

EXCHANGE RATE DEVELOPMENTS DECEMBER 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 | December 3, 2019 | whole milk powder (US\$/t) | \$3,350.00 | \$225.00 | \$3,125.00 |
| US Federal Reserve | 1.50 - 1.75% | 0.00 | December 11, 2019 | | | | |
| European Central Bank | 0.00% | 0.00 | December 12, 2019 | | | | |
| Bank of England | 0.75% | 0.00 | December 20, 2019 | | | | |

A. CURRENCY WATCH

The overall nominal effective value of the **Samoan Tala depreciated by 0.0353 percent** against the currency basket in December. This resulted from the Tala's depreciation against the New Zealand dollar (by 1.89 percent) which more than offset the Tala's appreciation against the United States dollar (by 1.07 percent), Australian dollar (by 0.45 percent) and Euro (by 0.60 percent).

Of the currencies in the Tala currency basket, the **United States dollar (USD)** maintained a downtrend during December, due to the following developments:

- A string of disappointing US economic releases during the month including a continuous decline in labour productivity, decreased home sales for November, lower than expected manufacturing data, weak construction spending and a worse than expected U.S current account balance for the September quarter.
- The uncertainties relating to the escalating dispute over the US/China trade negotiations for a Phase One deal. The only positive was the U.S cancellation of an attempt to levy an additional tariff on Chinese goods on December 15th in return of a guaranteed purchase by China of U.S agricultural products.
- The Federal Reserve Bank subsequent decision to hold interest rates in December until the first FOMC meeting for 2020.

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

- Favourable economic releases out of the Euro region, mainly reflecting a rise on the Euro-zone's CPI and PPI, better than expected manufacturing figures for November, a trade surplus for the Euro-zone and Germany indicating a slow risk for recession, with a surge in the Euro-zone's investor confidence.
- The European Central Bank (ECB) maintained its benchmark interest rates at 0%, after announcing their newly appointed President, Christine Lagarde.

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

- Upbeat economic data releases during the month, such as the better than anticipated labour data which added almost 40k jobs in November advertisements, and some positive developments out of the Chinese economy offsetting the mixed headlines from 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 but signaled a 0.5 percent cut in February 2020.

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 manufacturing data for September quarter, a rise on its year-on-year Q3 gross domestic product (GDP), a weakened USD and subsequent impact of global trade activities.
- The upbeat China Purchasing Managers Index (PMI) data showing expansion in its factory activities which is beneficial for New Zealand's exporting sector.

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 retail sales, a fall in industrial production and weak manufacturing data.
- The trade tensions between U.S and China weighed on Japan's exports by having fewer shipments of cars and construction machinery to the U.S and less chemical products for China.

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

- The weak USD and favourable domestic data releases during the month, (including an increased industrial production, better than expected CPI and PPI for November).
- A recovery in demand for China's products after the U.S dropped a plan for new tariffs on Chinese products as part of the trade deal.

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 December 2019, compared to the previous month and December 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 | | | | | |
| | Dec-18 | Nov-19 | Dec-19 | Nov-19 (%) | Dec-18 (%) |
| NZD/USD | 0.6832 | 0.6395 | 0.6586 | 2.99 | -3.60 |
| AUD/USD | 0.7189 | 0.6833 | 0.6876 | 0.63 | -4.35 |
| USD/YEN | 112.4516 | 108.8326 | 109.1782 | -0.32 | 2.91 |
| USD/CNH | 6.8894 | 7.0214 | 7.0119 | 0.14 | -1.78 |
| EUR/USD | 1.1376 | 1.1054 | 1.1107 | 0.48 | -2.36 |
| FJD/USD | 0.4725 | 0.4581 | 0.4610 | 0.63 | -2.43 |

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

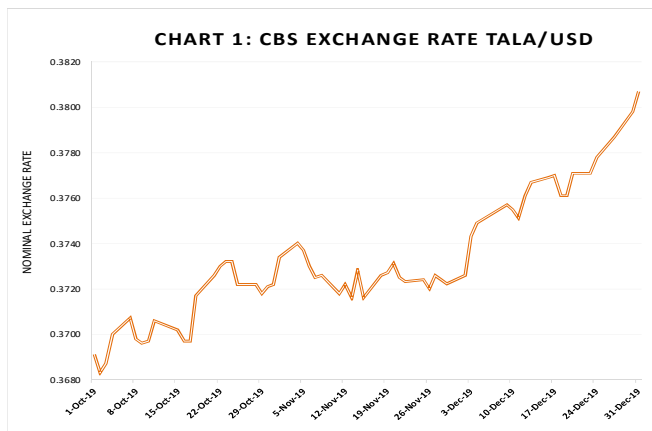
Source: Central Bank of Samoa

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

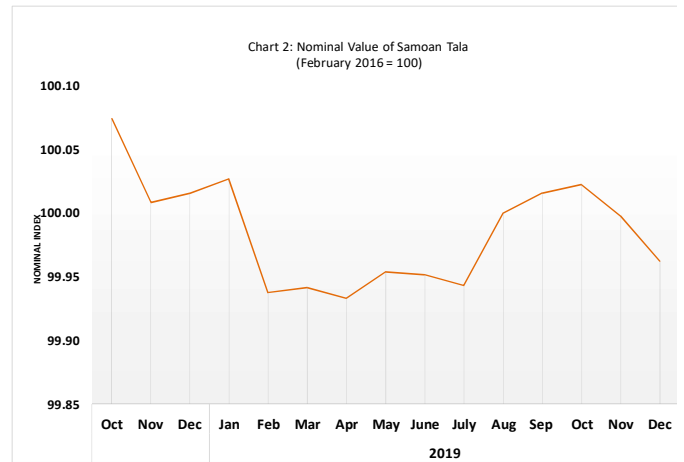
| Table 2 | | | | | |
|--|----------|---------|---------|------------|------------|
| Tala* per foreign currencies (month average) | | | | | |
| Movement of the Tala over the previous month and the previous year (+) appreciation / (-) depreciation | | | | | |
| | Dec-18 | Nov-19 | Dec-19 | Nov-19 (%) | Dec-18 (%) |
| USD/TALA | 2.6007 | 2.6840 | 2.6554 | 1.07 | -2.10 |
| NZD/TALA | 1.7765 | 1.7164 | 1.7489 | -1.89 | 1.55 |
| AUD/TALA | 1.8693 | 1.8341 | 1.8259 | 0.45 | 2.32 |
| EUR/TALA | 2.9586 | 2.9669 | 2.9492 | 0.60 | 0.32 |
| FJD/TALA | 1.2288 | 1.2296 | 1.2241 | 0.45 | 0.38 |
| TALA/YEN | 43.2430 | 40.5477 | 41.1162 | 1.40 | -4.92 |
| TALA/CNH | 6.8894 | 2.6158 | 2.6406 | 0.95 | -61.67 |
| Nominal Index | 100.0171 | 99.9974 | 99.9621 | -0.0353 | -0.0550 |

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

Source: Central Bank of Samoa

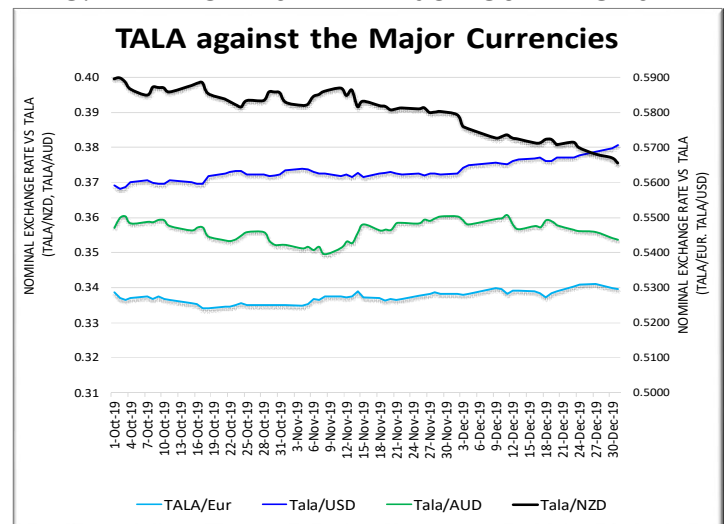


Source: Central Bank of Samoa



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\$0.66 by end March Quarter 2020. 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 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
8 January 2020

ECONOMIC & FINANCIAL FORECASTS

Policy Interest rate forecasts

| | Latest actual (8 January 2020) | Mar 20 | Jun 20 | Sep 20 | Dec 20 | Mar 21 | Jun 21 |
|-----------------------|-----------------------------------|--------|--------|--------|--------|--------|--------|
| USA | | | | | | | |
| Fed Funds Rate | 1.625 | 1.375 | 1.125 | 0.875 | 0.875 | 0.875 | 0.875 |
| Australia | | | | | | | |
| RBA Cash Rate | 0.75 | 0.50 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 |
| New Zealand | | | | | | | |
| RBNZ Cash Rate | 1.00 | 0.75 | 0.75 | 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 (8 January 2020) | Mar 20 | Jun 20 | Sep 20 | Dec 20 | Mar 21 | Jun 21 |
|---------|----------------------------|--------|--------|--------|--------|--------|--------|
| AUD/USD | 0.6870 | 0.66 | 0.66 | 0.67 | 0.67 | 0.68 | 0.69 |
| NZD/USD | 0.6642 | 0.64 | 0.64 | 0.64 | 0.64 | 0.65 | 0.65 |
| EUR/USD | 1.1144 | 1.09 | 1.10 | 1.11 | 1.12 | 1.13 | 1.14 |
| USD/JPY | 108.555 | 107.00 | 106.00 | 105.00 | 105.00 | 106.00 | 107.00 |
| GBP/USD | 1.3133 | 1.33 | 1.32 | 1.32 | 1.31 | 1.31 | 1.31 |
| USD/CNH | 6.9427 | 7.10 | 7.05 | 6.95 | 6.9 | 6.8 | 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. | 2.0 | 2.1 | 1.7 | 1.7 | 1.7 | 1.7 | 2.9 |
| % yr. | 2.3 | 2.1 | 2.2 | 2.2 | 2.2 | 2.2 | - |
| Unemployment rate % | 3.6 | 3.6 | 3.5 | 3.5 | 3.5 | 3.5 | 3.8 |
| CPI % yr. | 1.7 | 1.7 | 1.9 | 1.8 | 1.8 | 1.9 | 2.4 |

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 | 0.5 | 0.5 | 0.6 | 0.5 |
| % yr. | 1.6 | 1.7 | 2.1 | 2.1 | 2.0 | 2.2 | 2.1 |
| Unemployment rate % | 5.2 | 5.2 | 5.3 | 5.5 | 5.6 | 5.6 | 5.6 |
| CPI % qtr | 0.6 | 0.5 | 0.5 | 0.4 | 0.4 | 0.5 | 0.5 |
| % yr | 1.6 | 1.7 | 1.7 | 2.1 | 1.9 | 1.9 | 1.9 |

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 | 4.3 | 4.4 | 4.4 | 4.3 | 4.2 |
| CPI % qtr. | 0.6 | 0.7 | 0.4 | 0.5 | 0.4 | 0.7 | 0.3 |
| Annual % change | 1.7 | 1.5 | 1.8 | 2.1 | 1.9 | 1.9 | 1.8 |

Source: Bloomberg, Westpac Economics Update (20 December 2019), Trading Economics