

EXCHANGE RATE DEVELOPMENTS FEBRUARY 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	February 12, 2020	crude oil (US\$/bbl)	\$48.64	-\$9.52	\$58.16
Reserve Bank of Australia	0.75%	0.00	February 4, 2020	whole milk powder (US\$/t)	\$2,966.00	-\$73.00	\$3,039.00
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

New weights for the major currencies in the Samoa Tala currency basket took effect on 10th February following the endorsement of the Board of Directors in its meeting earlier in the month. An initial 0.05 percent nominal depreciation was recorded at the time.

The overall nominal effective value of the **Samoan Tala** appreciated by 0.0010 percent against the currency basket, as the major global share markets plunged on fears of the widespread coronavirus outbreak in the last week of February, dominating the month's FX trends. As a result, the Tala strengthened against the New Zealand Dollar (by 1.60 percent), the Australian Dollar (by 1.13 percent) and Euro (by 0.17 percent) offsetting the Tala's depreciation against the United States dollar (by 1.57 percent).

Of the currencies in the Tala currency basket, the **United States dollar** (USD) generally trended upwards, supported by the following developments:

- A string of positive US economic releases such as the higher retail sales, the better than expected ISM and Markit manufacturing data and stronger private labour market data, increased number of jobs created, an unexpected surge on the number of building permits, as well as the improved consumer price index (CPI) in January 2020.
- Attractiveness of the US dollar assets was supported by the US economists' forecasts earlier in the month, outlining the currently experienced low impact of Covid-19 on U.S growth, with relatively few domestic incidents at this time.

The **Euro** weakened against the USD from US\$1.11 to USD\$1.09 on the back of:

- Unfavourable economic releases out of the Euro region, mainly reflecting the worse than expected retail sales and investor confidence for February, and the disappointing growth figures out of the Euro-zone.
- A sharp decline in Germany's factory orders reduced industrial production with a stagnated GDP growth in the December quarter.
- The Brexit uncertainties re-emerged, while the Euro-zone's supply chains started to be influenced by the corona-virus outbreak, leading the European Commission to leave its 2020 and 2021 growth forecast unchanged.

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

- Negative domestic data releases such as the decline in retail sales, a rise in the unemployment rate in January and the worse than expected consumer inflation expectations for February.

- Low retail consumption as the severe bushfires and subsequent flooding in some areas discouraged buyers in the major cities of Sydney and Melbourne.
- Market concerns on the knock-on effects of the slowing Chinese economy and coronavirus outbreak on Australia's trade, with investors' fears affecting the global share markets.
- The Reserve Bank of Australia (RBA) held its policy rate unchanged at 0.75 percent, which was in line with market expectations.

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

- The unfavorable domestic data released during the month including the weakened consumer confidence due to the decline of exports to China and the reduced producer price index (PPI) for the fourth quarter in 2019.
- The impact of NZ's economic exposure to the already slowing Chinese economy as heightened market concerns from the rapid spread of the coronavirus will weaken NZ's trade position.
- Investors' risk-appetite as commodity currencies (including the NZD) reacted to the global share market crash in the last week of February.

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

- The downbeat domestic economic releases, including a decline in Japan's annualized gross domestic product (GDP) in December 2019, with contracted machine orders in the first few months of 2020, after factory activities suffered its steepest drop due to the disrupted supply chains amid the corona-virus outbreak.

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

- Disappointing domestic figures and huge losses after the extended Lunar New Year Holiday, (including the decline in Chinese shares after the Apple Inc. which is the world's leading manufacturer of consumer electronics announced that it will not meet its target)
- The economic slowdown hitting China repeatedly, as more employees were forced to stay home, flights suspended and closure of businesses resulted in weak economic activities, with uncertainty on when this health shock might be resolved.

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, compared to the previous month and February 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				
	Feb-19	Jan-20	Feb-20	Jan-20	Feb-19
				(%)	(%)
NZD/USD	0.6838	0.6609	0.6403	-3.12	-6.36
AUD/USD	0.7149	0.6859	0.6676	-2.67	-6.62
USD/YEN	110.3335	109.3307	110.0463	-0.65	0.26
USD/CNH	6.7492	6.9285	7.0023	-1.07	-3.75
EUR/USD	1.1353	1.1099	1.0908	-1.72	-3.92
FJD/USD	0.4723	0.4611	0.4544	-1.45	-3.79

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

Source:

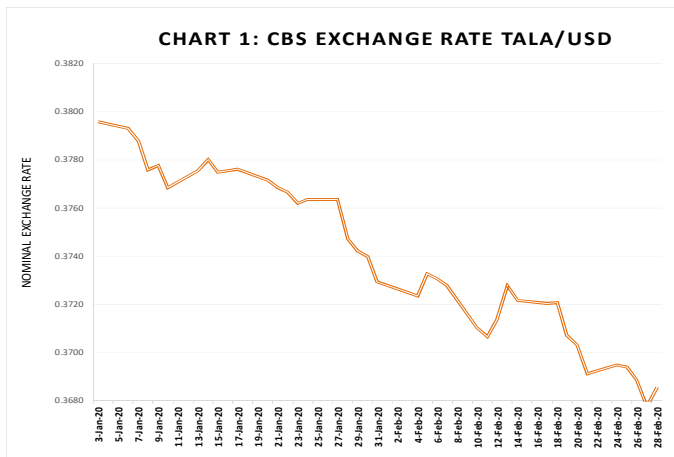
Central Bank of Samoa

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, compared to the previous month and February 2019.

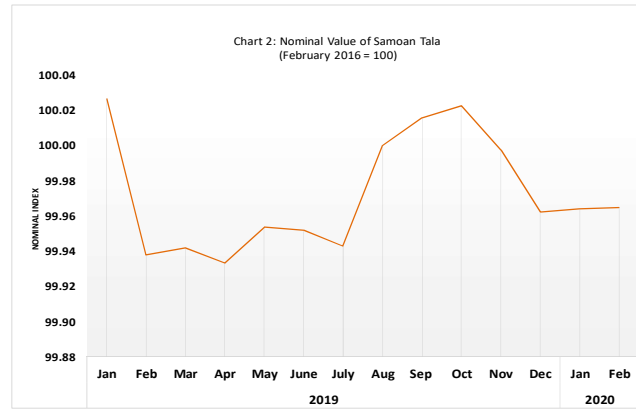
Table 2					
Tala* per foreign currencies (month average)					
	Movement of the Tala over the previous month and the previous year				
	(+ appreciation / (-) depreciation				
	Feb-19	Jan-20	Feb-20	Jan-20	Feb-19
				(%)	(%)
USD/TALA	2.6029	2.6538	2.6954	-1.57	-3.55
NZD/TALA	1.7797	1.7538	1.7257	1.60	3.03
AUD/TALA	1.8606	1.8200	1.7994	1.13	3.29
EUR/TALA	2.9550	2.9453	2.9402	0.17	0.50
FJD/TALA	1.2292	1.2236	1.2247	-0.09	0.37
TALA/YEN	42.3891	41.1987	40.8279	-0.90	-3.68
TALA/CNH	2.5930	2.6108	2.5979	-0.49	0.19
Nominal Index	99.9377	99.9639	99.9648	0.0010	0.0272

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

Source: Central Bank of Samoa

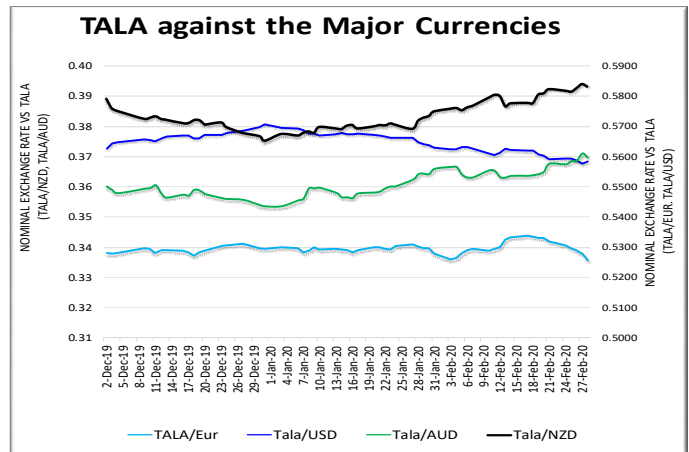


Source: Central Bank of Samoa



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\$0.65 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, along with domestic data trends, Chinese economic slowdown and the effects of 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\$0.62 by end March 2020. Any decision by the Reserve Bank of New Zealand on its policy interest rate path, economic data trends and the corona-virus economic impacts will influence the Kiwi currency.

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

FINANCIAL MARKETS DEPARTMENT
6 March 2020

ECONOMIC & FINANCIAL FORECASTS

Policy Interest rate forecasts

	Actual (28 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	4.00	3.95	3.90	3.90	3.90	3.90
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	0.50	0.50	0.50	0.50	0.50

Exchange rate forecasts

	Actual (28 February 2020)	Mar 20	Jun 20	Sep 20	Dec 20	Mar 21	Jun 21
AUD/USD	0.6534	0.65	0.66	0.67	0.67	0.68	0.68
NZD/USD	0.6256	0.63	0.64	0.65	0.65	0.66	0.66
EUR/USD	1.0988	1.09	1.10	1.11	1.12	1.13	1.14
USD/JPY	109.11	107	106.00	105.00	105.00	106.00	107.00
GBP/USD	1.2871	1.30	1.30	1.30	1.30	1.31	1.31
USD/CNH	6.9220	6.95	7.01	7.05	7.10	-	7.22

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	2.1	1.4	1.3	1.5	1.6
% yr.	2.3	2.1	2.3	1.9	1.7	1.6	1.4
Unemployment rate %	3.6	3.6	3.5	3.4	3.4	3.4	3.4
CPI % yr.	1.7	1.7	2.0	1.9	1.9	1.9	1.9

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	0.0	0.8	0.6	0.6
% yr.	1.6	1.7	2.1	1.5	1.7	1.9	1.9
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	0.7	0.6
% yr	1.6	1.7	1.8	2.1	1.7	1.9	1.8

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	0.0	0.7	1.2	0.9
Annual avg. change	2.8	2.7	2.3	1.9	1.9	1.9	2.2
Unemployment rate %	4.0	4.1	4.0	4.2	4.3	4.3	4.2
CPI % qtr.	0.6	0.7	0.5	0.4	0.3	0.6	0.3
Annual % change	1.7	1.5	1.9	2.1	1.8	1.7	1.5

Source: Bloomberg, Westpac Economics Update (02 March 2020), Trading Economics