

EXCHANGE RATE DEVELOPMENTS OCTOBER 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%	0.00	September 25, 2019	crude oil (US\$/bbl)	\$55.05	-\$4.20	\$59.25
Reserve Bank of Australia	0.75%	-0.25	October 1, 2019	whole milk powder (US\$/t)	\$3,125.00	-\$150.00	\$3,275.00
US Federal Reserve	1.50 - 1.75%	-0.25	October 30, 2019				
European Central Bank	0.00%	0.00	October 24, 2019				
Bank of England	0.75%	0.00	September 19, 2019				

A. CURRENCY WATCH

The overall nominal effective value of the **Samoa Tala appreciated by 0.0068 percent** against the currency basket. This has resulted from the Tala's appreciation against the New Zealand dollar (by 0.11 percent) and Australian dollar (by 0.14 percent) which more than offset the Tala's depreciation against the United States dollar (by 0.11 percent) and Euro (by 0.40 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 manufacturing PMI data, increased job openings for September, weekly jobless claims figures and a rise in household spending with higher trade in U.S shares.
- The markets welcomed the Phase One trade deal between the U.S and China indicating a suspension of a tariff increase and a commitment from China to buy more of U.S Agricultural products as part of the Phase One deal.
- The Federal Reserve as expected, cut its Fund Rate by 25 basis points to a range of 1.50 percent to 1.75 percent to keep economic growth alive, with the markets not expecting further aggressive rate cuts in the near future in view of the US-China trade tensions and ensuing weakness in the global economic outlook.

The **Euro** gained against the USD from US\$1.101 to USD\$1.105 on the back of:

- Upbeat economic releases out of the Euro region, mainly reflecting the better than expected Euro-zone's manufacturing PMI for September with a rise in trade balance for August, and German's CPI data performing well above expectations.
- The European Union granted the United Kingdom (UK) a three-month extension, enabling them to exit any time before 31 January 2020.

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

- Unfavorable economic data releases during the month, such as the downbeat foreign reserves, low business confidence, and weaker than expected PMI data

- The Reserve Bank of Australia (RBA) cuts its interest rate as expected by 25 bps from 1.00 percent to 0.75 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 lower to around USD\$0.63, mainly reflecting:

- Negative domestic data released during October, including a decrease in New Zealand's credit card spending, a drop in stock prices with a deepened business confidence and an unchanged Manufacturing PMI for September.
- The Kiwi currency was also weakened by the U.S-Sino trade war.

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 September's consumer confidence, a decline in trade balance with a drop in Japan's industrial productions and low PMI data for September.
- Improving risk appetite as investors turn to riskier assets.

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

- Upbeat domestic data releases during the month, (such as an increase in China's manufacturing PMI for September, better than expected September CPI, and an increase in Asian stock market prices).
- The on-going Sino-US trade uncertainties continues, as China signaled to retaliate against the U.S for blacklisting Chinese technology companies with a refusal from China to accept demand by U.S President to buy more volume of products.

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 October 2019, compared to the previous month and October 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				
	Oct-18	Sep-19	Oct-19	Sep-19 (%)	Oct-18 (%)
NZD/USD	0.6535	0.6344	0.6330	-0.22	-3.14
AUD/USD	0.7112	0.6807	0.6790	-0.25	-4.53
USD/YEN	112.8332	107.3826	108.1530	-0.72	4.15
USD/CNY	6.9161	7.1182	7.1010	0.24	-2.67
EUR/USD	1.1494	1.1013	1.1047	0.31	-3.89
FJD/USD	0.4669	0.4564	0.4561	-0.07	-2.31

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

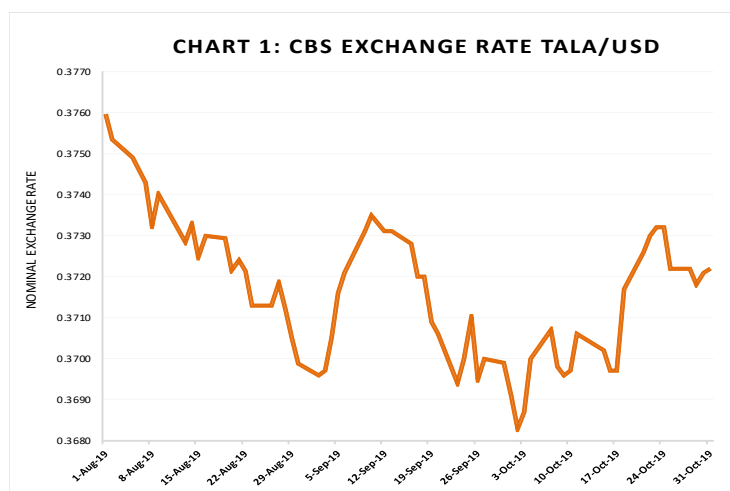
Source: Central Bank of Samoa

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

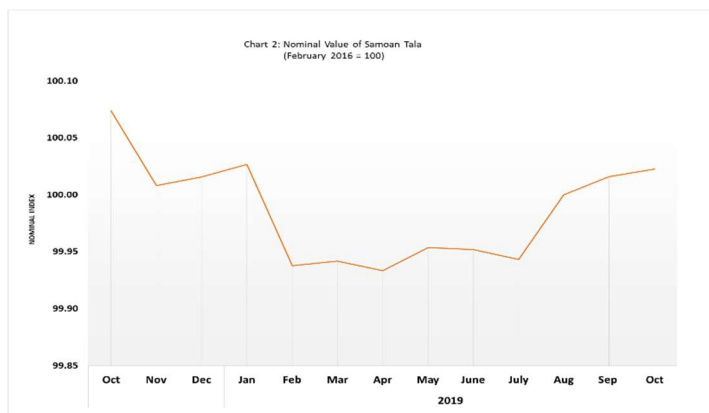
Table 2					
Tala* per foreign currencies (month average)					
	Movement of the Tala over the previous month and the previous year (+) appreciation / (-) depreciation				
	Oct-18	Sep-19	Oct-19	Sep-19 (%)	Oct-18 (%)
USD/TALA	2.6423	2.6931	2.6960	-0.11	-2.03
NZD/TALA	1.7267	1.7084	1.7066	0.11	1.16
AUD/TALA	1.8791	1.8332	1.8306	0.14	2.58
EUR/TALA	3.0370	2.9660	2.9780	-0.40	1.94
FJD/TALA	1.2337	1.2291	1.2295	-0.03	0.34
TALA/YEN	42.7029	39.8738	40.1174	0.61	-6.05
TALA/CNY	2.6175	2.6431	2.6339	-0.35	0.63
Nominal Index	100.0737	100.0157	100.0225	0.0068	-0.0512

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

Source: Central Bank of Samoa

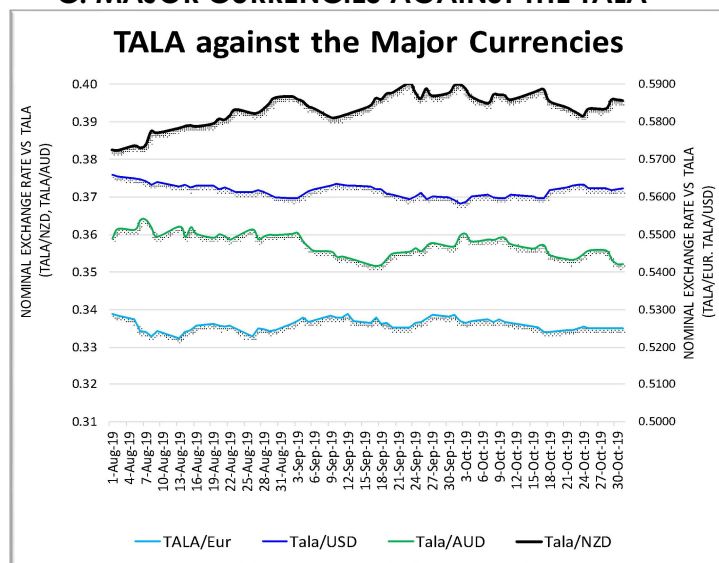


Source: Central Bank of Samoa



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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 Nov)	Dec 19	Mar 20	Jun 20	Sep 20	Dec 20	Jun 21
USA							
Fed Funds Rate	1.625	1.625	1.375	1.125	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	1.00	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	0.75	0.75	0.50	0.50	0.50	0.50

Exchange rate forecasts

	Latest (08 Nov)	Dec 19	Mar 20	Jun 20	Sep 20	Dec 20	Jun 21
AUD/USD	0.6900	0.67	0.66	0.66	0.67	0.67	0.69
NZD/USD	0.6380	0.63	0.62	0.62	0.63	0.63	0.65
EUR/USD	1.1049	1.09	1.09	1.10	1.11	1.12	1.14
USD/JPY	109.36	108.00	107.00	106.00	105.00	105.00	107.00
GBP/USD	1.2813	1.30	1.33	1.32	1.32	1.31	1.31
USD/CN	7.1260	7.10	7.18	7.16	7.13	7.32	7.18*
H							

US economic indicators and outlook

	Mar 18	Jun 19	Sep 19	Dec 19(f)	Mar 20(f)	Jun 20(f)	Sep 20(f)
GDP % qtr.	3.1	2.0	1.9	1.6	1.6	1.6	1.6
% yr.	2.7	2.3	2.0	2.2	2.2	2.2	2.2
Unemployment rate %	3.9	3.6	3.6	3.5	3.5	3.5	3.6
CPI % yr.	1.9	1.7	1.7	1.9	1.8	1.8	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	5.5	5.6	5.0
CPI % qtr	0.5	0.0	0.6	0.5	0.5	0.4	0.4
% yr	1.8	1.3	1.6	1.7	1.7	2.1	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	0.3	0.5	0.6	0.7
Annual avg change	2.8	2.7	2.4	2.3	2.2	2.0	2.0
Unemployment rate %	4.3	4.2	3.9	4.2	4.3	4.4	4.4
CPI % qtr.	0.1	0.1	0.6	0.7	0.3	0.5	0.4
Annual % change	1.9	1.5	1.7	1.5	1.7	2.0	1.8

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