

EXCHANGE RATE DEVELOPMENTS SEPTEMBER 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	September 25, 2019	crude oil (US\$/bbl)	\$59.25	\$0.79	\$58.46
Reserve Bank of Australia	0.75%	-0.25	October 1, 2019	whole milk powder (US\$/t)	\$3,275.00	\$112.50	\$3,162.50
US Federal Reserve	1.75 - 2.00%	-0.25	September 18, 2019				
European Central Bank	0.00%	0.00	July 25, 2019				
Bank of England	0.75%	0.00	September 19, 2019				

A. CURRENCY WATCH

The overall nominal effective value of the **Samoan Tala appreciated by 0.0162 percent** against the currency basket. This resulted from the Tala's appreciation against the New Zealand dollar (by 1.09 percent) and Euro (by 0.61 percent) which more than offset the Tala's depreciation against the United States dollar (by 0.41 percent) and Australian Dollar (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 PPI data, increased New Home Sales for August, weekly jobless claims figures and U.S consumer confidence remained positive.
- President Donald Trump announced a 15% tariffs on variety of Chinese goods after China decided to impose new duties on U.S crude oil escalating the trade war and shaking financial markets.
- The Federal Reserve as expected, cut its Fund Rate by 25 basis points to a range of 1.75 percent to 2.00 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\$1.11 to USD\$1.10 on the back of:

- Downbeat economic releases out of the Euro region, including the Eurozone's Balance of Payment hurt by higher oil prices, an unexpected drop in Euro-zone Consumer confidence, German and France data performing well below expectations (such as the Composite, Services and Manufacturing PMI as well as Q2 CPI)
- Brexit concerns on whether UK should leave with or without a deal on October 31 and awaiting an authorization from WTO for the US to impose tariffs of nearly \$8billion of European Goods due to illegal state aid provided to aircraft makers.

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

- Favorable economic data releases during the month, such as the upbeat Australian National Output, meeting market expectation for June Quarter, positive GDP figures, Aussie's

Trade Account and Current Account Balance, better than expected Consumer Confidence for the June quarter and a strong home loan data.

- 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\$0.63, mainly reflecting:

- Negative domestic data released during September, including a decrease in Manufacturing Sales, drop in NZ's Performance Index for August, and a decline in August's Trade Balance compared to previous month.
- The Reserve Bank of New Zealand (RBNZ) maintained its official cash rate at 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)** depreciated against the USD, following:

- Unfavorable domestic economic releases, mainly reflecting on Japan's decrease in Q2 GDP for business spending, a decline in Trade balance with a drop in Japan's (YoY) CPI and Manufacturing PMI for August.
- Improving risk appetite as investors turn to riskier assets.

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

- Downbeat domestic data releases during the month, (such as the decline in China's Balance of Payment (BoP) current account balances for June Quarter, drop in September's PMI, and a decrease in Asian stock market prices).
- The on-going Sino-US trade uncertainties continues, with a cross-border capital flows, blacklisting 43 foreign exchange trading firms and suspected illegal foreign exchange activities, as their slowdown deepens amid an escalating trade war 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 September 2019, compared to the previous month and September 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		
	Sep-18	Aug-19	Sep-19	Aug-19	Sep-18
				(%)	(%)
NZD/USD	0.6596	0.6440	0.6344	-1.49	-3.82
AUD/USD	0.7201	0.6772	0.6807	0.52	-5.47
USD/YEN	111.9198	106.3533	107.3826	-0.97	4.05
USD/CNY	6.8532	7.0515	7.1182	-0.95	-3.87
EUR/USD	1.1661	1.1126	1.1013	-1.02	-5.56
FJD/USD	0.4706	0.4580	0.4564	-0.35	-3.02

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

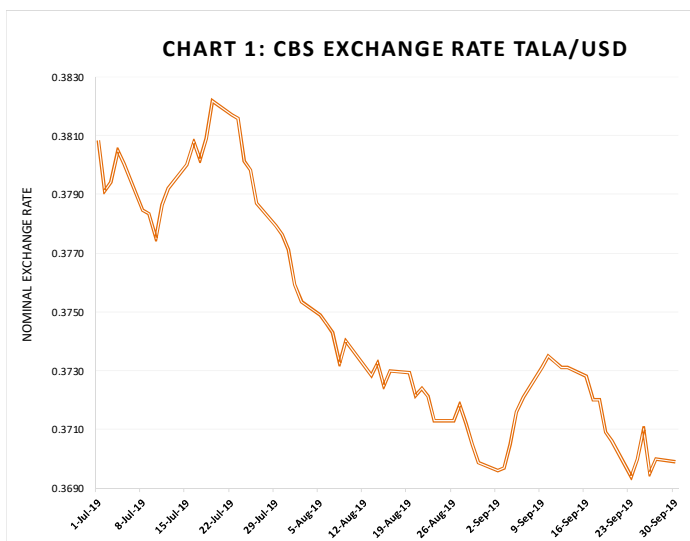
Source: Central Bank of Samoa

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

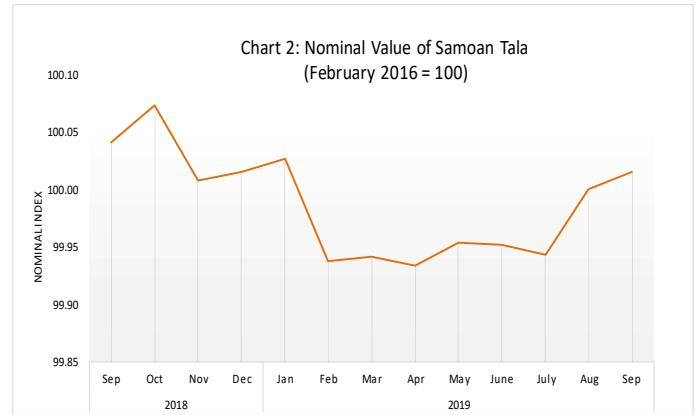
Table 2					
Tala* per foreign currencies (month average)					
			Movement of the Tala over the previous month and the previous year		
			(+ appreciation / (-) depreciation		
	Sep-18	Aug-19	Sep-19	Aug-19	Sep-18
				(%)	(%)
USD/TALA	2.6274	2.6822	2.6931	-0.41	-2.50
NZD/TALA	1.7328	1.7273	1.7084	1.09	1.41
AUD/TALA	1.8918	1.8164	1.8332	-0.92	3.10
EUR/TALA	3.0637	2.9843	2.9660	0.61	3.19
FJD/TALA	1.2366	1.2283	1.2291	-0.07	0.61
TALA/YEN	42.5976	39.6533	39.8738	0.56	-6.39
TALA/CNY	2.6080	2.6290	2.6431	0.54	1.35
Nominal Index	100.0414	99.9995	100.0157	0.0162	-0.0257

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

Source: Central Bank of Samoa

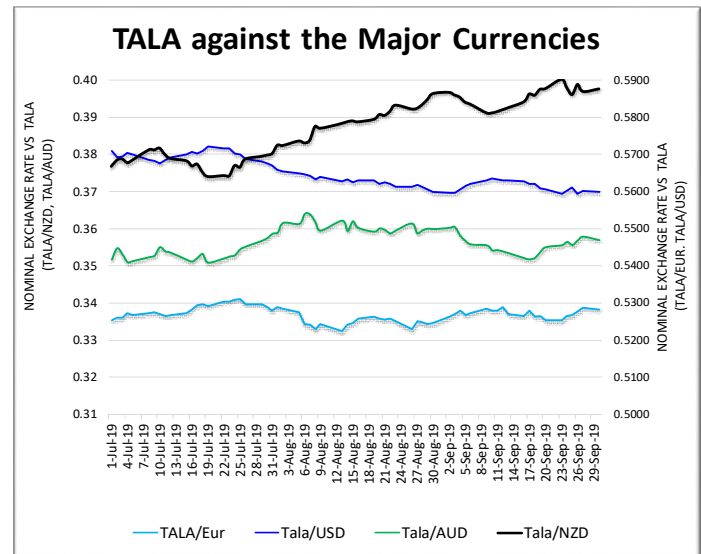


Source: Central Bank of Samoa



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C. MAJOR CURRENCIES AGAINST THE TALA



Source: Central Bank of Samoa

D. MARKET OUTLOOK FOR Q4 2019:

AUD/USD: Market expectations are for the AUD/USD to trade around USD\$0.67 by December Quarter 2019. As the RBA reduced official cash rate to 0.75 percent in its October meeting, a further ease in its monetary policy, could see the policy cash rate drop to 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.

ECONOMIC & FINANCIAL FORECASTS

Policy Interest rate forecasts

	Latest actual (08 Oct)	Dec 19	Mar 20	Jun 20	Sep 20	Dec 20	Jun 21
USA							
Fed Funds Rate	1.875	1.375	1.125	0.875	0.875	0.875	0.875
Australia							
RBA Cash Rate	0.75	0.75	0.50	0.50	0.50	0.50	0.50
New Zealand							
RBNZ Cash Rate	1.00	0.75	0.75	0.75	0.75	0.75	0.75
China							
PBOC Interest Rate	4.20	4.20	4.20	4.20	4.20	4.20	4.20
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	0.50	0.25	0.25	0.25	0.25	0.25

Exchange rate forecasts

	Latest (08 Oct)	Dec 19	Mar 20	Jun 20	Sep 20	Dec 20	Jun 21
AUD/USD	0.6741	0.67	0.66	0.66	0.67	0.67	0.69
NZD/USD	0.6298	0.63	0.62	0.62	0.63	0.63	0.65
EUR/USD	1.0979	1.07	1.05	1.06	1.07	1.09	1.11
USD/JPY	107.2850	105.00	104.00	104.00	106.00	108.00	111.00
GBP/USD	1.2308	1.17	1.18	1.20	1.22	1.24	1.35
USD/CNH	7.1260	7.10	7.18	7.16	7.13	7.32	7.18

US economic indicators and outlook

	Dec 18	Mar 19	Jun 19	Sep 19(f)	Dec 19(f)	Mar 20(f)	Jun 20(f)
GDP % qtr.	1.1	3.1	2.0	1.9	1.7	1.7	1.7
% yr.	2.5	2.7	2.3	2.0	2.2	2.2	2.2
Unemployment rate %	3.8	3.9	3.6	3.5	3.5	3.6	3.6
CPI % yr.	1.9	1.8	1.6	1.7	1.9	1.9	1.9

Australian economic indicators and outlook

	Dec 18	Mar 19	Jun 19	Sep 19(f)	Dec 19(f)	Mar 20(f)	Jun 20(f)
GDP % qtr. / yr. avg	0.1	0.5	0.5	0.6	0.7	0.6	0.6
% yr.	2.2	1.7	1.4	1.8	2.3	2.4	2.5
Unemployment rate %	5.0	5.0	5.2	5.3	5.4	5.6	5.6
CPI % qtr	0.5	0.0	0.6	0.5	0.5	0.5	0.3
% yr	1.8	1.3	1.6	1.7	1.7	2.2	1.9

New Zealand economic indicators and outlook

	Dec 18	Mar 19	Jun 19	Sep 19(f)	Dec 19(f)	Mar 20(f)	Jun 20(f)
GDP % qtr.	0.7	0.6	0.5	0.4	0.5	0.6	0.7
Annual avg change	2.8	2.7	2.4	2.3	2.2	2.1	2.1
Unemployment rate %	4.3	4.2	3.9	4.2	4.3	4.4	4.4
CPI % qtr.	0.1	0.1	0.6	0.6	0.3	0.4	0.4
Annual % change	1.9	1.5	1.7	1.4	1.6	1.9	1.7

Source: Bloomberg, Westpac Economics Update (08 October 2019), Trading Economics