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## EXCHANGE RATE DEVELOPMENTS MARCH 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	March 27, 2019	crude oil (US\$/bbl)	\$67.58	\$1.25	\$66.33
Reserve Bank of Australia	1.50%	0.00	April 2, 2019	whole milk powder (US\$/t)	\$3,096.25	-\$1,491.25	\$4,587.50
US Federal Reserve	2.25 - 2.50%	0.00	March 20, 2019				
European Central Bank	0.00%	0.00	January 24, 2019				
Bank of England	0.75%	0.00	March 21, 2019				

### A. CURRENCY WATCH

The overall nominal effective value of the **Samoan Tala appreciated by 0.0039 percent** against the currency basket. This resulted from the Tala's appreciation against the Australian dollar (by 0.71 percent) and Euro (by 0.21 percent) which more than offset the Tala's depreciation against the United States dollar (by 0.19 percent) and New Zealand dollar (by 0.16 percent).

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

- A string of positive US economic releases during the month such as the increase in Chicago purchasing managers' index (PMI), Economic Optimism Index improved, weekly jobless claims fell more than expected, manufacturing figures tumbled higher and a rebound in U.S. home sales;
- The Federal Reserve Bank, as expected, maintained its Fund rate at a range of 2.25 percent to 2.50 percent and indicated no further hikes in 2019 in view of its revised economic outlook.
- Despite falling U.S. government bond yields, the US dollar was also supported by weaknesses in other major currencies.

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

- Downbeat economic releases out of the Euro region, particularly German data performing well below expectations (such as their Consumer Price Index, manufacturing PMI and Consumer Confidence index);
- The European Central Bank has lowered its targets for this year, pushing out its target date for rate hikes, and issued a third round of quantitative easing following the publication of the Eurozone's GDP figures for the fourth-quarter, which remained unmoved at 0.2%.

The **Australian dollar (AUD)** weakened, due to:

- Unfavorable domestic data releases during the month, such as the weaker than expected Q4 GDP 2018, negative National Australian Bank Business Confidence report,

slump in home loans, low consumer confidence and poor housing price figures;

- Renewed concerns over the US and China trade negotiations further collaborated towards denting sentiments surrounding the China-proxy Aussie Dollar.
- The Reserve of Bank Australia (RBA) left its cash rate unchanged at 1.50 percent as expected.

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

- Negative domestic data released during the month including a drop in equity and commodity prices, merchandise trade deficit increasing to NZ\$914 million and a drop in the 1st quarter consumer sentiment index;
- The cautious shift in future policy direction by the Reserve Bank of New Zealand (RBNZ), given the increasingly dovish outlook on global economic growth by most major central banks. While it maintained its policy rate unchanged at 1.75 percent, as expected, the RBNZ has signaled a potential reduction later in the year.

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

- Unfavorable domestic data releases, mainly reflecting a decline in Japanese manufacturing and core Machinery Orders plunging to its sharpest drop in four months.
- The Bank of Japan's policy rate decision to remain unchanged as expected.

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

- Favourable domestic data releases during the month, (mainly reflecting the rally in stock prices).
- The China government announcement to reduce the Value Added Taxes (VAT) on manufacturing and other sectors.
- Continuing efforts by authorities to open its domestic markets;

## 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, compared to the previous month and March 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				
	Mar-18	Feb-19	Mar-19	Feb-19	Mar-18
				(%)	(%)
NZD/USD	0.7260	0.6838	0.6835	-0.04	-5.85
AUD/USD	0.7767	0.7149	0.7084	-0.91	-8.79
USD/YEN	106.0962	110.3335	111.1300	-0.72	-4.74
USD/CNY	6.3248	6.7394	6.7129	0.39	-6.14
EUR/USD	1.2334	1.1353	1.1308	-0.40	-8.32
FJD/USD	0.4940	0.4723	0.4707	-0.34	-4.72

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

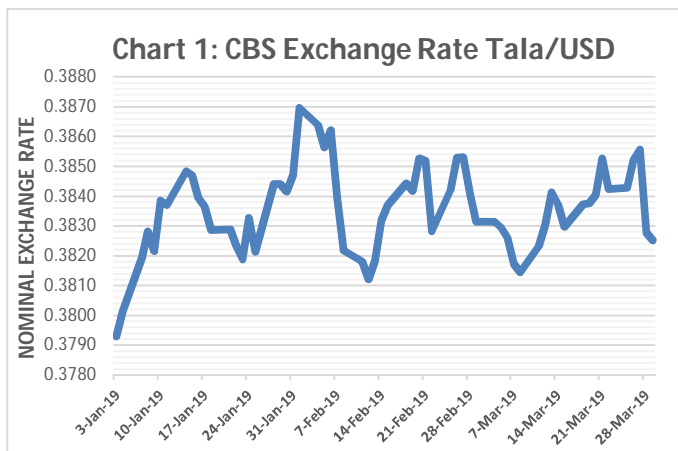
Source: Central Bank of Samoa

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, compared to the previous month and March 2018.

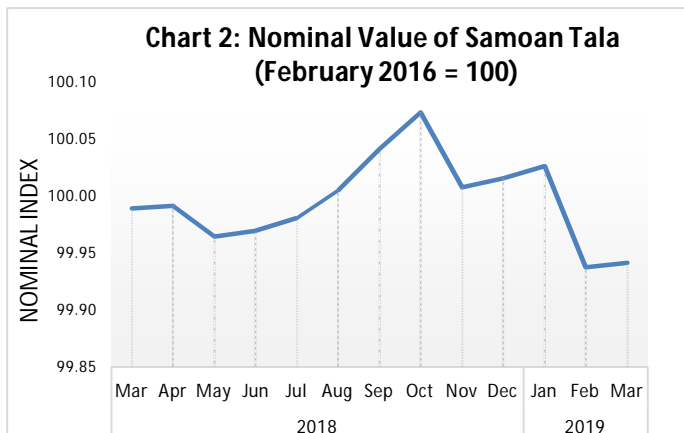
Table 2					
Tala* per foreign currencies (month average)					
	Movement of the Tala over the previous month and the previous year (+) appreciation / (-) depreciation				
	Mar-18	Feb-19	Mar-19	Feb-19	Mar-18
				(%)	(%)
USD/TALA	2.5067	2.6029	2.6079	-0.19	-4.04
NZD/TALA	1.8183	1.7797	1.7825	-0.16	1.97
AUD/TALA	1.9468	1.8606	1.8473	0.71	5.11
EUR/TALA	3.0906	2.9550	2.9489	0.21	4.58
FJD/TALA	1.2372	1.2292	1.2275	0.14	0.78
TALA/YEN	42.3372	42.3891	42.6129	0.53	0.65
TALA/CNY	2.5232	2.5891	2.5741	-0.58	2.02
Nominal Index	99.9904	99.9377	99.9416	0.0039	-0.0488

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

Source: Central Bank of Samoa

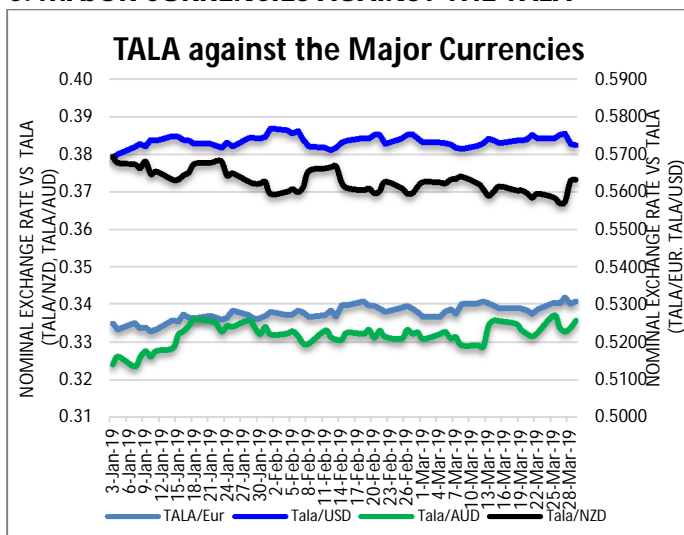


Source: Central Bank of Samoa



Source: Central Bank of Samoa (New weights for the Samoa Tala basket took effect on 1 February 2019)

## C. MAJOR CURRENCIES AGAINST THE TALA



Source: Central Bank of Samoa

## D. MARKET OUTLOOK FOR 2019 (05/04/19):

**AUD/USD:** Markets expectations are for the AUD/USD to trade around USD\$0.68 by September Quarter 2019. Market expectations are for economic growth of 2.2 percent in 2019 and again in 2020, a below trend pace that will place upward pressure on the unemployment rate. The market expects the RBA expect to cut its cash rate later in 2019.

**NZD/USD:** The RBNZ is expected to depreciate to around US\$0.67 by Dec 2019. The drivers of demand in the New Zealand economy are shifting, with weak global economic outlook and reduced domestic spending momentum. While a temporary re-acceleration of growth is on the cards for 2019, this is likely to give way to a period of soft activity in the early 2020s. Against this backdrop, the RBNZ has signalled a likely reduction in the OCR.

**EUR/USD:** The Euro is now revised to trade around US\$1.13 towards the end of 2019 due to an anticipated weak Euro economic outlook, amid a global slowdown and rising geopolitical uncertainties.

# ECONOMIC & FINANCIAL FORECASTS

## Policy Interest rate forecasts

	Latest actual (8 April)	Jun 19	Sep 19	Dec 19	Mar 20	Jun 20	Sep 20
<b>USA</b>							
Fed Funds Rate	2.375	2.375	2.375	2.625	2.625	2.625	2.625
<b>Australia</b>							
RBA Cash Rate	1.50	1.50	1.25	1.00	1.00	1.00	1.00
<b>New Zealand</b>							
RBNZ Cash Rate	1.75	1.50	1.50	1.50	1.50	1.25	1.25
<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 (4 Apr)	Jun 19	Sep 19	Dec 19	Mar 20	Jun 20	Sep 20
AUD/USD	0.7119	0.70	0.68	0.68	0.69	0.70	0.70
NZD/USD	0.6787	0.67	0.67	0.67	0.66	0.66	0.66
EUR/USD	1.1245	1.13	1.14	1.13	1.12	1.12	1.14
USD/JPY	111.4500	111.00	110.00	109.00	108.00	105.00	105.00
GBP/USD	1.3145	1.31	1.33	1.36	1.36	1.37	1.37
USD/CNH	6.7114	6.73	6.70	6.70	6.65	6.65	6.65

## US economic indicators and outlook

	Jun 18	Sep 18	Dec 18	Mar 19(f)	Jun 19(f)	Sep 19(f)	Dec 19(f)
GDP % qtr	4.2	3.4	2.6	1.3	2.5	2.2	2.1
% yr	2.9	3.0	3.1	2.8	2.4	2.2	2.0
Unemployment rate %	3.9	3.8	3.8	3.7	3.6	3.5	3.5
CPI % yr	2.8	2.3	1.9	1.8	1.6	1.7	1.9

## Australian economic indicators and outlook

	Jun 18	Sep 18	Dec 18	Mar 19(f)	Jun 19(f)	Sep 19(f)	Dec 19(f)
GDP % qtr / yr avg	0.8	0.3	0.2	0.5	0.4	0.6	0.7
% yr	3.1	2.7	2.3	1.8	1.4	1.7	2.2
Unemployment rate %	5.4	5.2	5.0	5.1	5.4	5.5	5.5
CPI % qtr	0.4	0.4	0.5	0.1	0.4	0.6	0.5
% yr	2.1	1.9	1.8	1.4	1.5	1.7	1.7

## New Zealand economic indicators and outlook

	Jun 18	Sep 18	Dec 18	Mar 19(f)	Jun 19(f)	Sep 19(f)	Dec 18(f)
GDP % qtr	0.9	0.3	0.6	0.7	0.8	0.8	0.8
Annual avg change	3.2	3.1	2.8	2.7	2.4	2.5	2.7
Unemployment rate %	4.4	4.0	4.3	4.4	4.3	4.2	4.2
CPI % qtr	0.4	0.9	0.1	0.2	0.5	0.7	0.3
Annual % change	1.5	1.9	1.9	1.6	1.7	1.5	1.7