



PLEASE ADDRESS CORRESPONDENCE
TO THE GOVERNOR

CENTRAL BANK OF SAMOA

PO Box Private Bag, Apia, Samoa

Ph: 685-34100 | Fax: 685-20293/24058

E-mail: centralbank@cbs.gov.ws

Web: www.cbs.gov.ws

EXCHANGE RATE DEVELOPMENTS DECEMBER 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	November 9, 2017	crude oil (US\$/bbl)	\$67.84	\$5.21	\$62.63
Reserve Bank of Australia	1.50%	0.00	December 5, 2017	whole milk powder (US\$/t)	\$2,830.00	-\$225.00	\$3,055.00
US Federal Reserve	1.25 - 1.50%	+0.25	December 13, 2017				
European Central Bank	0.00%	0.00	December 14, 2017				
Bank of England	0.50%	0.00	December 14, 2017				

A. CURRENCY WATCH

In December, the overall nominal effective value of the **Samoan Tala depreciated by 0.0024 percent** against the currency basket. This was due to the weakening of the Tala against the New Zealand dollar (**by 0.59 percent**) and Euro (**by 0.49 percent**), offsetting the Tala's appreciation against the United States dollar (**by 0.29 percent**) and the Australian dollar (**by 0.26 percent**).

The **United States dollar** (USD) weakened modestly on the following developments:

- A string of downbeat US economic releases during the month (e.g. inflation data decrease, weaker-than estimated service sector data, disappointing U.S. consumer sentiment index, fewer job openings than expected, weaker Q3 GDP figures, fall in manufacturing index data);
- Fed raised its interest rates as expected but left its interest rate projections for 2018 unchanged.
- President Donald Trump signed the tax bill into law;

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

- Upbeat economic releases out of the region:
 - Improved Manufacturing Purchasing Managers' Index (PMI), Eurozone inflation rose;
- European Central Bank (ECB) stated the euro zone was expanding and inflation was expected to rise gradually;
- The central bank also left the benchmark interest rate unchanged at 0.0%.

The **Australian dollar** (AUD) traded between US\$0.7628 to US\$0.7631, appreciating slightly against the USD on:

- Favorable domestic data releases during the month (e.g. Improved capital expenditure, strong domestic

retail sales data, China's exports increased - *China is Australia's biggest export partner.*);

- Investors' risk appetite improved;
- Singapore and Australia collaborated on a platform to allow governments, companies and individuals to share better and secure information across borders, and;
- The RBA maintaining its cash rate unchanged at 1.50 percent.

The **New Zealand dollar** (NZD) strengthened to around USD\$0.69 to USD\$0.70 supported by:

- Favourable domestic data releases during the month (e.g. Strong gains on building, upbeat Q4 GDP figures, increase in oil prices);
- Investors opting for higher-yielding investments and;
- The Reserve Bank of New Zealand maintaining its cash rate unchanged at 1.75 percent.

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

- Favorable Japanese domestic data (e.g. Stronger Q3 GDP figures, higher than expected gain trade balance data and improved inflation data), and;
- BOJ upholding its monetary policy stance as markets expected.

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

- Speculation that the Central Bank was using currency swaps and other derivatives to intervene in offshore forex markets;
- A firmer guidance by PBOC, with its weaker fixing of the Yuan against the USD in over a year;
- Weaker than expected economic data (e.g. China's consumer inflation, retail sales and industrial output);

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 December 2017, compared to the previous month and December 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		
	Dec-16	Nov-17	Dec-17	Nov-17 (%)	Dec-16 (%)
NZD/USD	0.7053	0.6888	0.6949	0.89	-1.47
AUD/USD	0.7363	0.7628	0.7631	0.04	3.64
USD/YEN	115.7893	112.8382	112.9542	0.10	2.45
USD/CNY	6.9196	6.6235	6.6009	-0.34	4.83
EUR/USD	1.0553	1.1735	1.1828	0.79	12.08
FJD/USD	0.4772	0.5226	0.4832	-7.54	1.26

*with the exception of YEN and CNY which is YEN and CNY per USD

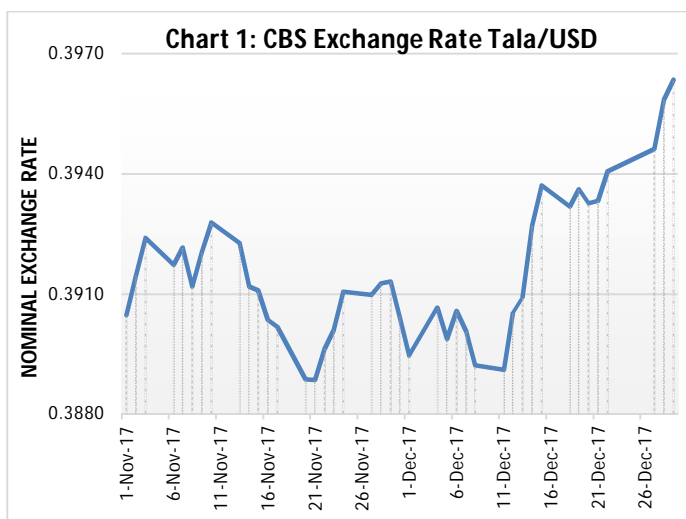
Source: Central Bank of Samoa

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

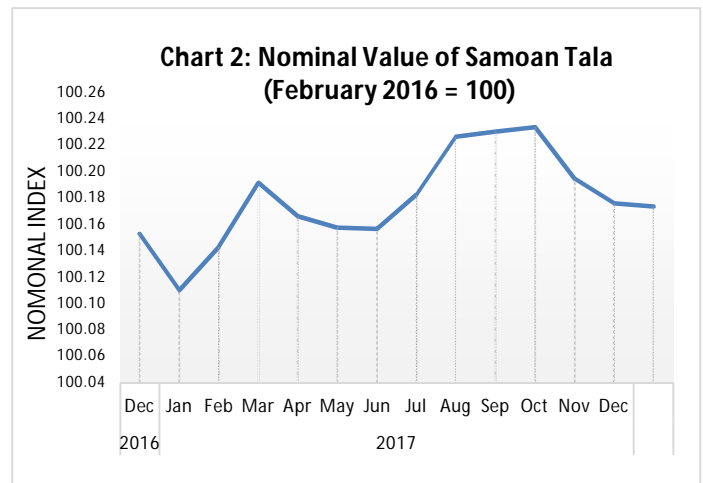
Table 2					
Tala* per foreign currencies (month average)					
			Movement of the Tala over the previous month and the previous year (+) appreciation / (-) depreciation		
	Dec-16	Nov-17	Dec-17	Nov-17 (%)	Dec-16 (%)
USD/TALA	2.5601	2.5576	2.5501	0.29	0.39
NZD/TALA	1.8053	1.7614	1.7718	-0.59	1.86
AUD/TALA	1.8848	1.9507	1.9456	0.26	-3.23
EUR/TALA	2.7014	3.0014	3.0161	-0.49	-11.65
FJD/TALA	1.2217	1.2372	1.2322	0.40	-0.86
TALA/YEN	45.2267	44.1190	44.2962	0.40	-2.06
TALA/CNY	2.7029	2.5897	2.5886	-0.04	-4.23
Nominal Index	100.1095	100.1755	100.1731	-0.0024	0.0635

*with the exception of YEN and CNY which is YEN and CNY per TALA

Source: Central Bank of Samoa

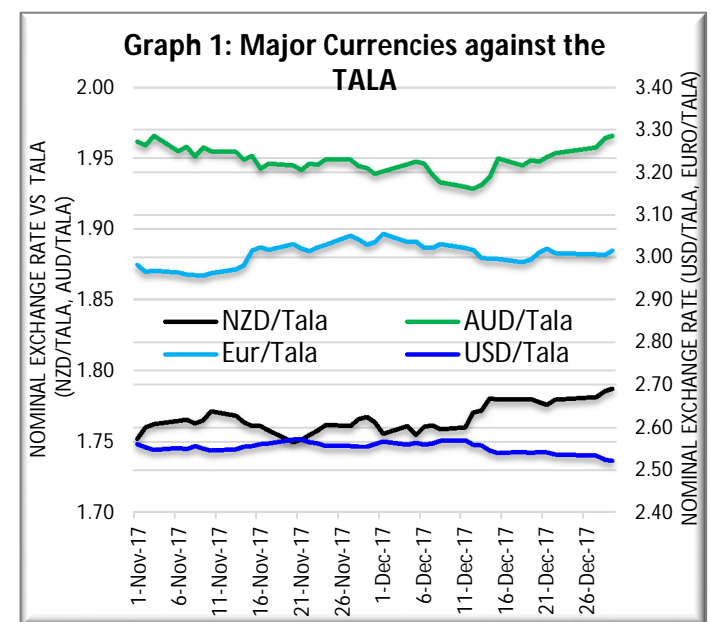


Source: Central Bank of Samoa



Source: Central Bank of Samoa

C. MAJOR CURRENCIES AGAINST THE TALA



Source: Central Bank of Samoa

D. MARKET OUTLOOK FOR Q4 2017 (As at 8th January 2018):

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 2018 and 2019.

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 & the new NZ Government's economic policies.

EUR/USD: The Euro is expected to trade around US\$1.20 on expectations the European Central Bank will emphasize the open-ended nature of their asset purchases and that the refinance rate will remain on hold for a long period.

FINANCIAL MARKETS DEPARTMENT
8th January 2018

ECONOMIC & FINANCIAL FORECASTS

Policy Interest rate forecasts

	Latest (8 Jan)	Mar 18	Jun 18	Sep 18	Dec 18	Mar 19	Jun 19
USA							
Fed Funds Rate	1.375	1.375	1.625	1.625	1.875	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	0.00	0.00	0.00	0.00	0.00	0.00	0.00
United Kingdom							
BOE Base Rate	0.50	0.50	0.50	0.50	0.75	0.75	0.75

Exchange rate forecasts

	Latest (8 Jan)	Mar 18	Jun 18	Sep 18	Dec 18	2019	2020
AUD/USD	0.7866	0.77	0.77	0.78	0.79	0.81	0.78
NZD/USD	0.7170	0.69	0.71	0.71	0.72	0.73	0.72
EUR/USD	1.2029	1.18	1.18	1.20	1.22	1.25	1.25
USD/JPY	113.0800	114.00	114.00	113.00	112.00	114.00	110.00
GBP/USD	1.3564	1.33	1.33	1.34	1.35	1.39	1.39
USD/CNH	6.4815	6.63	6.60	6.56	6.51	6.45	6.45

US economic indicators and outlook

	Mar 17	Jun 17	Sep 17	Dec 17 (f)	Mar 18 (f)	Jun 18 (f)	Sep 18(f)
GDP % qtr	1.2	3.1	3.3(2e)	2.8	1.7	1.8	1.8
% yr	2.0	2.2	2.3(2e)	2.6	2.7	2.4	2.0
Unemployment rate %	4.7	4.4	4.3	4.1	4.0	3.9	3.8
CPI % yr	2.6	1.9	2.0	1.7	1.4	2.0	2.0

2e - 2nd estimates

Australian economic indicators and outlook

	Jun 17	Sep 17	Dec 17 (f)	Mar 17 (f)	Jun 18 (f)	Sep 18 (f)	Dec 18 (f)
GDP % qtr / yr avg	0.9	0.6	0.7	0.5	0.6	0.7	0.6
% yr	1.9	2.8	2.6	2.7	2.4	2.5	2.4
Unemployment rate %	5.6	5.5	5.4	5.5	5.5	5.5	5.6
CPI % qtr	0.6	0.4	0.5	0.6	0.5	0.4	0.5
% yr	1.9	1.9	1.9	2.0	2.0	2.0	2.0

New Zealand economic indicators and outlook

	Jun 17	Sep 17	Dec 17 (f)	Mar 17(f)	Jun 18 (f)	Sep 18 (f)	Dec 18(f)
GDP % qtr	0.8	0.4	0.7	0.5	0.6	0.7	0.8
Annual avg change	2.7	2.4	2.4	2.4	2.3	2.4	2.4
Unemployment rate %	4.8	4.6	4.5	4.5	4.6	4.7	4.7
CPI % qtr	0.0	0.5	0.5	0.5	0.2	0.6	0.2
Annual % change	1.7	1.9	2.0	1.5	1.7	1.8	1.5

Source: Bloomberg, Westpac Economics Update (25 December 2017), Trading Economics