

## EXCHANGE RATE DEVELOPMENTS NOVEMBER 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	November 13, 2019	crude oil (US\$/bbl)	\$55.97	\$0.92	\$55.05
Reserve Bank of Australia	0.75%	0.00	November 5, 2019	whole milk powder (US\$/t)	\$3,350.00	\$225.00	\$3,125.00
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	November 7, 2019				

### A. CURRENCY WATCH

The overall nominal effective value of the **Samoan Tala depreciated by 0.0250 percent** against the currency basket. This has resulted from the Tala's depreciation against the New Zealand dollar (by 0.57 percent) and Australian dollar (by 0.19 percent) which more than offset the Tala's appreciation against the United States dollar (by 0.44 percent) and Euro (by 0.37 percent).

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

- A string of negative US economic releases during the month such as a decrease in labour productivity, weak manufacturing data, worse than expected U.S trade balance figures, drop in industrial production in October, and declines in US factory orders, consumer confidence and new home sales for November. These culminated with the US Fed's downward revision of its GDP forecasts.
- The escalating US/China trade negotiations with a Phase One deal yet to be finalized after the U.S President denied a suspension of tariffs on Chinese goods while the Chinese officials became pessimistic and refused to sign a deal that was one-sided in favor of the U.S.
- The Federal Reserve, cut its Fund Rate for the third time this year by 25 basis points to a range of 1.50 percent to 1.75 percent in order to keep economic prospects alive.

The **Euro** gained against the USD from US\$1.10 to USD\$1.11 on the back of:

- Upbeat economic releases out of the Euro region, mainly reflecting the better than expected CPI data for October, a rise on its Q3 year-on-year (YoY) GDP data, a trade surplus indicating a slow risk for recession and Germany's CPI data performing well above expectations.
- The Euro-zone's economy showed signs of recovering from a recent slowdown as their retail sales expanded, with a slight increase in economic confidence as well as favourable exports and manufacturing data.

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

- Favorable economic data releases during the month, such as the upbeat foreign reserves, increase in ANZ's job advertisements, high business confidence as well as the mixed headlines on the on-going trade war between the U.S and China.
- The Reserve Bank of Australia (RBA) maintained its interest rate as expected at 0.75 percent despite an unwelcome weakness in the labor market and inflation.

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

- Positive domestic data released during November, including an increase in manufacturing data for October, a rise in performance service index (PSI) and producer price index (PPI) along with a better than expected retail sales performance and improved trade position.
- RBNZ's decision to hold its overnight cash rate at 1.00 percent, surprising some investors.

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

- Favorable domestic economic releases, including a better than expected Official Reserve Assets for October and increased GDP deflator for Q3.
- 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:

- Downbeat domestic data releases during the month, (including a decrease in China's money supply, worse than expected Services PMI for October, and a decrease in Asian stock market prices).
- The on-going US/China trade uncertainties, which intensified after the USA Administration endorsed a Bill supporting the Hong Kong protestors, which the Chinese Government slammed as US interference in its internal affairs.

## 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 November 2019, compared to the previous month and November 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	
	Nov-18	Oct-19	Nov-19	Oct-19	Nov-18
				(%)	(%)
NZD/USD	0.6769	0.6330	0.6395	1.03	-5.53
AUD/USD	0.7239	0.6790	0.6833	0.63	-5.61
USD/YEN	113.3036	108.1530	108.8326	-0.63	3.95
USD/CNY	6.9409	7.1010	7.0214	1.12	-1.16
EUR/USD	1.1363	1.1047	1.1054	0.06	-2.72
FJD/USD	0.4720	0.4561	0.4581	0.44	-2.94

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

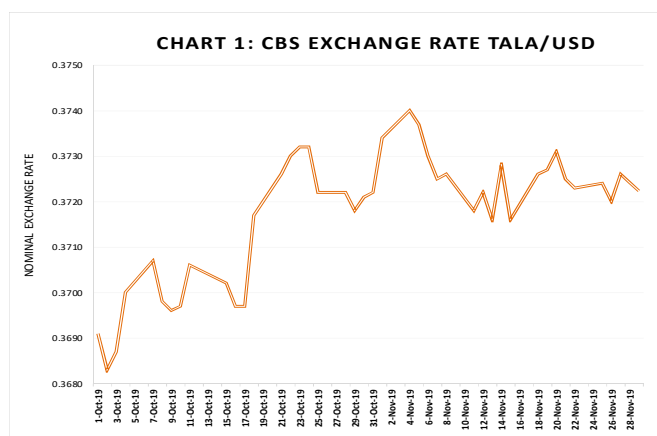
Source: Central Bank of Samoa

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

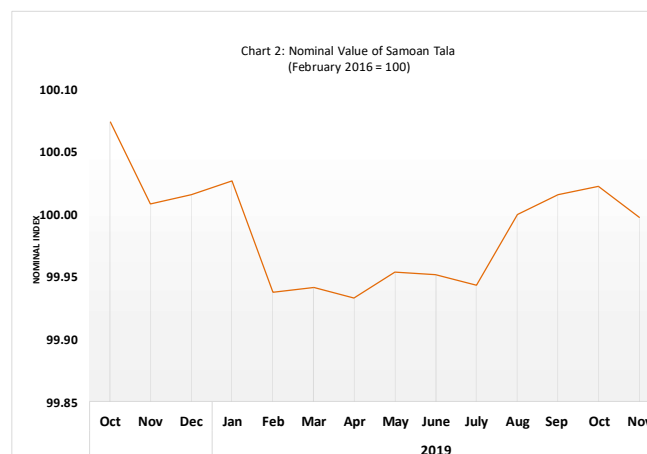
Table 2					
Tala* per foreign currencies (month average)					
				Movement of the Tala over the previous month and the previous year	
				(+ appreciation / (-) depreciation	
	Nov-18	Oct-19	Nov-19	Oct-19	Nov-18
				(%)	(%)
USD/TALA	2.6044	2.6960	2.6840	0.45	-3.06
NZD/TALA	1.7625	1.7066	1.7164	-0.57	2.62
AUD/TALA	1.8850	1.8306	1.8341	-0.19	2.70
EUR/TALA	2.9592	2.9780	2.9669	0.37	-0.26
FJD/TALA	1.2292	1.2295	1.2296	-0.01	-0.03
TALA/YEN	43.5065	40.1174	40.5477	1.07	-6.80
TALA/CNY	2.6651	2.6339	2.6160	-0.68	-1.84
Nominal Index	100.0081	100.0225	99.9974	-0.0250	-0.0107

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

Source: Central Bank of Samoa

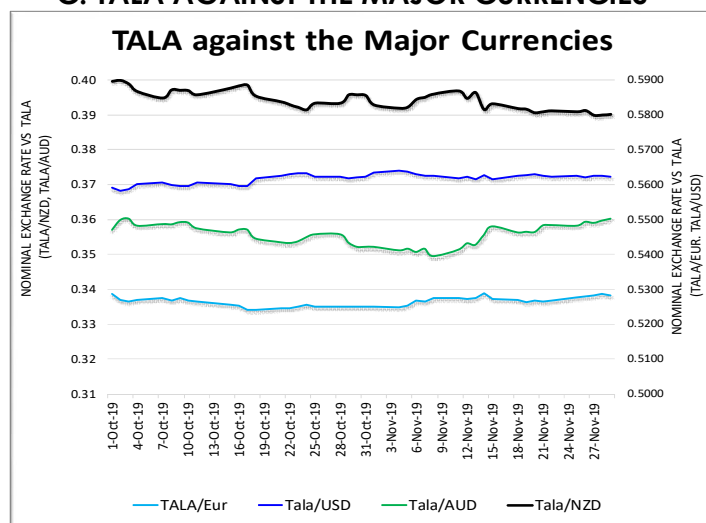


Source: Central Bank of Samoa



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## C. TALA AGAINST THE MAJOR CURRENCIES



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 end December Quarter 2019. As the RBA reduced its 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 (2 December)	Dec 19	Mar 20	Jun 20	Sep 20	Dec 20	Jun 21
<b>USA</b>							
Fed Funds Rate	1.625	1.625	1.375	1.125	0.875	0.875	0.875
<b>Australia</b>							
RBA Cash Rate	0.75	0.75	0.50	0.25	0.25	0.25	0.25
<b>New Zealand</b>							
RBNZ Cash Rate	1.00	1.00	0.75	0.75	0.75	0.75	0.75
<b>China</b>							
PBOC Interest Rate	4.15	4.15	4.15	4.15	4.15	4.15	4.15
<b>Euro-Area</b>							
ECB Refinance Rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>United Kingdom</b>							
BOE Base Rate	0.75	0.75	0.75	0.50	0.50	0.50	0.50

## Exchange rate forecasts

	Latest (29 Nov)	Dec 19	Mar 20	Jun 20	Sep 20	Dec 20	Jun 21
AUD/USD	0.6768	0.67	0.66	0.66	0.67	0.67	0.69
NZD/USD	0.6421	0.63	0.62	0.62	0.63	0.63	0.65
EUR/USD	1.1009	1.09	1.09	1.10	1.11	1.12	1.14
USD/JPY	109.48	108.00	107.00	106.00	105.00	105.00	107.00
GBP/USD	1.2909	1.30	1.33	1.32	1.32	1.31	1.31
USD/CNH	7.1260	7.10	7.18	7.16	7.13	7.32	7.18 *

## 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	5.2	5.3	5.5	5.6
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	0.7	0.8
Annual avg change	2.8	2.7	2.4	2.3	2.2	2.0	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	0.7	0.3	0.5	0.4
<b>Annual % change</b>	1.9	1.5	1.7	1.5	1.7	2.0	1.8

Source: Bloomberg, Westpac Economics Update (29 November 2019), Trading Economics