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EXCHANGE RATE DEVELOPMENTS SEPTEMBER 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	September 27, 2018	crude oil (US\$/bbl)	\$82.73	\$5.33	\$77.40
Reserve Bank of Australia	1.50%	0.00	October 2, 2018	whole milk powder (US\$/t)	\$3,388.00	\$620.00	\$2,768.00
US Federal Reserve	2.00 - 2.25%	+0.25%	September 26, 2018				
European Central Bank	0.00%	0.00	September 13, 2018				
Bank of England	0.75%	0.00	August 2, 2018				

A. CURRENCY WATCH

In September, the overall nominal effective value of the **Samoa Tala appreciated by 0.0362 percent** against the currency basket. This resulted from the Tala's appreciation against the New Zealand dollar (by 0.48 percent) and Australian dollar (by 1.07 percent) which more than offset the Tala's depreciation against the United States dollar (by 0.81 percent) and Euro (by 1.71 percent).

The **United States dollar (USD)** continued to strengthen in September, supported by the following developments:

- A string of positive US economic releases, including increased ISM¹ manufacturing data, better than expected jobs, strong wage growth, upbeat U.S. retail sales, gain in consumer confidence reports and increase in home building;
- The U.S. central bank as widely expected, raised its Fund rate by a quarter of a percentage point to a range of between 2.00% to 2.25%.
- This upward trend continued despite renewed market concerns over escalating trade tensions between the US and China US markets as well as the closure of the US markets for Labor Day Holiday during the month.

The **Euro** rose from US\$1.15 to USD\$1.16 on the back of:

- Upbeat economic releases out of the region such as rise in stock markets and consumer inflation data;
- The European Central Bank's (ECB) interest rate decision that was widely expected to be unchanged and positive signs of the central bank's commitment to end its bond-buying program;
- ECB President Mario Draghi's positive remarks regarding the pickup in Eurozone inflation and confidence that acceleration in wage growth would continue for the region.

The **Australian dollar (AUD)** traded between US\$0.73 to US\$0.72, depreciating against the USD due to:

- Unfavorable domestic data releases during the month, (mainly flat retail sales and weaker commodities, particularly declining copper and stock prices);

- Escalating tensions between the US and China, as the Aussie currency is highly sensitive to the Chinese economy and related developments.
- 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\$0.66 to USD\$0.65, reflecting:

- Disappointing domestic data released during the month including a drop in Global Dairy Trade Prices, decline in consumer sentiment, the markets perceiving the Reserve Bank of New Zealand (RBNZ) as dovish following its official cash rate decision;
- Other external factors such as global trade concerns, stronger-than-expected U.S. economic data and widening interest rate differentials with the US;
- The RBNZ's indication that its official cash rate of 1.75% (while expected to be unchanged in the month) would remain at this level into 2020, longer than earlier expected.

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

- Unfavorable domestic data releases, mainly decreased in Japan's Producer Price Index.
- Improved investors' risk appetite as investors turn to riskier assets.
- The Bank of Japan left its benchmark interest rate and policy unchanged as expected.

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

- Unfavourable domestic data releases during the month, including the decline in Asian commodities and gain in Chinese local government debt;
- Escalating trade relations with the US after President Trump imposed a fresh round of tariffs targeting about \$200 billion in Chinese goods.

¹ Institute for Supply Management

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 September 2018, compared to the previous month and September 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				
	Sep-17	Aug-18	Sep-18	Aug-18 (%)	Sep-17 (%)
NZD/USD	0.7247	0.6681	0.6596	-1.27	-8.98
AUD/USD	0.7970	0.7336	0.7200	-1.85	-9.66
USD/YEN	110.7052	111.0873	111.9198	-0.75	-1.10
USD/CNY	6.5675	6.8474	6.8532	-0.08	-4.35
EUR/USD	1.1910	1.1556	1.1661	0.91	-2.09
FJD/USD	0.4955	0.4752	0.4706	-0.97	-5.03

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

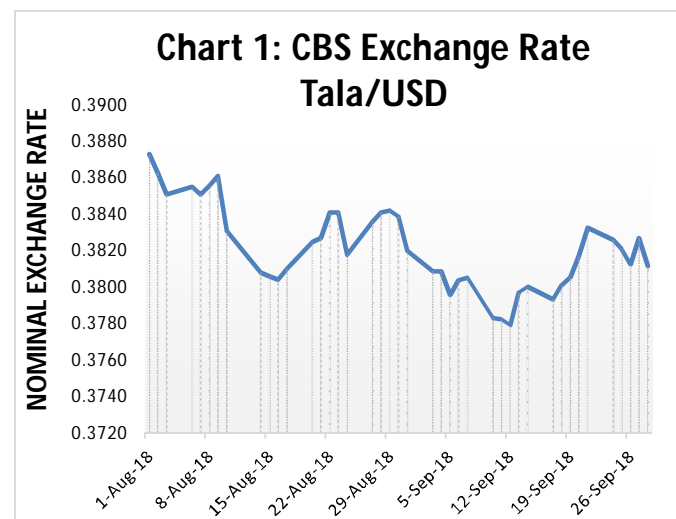
Source: Central Bank of Samoa

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

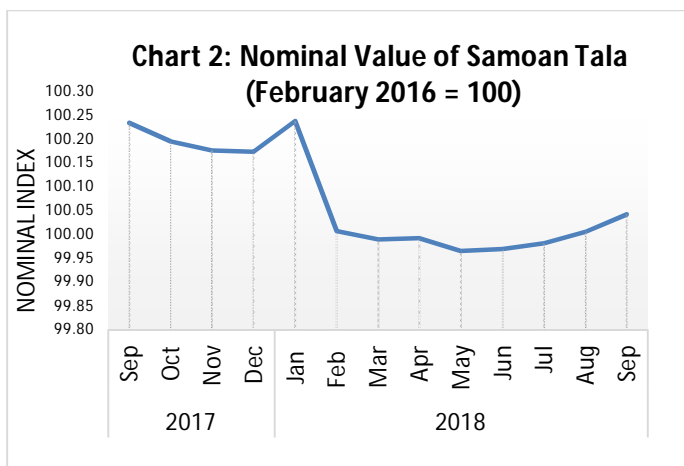
Table 2					
Tala* per foreign currencies (month average)					
	Movement of the Tala over the previous month and the previous year (+) appreciation / (-) depreciation				
	Sep-17	Aug-18	Sep-18	Aug-18 (%)	Sep-17 (%)
USD/TALA	2.4932	2.6067	2.6278	-0.81	-5.40
NZD/TALA	1.8067	1.7413	1.7329	0.48	4.08
AUD/TALA	1.9870	1.9123	1.8918	1.07	4.79
EUR/TALA	2.9692	3.0123	3.0637	-1.71	-3.18
FJD/TALA	1.2738	1.2386	1.2366	0.16	2.92
TALA/YEN	44.4036	42.6167	42.5976	-0.04	-4.07
TALA/CNY	2.6342	2.6268	2.6080	-0.72	-0.99
Nominal Index	100.2374	100.0052	100.0414	0.0362	-0.1955

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

Source: Central Bank of Samoa

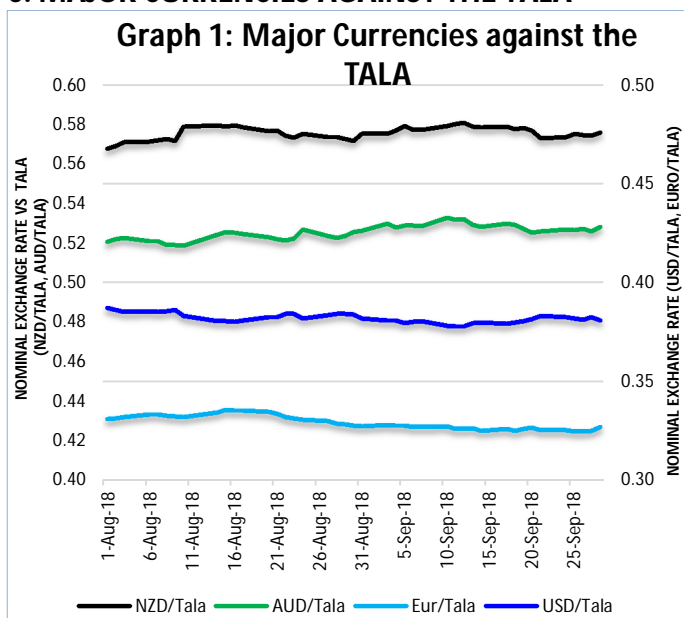


Source: Central Bank of Samoa



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C. MAJOR CURRENCIES AGAINST THE TALA



Source: Central Bank of Samoa

D. MARKET OUTLOOK FOR Q3 2018 (As at 3rd October 2018):

AUD/USD: Markets expectations are for the AUD/USD to trade around USD\$0.72 by end of 2018, with the RBA observing downbeat economic factors and political uncertainties, thus add pressure on the Australian dollar.

NZD/USD: The RBNZ is expected to hold its overnight cash rate steady at 1.75 percent until Q4 2020, weighed down by rising U.S. interest rates, solid U.S. economic data and lower demand for risky assets. These factors may drive the NZD/USD towards USD\$0.67 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 (3 Oct)	Dec 18	Mar 19	Jun 19	Sep 19	Dec 19	Jun 20
USA							
Fed Funds Rate	2.125	2.375	2.625	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 (3 Oct)	Dec 18	Mar 19	Jun 19	Sep 19	2019	2020
AUD/USD	0.7187	0.73	0.73	0.74	0.75	0.75	0.75
NZD/USD	0.6597	0.66	0.67	0.68	0.69	0.70	0.68
EUR/USD	1.1542	1.16	1.18	1.20	1.22	1.23	1.27
USD/JPY	113.7650	111.00	110.00	109.00	108.00	107.00	106.00
GBP/USD	1.2976	1.30	1.32	1.34	1.35	1.37	1.40
USD/CNH	6.8861	6.84	6.87	6.75	6.72	6.73	6.52

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	2.9	3.0	3.2	3.3	2.7
Unemployment rate %	4.1	4.1	3.9	3.8	3.7	3.6	3.6
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	0.7	1.1	0.9	0.7	0.6	0.7	0.6
% yr	2.4	3.2	3.4	3.4	3.3	2.8	2.5
Unemployment rate %	5.4	5.5	5.4	5.3	5.3	5.3	5.5
CPI % qtr	0.6	0.4	0.4	0.3	0.5	0.4	0.4
% yr	1.9	1.9	2.1	1.8	1.7	1.6	1.7

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	0.7	0.7	0.7	0.8
Annual avg change	2.8	2.7	2.7	2.8	2.8	3.0	3.0
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	0.2
Annual % change	1.6	1.1	1.5	1.7	1.9	1.8	1.6

Source: Bloomberg, Westpac Economics Update (1 Oct 2018), Trading Economics