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## EXCHANGE RATE DEVELOPMENTS JUNE 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	June 28, 2018	crude oil (US\$/bbl)	\$79.23	\$1.98	\$77.25
Reserve Bank of Australia	1.50%	0.00	June 5, 2018	whole milk powder (US\$/t)	\$3,057.00	-\$148.00	\$3,205.00
US Federal Reserve	1.75 - 2.00%	+0.25%	June 13, 2018				
European Central Bank	0.00%	0.00	June 14, 2018				
Bank of England	0.50%	0.00	June 21, 2018				

### A. CURRENCY WATCH

In June, the overall nominal effective value of the **Samoa Tala** appreciated by **0.0053 percent** against the currency basket. This was due to the Tala's appreciation against the Australian dollar (by 0.33 percent) and Euro (by 1.13 percent), which more than offset the Tala's depreciation against the United States dollar (by 0.18 percent) and New Zealand dollar (by 0.01 percent).

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

- A string of upbeat US economic releases, such as better than expected non-manufacturing, increase in US job openings, a positive core consumer price index and producer inflation, core retail sales increased, strong GDP performance for Q1;
- The Federal Reserve lifted its fed funds rate by 25 basis points to a range between 1.75% and 2%;
- While the greenback weakened slightly on renewed concerns of a U.S and China trade war (after the US President threatened China with fresh tariffs), these tensions subsided at the latter days of the month.

The **Euro** slipped from US\$1.18 to USD\$1.15 on the back of:

- Disappointing economic releases out of the region, mainly a decline in German economic sentiment;
- Ongoing political worries in Europe (particularly developments in Germany and Italy)
- The European Central Bank outlined plans to wind up its bond purchasing stimulus program by the end of the year but also pledged to keep interest rates on hold until September 2019.

The **Australian dollar** (AUD) traded between US\$0.76 to US\$0.74, depreciating against the USD due to:

- Unfavorable domestic data releases during the month (e.g. Drop in April trade surplus, disappointing current account balance, low business confidence and weaker than expected job reports);

- The Reserve Bank of Australia (RBA) keeping its cash rate unchanged at a record low of 1.50 percent as expected.

The **New Zealand dollar** (NZD) weakened from around USD\$0.70 to USD\$0.67, reflecting:

- Low business confidence and sentiments as well as the drop in the wholesale price of milk (main export);
- Kiwi investors came under pressure on expectations of rising US interest rates along with ongoing trade tensions between China and the US;
- The Reserve Bank of New Zealand's (RBNZ) decision to keep 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:

- Unfavorable domestic data releases such as the softer than expected home spending data, and weak retail sales.
- Low sentiments following the economic effects of the Great East Japan Earthquake that occurred on June 18;
- 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 commodities, equity prices, and Caixin PMI<sup>1</sup> services remain unchanged;
- The closure of the Asian stock markets on June 18<sup>th</sup> for their Dragon Boat Festival Holiday;
- U.S President's indication of possible restrictions on Chinese companies from investing in U.S technology firms as well as blocking additional technology exports to Beijing.
- The PBOC's<sup>2</sup> decision to reduce the amount of cash that some banks must hold as required reserves, releasing US\$100 billion of liquidity to the system for financial leverage and support to companies.

<sup>1</sup> Purchasing Manager Index

<sup>2</sup> 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 June 2018, compared to the previous month and June 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					
	Jun-17	May-18	Jun-18	May-18	Jun-17
				(%)	(%)
NZD/USD	0.7233	0.6953	0.6941	-0.17	-4.04
AUD/USD	0.7563	0.7526	0.7488	-0.50	-0.99
USD/YEN	110.8365	109.7370	110.1132	-0.34	0.65
USD/CNY	6.8100	6.3716	6.4629	-1.43	5.10
EUR/USD	1.1230	1.1828	1.1673	-1.31	3.94
FJD/USD	0.4846	0.4827	0.4819	-0.17	-0.56

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

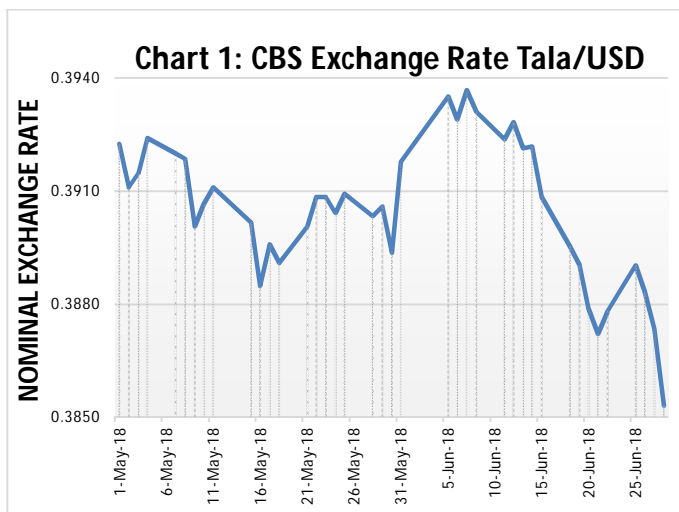
Source: Central Bank of Samoa

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

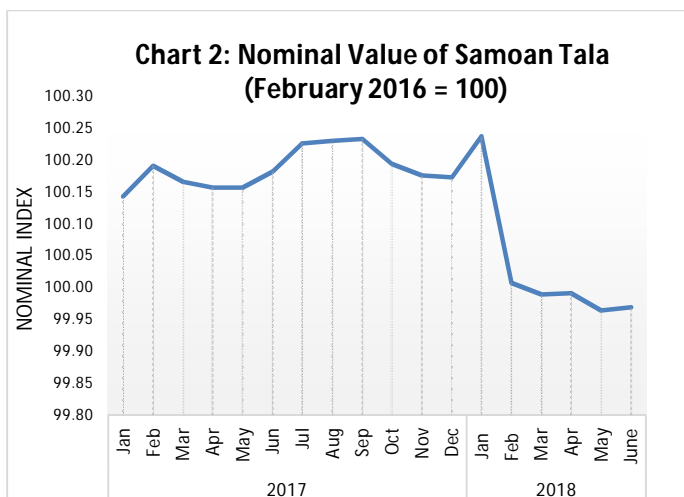
Table 2					
Tala* per foreign currencies (month average)					
Movement of the Tala over the previous month and the previous year					
(+ appreciation / (-) depreciation					
	Jun-17	May-18	Jun-18	May-18	Jun-17
				(%)	(%)
USD/TALA	2.5231	2.5595	2.5642	-0.18	-1.63
NZD/TALA	1.8247	1.7794	1.7796	-0.01	2.47
AUD/TALA	1.9080	1.9263	1.9200	0.33	-0.63
EUR/TALA	2.8333	3.0273	2.9931	1.13	-5.64
FJD/TALA	1.2226	1.2355	1.2356	-0.01	-1.06
TALA/YEN	43.9308	42.8739	42.9437	0.16	-2.25
TALA/CNY	2.6991	2.4894	2.5204	1.25	-6.62
Nominal Index	100.1830	99.9643	99.9696	0.0053	-0.2130

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

Source: Central Bank of Samoa

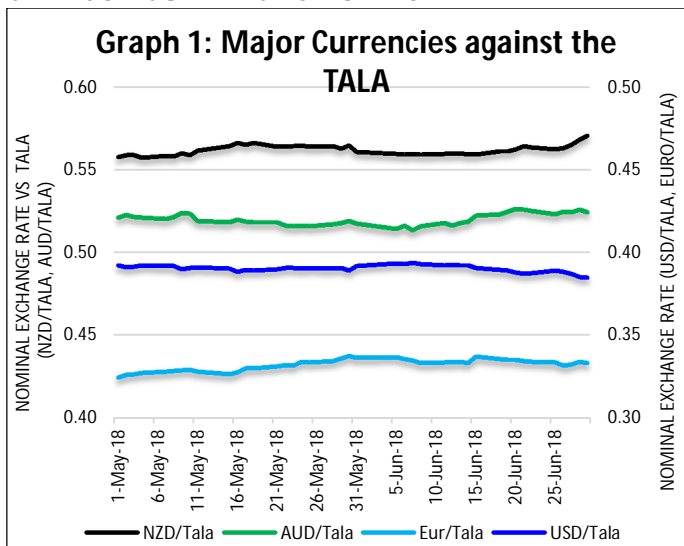


Source: Central Bank of Samoa



Source: Central Bank of Samoa

## C. MAJOR CURRENCIES AGAINST THE TALA



Source: Central Bank of Samoa

## D. MARKET OUTLOOK FOR Q1 2018 (As at 03<sup>rd</sup> July 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 2 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 percent on an annual basis.

**FINANCIAL MARKETS DEPARTMENT**  
03<sup>rd</sup> July 2018

# ECONOMIC & FINANCIAL FORECASTS

## Policy Interest rate forecasts

	Latest (29 June)	Sep 18	Dec 18	Mar 18	Jun 19	Sep 19	Dec 19
<b>USA</b>							
Fed Funds Rate	1.875	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	2.00
<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 (3 July)	Sep 18	Dec 18	Jan 19	Mar 19	2019	2020
AUD/USD	0.7328	0.76	0.76	0.77	0.78	0.79	0.80
NZD/USD	0.6705	0.70	0.70	0.71	0.72	0.73	0.73
EUR/USD	1.1618	1.18	1.19	1.22	1.24	1.24	1.26
USD/JPY	110.8650	109.00	109.00	108.00	108.00	104.00	101.00
GBP/USD	1.3130	1.34	1.35	1.37	1.39	1.42	1.44
USD/CNH	6.6872	6.42	6.45	6.43	6.43	6.28	6.24

## 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	2.2	3.3	3.0	2.9	2.9
% yr	2.3	2.6	2.8	2.9	2.8	2.8	2.8
Unemployment rate %	4.3	4.1	4.1	3.8	3.8	3.7	3.7
CPI % yr	2.0	2.1	2.3	2.8	2.8	2.5	2.1

## 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	3.3	3.0	2.8	2.7	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 (25 June 2018), Trading Economics