



PLEASE ADDRESS CORRESPONDENCE
TO THE GOVERNOR

CENTRAL BANK OF SAMOA

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EXCHANGE RATE DEVELOPMENTS FEBRUARY 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	February 6, 2018	crude oil (US\$/bbl)	\$65.93	-\$2.64	\$68.57
Reserve Bank of Australia	1.50%	0.00	February 8, 2018	whole milk powder (US\$/t)	\$3,226.00	\$621.00	\$2,605.00
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	February 8, 2018				

A. CURRENCY WATCH¹

In February, the overall nominal effective value of the **Samoa Tala depreciated by 0.2298 percent** against the currency basket. This was due to the weakening of the Tala against the New Zealand dollar (**by 0.73 percent**) and Euro (**by 1.30 percent**) offsetting the Tala's appreciation against the United States dollar (**by 0.02 percent**), and the Australian dollar (**by 0.89 percent**).

Sentiments against the **United States dollar (USD)** remained significantly fragile during February, with a general weakness in the greenback due to the following developments:

- A string of downbeat US economic releases during the month (E.g. fall in retail sales data, weaker than expected housing data, and disappointing durable goods figures);
- The Dow and Standard & Poor's 500 U.S stock indexes (S&P 500) posted their biggest declines since August 2011;
- Also limiting advances in the greenback, an expectation that monetary policy divergence would continue to raise demand for Euro and Yen assets.

The **Euro** surged higher at around US\$1.22 to USD\$1.24 after:

- Upbeat economic releases out of the region:
 - Factory growth remained strong and higher than expected trade surplus data;
- The European Central Bank President Mario Draghi stated that while the Euro area economy is expanding robustly, inflation has yet to show a sustained upward trend.

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

- Unfavorable domestic data releases during the month (E.g. Downbeat Consumer Price Index data, disappointing building approval, and decrease in commodities);

- The trade surplus for the country's major trading partner (China) came in narrower than expected;
- Reduction in the S&P 500 E-mini futures;
- RBA maintain its monetary policy stance as expected by the markets.

The **New Zealand dollar (NZD)** strengthened to around USD\$0.7262 to USD\$0.7316, supported by:

- The Reserve Bank of New Zealand (RBNZ) statement that inflation expectations have ticked up to 2.1% in Q1 2018 from 2.0% in Q4 2017.
- Improved investors' risk appetite coupled with the rise in stock market prices.
- RBNZ upholding its monetary policy stance, consistent with market expectation.

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

- Favourable domestic data released during February such as gain in stock prices and higher than expected producer price index, - noting the closure of some Asian stock markets in lieu of the Lunar New Year holidays;
- The safe-haven yen took advantage of the massive sell-off on global stock markets, as risk appetite was nowhere to be found;

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

- Favourable domestic data releases during the month (e.g. Strong non-manufacturing data, upbeat Caixin services PMI data and stock prices increased);
- The People Bank of China (PBOC) reasonably comfortable with the currency gains, however it could become an issue if gains against other currencies affect its export competitiveness
- The Asian stock markets closed for Lunar New Year on February 15th to 21st (including China, Hong Kong, Taiwan, South Korea, Malaysia and Vietnam)

¹ The new currency basket weights as approved by the CBS Board of Directors on 31st January 2018 took effect on 1st February.

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

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					
	Feb-17	Jan-18	Feb-18	Jan-18	Feb-17
				(%)	(%)
NZD/USD	0.7230	0.7262	0.7316	0.74	1.19
AUD/USD	0.7660	0.7954	0.7885	-0.87	2.94
USD/YEN	113.0105	110.9143	108.0370	-2.59	4.40
USD/CNY	6.8732	6.4341	6.3211	-1.76	8.73
EUR/USD	1.0650	1.2198	1.2359	1.32	16.05
FJD/USD	0.4854	0.4955	0.4969	0.28	2.37

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

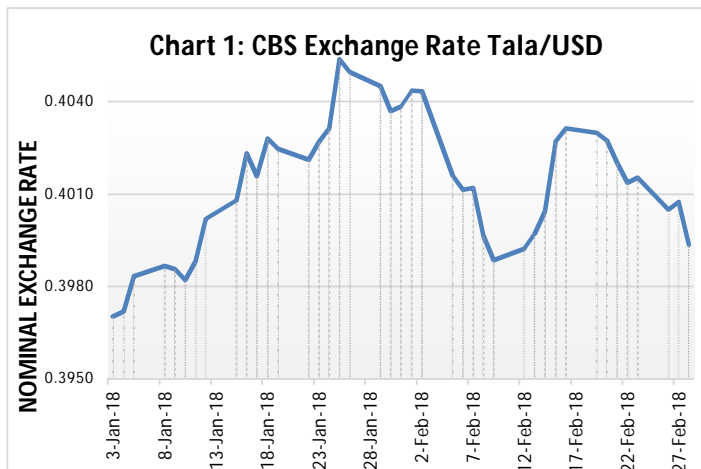
Source: Central Bank of Samoa

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

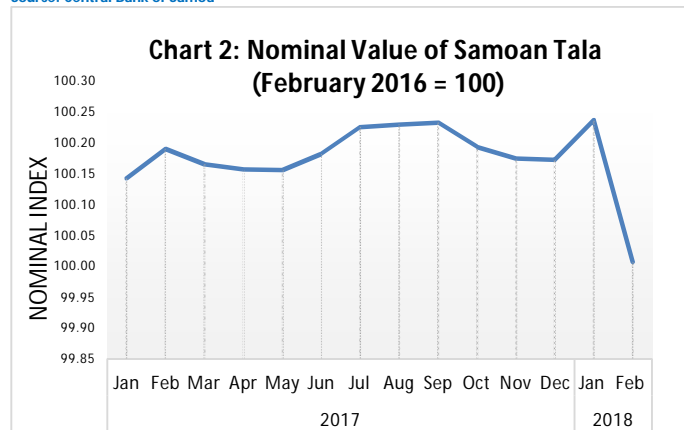
Table 2					
Tala* per foreign currencies (month average)					
Movement of the Tala over the previous month and the previous year (+) appreciation / (-) depreciation					
	Feb-17	Jan-18	Feb-18	Jan-18	Feb-17
				(%)	(%)
USD/TALA	2.5182	2.4920	2.4915	0.02	1.06
NZD/TALA	1.8205	1.8094	1.8225	-0.73	-0.11
AUD/TALA	1.9289	1.9819	1.9642	0.89	-1.83
EUR/TALA	2.6818	3.0395	3.0789	-1.30	-14.81
FJD/TALA	1.2223	1.2347	1.2379	-0.26	-1.27
TALA/YEN	44.8866	44.5063	43.3647	-2.57	-3.39
TALA/CNY	2.7294	2.5816	2.5371	-1.72	-7.04
Nominal Index	100.1910	100.2374	100.0070	-0.2298	-0.1836

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

Source: Central Bank of Samoa

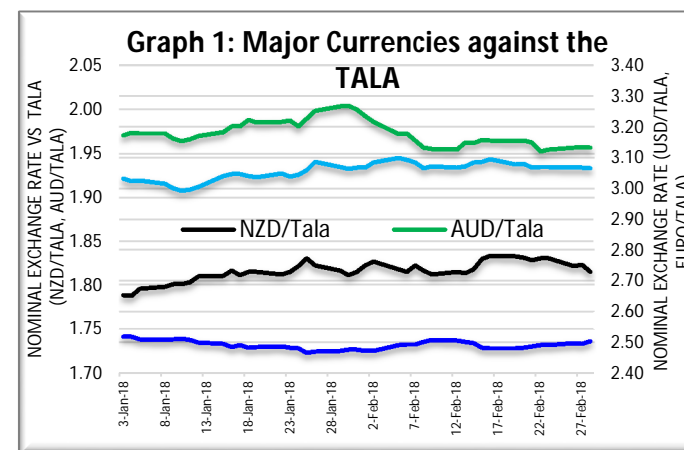


Source: Central Bank of Samoa



Source: Central Bank of Samoa

C. MAJOR CURRENCIES AGAINST THE TALA



Source: Central Bank of Samoa

D. MARKET OUTLOOK FOR Q1 2018 (As at 28th February 2018):

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 2018.

NZD/USD: The RBNZ held rates steady at 1.75 percent, and continued to signal that monetary policy will remain accommodative for an extended period. This factor may drive the NZD/USD towards USD\$0.72.

EUR/USD: The Euro is expected to trade around US\$1.23 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
1st March 2018

ECONOMIC & FINANCIAL FORECASTS

Policy Interest rate forecasts

	Latest (28 Feb)	Mar 18	Jun 18	Sep 18	Dec 18	Mar 19	Jun 19
USA							
Fed Funds Rate	1.375	1.625	1.875	2.125	2.125	2.125	2.125
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 (28 Feb)	Mar 18	Jun 18	Sep 18	Dec 18	2019	2020
AUD/USD	0.7815	0.78	0.78	0.78	0.80	0.82	0.79
NZD/USD	0.7248	0.72	0.72	0.72	0.72	0.73	0.72
EUR/USD	1.2254	1.22	1.23	1.24	1.26	1.29	1.28
USD/JPY	107.31	110.00	110.00	110.00	110.00	106.00	105.00
GBP/USD	1.3937	1.39	1.39	1.40	1.42	1.42	1.45
USD/CNH	6.3170	6.36	6.36	6.35	6.35	6.33	6.35

US economic indicators and outlook

	Jun 17	Sep 17	Dec 17	Mar 17(f)	Jun 18 (f)	Sep 18 (f)	Dec 18(f)
GDP % qtr	3.1	3.2	2.5(2e)	2.7	2.1	2.3	2.3
% yr	2.2	2.3	2.5(2e)	2.9	2.6	2.4	2.3
Unemployment rate %	4.3	4.3	4.1	4.1	4.0	3.9	3.9
CPI % yr	1.9	2.0	2.1	1.8	2.3	2.2	1.8

1e – 1st estimates

Australian economic indicators and outlook

	Jun 17	Sep 17	Dec 17	Mar 18 (f)	Jun 18 (f)	Sep 18 (f)	Dec 18 (f)
GDP % qtr / yr avg	0.9	0.6	0.6	0.6	0.6	0.7	0.6
% yr	1.9	2.8	2.5	2.8	2.4	2.4	2.5
Unemployment rate %	5.6	5.5	5.5 (a)	5.5	5.5	5.5	5.4
CPI % qtr	0.5	0.4	0.4	0.5	0.5	0.5	0.5
% yr	1.9	1.8	1.9	1.9	2.1	2.4	2.1

(a) - actual

New Zealand economic indicators and outlook

	Jun 17	Sep 17	Dec 17 (f)	Mar 18(f)	Jun 18 (f)	Sep 18 (f)	Dec 18(f)
GDP % qtr	1.0	0.6	0.8	0.6	0.6	0.7	0.7
Annual avg change	3.3	3.0	2.9	2.9	2.9	2.9	2.8
Unemployment rate %	4.8	4.6	4.5	4.4	4.4	4.4	4.5
CPI % qtr	0.0	0.5	0.1	0.6	0.4	0.6	0.2
Annual % change	1.7	1.9	1.6 (b)	1.2	1.6	1.7	1.8

(b) actual

Source: Bloomberg, Westpac Economics Update (26 February 2018), Trading Economics