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EXCHANGE RATE DEVELOPMENTS NOVEMBER 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)	\$59.46	-\$15.60	\$75.06
Reserve Bank of Australia	1.50%	0.00	December 4, 2018	whole milk powder (US\$/t)	\$3,100.00	-\$50.00	\$3,150.00
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 depreciated by 0.0657 percent** against the currency basket. This resulted from the Tala's depreciation against the New Zealand dollar (by 2.07 percent), Australian dollar (by 0.31 percent) which more than offset the Tala's appreciation against the United States dollar (by 1.43 percent) and Euro (by 2.56 percent).

Of the currencies in the Tala currency basket, the **United States dollar (USD)** was weakened due to the following developments:

- A string of disappointing US economic releases during the month, included the decrease in manufacturing activity, weakened oil prices, downbeat U.S housing stocks and other related homebuilding shares, weak core personal consumption expenditure (PCE) price index and initial weekly jobless claims;
- US midterm election results turned out to be a bearish catalyst for the USD, coupled with the Federal Reserve Vice Chairman Richard Clarida's dovish comment about the central bank interest rates to be kept closer to neutral.
- Although current tariffs will continue, future tariffs will be delayed, allowing the US-China to negotiate a more permanent solution to their current trade disputes.
- The US markets closed for Thanksgiving Holiday on 22 November.

The **Euro** weakened against the USD from US\$1.15 to US\$1.13 on the back of:

- Downbeat economic releases out of the Euro region such as the weaker than expected retail sales growth in Germany, Eurozone investor morale slumping to 2-year-low and European equities falling over continued political pressure between the European Commission and Rome.;
- European markets were drifting lower due to trade concerns, Brexit uncertainty, and Italian budget issues weighing down sentiment.

The **Australian dollar (AUD)** strengthened from US\$0.71 to US\$0.72, due to:

- The weaker USD and favorable domestic data releases during the month, such as the better than expected trade surplus, positive October employee figures and positive copper prices;
- The Aussie was also influenced by increased demand for higher yielding assets;
- The Reserve Bank of Australia (RBA) is maintaining the cash rate at a record low of 1.50 percent, as expected.

The **New Zealand dollar (NZD)** rose from around USD\$0.65 to USD\$0.68, reflecting:

- Positive domestic data released during the month included the ANZ business confidence indicator improving, slower mortgage lending growth and slower house price inflation which has reduced default risk, and stock price rallies;
- The Reserve Bank of New Zealand kept its benchmark rate unchanged at 1.75%, as expected.

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

- Unfavorable domestic data releases, mainly reflecting the decline in Japanese Flash Manufacturing PMI.
- 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, including the decline in Asian commodities, weak Chinese service sector data, report on China's foreign exchange reserves decreasing more than expected and China's official Purchasing Managers' Index falling to its lowest since July 2016;
- China technology companies boost debt by 36% on disappointing earnings;
- The Asian markets were affected by the G20 summit meeting between President Donald Trump and President Xi.

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 November 2018, compared to the previous month and November 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				
	Nov-17	Oct-18	Nov-18	Oct-18 (%)	Nov-17 (%)
NZD/USD	0.6888	0.6535	0.6768	3.57	-1.74
AUD/USD	0.7628	0.7112	0.7238	1.77	-5.11
USD/YEN	112.8382	112.8332	113.3036	-0.42	-0.41
USD/CNY	6.6235	6.8999	6.9408	-0.59	-4.79
EUR/USD	1.1735	1.1494	1.1362	-1.15	-3.18
FJD/USD	0.4835	0.4669	0.4720	1.09	-2.38

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

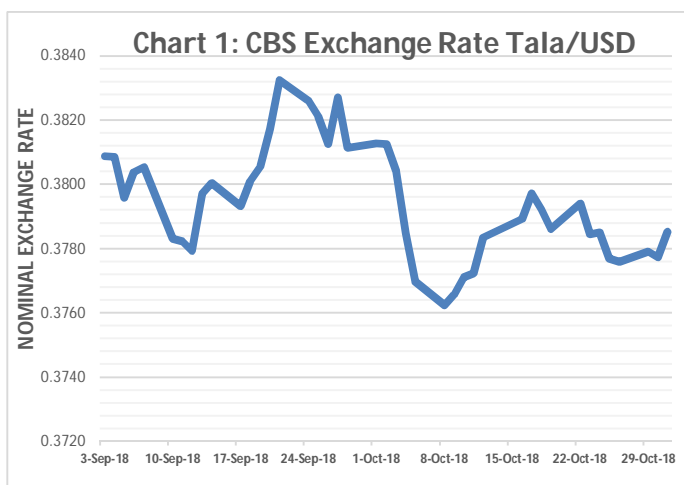
Source: Central Bank of Samoa

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

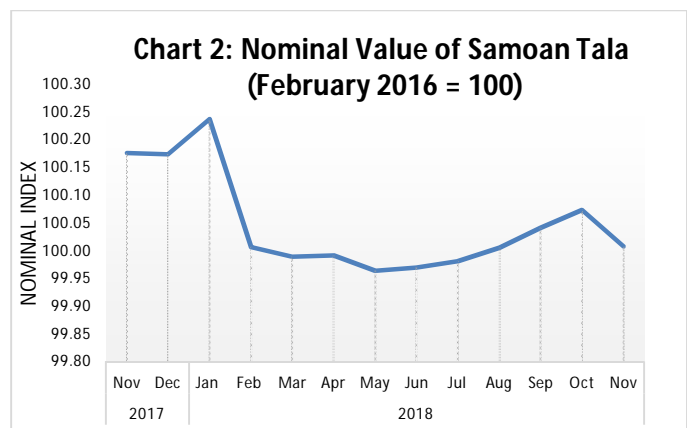
Table 2					
Tala* per foreign currencies (month average)					
	Movement of the Tala over the previous month and the previous year (+) appreciation / (-) depreciation				
	Nov-17	Oct-18	Nov-18	Oct-18 (%)	Nov-17 (%)
USD/TALA	2.5576	2.6423	2.6044	1.43	-1.83
NZD/TALA	1.7614	1.7267	1.7625	-2.07	-0.06
AUD/TALA	1.9507	1.8791	1.8850	-0.31	3.37
EUR/TALA	3.0014	3.0370	2.9592	2.56	1.41
FJD/TALA	1.2372	1.2337	1.2292	0.36	0.65
TALA/YEN	44.1190	42.7029	43.5065	1.88	-1.39
TALA/CNY	2.5897	2.6113	2.6651	2.06	2.91
Nominal Index	100.1755	100.0738	100.0081	-0.0657	-0.1671

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

Source: Central Bank of Samoa

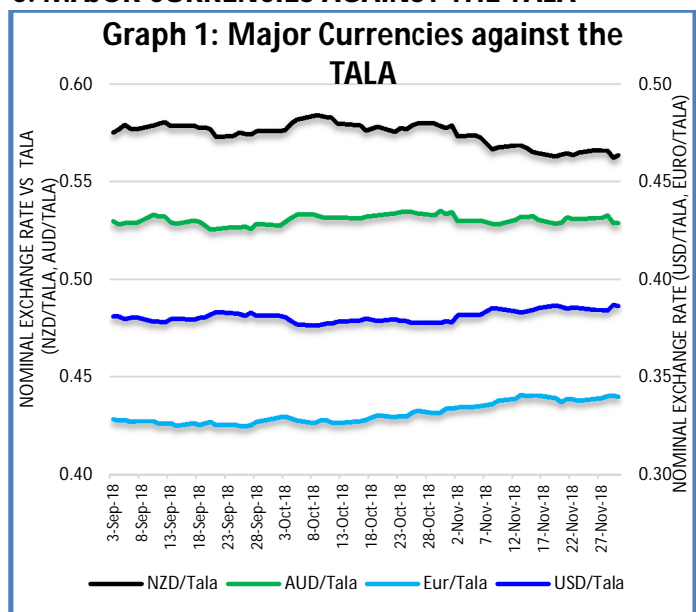


Source: Central Bank of Samoa



Source: Central Bank of Samoa

C. MAJOR CURRENCIES AGAINST THE TALA



Source: Central Bank of Samoa

D. MARKET OUTLOOK FOR Q4 2018 (As at 04th December 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 (4 Dec)	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 (4 Dec)	Mar 19	Jun 19	Sep 19	Dec 19	2019	2020
AUD/USD	0.7358	0.72	0.73	0.74	0.74	0.75	0.76
NZD/USD	0.6928	0.66	0.66	0.66	0.67	0.69	0.72
EUR/USD	1.1351	1.16	1.17	1.19	1.21	1.25	1.25
USD/JPY	113.6350	113.00	110.00	110.00	109.00	104.00	102.00
GBP/USD	1.2733	1.31	1.33	1.35	1.37	1.41	1.42
USD/CNH	6.8765	7.03	6.95	6.92	7.00	7.02	6.98

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	Dec 18 (f)	Mar 19(f)	Jun 19(f)
GDP % qtr / yr avg	0.7	1.1	0.9	0.7(f)	0.6	0.7	0.6
% yr	2.4	3.2	3.4	3.4(f)	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	0.8	0.7	0.9
Annual avg change	2.8	2.7	2.7	2.8	2.9	3.0	3.1
Unemployment rate %	4.5	4.4	4.4	3.9	4.3	4.4	4.4
CPI % qtr	0.1	0.5	0.4	0.9	0.4	0.4	0.4
Annual % change	1.6	1.1	1.5	1.9	2.2	2.1	2.1