



EXCHANGE RATE DEVELOPMENTS JANUARY 2019

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)	\$60.84	\$7.04	\$53.80
Reserve Bank of Australia	1.50%	0.00	February 5, 2019	whole milk powder (US\$/t)	\$4,187.50	-\$400.00	\$4,587.50
US Federal Reserve	2.00 - 2.25%	0.00	January 30, 2019				
European Central Bank	0.00%	0.00	January 24, 2019				
Bank of England	0.75%	0.00	December 20, 2018				

A. CURRENCY WATCH

The overall nominal effective value of the **Samoa Tala appreciated by 0.0111 percent** against the currency basket. This has resulted from the Tala's appreciation against the New Zealand dollar (by 0.47 percent) and Australian dollar (by 0.17 percent), which more than offset the Tala's depreciation against the United States dollar (by 0.38 percent) and Euro (by 0.71 percent).

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

- A string of upbeat US economic releases during the month such as the better than expected ADP¹ job report, increased treasury yields, labour market conditions remained positive, and robust manufacturing data;
- The Federal Reserve Bank, as expected, maintained its Fund rate at a range of 2.25 percent to 2.50 percent.
- Partially offsetting the impact from the on-going trade tensions with China, downward revision in global growth, and the longest US government shutdown so far.

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 German retail sales better than forecast and EU equities indices advanced on trade optimism; and
- The European Central Bank (ECB) maintaining its benchmark interest rates at 0%, with ECB President Mario Draghi downgrading the bank's growth outlook for the region.

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

- Unfavorable domestic data releases during the month, (mainly reflecting the disappointing AIG manufacturing index data, Trade Balance slipped below expectations, and Westpac Consumer Sentiment dropped;

- The Aussie was also influenced by a drop in investors' risk appetite coupled with the weakening sentiment towards China, its largest trading partner;

The **New Zealand dollar (NZD)** traded lower from around USD\$0.68 to USD\$0.67, mainly reflecting:

- Negative domestic data released during the month including a decline in equity and commodity prices, lower oil prices and mixed Asian equities.;
- Kiwi markets performed lower amid New Year's holiday, strong USD and the absence of relevant market-moving economic data as well as a US bank holiday during the month.

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

- Favorable domestic data releases, mainly reflecting the strong gain in Japanese retail sales.
- The Bank of Japan's decision to keep its policy rate unchanged as widely expected.
- Despite the strengthening of the Yen, investor risk-sentiments remained amid concerns over the U.S.-China trade relations, forecasts of a global economic slowdown, worries over the on-going U.S. government shutdown, Brexit concerns and slowing growth in the Eurozone.

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

- Favourable domestic data releases during the month, including the increase in Asian commodities and State-owned enterprises (SOEs) strong revenue and profit growth in 2018.
- The Ministry of Foreign Affairs focus towards extensive talks on structural reforms and opening of China's markets to foreign investment.
- The Chinese government continued efforts to promote the international use of the Chinese Yuan in the Southeast Asian nations.

¹ ADP – Automated Data Processing

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 January 2019, compared to the previous month and January 2018.

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				
	Jan-18	Dec-18	Jan-19	Dec-18 (%)	Jan-18 (%)
NZD/USD	0.7262	0.6831	0.6773	-0.85	-6.73
AUD/USD	0.7954	0.7188	0.7148	-0.56	-10.13
USD/YEN	110.9143	112.4516	108.9631	3.10	1.76
USD/CNY	6.4341	6.8884	6.7926	1.39	-5.57
EUR/USD	1.2198	1.1376	1.1414	0.33	-6.43
FJD/USD	0.4955	0.4725	0.4718	-0.15	-4.78

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

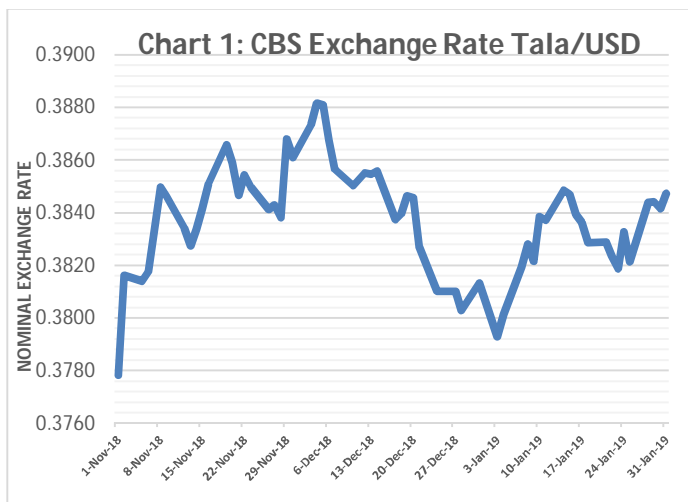
Source: Central Bank of Samoa

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 January 2019, compared to the previous month and January 2018.

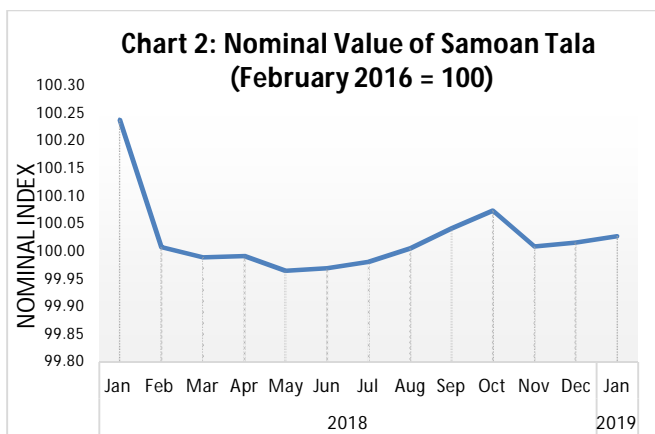
Table 2					
Tala* per foreign currencies (month average)					
	Movement of the Tala over the previous month and the previous year (+) appreciation / (-) depreciation				
	Jan-18	Dec-18	Jan-19	Dec-18 (%)	Jan-18 (%)
USD/TALA	2.4920	2.6007	2.6107	-0.38	-4.76
NZD/TALA	1.8094	1.7765	1.7682	0.47	2.28
AUD/TALA	1.9819	1.8693	1.8661	0.17	5.84
EUR/TALA	3.0395	2.9586	2.9796	-0.71	1.97
FJD/TALA	1.2347	1.2288	1.2315	-0.22	0.26
TALA/YEN	44.5063	43.2430	41.7383	-3.48	-6.22
TALA/CNY	2.5816	2.6488	2.5818	-2.53	0.01
Nominal Index	100.2374	100.0155	100.0266	0.0111	-0.2104

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

Source: Central Bank of Samoa

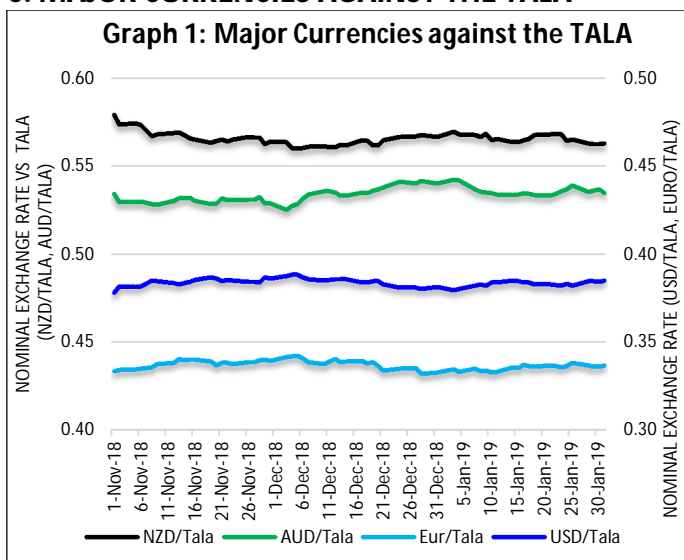


Source: Central Bank of Samoa



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C. MAJOR CURRENCIES AGAINST THE TALA



Source: Central Bank of Samoa

D. MARKET OUTLOOK FOR Q1 2019 (07/02/19):

AUD/USD: Markets expectations are for the AUD/USD to trade around USD\$0.69 by end of 2019. Aussie continue to expect growth to slow, moderating from 3.0% in 2018 to a forecast of 2.6% in 2019. RBA expect to remain on hold throughout 2019 and 2020.

NZD/USD: The RBNZ is expected to depreciate around at a US\$0.63. The New Zealand economy is on track for a period of stronger economic growth. At the same time, we are seeing signs of a firming in inflation. Despite these developments, the RBNZ is set to keep the OCR on hold through until the end of 2020.

EUR/USD: The Euro is now revised to trade around US\$1.10 towards the end of 2019. The downward revision in Euro economic growth by the IMF and risks from Brexit and political uncertainty within the region, will weigh heavily on the currency.

ECONOMIC & FINANCIAL FORECASTS

Policy Interest rate forecasts

	Latest actual (6 February)	Mar 19	Jun 19	Sep 19	Dec 19	Mar 20	Jun 20
USA							
Fed Funds Rate	2.375	2.375	2.625	2.875	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	1.75
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 (7 Feb)	Mar 19	Jun 19	Sep 19	Dec 19	Mar20	Jun20
AUD/USD	0.7123	0.71	0.70	0.68	0.69	0.70	0.71
NZD/USD	0.6838	0.66	0.64	0.62	0.63	0.64	0.65
EUR/USD	1.1416	1.13	1.11	1.10	1.10	1.11	1.14
USD/JPY	109.8950	110.00	111.00	113.00	112.00	111.00	110.00
GBP/USD	1.2947	1.31	1.34	1.35	1.37	1.44	1.45
USD/CNH	6.7757	6.84	6.82	6.76	6.73	6.70	6.60

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	3.4	2.6	2.1	2.4	2.2
% yr	2.5	2.9	3.0	3.1	3.0	2.6	2.3
Unemployment rate %	4.1	3.9	3.8	3.8	3.7	3.6	3.6
CPI % yr	2.8	2.7	2.6	2.2	1.8	2.0	2.2

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	2.1	2.6
Unemployment rate %	5.5	5.4	5.2	5.0	5.1	5.3	5.3
CPI % qtr	0.6	0.4	0.4	0.5	0.1	0.5	0.6
% yr	1.9	2.1	1.9	1.8	1.4	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	4.2	4.3	4.3	4.1
CPI % qtr	0.1	0.4	0.9	0.1	0.3	0.5	0.8
Annual % change	1.6	1.5	1.9	1.9	1.7	2.0	1.7

Source: Bloomberg, Westpac Economics Update (7 Feb 2019), Trading Economics