

EXCHANGE RATE DEVELOPMENTS JUNE 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%	0.00	June 26, 2019	crude oil (US\$/bbl)	\$64.74	\$3.58	\$61.16
Reserve Bank of Australia	1.00%	-0.25	July 2, 2019	whole milk powder (US\$/t)	\$3,000.00	-\$175.00	\$3,175.00
US Federal Reserve	2.25 - 2.50%	0.00	June 18, 2019				
European Central Bank	0.00%	0.00	June 6, 2019				
Bank of England	0.75%	0.00	June 20, 2019				

A. CURRENCY WATCH

The overall nominal effective value of the **Samoa Tala depreciated by 0.0018 percent** against the currency basket. This resulted from the Tala's depreciation against the New Zealand dollar (by 0.32 percent) and Euro (by 0.85 percent) which more than offset the Tala's appreciation against the United States dollar (by 0.18 percent) and Australian dollar (by 0.20 percent).

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

- A string of negative US economic releases during the month such as the decrease in factory orders, worse than expected April US trade balance figures, unemployment rate rose more than expected, downbeat manufacturing data, negative producer price index (PPI) and consumer price index data (CPI), new homes declined, consumer confidence dropped and disappointing durable goods.
- The Federal Reserve kept its benchmark interest rate within its target range of 2.25% to 2.50%, however new economic projections showed that more Fed officials anticipated further rate cut — or two — by the end of 2019 should its economic outlook weaken.
- The ongoing trade war between China and the United States, which topped the agenda at the G20 summit at the end of the month. While the US has agreed not to raise tariffs on Chinese products for the time being, negotiations to end the trade war continues and will be a driving factor in the FX markets.

The **Euro** strengthened against the USD from US\$1.12 to USD\$1.13 on the back of:

- Upbeat economic releases out of the Euro region, mainly reflecting the better than expected Eurozone's Markit purchase manager index (PMI) composite figures and positive UK average earnings.
- Also supported by the Italian government whom proposed to consume €5.2 billion for the improvement of its 2019 budget position.
- The European Central Bank (ECB) maintained its benchmark interest rates at 0%.

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

- Unfavorable domestic data releases during the month, mainly reflecting the soft trade surplus, negative NAB business confidence, decreased stock prices while the June 2019 unemployment rate remained steady.
- The Reserve Bank of Australia (RBA) cuts its interest rate as expected by 25 bps from 1.50 percent to 1.25 percent. The market expects further rate cuts in July and November.

The **New Zealand dollar (NZD)** traded higher from around USD\$0.66, mainly reflecting:

- Weaker USD and positive domestic data released during the month including a better than expected construction activity, annual current deficit narrowed amid stronger earnings on overseas investments and in-line with Q1 GDP.
- The Reserve Bank of New Zealand (RBNZ) kept its official cash rate on hold, as expected.

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

- Favorable domestic data releases, mainly reflecting an industrial production data rallied and April economic leading indices improved.
- 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 Bank of Japan left its benchmark interest rate unchanged at -0.1 percent, as widely expected.

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

- Unfavourable domestic data releases during the month, (mainly reflecting the decline in commodities and equities, disappointing Caixin services PMI and slow industrial output growth.
- A worsening trade war and slowing Chinese economy during the month has caused a rapid sell-off in the yuan.

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 June 2019, compared to the previous month and June 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		
	Jul-18	Jun-19	Jul-19	Jun-19	Jul-18
				(%)	(%)
NZD/USD	0.6786	0.6563	0.6596	0.50	-2.80
AUD/USD	0.7401	0.6947	0.6945	-0.03	-6.16
USD/YEN	111.4030	110.1000	108.0763	1.84	2.99
USD/CNY	6.7082	6.8488	6.9007	-0.76	-2.87
EUR/USD	1.1684	1.1183	1.1294	0.99	-3.34
FJD/USD	0.4768	0.4645	0.4650	0.11	-2.47

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

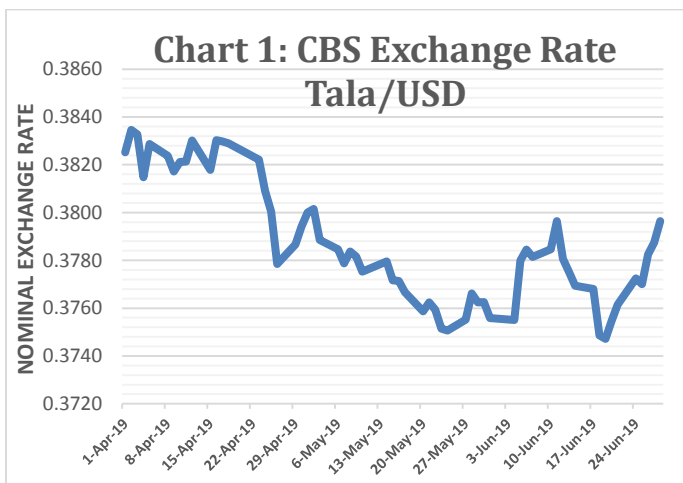
Source: Central Bank of Samoa

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

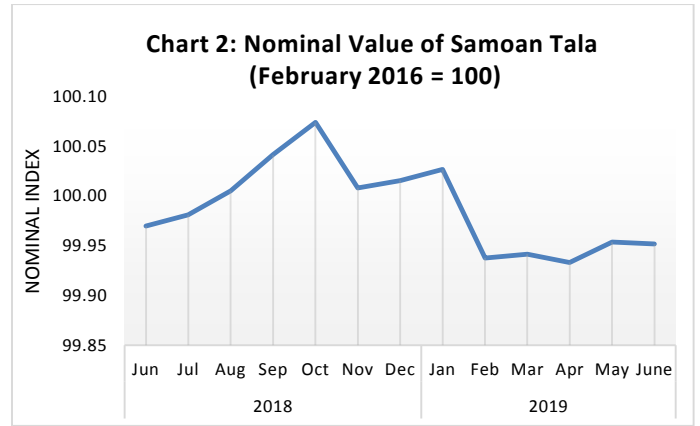
Table 2					
Tala* per foreign currencies (month average)					
			Movement of the Tala over the previous month and the previous year		
			(+ appreciation / (-) depreciation		
	Jul-18	Jun-19	Jul-19	Jun-19	Jul-18
				(%)	(%)
USD/TALA	2.5888	2.6531	2.6484	0.18	-2.30
NZD/TALA	1.7568	1.7412	1.7467	-0.32	0.57
AUD/TALA	1.9160	1.8428	1.8392	0.20	4.01
EUR/TALA	3.0246	2.9658	2.9911	-0.85	1.11
FJD/TALA	1.2343	1.2322	1.2314	0.06	0.23
TALA/YEN	43.0325	41.4996	40.8084	-1.67	-5.17
TALA/CNY	2.5912	2.5814	2.6056	0.94	0.56
Nominal Index	99.9808	99.9535	99.9517	-0.0018	-0.0291

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

Source: Central Bank of Samoa

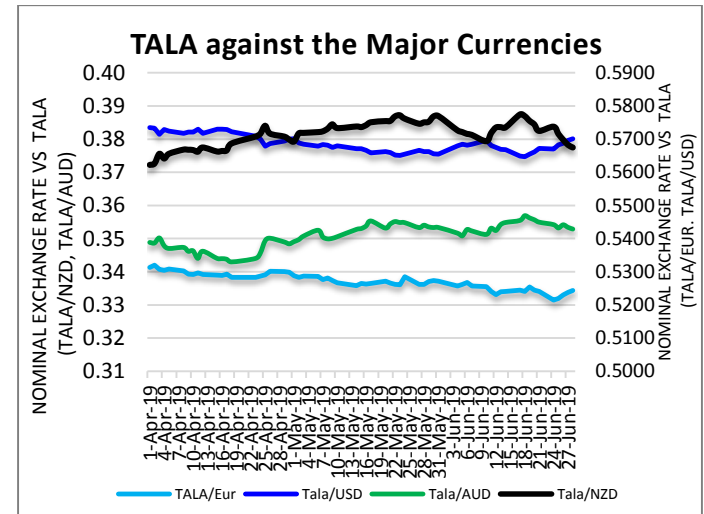


Source: Central Bank of Samoa



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C. MAJOR CURRENCIES AGAINST THE TALA



Source: Central Bank of Samoa

D. MARKET OUTLOOK FOR 2019 (05/07/19):

AUD/USD: Market expectations are for the AUD/USD to trade around US\$0.68 by December Quarter 2019. RBA has already cut its cash rate to 1.00 percent in its 2nd July meeting, as expected. The market expects to cut its cash rate once again to 0.75 percent in November 2019.

NZD/USD: The RBNZ is expected to depreciate to around US\$0.65 by Dec 2019. As expected, the RBNZ kept the interest rate on hold at 1.50 percent at its June meeting. However, it also provided a very clear signal that the cash rate is likely to be cut again to 1.25 percent in August, noting “that more support from monetary policy was likely to be necessary.”

EUR/USD: The Euro currency is now revised to trade around US\$1.14 towards the end of 2019 then drift back to US\$1.13 in Mar Quarter 2020 amid geopolitical risks continued to remain unresolved, risk of a no-deal Brexit, and rising global trade and uncertainty.

ECONOMIC & FINANCIAL FORECASTS

Policy Interest rate forecasts

	Latest actual (5 July)	Sep 19	Dec 19	Mar 20	Jun 20	Sep 20	Dec 20
USA							
Fed Funds Rate	2.375	2.125	1.875	1.875	1.875	1.875	1.875
Australia							
RBA Cash Rate	1.00	1.00	0.75	0.75	0.75	0.75	0.75
New Zealand							
RBNZ Cash Rate	1.50	1.25	1.25	1.25	1.25	1.25	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 (5 July)	Sep 19	Dec 19	Mar 20	Jun 20	Sep 20	Dec 20
AUD/USD	0.7022	0.68	0.68	0.66	0.66	0.67	0.67
NZD/USD	0.6686	0.65	0.65	0.65	0.66	0.66	0.66
EUR/USD	1.1286	1.13	1.14	1.13	1.13	1.12	1.12
USD/JPY	107.7850	106.00	105.00	107.00	108.00	109.00	110.00
GBP/USD	1.2579	1.26	1.25	1.26	1.27	1.29	1.30
USD/CNY	6.8716	6.93	6.90	6.90	6.80	6.50	6.40

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	3.2	3.4	2.2	3.2	1.6	1.0	1.5
% yr	3.2	3.0	3.0	3.2	2.6	2.0	1.8
Unemployment rate %	3.8	3.8	3.8	3.9	3.7	3.7	3.6
CPI % yr	1.9	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 19(f)
GDP % qtr	0.9	0.4	0.6	0.6	0.6	0.7	0.8
Annual avg change	3.2	3.1	2.9	2.7	2.4	2.3	2.3
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	0.7	0.8	0.3
Annual % change	1.5	1.9	1.9	1.5	1.8	1.7	1.9

Source: Bloomberg, Westpac Economics Update (5 July 2019), Trading Economics