



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 JULY 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) | \$74.21 | -\$4.65 | \$78.86 |
| Reserve Bank of Australia | 1.50% | 0.00 | July 3, 2018 | whole milk powder (US\$/t) | \$3,222.00 | \$165.00 | \$3,057.00 |
| US Federal Reserve | 1.75 - 2.00% | +0.25% | June 13, 2018 | | | | |
| European Central Bank | 0.00% | 0.00 | July 26, 2018 | | | | |
| Bank of England | 0.50% | 0.00 | June 21, 2018 | | | | |

A. CURRENCY WATCH

In July, the overall nominal effective value of the **Samoan Tala appreciated by 0.0115 percent** against the currency basket. This was due to the Tala's appreciation against the New Zealand dollar (by 1.28 percent) and Australian dollar (by 0.21 percent), which more than offset the Tala's depreciation against the United States dollar (by 0.96 percent) and Euro (by 1.05 percent).

The **United States dollar (USD)** maintained an uptrend in July, supported by the following developments:

- A string of upbeat US economic releases, such as better than expected personal consumption expenditures (PCE) price index, increase in ISM manufacturing data, strong US factory orders, few job openings and gained in US stocks;
- The Fed gave a positive assessment of the U.S. economy, insisting that strong labor markets and inflation would support the central bank's plan to continue with gradual interest rate hikes.
- These were despite the escalating trade dispute between the U.S and China;

The **Euro** surged higher from US\$1.16 to USD\$1.17 on the back of:

- Upbeat economic releases out of the region such as better-than-expected German factory orders, rose in German exports, increased in German trade surplus and gained in Eurozone private sector;
- The European Central Bank (ECB) keeping cash rate unchanged and reiterating its plan to slowly end its accommodative monetary policy.
- Comments by the US President that the EU and other trading partner countries were unfairly holding the value of their currencies lower as the United States was raising interest rates.

The **Australian dollar (AUD)** traded between US\$0.74 to US\$0.73, depreciating against the USD due to:

- Unfavorable domestic data releases during the month (mainly a decline in the Consumer Price Index);
- Uncertainty by Australian investors of the potential impact of additional tariffs on China and the subsequent effect on the Australian economy.
- 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\$0.68 to USD\$0.67, reflecting:

- Disappointing domestic data released during the month (mainly, the widest Kiwi trade deficit recorded in a decade).
- Kiwi investors came under pressure on lower demand for higher-risk assets and with stocks down in Asia.

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

- Unfavorable domestic data releases such as a drop in preliminary machine tool orders, lower trade surplus, and core inflation dipped lower.
- Limited advance, as the Japanese currency is sought by investors as a safe haven in times of geopolitical tensions and market turmoil.

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, Caixin Purchase Manager Index (PMI) services, China Consumer Price Index (CPI), and industrial production;
- high expectations for a continued depreciation in the currency which has been heavily sold in recent months on worries about the economic outlook.
- The closure of the Asian stock markets on June 18th for their Dragon Boat Festival Holiday;

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 July 2018, compared to the previous month and July 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 | | | | |
| | Jul-17 | Jun-18 | Jul-18 | Jun-18 (%) | Jul-17 (%) |
| NZD/USD | 0.7354 | 0.6941 | 0.6786 | -2.23 | -7.72 |
| AUD/USD | 0.7789 | 0.7488 | 0.7401 | -1.16 | -4.98 |
| USD/YEN | 112.4495 | 110.1132 | 111.4030 | -1.17 | 0.93 |
| USD/CNY | 6.7750 | 6.4629 | 6.7082 | -3.80 | 0.99 |
| EUR/USD | 1.1512 | 1.1673 | 1.1684 | 0.09 | 1.49 |
| FJD/USD | 0.4907 | 0.4819 | 0.4768 | -1.06 | -2.83 |

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

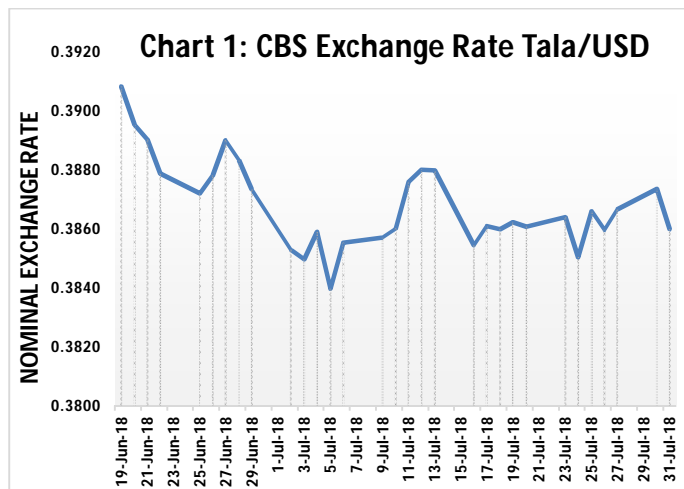
Source: Central Bank of Samoa

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

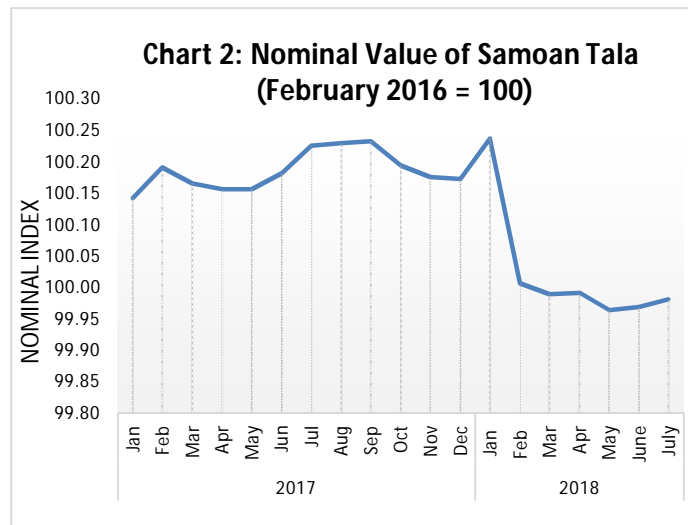
| Table 2 | | | | | |
|--|--|---------|---------|------------|------------|
| Tala* per foreign currencies (month average) | | | | | |
| | Movement of the Tala over the previous month and the previous year (+) appreciation / (-) depreciation | | | | |
| | Jul-17 | Jun-18 | Jul-18 | Jun-18 (%) | Jul-17 (%) |
| USD/TALA | 2.4939 | 2.5642 | 2.5888 | -0.96 | -3.81 |
| NZD/TALA | 1.8339 | 1.7796 | 1.7568 | 1.28 | 4.20 |
| AUD/TALA | 1.9422 | 1.9200 | 1.9160 | 0.21 | 1.35 |
| EUR/TALA | 2.8707 | 2.9931 | 3.0246 | -1.05 | -5.36 |
| FJD/TALA | 1.2238 | 1.2356 | 1.2343 | 0.11 | -0.86 |
| TALA/YEN | 45.0890 | 42.9437 | 43.0325 | 0.21 | -4.56 |
| TALA/CNY | 2.7167 | 2.5204 | 2.5912 | 2.81 | -4.62 |
| Nominal Index | 100.2262 | 99.9696 | 99.9811 | 0.0115 | -0.2446 |

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

Source: Central Bank of Samoa

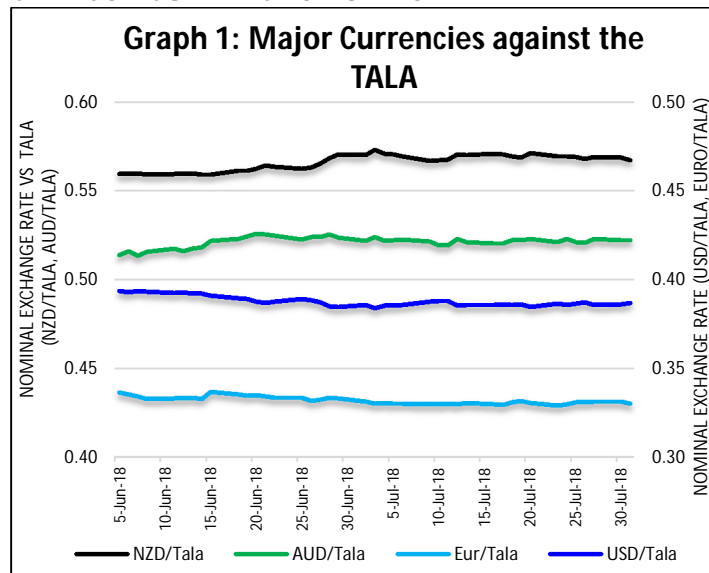


Source: Central Bank of Samoa



Source: Central Bank of Samoa

C. MAJOR CURRENCIES AGAINST THE TALA



Source: Central Bank of Samoa

D. MARKET OUTLOOK FOR Q2 2018 (As at 02nd August 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 the RBNZ noting weaker economic data and global trade tensions. These factors may drive the NZD/USD towards USD\$0.71 by Q4 2018.

EUR/USD: The Euro is expected to trade around US\$1.18, engineering a positive market response to the end of quantitative easing by giving assurance that interest rates will remain unchanged until the end of 2019.

ECONOMIC & FINANCIAL FORECASTS

Policy Interest rate forecasts

| | Latest actual (02 Aug) | Sep 18 | Dec 18 | Mar 18 | Jun 19 | Sep 19 | Dec 19 |
|-----------------------|---------------------------|--------|--------|--------|--------|--------|--------|
| USA | | | | | | | |
| Fed Funds Rate | 1.875 | 2.125 | 2.375 | 2.625 | 2.875 | 2.875 | 2.875 |
| 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 | 2.00 |
| 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 | 0.75 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 |

Exchange rate forecasts

| | Latest (2 August) | Sep 18 | Dec 18 | Jan 19 | Mar 19 | 2019 | 2020 |
|---------|-------------------|--------|--------|--------|--------|--------|--------|
| AUD/USD | 0.7400 | 0.74 | 0.74 | 0.75 | 0.76 | 0.77 | 0.79 |
| NZD/USD | 0.6789 | 0.68 | 0.68 | 0.69 | 0.70 | 0.72 | 0.78 |
| EUR/USD | 1.1660 | 1.17 | 1.18 | 1.20 | 1.23 | 1.26 | 1.26 |
| USD/JPY | 111.6050 | 110.00 | 111.00 | 110.00 | 110.00 | 108.00 | 109.00 |
| GBP/USD | 1.3123 | 1.33 | 1.34 | 1.35 | 1.38 | 1.42 | 1.43 |
| USD/CNH | 6.8378 | 6.66 | 6.59 | 6.61 | 6.55 | 6.54 | 6.58 |

US economic indicators and outlook

| | Dec 17 | Mar 18 | Jun 18(e) | Sep 18 (f) | Dec 18 (f) | Mar 19(f) | Jun 19(f) |
|---------------------|--------|--------|-----------|------------|------------|-----------|-----------|
| GDP % qtr | 2.3 | 2.2 | 4.1 | 3.0 | 2.9 | 2.9 | 2.3 |
| % yr | 2.5 | 2.6 | 2.8 | 2.8 | 2.8 | 2.8 | 2.6 |
| Unemployment rate % | 4.1 | 4.1 | 3.8 | 3.8 | 3.7 | 3.7 | 3.6 |
| CPI % yr | 2.1 | 2.3 | 2.8 | 2.8 | 2.5 | 2.1 | 2.3 |

Australian economic indicators and outlook

| | Dec 17 | Mar 18 | Jun 18 (f) | Sep 18 (f) | Dec 18 (f) | Mar 19(f) | Jun 19(f) |
|---------------------|--------|--------|------------|------------|------------|-----------|-----------|
| GDP % qtr / yr avg | 0.5 | 1.0 | 0.5 | 0.6 | 0.6 | 0.7 | 0.6 |
| % yr | 2.4 | 3.1 | 2.6 | 2.6 | 2.7 | 2.4 | 2.5 |
| Unemployment rate % | 5.4 | 5.5 | 5.5 | 5.4 | 5.5 | 5.5 | 5.6 |
| CPI % qtr | 0.6 | 0.4 | 0.4 | 0.5 | 0.4 | 0.4 | 0.4 |
| % yr | 1.9 | 1.9 | 2.1 | 1.9 | 1.7 | 1.6 | 1.6 |

New Zealand economic indicators and outlook

| | Dec 17 | Mar 18 | Jun 18 (f) | Sep 18 (f) | Dec 18 (f) | Mar 19(f) | Jun 19(f) |
|---------------------|--------|--------|------------|------------|------------|-----------|-----------|
| GDP % qtr | 0.6 | 0.5 | 0.7 | 0.8 | 0.7 | 0.8 | 0.9 |
| Annual avg change | 2.8 | 2.7 | 2.7 | 2.7 | 2.6 | 2.7 | 2.9 |
| Unemployment rate % | 4.5 | 4.4 | 4.4 | 4.5 | 4.6 | 4.7 | 4.7 |
| CPI % qtr | 0.1 | 0.5 | 0.4 | 0.7 | 0.3 | 0.4 | 0.2 |
| Annual % change | 1.6 | 1.1 | 1.5 | 1.7 | 1.9 | 1.8 | 1.6 |

Source: Bloomberg, Westpac Economics Update (30 July 2018), Trading Economics