763	-1.23	6.65
FJD/USD	0.4867	0.4955	0.4891	-1.29	0.49

Source: Central Bank of Samoa

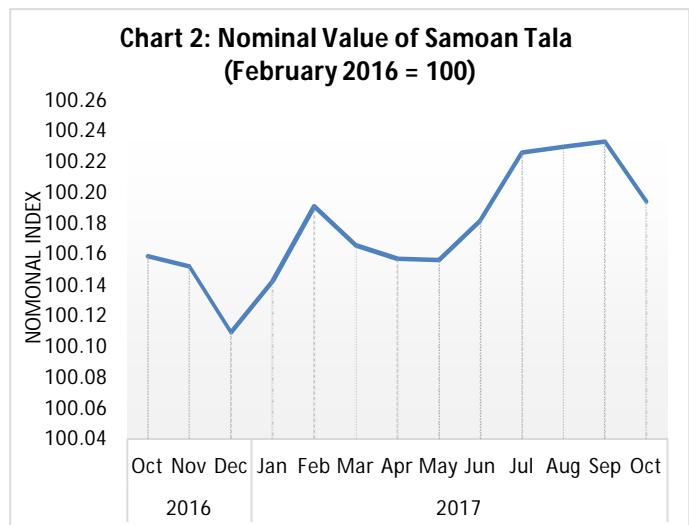
Table 2 shows the movement of the Tala against the currencies in the basket as well as against the FJD, the Yuan and the Yen in October 2017, compared to the previous month and October 2016.

Table 2					
Tala per foreign currencies (month average)					
	Movement of the Tala over the previous month and the previous year (+) appreciation / (-) depreciation				
	Oct-16	Sep-17	Oct-17	Sep-17 (%)	Oct-16 (%)
USD/TALA	2.5294	2.4932	2.5270	-1.36	0.09
NZD/TALA	1.8107	1.8067	1.7823	1.35	1.57
AUD/TALA	1.9274	1.9870	1.9697	0.87	-2.19
EUR/TALA	2.7877	2.9692	2.9717	-0.08	-6.60
FJD/TALA	1.2310	1.2738	1.2359	2.98	-0.40
TALA/YEN	41.0062	44.4036	44.6816	0.63	8.96
TALA/CNY	2.6603	2.6342	2.5484	-3.26	-4.21
Nominal Index	100.1586	100.2348	100.1939	-0.0408	0.0352

Source: Central Bank of Samoa

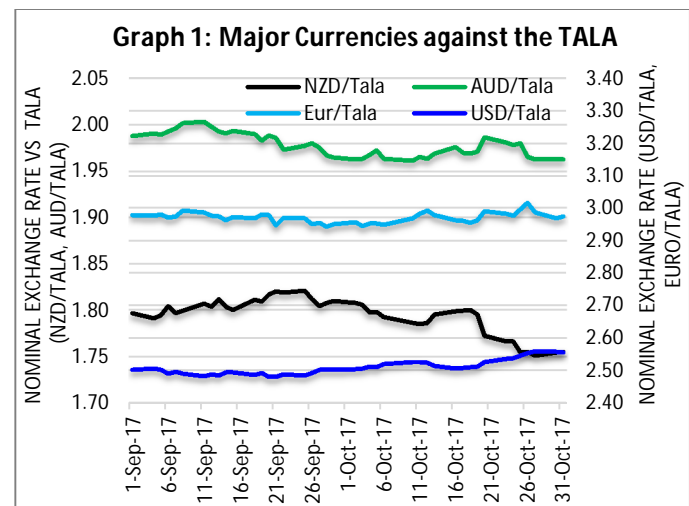


Source: Central Bank of Samoa



Source: Central Bank of Samoa

C. MAJOR CURRENCIES AGAINST THE TALA



Source: Central Bank of Samoa

D. MARKET OUTLOOK FOR Q4 2017 (as at 31st October 2017):

AUD/USD: Markets expectations are for the AUD/USD to trade around USD\$0.78, 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\$0.71; subject to US data & the new NZ Government's economic policies.

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
3rd NOVEMBER 2017

ECONOMIC & FINANCIAL FORECASTS

Policy Interest rate forecasts

	Latest (3 Nov)	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 (3 Nov)	Dec 17 (f)	Mar 18 (f)	Jun 18 (f)	Sep 18 (f)	2018 (f)	2019 (f)
AUD/USD	0.7715	0.78	0.78	0.77	0.78	0.80	0.82
NZD/USD	0.6917	0.70	0.71	0.71	0.71	0.72	0.73
EUR/USD	1.1656	1.18	1.19	1.19	1.20	1.22	1.25
USD/JPY	114.0750	113.00	114.00	114.00	140.00	112.00	113.00
GBP/USD	1.3052	1.32	1.31	1.30	1.31	1.32	1.35
USD/CNH	6.6093	6.60	6.61	6.67	6.65	6.65	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	2.2	2.6	2.0	1.6
% yr	1.8	2.0	2.2	2.1	2.3	2.5	2.1
Unemployment rate %	4.7	4.7	4.4	4.3	4.2	4.2	4.2
CPI % yr	1.9	1.8	1.5	1.4	1.5	1.5	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	0.8	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 (3 November 2017), Trading Economics