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EXCHANGE RATE DEVELOPMENTS OCTOBER 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	November 8, 2018	crude oil (US\$/bbl)	\$75.04	-\$7.20	\$82.24
Reserve Bank of Australia	1.50%	0.00	November 6, 2018	whole milk powder (US\$/t)	\$3,150.00	-\$238.00	\$3,388.00
US Federal Reserve	2.00 - 2.25%	0.00	November 8, 2018				
European Central Bank	0.00%	0.00	October 25, 2018				
Bank of England	0.75%	0.00	November 1, 2018				

A. CURRENCY WATCH

The overall nominal effective value of the **Samoa Tala appreciated by 0.0324 percent** against the currency basket. This resulted from the Tala's appreciation against the New Zealand dollar (by 0.36 percent), Australian dollar (by 0.67 percent) and Euro (by 0.87 percent) which more than offset the Tala's depreciation against the United States dollar (by 0.55 percent).

Of the currencies in the Tala currency basket, the **United States dollar (USD)** continued to strengthen, supported by the following developments:

- A string of positive US economic releases during the month, including higher-than-expected private sector jobs data, upbeat U.S. jobless data, gains in industrial production and increase in pending home sales;
- The USD also surged higher as bond yields rose and following the release of the Federal Reserve's September meeting Minutes indicating another Fund Rate hike in December.
- This upward trend continued despite market concerns over escalating US-China trade tensions.

The **Euro** weakened against the USD from US\$1.17 to US\$1.13 on the back of:

- Downbeat economic releases out of the Euro region such as the decline in the EU 3rd quarter GDP which came in well below expectations;
- An expected monetary policy stance by the European Central Bank (ECB) to leave interest rates unchanged and continue with their neutral stance.
- An ongoing political tension between Italy's populist government and the European Commission over the country's budget plans;

The **Australian dollar (AUD)** fell from US\$0.72 to US\$0.70, due to:

- The stronger USD as well as unfavorable domestic data releases during the month, (mainly reflecting a drop in building approvals and weaker commodity price);

- Escalating tensions between the US and China, adding pressure to some extent on the Chinese economy, which is one of Australia's major trading partners;
- 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\$0.67 to USD\$0.65, reflecting:

- Disappointing domestic data released during the month including the ANZ business confidence indicator sinking to a nine months low, sharp rise in U.S. Treasury yields and decline in stock prices;
- Other external factors such as global trade concerns, stronger-than-expected U.S. economic data and the widening interest rate differentials with the US;

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 decrease in the Tankan manufacturing index, current account surplus and exports.
- Improved investors' risk appetite as investors turn to riskier assets.
- The expected policy stance by the Bank of Japan for its benchmark interest rate to be unchanged.

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

- Unfavourable domestic data releases during the month, including the decline in Asian commodities, Shanghai Composite and Shenzhen Composite and shares on China's Shanghai Composite Index sank 3 percent;
- The announcement by the People's Bank of China (PBoC) of another cut in the Reserve Rate Requirement (RRR) for the majority of banks by 100 bps, which was the PBoC's 4th reserve requirement cut for the year.
- The Asian markets closed for China's Independence Holiday on October 1st to 7th.

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

	Movement of other currencies against the USD over the previous month and the previous year (+) appreciation / (-) depreciation				
	Oct-17	Sep-18	Oct-18	Sep-18 (%)	Oct-17 (%)
NZD/USD	0.7054	0.6596	0.6535	-0.92	-7.36
AUD/USD	0.7795	0.7200	0.7112	-1.22	-8.76
USD/YEN	112.9079	111.9198	112.8332	-0.82	0.07
USD/CNY	6.6300	6.8532	6.8999	-0.68	-4.07
EUR/USD	1.1763	1.1661	1.1494	-1.43	-2.29
FJD/USD	0.4891	0.4706	0.4669	-0.79	-4.54

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

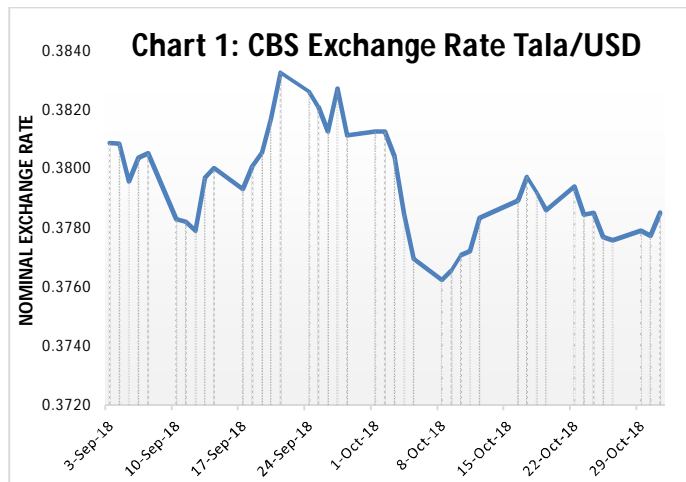
Source: Central Bank of Samoa

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

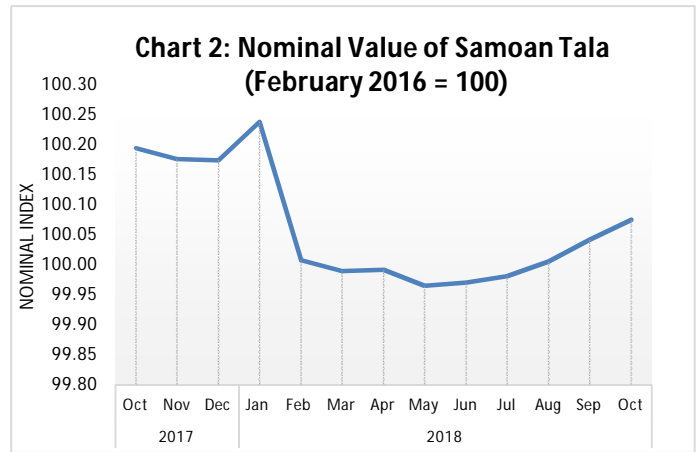
	Movement of the Tala over the previous month and the previous year (+) appreciation / (-) depreciation				
	Oct-17	Sep-18	Oct-18	Sep-18 (%)	Oct-17 (%)
USD/TALA	2.5270	2.6278	2.6423	-0.55	-4.56
NZD/TALA	1.7823	1.7329	1.7267	0.36	3.12
AUD/TALA	1.9697	1.8918	1.8791	0.67	4.60
EUR/TALA	2.9717	3.0637	3.0370	0.87	-2.20
FJD/TALA	1.2359	1.2366	1.2337	0.23	0.18
TALA/YEN	44.6816	42.5976	42.7029	0.25	-4.43
TALA/CNY	2.6238	2.6080	2.6113	0.13	-0.48
Nominal Index	100.1939	100.0414	100.0738	0.0324	-0.1198

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

Source: Central Bank of Samoa

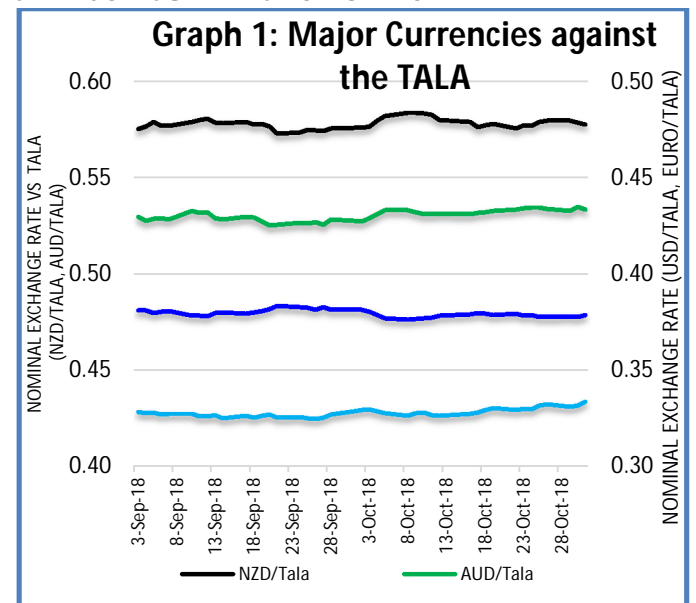


Source: Central Bank of Samoa



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C. MAJOR CURRENCIES AGAINST THE TALA



Source: Central Bank of Samoa

D. MARKET OUTLOOK FOR Q3 2018

(As at 19th November 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, exerting downward pressure on the AUD.

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 (19 Nov)	Dec 18	Mar 19	Jun 19	Sep 19	Dec 19	Jun 20
USA							
Fed Funds Rate	2.125	2.375	2.625	2.875	3.125	3.125	3.125
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 (19 Nov)	Dec 18	Mar 19	Jun 19	Sep 19	2019	2020
AUD/USD	0.7316	0.72	0.72	0.73	0.74	0.75	0.77
NZD/USD	0.6865	0.66	0.66	0.66	0.68	0.68	0.67
EUR/USD	1.1405	1.156	1.18	1.20	1.22	1.23	1.26
USD/JPY	112.8400	112.00	112.00	110.00	110.00	109.00	105.00
GBP/USD	1.2829	1.30	1.33	1.35	1.35	1.37	1.43
USD/CNH	6.9380	6.96	6.98	6.85	6.80	7.02	6.77

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	3.5	3.3	2.4	2.0
% yr	2.5	2.6	2.9	3.0	3.3	3.4	2.8
Unemployment rate %	4.1	4.1	3.9	3.8	3.7	3.6	3.5
CPI % yr	2.1	2.4	2.8	2.3	2.2	2.0	2.0

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	2.9	2.6
Unemployment rate %	5.5	5.5	5.4	5.2	5.1	5.2	5.3
CPI % qtr	0.6	0.4	0.4	0.4	0.7	0.3	0.3
% yr	1.9	1.9	2.1	1.9	2.0	1.9	1.9

New Zealand economic indicators and outlook

	Dec 17	Mar 18	Jun 18	Sep 18 (f)	Dec 18 (f)	Mar 19(f)	Jun 19(f)
GDP % qtr	0.6	0.5	1.0	0.7(f)	0.7	0.7	0.8
Annual avg change	2.8	2.7	2.7	2.8(f)	2.8	3.0	3.0
Unemployment rate %	4.5	4.4	4.5	3.9	4.3	4.4	4.3
CPI % qtr	0.1	0.5	0.4	0.9	0.5	0.4	0.2
Annual % change	1.6	1.1	1.5	1.9	2.3	2.2	2.0