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EXCHANGE RATE DEVELOPMENTS May 2019

Highlights:

Policy Interest Rates	Current	Change (basis point)	Last Updated	Commodity Prices	Average Price (in USD)	Change	Previous Month
Reserve Bank of NZ	1.50%	-0.25	May 8, 2019	crude oil (US\$/bbl)	\$61.99	-\$9.46	\$71.45
Reserve Bank of Australia	1.25%	-0.25	June 6, 2019	whole milk powder (US\$/t)	\$3,175.00	-\$137.50	\$3,312.50
US Federal Reserve	2.25 - 2.50%	0.00	May 1, 2019				
European Central Bank	0.00%	0.00	June 6, 2019				
Bank of England	0.75%	0.00	May 2, 2019				

A. CURRENCY WATCH

The overall nominal effective value of the **Samoa Tala appreciated by 0.0203 percent** against the currency basket. This resulted from the Tala's appreciation against the New Zealand dollar (by 1.18 percent) and Australian dollar (by 1.09 percent) which more than offset the Tala's depreciation against the Euro (by 0.76 percent) and United States dollar (by 1.24 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 factory orders, upbeat nonfarm payrolls, unemployment rate fell more than expected, stronger than expected manufacturing data, stocks rallied, housing starts rose, higher US Treasury yields and a strong Q1 GDP.
- The Federal Reserve Bank, as expected, maintained its Fund rate at a range of 2.25 percent to 2.50 percent.
- This was despite the US President's ban on one of China's giant tech "Huawei" from doing business with US companies.

The **Euro** weakened against the USD from US\$1.12 to US\$1.11 on the back of:

- Downbeat economic releases out of the Euro region, such as slump in Eurozone trade surplus, worse than expected Eurozone business climate figures and German data performing well below expectations (such as factory orders retail sales, unemployment and economic sentiment);
- Also weighing heavily on the Euro, is the political uncertainty, threat of U.S. tariffs on European automobiles and European elections.

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

- Unfavorable domestic data releases during the month, mainly reflecting the weaker than expected inflation, decline in home loans, weak business confidence, drop in dwelling approvals, lower construction works in Q1 while the April 2019 unemployment rate surged higher.

- Slowing economic growth for Australia's major trading partners, namely China.
- The Reserve Bank of Australia (RBA) left its cash rate unchanged at 1.50 percent, as expected.

The **New Zealand dollar (NZD)** traded lower from around USD\$0.65, mainly reflecting:

- Negative domestic data released during the month including a drop in equity and dairy prices, low inflation reported a disappointing Q1 unemployment data.
- New Zealand's economy has been hurt by the global slowdown, which has reduced the demand for New Zealand exports.
- The Reserve Bank of New Zealand (RBNZ) surprised the markets by cutting its benchmark rate from 1.75% to 1.50%

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

- Favorable domestic data releases, mainly reflecting a rise in core machinery orders, and trade deficit.
- Growing fears about the impact of a worsening U.S.-Sino trade conflict on global growth kept the safe-haven Japanese yen near recent highs against its peers.

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

- Stronger USD and unfavourable domestic data releases during the month, (mainly reflecting the decline in Caixin Purchasing Managers' Index (PMI), industrial production and retail sales)
- The tensions between two largest economies in the world took a sour turn after the US excluded Huawei and other Chinese companies from the U.S. market.

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 May 2019, compared to the previous month and May 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				
	May-18	Apr-19	May-19	Apr-19 (%)	May-18 (%)
NZD/USD	0.6953	0.6724	0.6563	-2.39	-5.61
AUD/USD	0.7526	0.7111	0.6947	-2.31	-7.69
USD/YEN	109.7370	111.6438	110.1000	1.38	-0.33
USD/CNY	6.3677	6.7163	6.8488	-1.97	-7.56
EUR/USD	1.1828	1.1233	1.1183	-0.45	-5.45
FJD/USD	0.4827	0.4696	0.4645	-1.09	-3.77

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

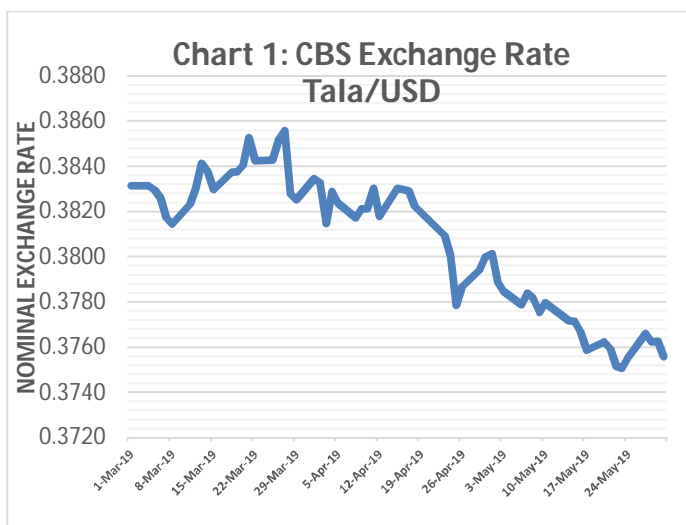
Source: Central Bank of Samoa

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

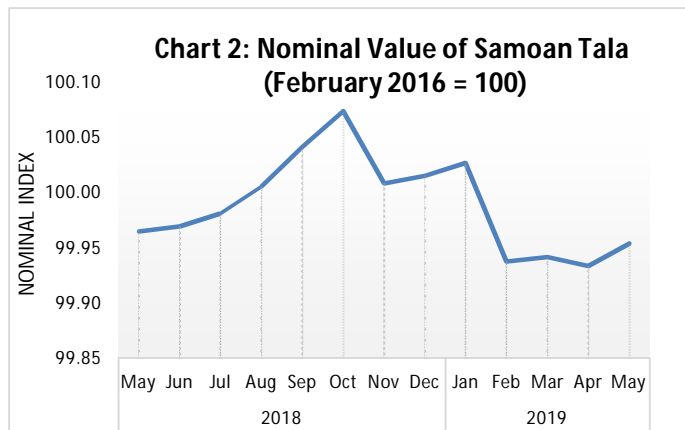
Table 2					
Tala* per foreign currencies (month average)					
	Movement of the Tala over the previous month and the previous year (+) appreciation / (-) depreciation				
	May-18	Apr-19	May-19	Apr-19 (%)	May-18 (%)
USD/TALA	2.5595	2.6205	2.6531	-1.24	-3.66
NZD/TALA	1.7795	1.7620	1.7412	1.18	2.15
AUD/TALA	1.9263	1.8632	1.8428	1.09	4.33
EUR/TALA	3.0273	2.9435	2.9658	-0.76	2.03
FJD/TALA	1.2355	1.2306	1.2322	-0.13	0.27
TALA/YEN	42.8739	42.6047	41.4996	-2.59	-3.21
TALA/CNY	2.4878	2.5630	2.5814	0.72	3.76
Nominal Index	99.9643	99.9332	99.9535	0.0203	-0.0108

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

Source: Central Bank of Samoa

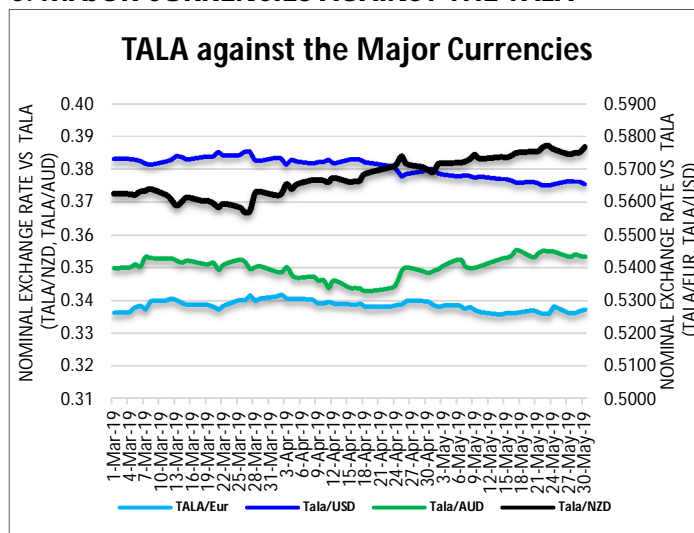


Source: Central Bank of Samoa



Source: Central Bank of Samoa

C. MAJOR CURRENCIES AGAINST THE TALA



Source: Central Bank of Samoa

D. MARKET OUTLOOK FOR 2019 (10/06/19):

AUD/USD: Markets expectations are for the AUD/USD to trade around USD\$0.68 by September Quarter 2019. RBA has already cut its cash rate to 1.25% in its 4th June meeting, as expected. It was "to support employment growth and provide greater confidence that inflation will be consistent with the medium-term target". The market expects to cut its cash rate again in August and November 2019.

NZD/USD: The RBNZ is expected to depreciate to around US\$0.66 by Dec 2019. As expected, the RBNZ has cut the Official Cash Rate to a record low. That follows an extended period where growth and inflation have fallen short of their expectations. RBNZ expected to maintain its cash rate at 1.50% until 2020.

EUR/USD: The Euro currency is now revised to trade around US\$1.14 towards the end of 2019 as geopolitical risks remains unresolved, Brexit negotiations are continuing, European Parliament elections, and dampened global trade and geopolitical uncertainty.

FINANCIAL MARKETS DEPARTMENT 10th June 2019

ECONOMIC & FINANCIAL FORECASTS

Policy Interest rate forecasts

	Latest actual (10 June)	Jun 19	Sep 19	Dec 19	Mar 20	Jun 20	Sep 20
USA							
Fed Funds Rate	2.375	2.375	2.125	1.875	1.875	1.875	1.875
Australia							
RBA Cash Rate	1.25	1.25	1.00	0.75	0.75	0.75	0.75
New Zealand							
RBNZ Cash Rate	1.50	1.50	1.50	1.50	1.50	1.50	1.50
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 (10 June)	Jun 19	Sep 19	Dec 19	Mar 20	Jun 20	Sep 20	Dec 20
AUD/USD	0.7014	0.69	0.68	0.68	0.66	0.66	0.67	0.67
NZD/USD	0.6668	0.65	0.64	0.66	0.66	0.66	0.66	0.66
EUR/USD	1.1316	1.12	1.13	1.14	1.13	1.13	1.12	1.12
USD/JPY	108.6250	110.00	107.00	106.00	107.00	108.00	109.00	110.00
GBP/USD	1.2734	1.27	1.27	1.28	1.28	1.29	1.29	1.30
USD/CNY	6.9098	6.80	6.85	6.80	6.70	6.85	6.65	6.50

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	2.2	3.2	1.0	1.9	2.1
% yr	2.9	3.0	3.0	3.2	2.4	2.1	2.1
Unemployment rate %	3.9	3.8	3.8	3.9	3.7	3.6	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	0.9	0.3	0.2	0.4	0.5	0.6	0.7
% yr	3.1	2.8	2.4	1.8	1.4	1.7	2.2
Unemployment rate %	5.4	5.2	5.0	5.0	5.2	5.3	5.4
CPI % qtr	0.4	0.4	0.5	0.0	0.6	0.6	0.6
% yr	2.1	1.9	1.8	1.3	1.6	1.8	1.8

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	0.6	0.6	0.7	0.8
Annual avg change	3.2	3.1	2.8	2.6	2.4	2.3	2.5
Unemployment rate %	4.4	4.0	4.3	4.2	4.3	4.3	4.2
CPI % qtr	0.4	0.9	0.1	0.1	0.6	0.6	0.4
Annual % change	1.5	1.9	1.9	1.5	1.7	1.4	1.7

Source: Bloomberg, Westpac Economics Update (10 June 2019), Trading Economics