

EXCHANGE RATE DEVELOPMENTS JANUARY 2020

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)	\$58.16	\$2.19	\$55.97
Reserve Bank of Australia	0.75%	0.00	December 3, 2019	whole milk powder (US\$/t)	\$3,039.00	-\$311.00	\$3,350.00
US Federal Reserve	1.50 - 1.75%	0.00	January 28, 2020				
European Central Bank	0.00%	0.00	January 23, 2020				
Bank of England	0.75%	0.00	January 30, 2020				

A. CURRENCY WATCH

The overall nominal effective value of the **Samoan Tala** appreciated by **0.0018 percent** against the currency basket. This was due to the strengthening of the Tala against the United States Dollar (by 0.06 percent), the Australian Dollar (by 0.32 percent) and Euro (by 0.13 percent) offsetting the Tala's depreciation against the New Zealand dollar (by 0.28 percent).

Of the currencies in the Tala currency basket, the **United States dollar** (USD) was generally on an uptrend, supported by the following developments:

- A string of positive US economic releases during the month including the stronger retail sales, better than expected producer price index (PPI) and housing data for December, increased stocks and existing home sales, increase in services purchasing manager index (PMI), durable goods order as well as the consumer confidence index performing well above expectations.
- U.S and China signed a Phase One trade deal, easing some trade policy tension between the two major economies although more negotiations are to be expected in the year ahead.
- Geopolitical tensions between the U.S and Iran following the death of a senior Iranian military leader in Iraq, and
- Later in the month, safe-haven demand for the greenback following the global outbreak of the novel corona-virus.

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

- Unfavourable economic releases out of the Euro region, mainly reflecting a decline in Germany's industrial orders, a fall on Euro-zone's inflation data and trade balance with the worse than expected PMI data for December
- The European Central Bank (ECB) held its official policy rates, as expected.
- The withdrawal of the United Kingdom from the European Union on January 31st although it will still abide by EU rules until the end of the transition period in December 2020.

The **Australian dollar** (AUD) dropped, due to:

- The stronger US dollar powered by its positive data releases and the signing of the Phase One trade deal where China assured of more imports of the United States' agricultural products, which may potentially impact the flow of exports for Australia.
- Market concerns on the rapid spread of the coronavirus, as the potential adverse impact on the Chinese economy from this outbreak may flow on to its main trading partners including Australia.
- These more than offset positive domestic data released during the month (such as increased employment and better than expected retail sales figures).

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

- Positive domestic data released during the month including the better than expected food prices for December with the rise on its year-on-year Q4 consumer price index (CPI).
- The global economic movements driven by natural events and geopolitical tensions moves the NZD against the USD on a fluctuating trend.

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

- Downbeat domestic economic releases, including a decline in Composite and Services PMI data, with a weak consumer confidence index for December.
- The outbreak of the corona-virus also weighed on Japan's economic growth.

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

- The favourable domestic data releases in the beginning of the month, (including an increased industrial production, better than expected year-on-year gross domestic product (GDP), with the increased new home sales for December).
- A recovery in demand for China's products after the U.S lifted China's designation as a currency manipulator.
- The coronavirus outbreak later drove the currency and will hit China's economic activities in the months ahead.

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 January 2020, compared to the previous month and January 2019.

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				
	Jan-19	Dec-19	Jan-20	Dec-19 (%)	Jan-19 (%)
NZD/USD	0.6773	0.6586	0.6609	0.35	-2.42
AUD/USD	0.7148	0.6876	0.6859	-0.25	-4.04
USD/YEN	108.9631	109.1782	109.3307	-0.14	-0.34
USD/CNH	6.8001	7.0119	6.9285	1.19	-1.89
EUR/USD	1.1414	1.1107	1.1099	-0.07	-2.76
FJD/USD	0.4718	0.4610	0.4611	0.02	-2.27

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

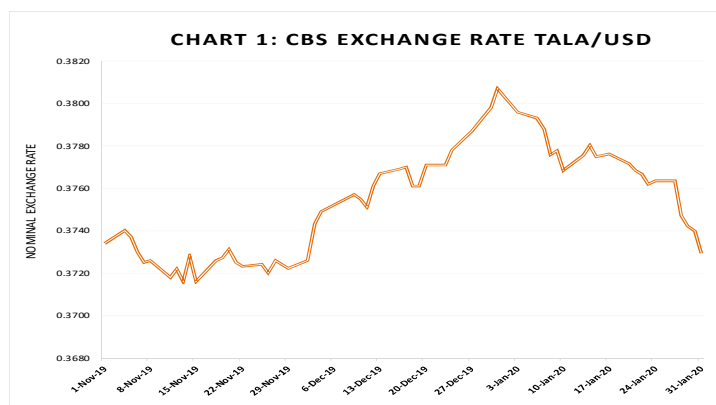
Source: Central Bank of Samoa

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 January 2020, compared to the previous month and January 2019.

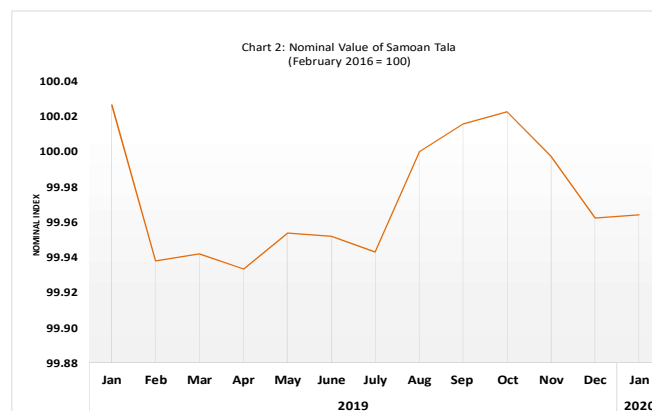
Table 2					
Tala* per foreign currencies (month average)					
	Movement of the Tala over the previous month and the previous year				
	(+ appreciation / (-) depreciation				
	Jan-19	Dec-19	Jan-20	Dec-19 (%)	Jan-19 (%)
USD/TALA	2.6107	2.6554	2.6538	0.06	-1.65
NZD/TALA	1.7682	1.7489	1.7538	-0.28	0.81
AUD/TALA	1.8661	1.8259	1.8200	0.32	2.47
EUR/TALA	2.9796	2.9492	2.9453	0.13	1.15
FJD/TALA	1.2315	1.2241	1.2236	0.04	0.64
TALA/YEN	41.7383	41.1162	41.1987	0.20	-1.29
TALA/CNH	2.6047	2.6406	2.6108	-1.13	0.23
Nominal Index	100.0266	99.9621	99.9639	0.0018	-0.0627

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

Source: Central Bank of Samoa

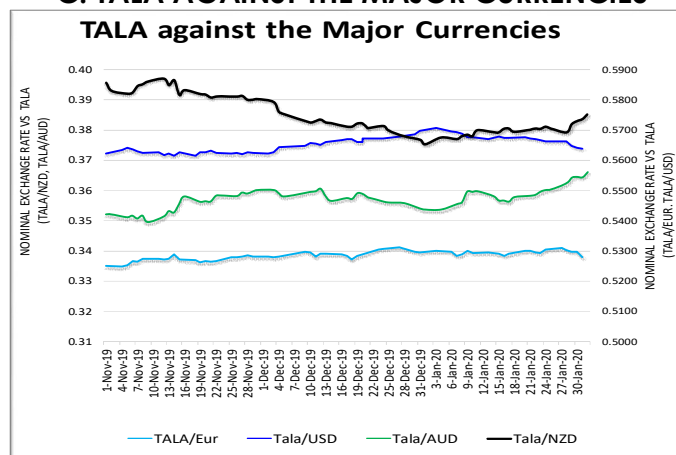


Source: Central Bank of Samoa



Source: Central Bank of Samoa

C. TALA AGAINST THE MAJOR CURRENCIES



Source: Central Bank of Samoa

D. MARKET OUTLOOK FOR Q1 2020:

AUD/USD: Market expectations are for the AUD/USD to trade around USD\$0.68 by end March Quarter 2020. As the RBA maintained its official cash rate to 0.75 percent in its February meeting, a further ease in its monetary policy, could see the policy cash rate drop to 0.50% in April 2020. These expected policy actions, along with domestic data trends, the US-China tensions, Chinese economic slowdown and the corona-virus outbreak will drive the Aussie dollar in the next few months.

NZD/USD: The New Zealand dollar is expected to depreciate to around US\$0.64 by March 2020. Any decision by the Reserve Bank of New Zealand on its policy interest rate path, economic data trends and the US-China trade conflict will influence the Kiwi currency.

EUR/USD: The Euro currency is now revised to trade around US\$1.09 towards the beginning of 2020 amid Brexit negotiation uncertainties, unresolved geopolitical risks and escalating global trade uncertainty.

FINANCIAL MARKETS DEPARTMENT
10 February 2020

ECONOMIC & FINANCIAL FORECASTS

Policy Interest rate forecasts

	Latest actual (07 February 2020)	Mar 20	Jun 20	Sep 20	Dec 20	Mar 21	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	0.25	0.25	0.25	0.25
New Zealand							
RBNZ Cash Rate	1.00	1.00	1.00	0.75	0.75	0.75	0.75
China							
PBOC Interest Rate	4.15	4.15	4.15	4.15	4.15	4.15	4.15
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	0.50	0.50	0.50	0.50	0.50

Exchange rate forecasts

	Latest (07 February 2020)	Mar 20	Jun 20	Sep 20	Dec 20	Mar 21	Jun 21
AUD/USD	0.6739	0.66	0.66	0.67	0.67	0.68	0.69
NZD/USD	0.6461	0.64	0.64	0.64	0.64	0.66	0.66
EUR/USD	1.0976	1.09	1.10	1.11	1.12	1.13	1.14
USD/JPY	109.9550	107.00	106.00	105.00	105.00	106.00	107.00
GBP/USD	1.2935	1.30	1.30	1.30	1.30	1.31	1.31
USD/CNH	6.9722	6.95	6.9	6.85	6.8	6.75	6.75

US economic indicators and outlook

	Jun 19	Sep 19	Dec 19(f)	Mar 20(f)	Jun 20(f)	Sep 20(f)	Dec 20(f)
GDP % qtr.	3.1	2.0	2.1	2.1	1.6	1.9	1.9
% yr.	2.3	2.1	2.3	1.9	1.9	1.9	1.8
Unemployment rate %	3.6	3.6	3.6	3.5	3.6	3.6	3.6
CPI % yr.	1.8	1.7	2.1	2.3	2.1	2.1	2.1

Australian economic indicators and outlook

	Jun 19	Sep 19	Dec 19(f)	Mar 20(f)	Jun 20(f)	Sep 20(f)	Dec 20(f)
GDP % qtr. / yr. avg	0.6	0.4	0.5	0.4	0.5	0.6	0.6
% yr.	1.6	1.7	2.1	1.9	1.8	2.0	2.1
Unemployment rate %	5.2	5.2	5.2	5.3	5.5	5.5	5.4
CPI % qtr	0.6	0.5	0.7	0.3	0.3	0.5	0.6
% yr	1.6	1.7	1.8	2.2	1.8	1.8	1.7

New Zealand economic indicators and outlook

	Jun 19	Sep 19	Dec 19(f)	Mar 20(f)	Jun 20(f)	Sep 20(f)	Dec 20(f)
GDP % qtr.	0.1	0.7	0.6	0.6	0.7	0.7	0.8
Annual avg change	2.8	2.7	2.3	2.0	2.2	2.3	2.5
Unemployment rate %	3.9	4.2	4.2	4.3	4.3	4.2	4.2
CPI % qtr.	0.6	0.7	0.5	0.5	0.4	0.7	0.3
Annual % change	1.7	1.5	1.9	2.2	2.0	2.0	1.8

Source: Bloomberg, Westpac Economics Update (03 February 2020), Trading Economics