



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 DECEMBER 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)	\$53.80	-\$5.78	\$59.58
Reserve Bank of Australia	1.50%	0.00	December 4, 2018	whole milk powder (US\$/t)	\$4,587.50	\$1,487.50	\$3,100.00
US Federal Reserve	2.25 - 2.50%	0.00	December 19, 2018				
European Central Bank	0.00%	0.00	December 13, 2018				
Bank of England	0.75%	0.00	November 20, 2018				

### A. CURRENCY WATCH

The overall nominal effective value of the **Samoan Tala appreciated by 0.0074 percent** against the currency basket. This resulted from the Tala's depreciation against the New Zealand dollar (by 0.79 percent), which more than offset the Tala's appreciation against the United States dollar (by 0.14 percent), Australian dollar (by 0.83 percent) and Euro (by 0.02 percent).

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

- A string of disappointing US economic releases during the month such as the decrease in payrolls, weaker than expected jobless claims data, downbeat US consumer inflation, decline in manufacturing data, US stocks dropped, decrease in pending home sales, weak ISM-Chicago PMI<sup>1</sup> and drop in US Treasury yield;
- On-going concerns over slowing global growth and trade tensions between China and the US.
- The Federal Reserve Bank increased its Fund rate by 25 basis points to a range of 2.25 percent to 2.50 percent, as expected, for the fourth time in 2018.

The **Euro** strengthened against the USD from US\$1.13 to US\$1.14 on the back of:

- Upbeat economic releases out of the Euro region such as the better than expected Eurozone Producer Price Index, stock increased and Eurozone industrial production rebounded in October;
- Easing political uncertainty as Italy agreed a deal with the European Commission over its 2019 budget.

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

- Unfavourable domestic data releases during the month, (mainly reflecting the disappointing third-quarter economic growth);

- The Aussie was also influenced by a drop in investors' risk appetite following disappointing data releases from China that revived concerns over an economic slowdown in the world's second biggest economy.;
- The Reserve Bank of Australia (RBA) held its policy rate unchanged at 1.50 percent, which was in line with market expectations.

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

- Positive domestic data released during the month including a strong Q3 GDP growth, better than expected business confidence data, improved dairy prices, as well as a rally in stock prices;

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

- The weaker USD and favourable domestic data releases, mainly reflecting the expansion in Japanese Flash Manufacturing PMI.
- The Japanese government is set to spend about JPY 3 trillion (US\$27 billion) in a second extra budget for this fiscal year to boost infrastructure, support for farmers and deal with natural disasters, two government sources with direct knowledge of the matter.
- The Bank of Japan kept its rates steady, maintaining its ultra-loose monetary settings.

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

- Favourable domestic data releases during the month, including the increase in Asian commodities and strong China's consumer price index (CPI);
- China's central bank rolled out a new policy tool to spur lending to small and private firms. This move was effectively a targeted rate cut that saw more pressure on the Chinese Yuan on expectations of further monetary easing to combat a slowing economy.

<sup>1</sup> Purchasing Manager Index

## 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 December 2018, compared to the previous month and December 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				
	Dec-17	Nov-18	Dec-18	Nov-18 (%)	Dec-17 (%)
NZD/USD	0.6949	0.6768	0.6831	0.93	-1.70
AUD/USD	0.7631	0.7238	0.7188	-0.69	-5.81
USD/YEN	112.9542	113.3036	112.4516	0.75	0.44
USD/CNY	6.6009	6.9408	6.8884	0.75	-4.36
EUR/USD	1.1828	1.1362	1.1376	0.12	-3.82
FJD/USD	0.4832	0.4720	0.4725	0.11	-2.21

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

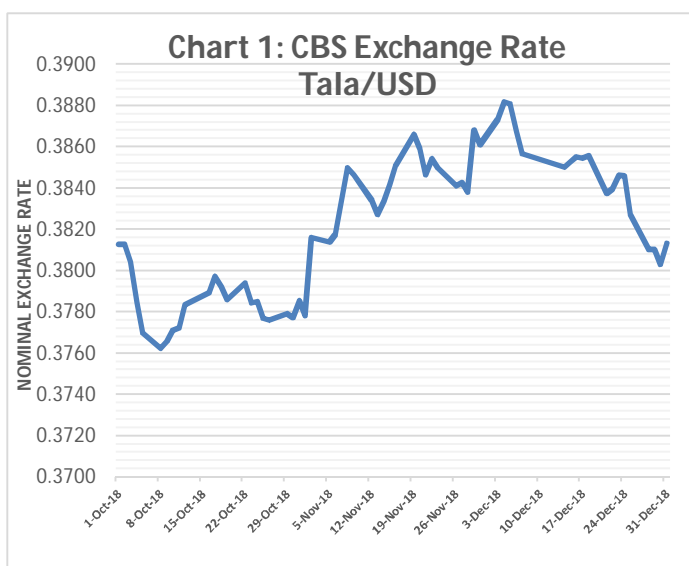
Source: Central Bank of Samoa

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

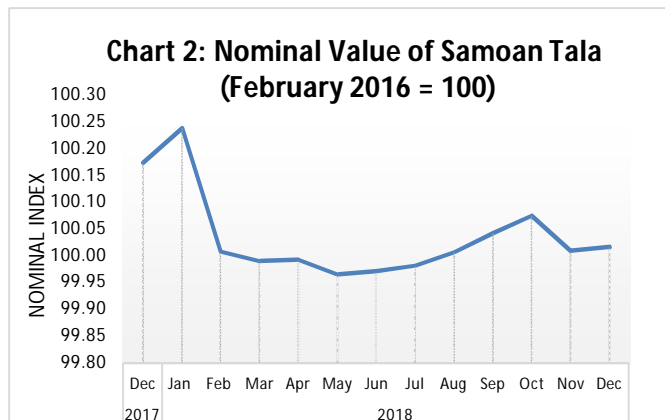
Table 2					
Tala* per foreign currencies (month average)					
	Movement of the Tala over the previous month and the previous year (+) appreciation / (-) depreciation				
	Dec-17	Nov-18	Dec-18	Nov-18 (%)	Dec-17 (%)
USD/TALA	2.5501	2.6044	2.6007	0.14	-1.98
NZD/TALA	1.7718	1.7625	1.7765	-0.79	-0.27
AUD/TALA	1.9456	1.8850	1.8693	0.83	3.92
EUR/TALA	3.0161	2.9592	2.9586	0.02	1.91
FJD/TALA	1.2322	1.2292	1.2288	0.03	0.28
TALA/YEN	44.2962	43.5065	43.2430	-0.61	-2.38
TALA/CNY	2.5886	2.6408	2.6488	0.30	2.33
Nominal Index	100.1731	100.0081	100.0155	0.0074	-0.1573

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

Source: Central Bank of Samoa

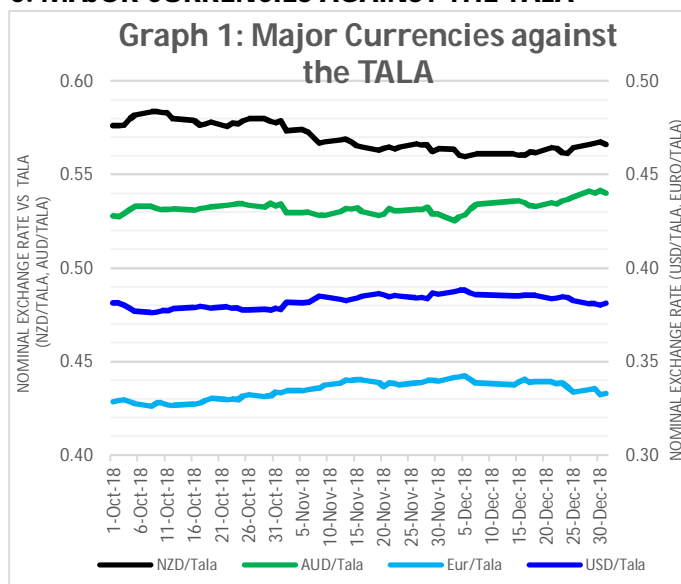


Source: Central Bank of Samoa



Source: Central Bank of Samoa

## C. MAJOR CURRENCIES AGAINST THE TALA



Source: Central Bank of Samoa

## D. MARKET OUTLOOK FOR Q1 2019 (08/01/19):

**AUD/USD:** Markets expectations are for the AUD/USD to trade around USD\$0.74 by end of 2019. In 2019, Aussie economy will be challenged by the political uncertainty of an election campaign and ongoing threats from a global economic slowdown.

**NZD/USD:** The RBNZ is expected to hold its overnight cash rate steady at 1.75 percent until Q4 2020. There are positive signs that growth is lifting (as expected) and cost pressures are increasing. Nevertheless, the overall inflation (within 1-3% target) backdrop remains very contained and the RBNZ is in no rush to hike.

**EUR/USD:** The Euro is now revised to trade around US\$1.20 towards the end of 2019. There is room for optimism that Eurozone inflation could boost the currency in the early part of the year. With monetary policy broadly looking stable, there is potential upside for the Euro, especially the risk factor posed by Italy is now overstated.

# ECONOMIC & FINANCIAL FORECASTS

## Policy Interest rate forecasts

	Latest actual (8 January)	Mar 19	Jun 19	Sep 19	Dec 19	Mar 20	Jun 20
<b>USA</b>							
Fed Funds Rate	2.375	2.625	2.875	3.125	3.125	3.125	3.125
<b>Australia</b>							
RBA Cash Rate	1.50	1.50	1.50	1.50	1.50	1.50	1.50
<b>New Zealand</b>							
RBNZ Cash Rate	1.75	1.75	1.75	1.75	1.75	1.75	1.75
<b>China</b>							
PBOC Interest Rate	4.35	4.35	4.35	4.35	4.35	4.35	4.35
<b>Euro-Area</b>							
ECB Refinance Rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>United Kingdom</b>							
BOE Base Rate	0.75	0.75	0.75	0.75	0.75	0.75	0.75

## Exchange rate forecasts

	Latest (8 Jan)	Mar 19	Jun 19	Sep 19	Dec 19	2019	2020
AUD/USD	0.7142	0.72	0.73	0.74	0.75	0.77	0.80
NZD/USD	0.6727	0.68	0.68	0.69	0.70	0.73	0.72
EUR/USD	1.1488	1.15	1.17	1.19	1.20	1.25	1.26
USD/JPY	108.6450	112.00	111.00	109.00	108.00	104.00	102.00
GBP/USD	1.2716	1.31	1.33	1.35	1.37	1.41	1.42
USD/CNH	6.8532	6.85	6.80	6.92	6.70	6.55	6.25

## US economic indicators and outlook

	Mar 18	Jun 18	Sep 18	Dec 18 (f)	Mar 19(f)	Jun 19(f)	Sep 19(f)
GDP % qtr	2.3	4.2	3.5	2.5	2.7	2.0	1.6
% yr	2.5	2.9	3.0	3.1	3.2	2.7	2.2
Unemployment rate %	4.1	3.9	3.8	3.7	3.6	3.5	3.5
CPI % yr	2.8	2.3	2.1	1.9	1.9	1.9	1.9

## Australian economic indicators and outlook

	Mar 18	Jun 18	Sep 18	Dec 18 (f)	Mar 19(f)	Jun 19(f)	Sep 19(f)
GDP % qtr / yr avg	0.7	0.9	0.3	0.7(f)	0.6	0.5	0.7
% yr	2.4	3.1	2.8	3.0(f)	2.5	2.0	2.5
Unemployment rate %	5.5	5.4	5.2	5.0	5.1	5.2	5.1
CPI % qtr	0.6	0.4	0.4	0.4	0.3	0.4	0.6
% yr	1.9	2.1	1.9	1.7	1.5	1.6	1.8

## New Zealand economic indicators and outlook

	Mar 18	Jun 18	Sep 18	Dec 18 (f)	Mar 19(f)	Jun 19(f)	Sep 19(f)
GDP % qtr	0.6	1.0	0.3	0.8	0.7	0.9	0.8
Annual avg change	2.8	3.1	3.0	2.9	2.8	2.7	2.9
Unemployment rate %	4.5	4.4	3.9	4.3	4.4	4.3	4.3
CPI % qtr	0.1	0.4	0.9	0.3	0.3	0.5	0.8
Annual % change	1.6	1.5	1.9	2.1	1.9	2.0	1.9

Source: Bloomberg, Westpac Economics Update (8 Jan 2019), Trading Economics