



## EXCHANGE RATE DEVELOPMENTS MAY 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	May 10, 2018	crude oil (US\$/bbl)	\$77.56	\$3.39	\$74.17
Reserve Bank of Australia	1.50%	0.00	June 5, 2018	whole milk powder (US\$/t)	\$3,205.00	-\$73.00	\$3,278.00
US Federal Reserve	1.50 - 1.75%	+0.25%	May 2, 2018				
European Central Bank	0.00%	0.00	April 26, 2018				
Bank of England	0.50%	0.00	May 10, 2018				

### A. CURRENCY WATCH

In May, the overall nominal effective value of the **Samoa Tala depreciated by 0.0284 percent** against the currency basket. This was due to the weakening of the Tala against the New Zealand dollar (by 2.31 percent), Australian dollar (by 0.27 percent) and Euro (by 1.95 percent), which more than offset the Tala's appreciation against the United States dollar (by 1.82 percent).

The **United States dollar (USD)** was generally on an uptrend in May supported by the following developments:

- A string of upbeat US economic releases in May, such as consumer prices reaching the 2% target as expected, private payroll rising, improving labour data, stronger first quarter GDP revisions, better than expected industrial production and building permits data, increased manufacturing and services index, improvements in initial jobless claims, and positive core durable goods order;
- A strong wave of buying in the USD due to surging bond yields and economic data pointing to underlying strength in the U.S economy.
- Despite the geopolitical tensions between the U.S and China, coupled with holiday-thinned trading (28 May 2018 - Memorial Day).

The **Euro** slipped from US\$1.20 to USD\$1.15 on the back of:

- Disappointing economic releases out of the region:
  - A slump in German retail sales, and in German and Eurozone services indices, decline in Sentix investor confidence data, and a drop in German industrial orders and consumer inflation;
- A drop in Italy's 10-year bond yields as Italy's anti-establishment 5 Star Movement and anti-immigrant League considered requesting the ECB to forgive \$294.18 billion of debt.

The **Australian dollar (AUD)** traded between US\$0.75 to US\$0.74, depreciating against the USD due to:

- Unfavorable domestic data releases during the month (e.g. Disappointing Q1 GDP, construction work and Q1 wages reports, weaker crude oil and copper prices);
- RBA keeping its cash rate unchanged at a record low of 1.5 percent as expected.

The **New Zealand dollar (NZD)** weakened from around USD\$0.70 to USD\$0.68, after:

- Downbeat data such as the drop in the New Zealand business confidence index, along with the decline in milk and oil commodity prices;
- RBNZ keeping its cash rate unchanged at a record low of 1.75 percent as expected.

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

- Unfavourable domestic data released during April such as the drop in household spending data and weak Q1 GDP;
- Demand for the safe haven yen fell, following the historic inter-Korean summit at which the two leaders from the North and South, pledged peace;
- A fallout from the United States' decision to leave Iran nuclear deal failed;
- Fears of the trade war faded and investors returned to riskier assets such as equities.

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

- Unfavourable domestic data releases during the month, such as the decline in Asian equity prices, commodities and Caixin PMI services;
- The PBOC<sup>1</sup> set its midpoint to its weakest fixing;
- U.S approved to hold off imposing punitive import tariffs on China.

<sup>1</sup> PBOC – People Bank of China

## 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 May 2018, compared to the previous month and May 2017.

	Movement of other currencies against the USD over the previous month and the previous year (+) appreciation / (-) depreciation				
	May-17		Apr-18		May-17
					(%)
NZD/USD	0.6942	0.7248	0.6953	-4.07	0.16
AUD/USD	0.7437	0.7686	0.7526	-2.08	1.20
USD/YEN	112.2339	107.5595	109.7370	-2.02	2.22
USD/CNY	6.8863	6.2970	6.3716	-1.18	8.08
EUR/USD	1.1041	1.2279	1.1828	-3.67	7.13
FJD/USD	0.4776	0.4916	0.4827	-1.81	1.07

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

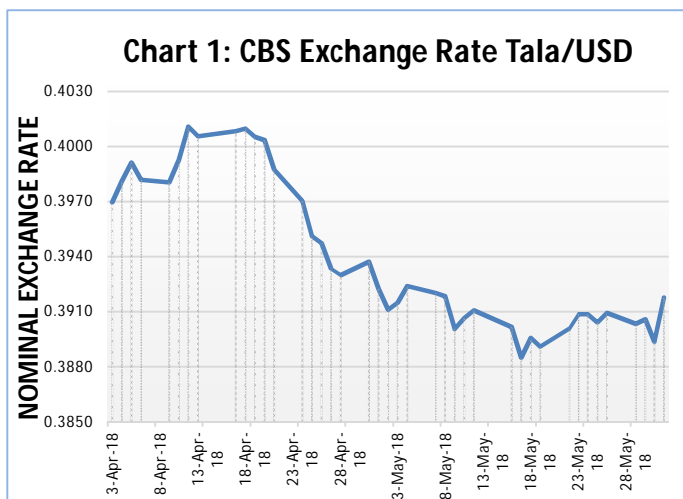
Source: Central Bank of Samoa

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

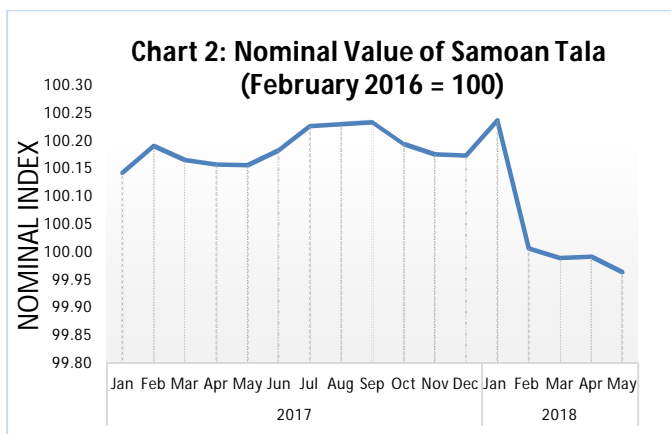
	Movement of the Tala over the previous month and the previous year (+) appreciation / (-) depreciation				
	May-17		Apr-18		May-17
					(%)
USD/TALA	2.5655	2.5138	2.5595	1.82	0.23
NZD/TALA	1.7813	1.8214	1.7794	-2.31	0.11
AUD/TALA	1.9083	1.9316	1.9263	-0.27	-0.94
EUR/TALA	2.8344	3.0874	3.0273	-1.95	-6.81
FJD/TALA	1.2254	1.2356	1.2355	-0.01	-0.82
TALA/YEN	43.7336	42.7938	42.8739	-0.19	-1.97
TALA/CNY	2.6842	2.5054	2.4894	0.64	-7.26
Nominal Index	100.1560	99.9927	99.9643	-0.0284	-0.1914

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

Source: Central Bank of Samoa

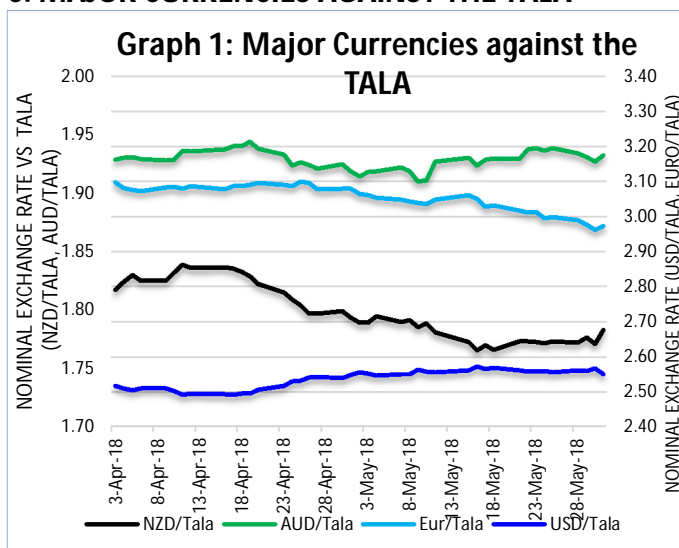


Source: Central Bank of Samoa



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## C. MAJOR CURRENCIES AGAINST THE TALA



Source: Central Bank of Samoa

## D. MARKET OUTLOOK FOR Q1 2018 (As at 13<sup>th</sup> June 2018):

**AUD/USD:** Markets expectations are for the AUD/USD to trade around USD\$0.77 by end of 2018, with the Reserve Bank of Australia to keep its key interest rates unchanged at 1.50 percent throughout 2018 and 2019.

**NZD/USD:** The RBNZ is expected to hold its overnight cash rate steady at 1.75 percent until Q4 2019, with a focus on keeping future inflation near the two percent midpoint. This factor may drive the NZD/USD towards USD\$0.71 by Q4 2018.

**EUR/USD:** The Euro is expected to trade around US\$1.21 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**  
13<sup>th</sup> June 2018

# ECONOMIC & FINANCIAL FORECASTS

## Policy Interest rate forecasts

	Latest (8 June)	Sep 18	Dec 18	Mar 18	Jun 19	Sep 19	Dec 19
<b>USA</b>							
Fed Funds Rate	1.625	2.125	2.125	2.375	2.625	2.625	2.625
<b>Australia</b>							
RBA Cash Rate	1.50	1.50	1.50	1.50	1.50	1.50	1.50
<b>New Zealand</b>							
RBNZ Cash Rate	1.75	1.75	1.75	1.75	1.75	1.75	1.75
<b>China</b>							
PBOC Interest Rate	4.35	4.35	4.35	4.35	4.35	4.35	4.35
<b>Euro-Area</b>							
ECB Refinance Rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>United Kingdom</b>							
BOE Base Rate	0.50	0.50	0.50	0.50	0.50	0.50	0.50

## Exchange rate forecasts

	Latest (13 Jun)	Sep 18	Dec 18	Jan 19	Mar 19	2019	2020
AUD/USD	0.7574	0.77	0.77	0.78	0.80	0.80	0.79
NZD/USD	0.7005	0.70	0.71	0.72	0.73	0.73	0.72
EUR/USD	1.1750	1.20	1.22	1.24	1.25	1.28	1.29
USD/JPY	110.3450	109.00	109.00	108.00	106.00	104.00	100.00
GBP/USD	1.3374	1.36	1.37	1.40	1.39	1.43	1.48
USD/CNH	6.4028	6.40	6.36	6.36	6.33	6.28	6.28

## US economic indicators and outlook

	Sep 17	Dec 17	Mar 18	Jun 18(f)	Sep 18 (f)	Dec 18 (f)	Mar 19(f)
GDP % qtr	3.2	2.9	2.3	2.8	3.2	2.9	2.9
% yr	2.3	2.6	2.9	2.8	2.8	2.8	2.8
Unemployment rate %	4.3	4.1	4.1	4.0	4.0	3.9	3.9
CPI % yr	2.0	2.1	2.3	2.8	2.5	2.1	2.6

## Australian economic indicators and outlook

	Jun 17	Sep 17	Dec 17	Mar 18	Jun 18 (f)	Sep 18 (f)	Dec 18 (f)
GDP % qtr / yr avg	1.0	0.5	0.5	1.0	0.5	0.6	0.6
% yr	2.0	2.8	2.4	3.1	2.6	2.6	2.7
Unemployment rate %	5.6	5.5	5.5	5.5	5.5	5.5	5.5
CPI % qtr	0.2	0.6	0.6	0.4	0.6	0.8	0.3
% yr	1.9	1.8	1.9	1.9	2.3	2.5	2.2

## New Zealand economic indicators and outlook

	Jun 17	Sep 17	Dec 17	Mar 18(f)	Jun 18 (f)	Sep 18 (f)	Dec 18(f)
GDP % qtr	0.9	0.6	0.6	0.5	0.7	0.8	0.7
Annual avg change	3.4	3.0	2.9	2.8	2.7	2.7	2.6
Unemployment rate %	4.8	4.6	4.5	4.4	4.4	4.5	4.6
CPI % qtr	0.0	0.5	0.1	0.5	0.6	0.7	0.3
Annual % change	1.7	1.9	1.6	1.1	1.7	1.9	2.1

Source: Bloomberg, Westpac Economics Update (08 June 2018), Trading Economics