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TO THE GOVERNOR

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EXCHANGE RATE DEVELOPMENTS JANUARY 2018

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)	\$68.89	\$1.05	\$67.84
Reserve Bank of Australia	1.50%	0.00	December 5, 2017	whole milk powder (US\$/t)	\$2,605.00	-\$457.00	\$3,062.00
US Federal Reserve	1.25 - 1.50%	0.00	February 1, 2018				
European Central Bank	0.00%	0.00	January 25, 2018				
Bank of England	0.50%	0.00	December 14, 2017				

A. CURRENCY WATCH

In January, the overall nominal effective value of the **Samoa Tala** appreciated by **0.0642 percent** against the currency basket. This was due to the strengthening of the Tala against United States dollar (**by 2.28 percent**) offsetting the Tala's depreciation against the New Zealand dollar (**by 2.12 percent**), Euro (**by 0.78 percent**) and the Australian dollar (**by 1.87 percent**).

Sentiments against the **United States dollar (USD)** were bearish at the start of the year, with a general weakness in the greenback due to the following developments:

- A string of downbeat US economic releases during the month (e.g. weaker Q3 GDP figures, fall in producer prices data, lower than expected building starts, jobless claims, nonfarm payrolls report and manufacturing activity data);
- The Euro's sustained appreciation and concerns over protectionist policies pursued by the Administration;
- Also weighing on the USD, albeit negligibly, were the closure of the US markets for the Martin Luther King holiday as well as the 3-day government shutdown;

The **Euro** surged higher at around US\$1.18 to USD\$1.22 after:

- Upbeat economic releases out of the region:
 - Eurozone service sector data escalated;
- Increased investors' speculation that the European Central Bank (ECB) policy makers are preparing to wind down their bond buying stimulus program, after it was reduced in half to €30 billion (US\$35.8billion) a month starting in January and likely to end in September with no further extension;
- The European Bank also left its benchmark interest rate unchanged at 0.0%.

The **Australian dollar (AUD)** traded between US\$0.76 to US\$0.80, appreciating strongly against the USD on:

- Favorable domestic data releases during the month (e.g. Strong domestic retail sales data, home loan and contraction increased and upbeat employment data);
- Improved investors' risk appetite along with strong economic data out of China; the country's major trading partner;

The **New Zealand dollar (NZD)** strengthened to around USD\$0.70 to USD\$0.73 supported by:

- Favourable domestic data releases during the month (e.g. Improved price index data and increased in commodities such as gold and copper);
- Investors focused on the sentiment of the greenback that was hit by fresh rally by the Euro.

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

- The Bank of Japan (BoJ) adjusted its bond purchasing program, with fewer purchases of long term bonds;
- Oil prices gained;
- Strong risk sentiments against the greenback;
- Reports that China may possibly halt its purchase of U.S treasuries;
- BOJ upholding its monetary policy stance as markets expected.

The **Chinese Yuan (CNY)** strengthened against the US currency following:

- Favourable domestic data releases during the month (e.g. Positive Asian equities and higher gold prices; stronger Q4 GDP, upbeat Caixin services PMI data and stock prices increased);
- The People Bank of China (PBOC) set its midpoint to its strongest fixing since November 2015;
- China's foreign exchange reserves rose to their highest in more than a year in December.

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 January 2018, compared to the previous month and January 2017.

USD* per other currencies (month average)					
	Movement of other currencies against the USD over the previous month and the previous year (+) appreciation / (-) depreciation				
	Jan-17	Dec-17	Jan-18	Dec-17 (%)	Jan-17 (%)
NZD/USD	0.7127	0.6949	0.7262	4.50	1.89
AUD/USD	0.7467	0.7631	0.7954	4.23	6.52
USD/YEN	114.8088	112.9542	110.9143	-1.81	3.39
USD/CNY	6.8939	6.6009	6.4341	-2.53	7.15
EUR/USD	1.0632	1.1828	1.2198	3.13	14.73
FJD/USD	0.4793	0.4832	0.4955	2.55	3.38

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

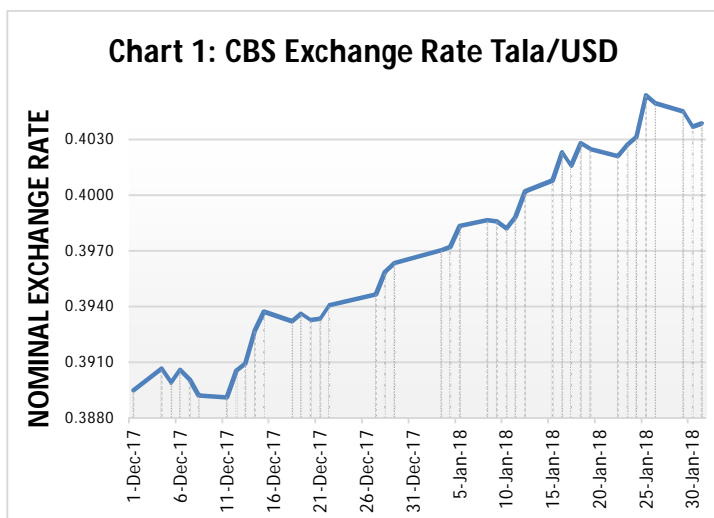
Source: Central Bank of Samoa

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 January 2018, compared to the previous month and January 2017.

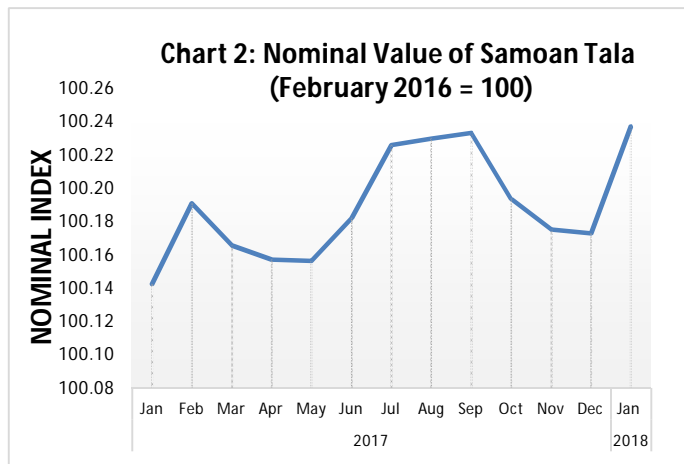
Tala* per foreign currencies (month average)					
	Movement of the Tala over the previous month and the previous year (+) appreciation / (-) depreciation				
	Jan-17	Dec-17	Jan-18	Dec-17 (%)	Jan-17 (%)
USD/TALA	2.5440	2.5501	2.4920	2.28	2.04
NZD/TALA	1.8127	1.7718	1.8094	-2.12	0.18
AUD/TALA	1.8993	1.9456	1.9819	-1.87	-4.35
EUR/TALA	2.7046	3.0161	3.0395	-0.78	-12.38
FJD/TALA	1.2191	1.2322	1.2347	-0.20	-1.28
TALA/YEN	45.1293	44.2962	44.5063	0.47	-1.38
TALA/CNY	2.7100	2.5886	2.5816	-0.27	-4.74
Nominal Index	100.1425	100.1731	100.2374	0.0642	0.0948

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

Source: Central Bank of Samoa

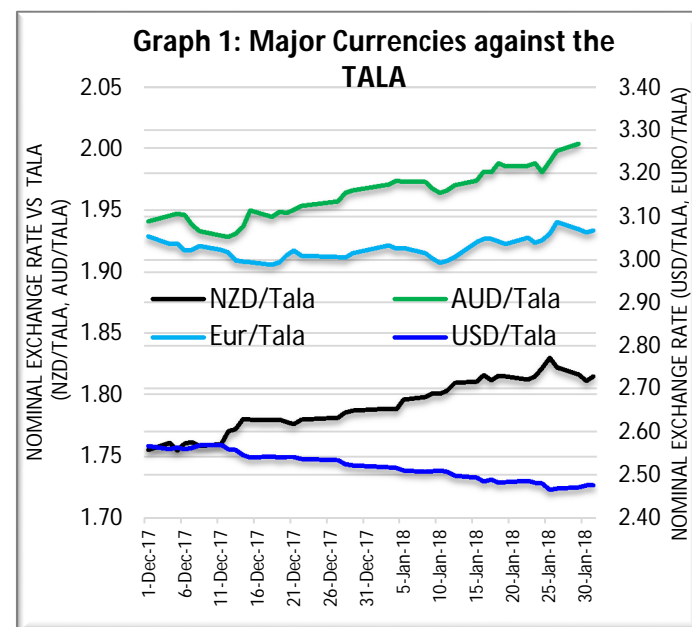


Source: Central Bank of Samoa



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C. MAJOR CURRENCIES AGAINST THE TALA



Source: Central Bank of Samoa

D. MARKET OUTLOOK FOR Q1 2018

(As at 5th February 2018):

AUD/USD: Markets expectations are for the AUD/USD to trade around USD\$0.81, with the Reserve Bank of Australia to keep its key interest rates unchanged at 1.50 percent throughout 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\$0.73; subject to US data & the new NZ Government's economic policies.

EUR/USD: The Euro is expected to trade around US\$1.24 on expectations the European Central Bank will achieve its aim of a self-reinforcing growth cycle and inflation near 2.0%yr.

FINANCIAL MARKETS DEPARTMENT

5th February 2018

ECONOMIC & FINANCIAL FORECASTS

Policy Interest rate forecasts

	Latest (5 Feb)	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 (5 Feb)	Mar 18	Jun 18	Sep 18	Dec 18	2019	2020
AUD/USD	0.7922	0.78	0.79	0.80	0.80	0.82	0.79
NZD/USD	0.7301	0.71	0.72	0.71	0.73	0.73	0.72
EUR/USD	1.2452	1.20	1.20	1.23	1.24	1.25	1.26
USD/JPY	109.99	112.00	113.00	111.00	110.00	110.00	110.00
GBP/USD	1.4123	1.36	1.36	1.37	1.37	1.40	1.38
USD/CNH	6.3008	6.50	6.45	6.45	6.40	6.35	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	3.2	2.6(1e)	1.7	1.8	1.8
% yr	2.0	2.2	2.3	2.5 (1e)	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

1e – 1st estimates

Australian economic indicators and outlook

	Jun 17	Sep 17	Dec 17	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	2.5
Unemployment rate %	5.6	5.4	5.5 (a)	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

(a) - actual

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	1.6 (a)	1.5	1.7	1.8	1.5

(b) actual

Source: Bloomberg, Westpac Economics Update (25 January 2018), Trading Economics