

EXCHANGE RATE DEVELOPMENTS AUGUST 2019

Highlights:

Policy Interest Rates	Current	Change (basis point)	Last Updated	Commodity Prices	Average Price (in USD)	Change	Previous Month
Reserve Bank of NZ	1.00%	-0.50	August 7, 2019	crude oil (US\$/bbl)	\$64.55	\$5.30	\$59.25
Reserve Bank of Australia	1.00%	0.00	August 6, 2019	whole milk powder (US\$/t)	\$3,162.50	\$62.50	\$3,100.00
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	August 1, 2019				

A. CURRENCY WATCH

The overall nominal effective value of the **Samoa Tala** appreciated by **0.0566 percent** against the currency basket. This resulted from the Tala's appreciation against the New Zealand dollar (by 1.89 percent) and Australian dollar (by 1.31 percent) which more than offset the Tala's depreciation against the United States dollar (by 1.81 percent) and Euro (by 0.92 percent).

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

- A string of positive US economic releases during the month mainly reflecting the better than expected weekly jobless claims figures, increased July inflation, robust existing home data, upbeat durable goods and U.S consumer confidence remained positive.
- Another near-term support for the U.S currency was the new 2 year federal budget deal that the U.S President signed. The deal removes the threat of a federal government shutdown this fall and the threat of a cutback in federal government spending in FY2020.
- President Donald Trump announced an additional 10% tariff on \$300 billion worth of Chinese imports starting Sept. 1st, escalating the trade war and shaking financial markets.

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

- Downbeat economic releases out of the Euro region, including the Eurozone's inflation slowing to a 17-month low in July, worse than expected Eurozone's unemployment rate, and German data performing well below expectations (such as their unemployment, manufacturing PMI, industrial production, ZEW survey on economic sentiment & Ifo business climate (Information and Forschung)).
- Tight trading as the markets focused on the geopolitical issues between U.S and China coupled with the fears of a no-deal Brexit, as well as Italian political uncertainties.

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

- Stronger USD and unfavorable domestic data releases during the month, such as the downbeat Australian Commonwealth Bank Manufacturing PMI for July, disappointing Westpac

Consumer sentiment, worse than expected construction activity for the June quarter and a decrease in stock prices.

- The Reserve Bank of Australia (RBA) maintained its key interest rate as expected at 1.00 percent.

The **New Zealand dollar** (NZD) traded lower to around USD\$0.64, mainly reflecting:

- Negative domestic data released during August including a decrease in Business NZ confidence, drop in commodity prices for July, weak PMI data and decline in Kiwi credit card spending
- The larger than expected cut by the Reserve Bank of New Zealand (RBNZ) of its overnight cash rate by 50bps to an all-time low of 1.00 percent as it focused towards meeting its employment and inflation objectives amidst the gloomy global economic conditions.

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

- Favorable domestic economic releases, such as higher housing data while the July inflation data remained constant.

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

- Downbeat domestic data releases during the month, (such as the decline in China's producer price index (PPI), retail sales, fixed asset investments and Asian stock markets).
- A devaluation of the currency with the daily currency limit of the Yuan set at 7.00 to offset the impact of the U.S.-Sino trade war. This action further intensified tensions with the US Administration and ignited market concerns of a currency war.
- Despite the downward trend, China announced their new benchmark lending rate - a lower borrowing costs for companies in China through a key interest rate reform brought out by the People's Bank of China (the central bank), to maintain economic momentum amid the continuing trade friction with the United States.

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 August 2019, compared to the previous month and August 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	
	Aug-18	Jul-19	Aug-19	Jul-19 (%)	Aug-18 (%)
NZD/USD	0.6681	0.6684	0.6440	-3.65	-3.61
AUD/USD	0.7336	0.6987	0.6772	-3.08	-7.69
USD/YEN	111.0873	108.2515	106.3533	1.75	4.26
USD/CNY	6.8461	6.8775	7.0515	-2.53	-3.00
EUR/USD	1.1556	1.1225	1.1126	-0.88	-3.72
FJD/USD	0.4752	0.4671	0.4580	-1.95	-3.62

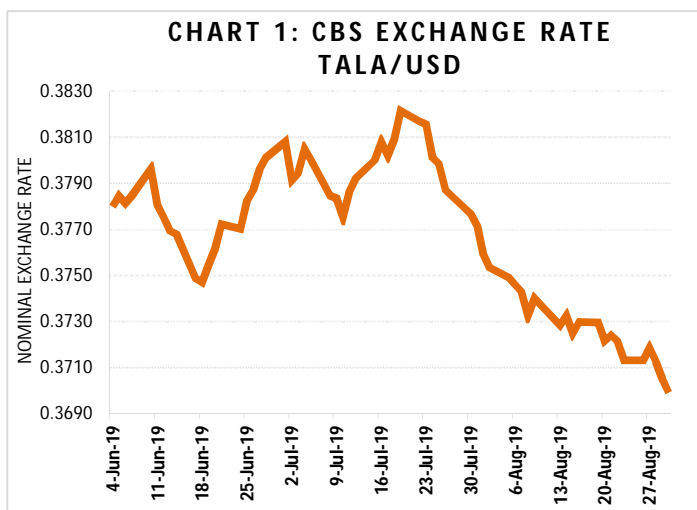
Source: Central Bank of Samoa

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 August in 2019, compared to the previous month and August 2018.

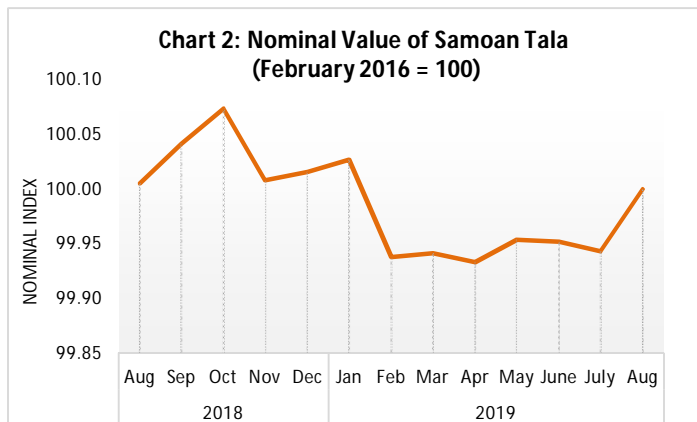
Table 2					
Tala* per foreign currencies (month average)					
				Movement of the Tala over the previous month and the previous year (+) appreciation / (-) depreciation	
	Aug-18	Jul-19	Aug-19	Jul-19 (%)	Aug-18 (%)
USD/TALA	2.6067	2.6344	2.6822	-1.81	-2.90
NZD/TALA	1.7414	1.7606	1.7273	1.89	0.81
AUD/TALA	1.9123	1.8405	1.8164	1.31	5.01
EUR/TALA	3.0123	2.9571	2.9843	-0.92	0.93
FJD/TALA	1.2386	1.2305	1.2283	0.18	0.83
TALA/YEN	42.6167	41.0916	39.6533	-3.50	-6.95
TALA/CNY	2.6263	2.6107	2.6290	0.70	0.10
Nominal Index	100.0052	99.9430	99.9995	0.0566	-0.0057

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

Source: Central Bank of Samoa

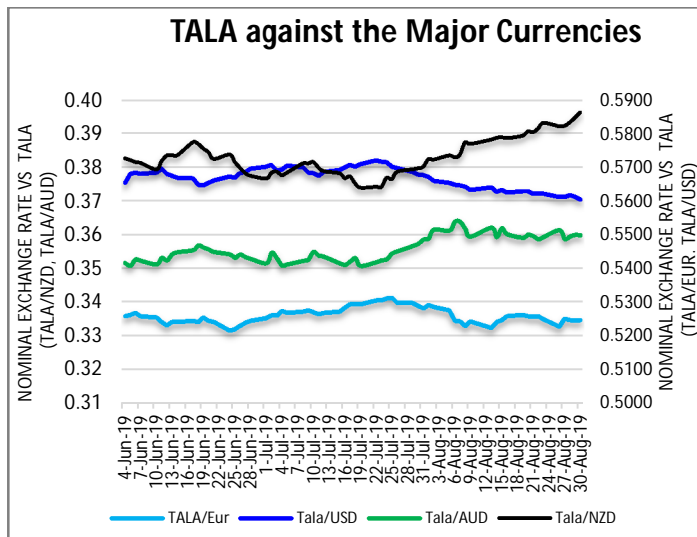


Source: Central Bank of Samoa



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C. MAJOR CURRENCIES AGAINST THE TALA



Source: Central Bank of Samoa

D. MARKET OUTLOOK FOR 2019 (06/09/19):

AUD/USD: Market expectations are for the AUD/USD to trade around USD\$0.67 by December Quarter 2019. RBA is expected to further ease its monetary policy, which could see the policy cash rate drop to 0.75% in October & 0.50% in February 2020. These expected policy actions, along with domestic data trends and the US-China tensions will drive the Aussie dollar in the next few months.

NZD/USD: The Reserve Bank of New Zealand (RBNZ) is expected to depreciate to around US\$0.63 by Dec 2019. A further cut (by 25 basis points) in the RBNZ's policy interest rate in the December quarter as well as economic data trends and the US-China conflict will influence the Kiwi currency.

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 September 2020 Quarter amid risks of a no-deal Brexit by October 2019, unresolved geopolitical risks and escalating global trade uncertainty.

FINANCIAL MARKETS DEPARTMENT
06th Sept 2019

ECONOMIC & FINANCIAL FORECASTS

Policy Interest rate forecasts

	Latest actual (03 Sept)	Sep 19	Dec 19	Mar 20	Jun 20	Sep 20	Dec 20
USA							
Fed Funds Rate	2.125	1.875	1.375	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	1.00	1.00	0.75	0.75	0.75	0.75	0.75
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 (06 Sept)	Sep 19	Dec 19	Mar 20	Jun 20	Sep 20	Dec 20
AUD/USD	0.6819	0.67	0.67	0.66	0.66	0.67	0.67
NZD/USD	0.6377	0.64	0.64	0.63	0.63	0.64	0.64
EUR/USD	1.1037	1.09	1.08	1.08	1.08	1.09	1.11
USD/JPY	106.9850	106.00	106.00	107.00	108.00	110.00	111.00
GBP/USD	1.2327	1.18	1.19	1.20	1.22	1.24	1.26
USD/CNY	7.1489	7.10	7.20	7.20	7.10	6.90	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	1.1	3.1	2.1	1.9	1.7
% yr	3.2	3.0	2.5	2.7	2.6	2.0	1.8
Unemployment rate %	3.8	3.8	3.8	3.9	3.6	3.5	3.5
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	0.4	0.6
% yr	2.1	1.9	1.8	1.3	1.6	1.6	1.7

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	0.5	0.4	0.5
Annual avg change	3.2	3.1	2.9	2.7	2.4	2.3	2.1
Unemployment rate %	4.4	4.0	4.3	4.2	3.9	4.1	4.2
CPI % qtr	0.4	0.9	0.1	0.1	0.6	0.6	0.3
Annual % change	1.5	1.9	1.9	1.5	1.7	1.4	1.6

Source: Bloomberg, Westpac Economics Update (02 September 2019), Trading Economics