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EXCHANGE RATE DEVELOPMENTS AUGUST 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	August 9, 2018	crude oil (US\$/bbl)	\$77.64	\$3.25	\$74.39
Reserve Bank of Australia	1.50%	0.00	September 4, 2018	whole milk powder (US\$/t)	\$3,400.00	\$178.00	\$3,222.00
US Federal Reserve	1.75 - 2.00%	0.00	August 1, 2018				
European Central Bank	0.00%	0.00	July 26, 2018				
Bank of England	0.75%	+0.25%	August 2, 2018				

A. CURRENCY WATCH

In August, the overall nominal effective value of the **Samoa Tala appreciated by 0.0242 percent** against the currency basket. This resulted from the Tala's appreciation against the New Zealand dollar (by 0.88 percent), Australian dollar (by 0.19 percent), and Euro (by 0.41 percent), which more than offset the Tala's depreciation against the United States dollar (by 0.69 percent).

The **United States dollar (USD)** remained strong in August, supported by the following developments:

- A string of upbeat US economic releases, including increased consumer confidence, gains in private payrolls, few job openings, better than expected retail sales, increased manufacturing index, strong Q2 GDP, increase in personal consumption expenditure (PCE), and higher consumer spending;
- The US Fed kept its interest rates unchanged and indirectly confirmed the pace for further tightening of their monetary policy.
- This upward trend continued despite ongoing trade spat between the U.S and China;

The **Euro** slid from US\$1.17 to USD\$1.14 on the back of:

- Downbeat economic releases out of the region, particularly worse-than-expected German factory orders (the biggest fall in almost 18 months) and underwhelming Eurozone economic data;
- Growing economic crisis in Turkey that shook investors' confidence in lenders exposed to the country;
- Ongoing political uncertainty in Italy.

The **Australian dollar (AUD)** traded between US\$0.74 to US\$0.72, depreciating against the USD due to:

- Unfavorable domestic data releases during the month, (such as weak commodities, particularly declining copper and stock prices);
- Political turmoil, with leadership movement chaos, undermining confidence in the government and on Australian assets from the perspective of global investors.

- 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\$0.65, reflecting:

- The Reserve Bank of New Zealand's (RBNZ) unexpected commitment to keep interest rates at a record low through to 2020 on disappointing economic activity compared to an earlier hold to 2019;
- Disappointing domestic data released during the month (such as a decrease in business consents and ANZ business confidence indicator sinking to a decade low in August).
- Kiwi investors under pressure from lower demand on higher-risk assets.

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

- Favorable domestic data releases such as mainly increased in stock prices.
- Improved investors' risk appetite as investors turn to riskier assets.

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

- Unfavourable domestic data releases during the month, such as the decline in Asian commodities, Caixin Purchase Manager Index (PMI) services, industrial production, fixed asset investment and in line with China Q2 GDP;
- China's central bank may take further action to hedge against exchange rate risks, in light of the changing global situation and recent currency turmoil in some emerging markets.

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 August 2018, compared to the previous month and August 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				
	Aug-17	Jul-18	Aug-18	Jul-18 (%)	Aug-17 (%)
NZD/USD	0.7323	0.6786	0.6681	-1.55	-8.77
AUD/USD	0.7920	0.7401	0.7336	-0.88	-7.37
USD/YEN	109.8598	111.4030	111.0873	0.28	-1.12
USD/CNY	6.6753	6.7082	6.8474	-2.08	-2.58
EUR/USD	1.1816	1.1684	1.1556	-1.10	-2.20
FJD/USD	0.4957	0.4768	0.4752	-0.34	-4.14

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

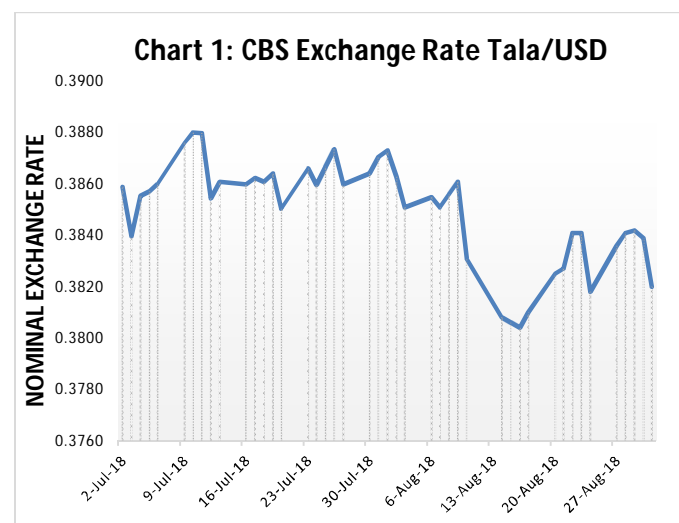
Source: Central Bank of Samoa

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

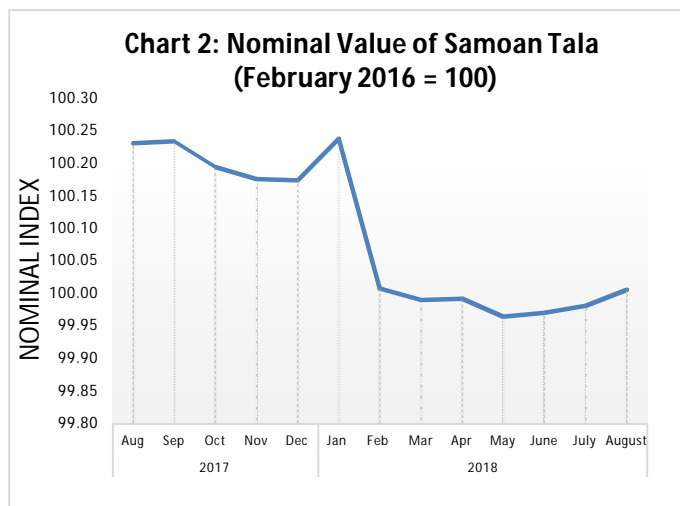
Table 2					
Tala* per foreign currencies (month average)					
	Movement of the Tala over the previous month and the previous year				
	(+ appreciation / (-) depreciation				
	Aug-17	Jul-18	Aug-18	Jul-18 (%)	Aug-17 (%)
USD/TALA	2.4888	2.5888	2.6067	-0.69	-4.74
NZD/TALA	1.8214	1.7568	1.7413	0.88	4.40
AUD/TALA	1.9710	1.9160	1.9123	0.19	2.98
EUR/TALA	2.9406	3.0246	3.0123	0.41	-2.44
FJD/TALA	1.2337	1.2343	1.2386	-0.35	-0.40
TALA/YEN	44.1503	43.0325	42.6167	-0.97	-3.47
TALA/CNY	2.6822	2.5912	2.6268	1.37	-2.07
Nominal Index	100.2345	99.9811	100.0052	0.0242	-0.2287

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

Source: Central Bank of Samoa

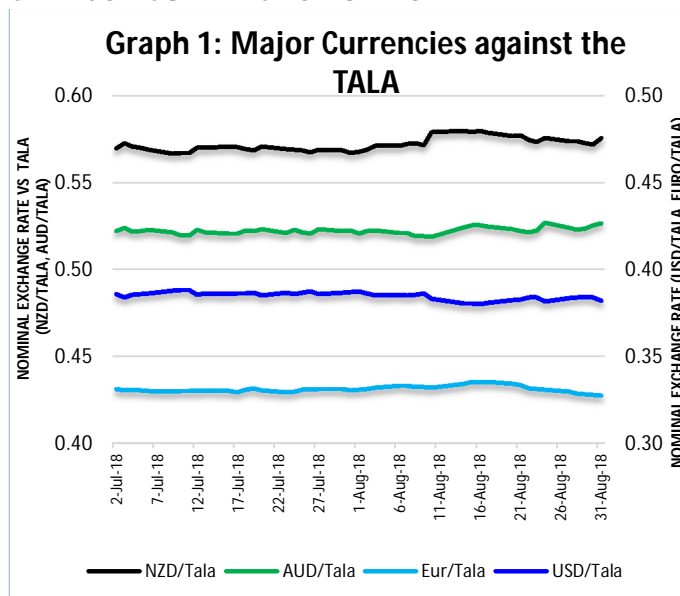


Source: Central Bank of Samoa



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C. MAJOR CURRENCIES AGAINST THE TALA



Source: Central Bank of Samoa

D. MARKET OUTLOOK FOR Q3 2018 (As at 10th September 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 2020, with the RBNZ noting weaker economic data and global trade tensions. These factors may drive the NZD/USD towards USD\$0.74 by Q4 2018.

EUR/USD: The Euro is expected to trade around US\$1.16, 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 (10 Sep)	Sep 18	Dec 18	Mar 19	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	0.75	0.75	0.75	0.75	0.75	0.75

Exchange rate forecasts

	Latest (10 Sept)	Dec 18	Mar 19	Jun 19	Sep 19	2019	2020
AUD/USD	0.7099	0.74	0.74	0.75	0.75	0.77	0.75
NZD/USD	0.6533	0.67	0.67	0.68	0.69	0.70	0.70
EUR/USD	1.1555	1.16	1.18	1.20	1.19	1.25	1.29
USD/JPY	110.9300	110.00	110.00	108.00	104.00	105.00	103.00
GBP/USD	1.2928	1.30	1.32	1.35	1.39	1.40	1.45
USD/CNH	6.8438	6.85	6.78	6.70	-	6.57	6.48

US economic indicators and outlook

	Dec 17	Mar 18	Jun 18	Sep 18 (f)	Dec 18 (f)	Mar 19(f)	Jun 19(f)
GDP % qtr	2.3	2.2	4.2	3.2	3.1	2.6	1.8
% yr	2.5	2.6	2.8	2.9	3.1	3.2	2.7
Unemployment rate %	4.1	4.1	3.9	3.8	3.7	3.7	3.7
CPI % yr	2.1	2.4	2.8	2.4	2.3	2.2	2.1

Australian economic indicators and outlook

	Dec 17	Mar 18	Jun 18	Sep 18 (f)	Dec 18 (f)	Mar 19(f)	Jun 19(f)
GDP % qtr / yr avg	0.5	1.1	0.9	0.5	0.6	0.7	0.6
% yr	2.4	3.1	3.4	2.7	2.7	2.5	2.4
Unemployment rate %	5.4	5.5	5.4	5.4	5.5	5.6	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	1.0	0.6	0.7	0.7	0.8
Annual avg change	2.8	2.7	2.7	2.8	2.8	2.9	2.9
Unemployment rate %	4.5	4.4	4.5	4.5	4.6	4.7	4.7
CPI % qtr	0.1	0.5	0.4	0.7	0.3	0.4	0.1
Annual % change	1.6	1.1	1.5	1.7	1.9	1.8	1.5

Source: Bloomberg, Westpac Economics Update (31 Aug 2018), Trading Economics