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EXCHANGE RATE DEVELOPMENTS JULY 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)	\$65.05	\$0.70	\$64.35
Reserve Bank of Australia	1.00%	-0.25	July 2, 2019	whole milk powder (US\$/t)	\$3,100.00	\$100.00	\$3,000.00
US Federal Reserve	2.00 - 2.25%	-0.25	July 31, 2019				
European Central Bank	0.00%	0.00	July 25, 2019				
Bank of England	0.75%	0.00	June 20, 2019				

A. CURRENCY WATCH

The overall nominal effective value of the **Samoan Tala depreciated by 0.0087 percent** against the currency basket. This resulted from the Tala's depreciation against the New Zealand dollar (by 0.80 percent) and Australian dollar (by 0.07 percent) which more than offset the Tala's appreciation against the United States dollar (by 0.53 percent) and Euro (by 1.14 percent).

Of the currencies in the Tala currency basket, the **United States dollar (USD)** maintained a downward trend during the month due to the following developments:

- A string of negative US economic releases during the month mainly reflecting the worse than expected June US ADP Employment figures, decline in Treasury yields and disappointing US housing and building permit figures for June.
- The Federal Reserve as expected, cut its Fund Rate by 25 basis points to a range of 2.00 percent to 2.25 percent, with the markets expecting further aggressive rate cuts in 2019 in view of the US-China trade tensions and ensuing weakness in the global economic outlook

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

- Downbeat economic releases out of the Euro region, including the worse than expected Eurozone's unemployment rate, decrease in Eurozone Producer Price Index figures for May, weak Q2 GDP, and German data performing well below expectations (such as their retail sales, business confidence, ZEW survey of economic sentiment and manufacturing orders).
- Tight trading as the market focused on the geopolitical issues between U.S and China coupled with the fears of a no-deal Brexit, with growing concerns as the UK's new Prime Minister Boris Johnson expressed interest in reaching an EU deal that lacks a resolution on the issue of Ireland's border.
- The European Central Bank (ECB) maintained its benchmark interest rates at 0%.

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

- Favorable domestic data releases during the month, such as the upbeat trade figures for May, positive building permits, increase in ANZ job advertisements indicator, rally in stock prices, Aussie full time employment surged 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, with the motivation for this cut mainly focused on the labor market and to help inflation move towards the RBA's target.

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

- Weaker USD and positive domestic data released during the month including a soft retail spending in the June quarter, increase in Business NZ manufacturing, rise in dairy prices and Q2 CPI consistent with market expectations.
- The Kiwi currency was also strengthened by China's positive economic data.

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

- Unfavorable domestic data releases, mainly reflecting on Japan's corporate service prices decreased.
- Improving risk appetite as investors turn to riskier assets.
- Tensions continued between Japan and Korea after Tokyo imposed new restrictions on exports that could affect South Korea's technology industry.
- The Bank of Japan left its benchmark interest rate unchanged at -0.1 percent, as widely expected.

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

- Favourable domestic data releases during the month, (mainly reflecting the positive earnings result, rally in stock markets while June inflation figures remained steady).
- The Premier of the People's Republic of China, Li Keqiang underlined the importance of fostering new growth engines and expanding effective investment to stabilize economic growth and the job 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 July 2019, compared to the previous month and July 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	0.6596	0.6684	1.33	-1.50
AUD/USD	0.7401	0.6945	0.6987	0.60	-5.59
USD/YEN	111.4030	108.0763	108.2515	-0.16	2.83
USD/CNY	6.7082	6.9007	6.8775	0.34	-2.52
EUR/USD	1.1684	1.1294	1.1225	-0.61	-3.93
FJD/USD	0.4768	0.4650	0.4671	0.45	-2.03

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

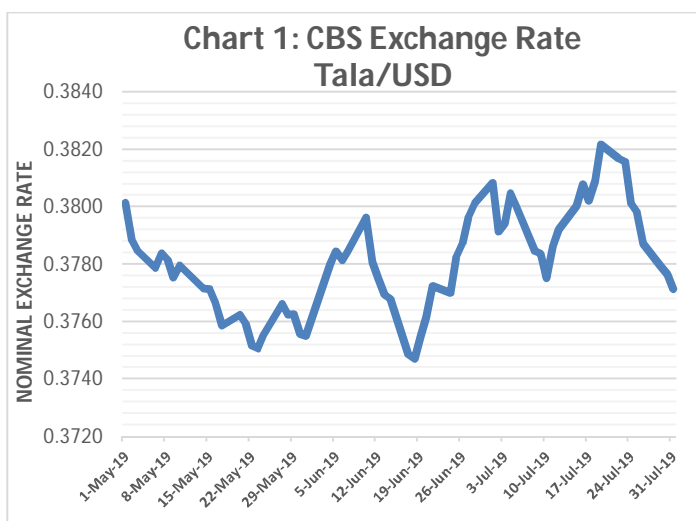
Source: Central Bank of Samoa

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

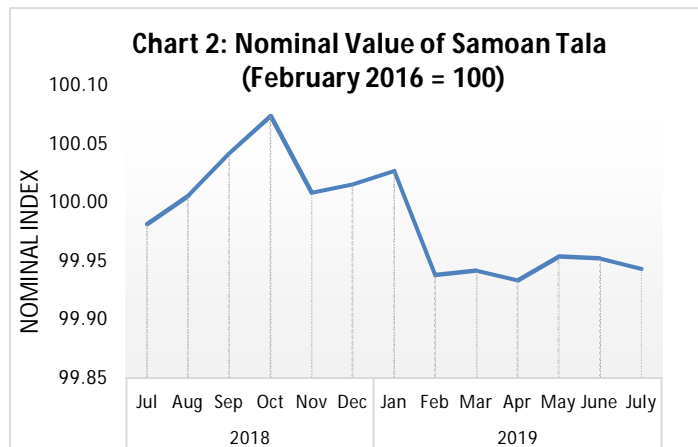
Table 2					
Tala* per foreign currencies (month average)					
Movement of the Tala over the previous month and the previous year					
(+ appreciation / (-) depreciation					
	Jul-18	Jun-19	Jul-19	Jun-19	Jul-18
				(%)	(%)
USD/TALA	2.5888	2.6484	2.6344	0.53	-1.76
NZD/TALA	1.7568	1.7467	1.7606	-0.80	-0.22
AUD/TALA	1.9160	1.8392	1.8405	-0.07	3.94
EUR/TALA	3.0246	2.9911	2.9571	1.14	2.23
FJD/TALA	1.2343	1.2314	1.2305	0.07	0.31
TALA/YEN	43.0325	40.8084	41.0916	0.69	-4.51
TALA/CNY	2.5912	2.6056	2.6107	0.20	0.75
Nominal Index	99.9808	99.9517	99.9430	-0.0087	-0.0378

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

Source: Central Bank of Samoa

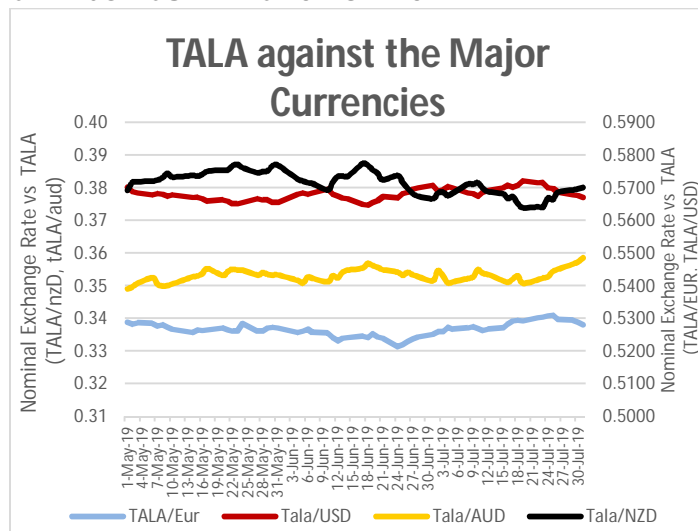


Source: Central Bank of Samoa



Source: Central Bank of Samoa

C. MAJOR CURRENCIES AGAINST THE TALA



Source: Central Bank of Samoa

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

AUD/USD: Market expectations are for the AUD/USD to trade around USD\$0.68 by December Quarter 2019. RBA, as expected, has already cut its cash rate to 1.00 percent in its 2nd July meeting. Further easing is expected from the RBA for the cash rate to drop to 0.75% in October & 0.50% in February 2020.

NZD/USD: The Reserve Bank of New Zealand (RBNZ) is expected to depreciate to around US\$0.65 by Dec 2019. The markets expect the RBNZ to cut the official cash rate further by 25 basis points to new lows of 1.25% in August and 1.00% in the December quarter.

EUR/USD: The Euro currency is now revised to trade around US\$1.08 towards the end of 2019 then drift back to US\$1.09 in March 2020 Quarter amid risks of a no-deal Brexit by October 2019, unresolved geopolitical risks and escalating global trade uncertainty.

ECONOMIC & FINANCIAL FORECASTS

Policy Interest rate forecasts

	Latest actual (5 Aug)	Sep 19	Dec 19	Mar 20	Jun 20	Sep 20	Dec 20
USA							
Fed Funds Rate	2.125	2.125	1.875	1.375	1.375	1.375	1.375
Australia							
RBA Cash Rate	1.00	1.00	0.75	0.50	0.50	0.50	0.50
New Zealand							
RBNZ Cash Rate	1.50	1.25	1.00	1.00	1.00	1.00	1.00
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 Aug)	Sep 19	Dec 19	Mar 20	Jun 20	Sep 20	Dec 20
AUD/USD	0.6800	0.68	0.68	0.66	0.66	0.67	0.67
NZD/USD	0.6537	0.65	0.65	0.65	0.66	0.66	0.66
EUR/USD	1.1108	1.09	1.08	1.08	1.08	1.09	1.11
USD/JPY	106.5750	106.00	106.00	107.00	108.00	110.00	111.00
GBP/USD	1.2146	1.18	1.19	1.21	1.22	1.24	1.26
USD/CNY	6.9405	6.93	6.90	6.85	6.80	6.70	6.60

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	0.5	0.7
% yr	2.1	1.9	1.8	1.3	1.6	1.7	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	0.4	0.6	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	0.6	0.7	0.3
Annual % change	1.5	1.9	1.9	1.5	1.7	1.5	1.7