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## EXCHANGE RATE DEVELOPMENTS MARCH 2020

### Highlights:

Policy Interest Rates	Current	Change (basis point)	Last Updated	Commodity Prices	Average Price (in USD)	Change	Previous Month
Reserve Bank of NZ	0.25%	0.25	March 16, 2020	crude oil (US\$/bbl)	\$23.26	-\$32.71	\$55.97
Reserve Bank of Australia	0.25%	0.50	March 19, 2020	whole milk powder (US\$/t)	\$2,797.00	-\$553.00	\$3,350.00
US Federal Reserve	0.00 - 0.25%	1.00	March 16, 2020				
European Central Bank	0.00%	0.00	December 12, 2019				
Bank of England	0.10%	0.15	March 19, 2020				

### A. CURRENCY WATCH

The overall nominal effective value of the **Samoan Tala** appreciated by **0.2218 percent** against the currency basket, as the major global share markets plunged on fears of the widespread coronavirus outbreak declared on 11<sup>th</sup> March by the World Health Organisation as a pandemic, which dominated the month's FX trends. As a result, the Tala strengthened against the New Zealand Dollar (by 2.47 percent), the Australian Dollar (by 3.98 percent) offsetting the Tala's depreciation against the United States dollar (by 3.04 percent) and Euro (by 4.41 percent).

Of the currencies in the Tala currency basket, the **United States dollar** (USD) remained stronger in March, supported by the following developments:

- A string of positive US economic releases including the higher-than-expected consumer price index (CPI), a surge on labour markets data, the higher than expected non-manufacturing figures in February with the inflation data remaining favourable to the market.
- The G7 nations held discussions to combat the risks to global growth from the Covid-19 pandemic, which triggered a string of central bank actions. Leading the charge was the US Federal Reserve Bank, announcing two surprise interest rate cuts during the month, firstly a 50 basis points reduction to 1% to 1.25% on 3<sup>rd</sup> March in an unscheduled meeting, followed by another unexpected cut to 0.00% to 0.25% on 16<sup>th</sup> March.
- The U.S Congress subsequently rolled out emergency relief legislations in response to the economic crisis with a \$2 trillion fiscal response, intensifying travel restrictions on European travelers, launching a \$700 billion stimulus program and US authorities creating lending facilities to support short-term commercial debt markets to avoid a liquidity crisis.

The **Euro** gained against the USD from US\$1.09 to USD\$1.13 on the back of:

- Upbeat economic releases out of the Euro region, mainly reflecting the better than expected consumer price index, stronger manufacturing data, a rise on retail sales and industrial production with an upswing on factory orders.
- A lending program offered by the European Central Bank (ECB) to ease fears from the corona-virus. This included

exercising flexibility on unpaid loans covered by state guarantees, providing loans to banks with rates as low as -0.75% and increased bond purchases.

- Issuing a new debt instrument that would combine securities from nine European countries to support policy measures to address the Covid-19 challenges on its member countries.

The **Australian dollar** (AUD) dropped notably to around USD\$0.57 for the first time since 2009, due to:

- Negative domestic data releases such as the decline on its business confidence, a rise in the unemployment rate in February and the worse than expected Purchasing Manager Index (PMI) figures.
- Significant decreases in the global stock markets, shift in risk appetite to safe-haven currencies and exchange rate pressures in view of its close trade reliance with the slowing Chinese economy.
- The Reserve Bank of Australia's decision, which shocked the market by slashing interest rates to a record low of 0.25% in an unscheduled policy meeting as Australia's economic outlook deteriorated significantly due to the Covid-19 pandemic.

The **New Zealand dollar** (NZD) also significantly plunged to around USD\$0.57, mainly reflecting:

- The downbeat domestic data released during the month, including the weak consumer confidence associated with the rising number of Covid-19 cases in New Zealand.
- The weakened services PMI data for China, as it accounts for more than 20% of New Zealand's total exports, whose economy is highly correlated to market risk sentiment and global trade.
- The Reserve Bank of New Zealand (RBNZ)'s decision to cut its Official Cash Rate (OCR) by a larger than expected margin, to its lowest historical level of 0.25% given its weak economic outlook associated with the Covid-19 effects.

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

- The Yen's status as a safe haven asset amid the rapid spread of the corona-virus pandemic, which boosted demand for the currency.

- The favorable domestic economic releases, including the better-than-expected month-on-month industrial production in January.

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

- Downbeat domestic data releases during the month, such as the decline on February's manufacturing (PMI) data, and the weaker than expected inflation data as a result of China's economic fallout from the corona-virus impacts.
- The effects of the Covid-19, which forced the second largest economy in the world and manufacturing powerhouse to close off much of its domestic activities and escalating recessionary pressures.

## 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 March 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				
	Mar-19	Feb-20	Mar-20	Feb-20	Mar-19
				(%)	(%)
NZD/USD	0.6835	0.6403	0.6064	-5.29	-11.28
AUD/USD	0.7084	0.6676	0.6227	-6.73	-12.10
USD/YEN	111.1300	110.0463	107.5941	2.23	3.18
USD/CNH	6.7173	7.0023	7.0326	-0.43	-4.69
EUR/USD	1.1308	1.0908	1.1057	1.37	-2.22
FJD/USD	0.4707	0.4544	0.4403	-3.10	-6.46

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

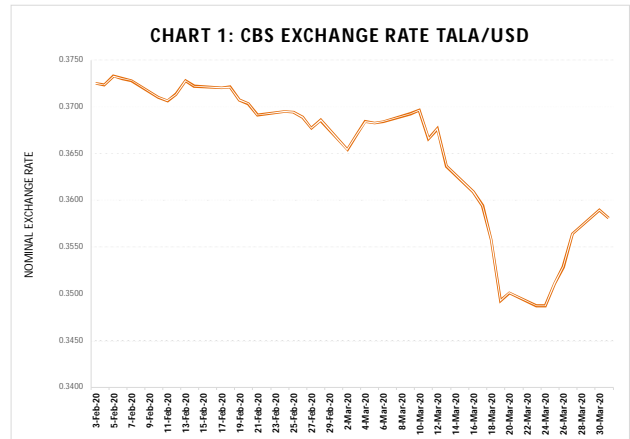
Source: Central Bank of Samoa

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 March 2019.

Table 2					
Tala* per foreign currencies (month average)					
	Movement of the Tala over the previous month and the previous year (+) appreciation / (-) depreciation				
	Mar-19	Feb-20	Mar-20	Feb-20	Mar-19
				(%)	(%)
USD/TALA	2.6079	2.6954	2.7774	-3.04	-6.50
NZD/TALA	1.7825	1.7257	1.6830	2.47	5.58
AUD/TALA	1.8473	1.7994	1.7278	3.98	6.47
EUR/TALA	2.9489	2.9402	3.0698	-4.41	-4.10
FJD/TALA	1.2275	1.2247	1.2223	0.20	0.42
TALA/YEN	42.6129	40.8279	38.7407	-5.11	-9.09
TALA/CNH	2.5758	2.5979	2.5326	-2.51	-1.68
Nominal Index	99.9416	99.9648	100.1866	0.2218	0.2451

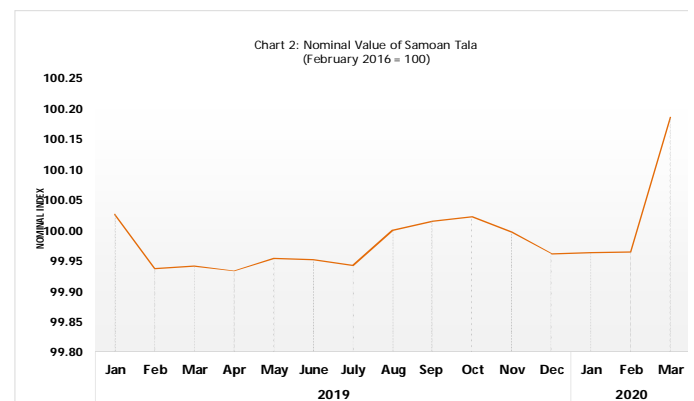
\*with the exception of YEN and CNY which is YEN and CNY per TALA

Source: Central Bank of Samoa



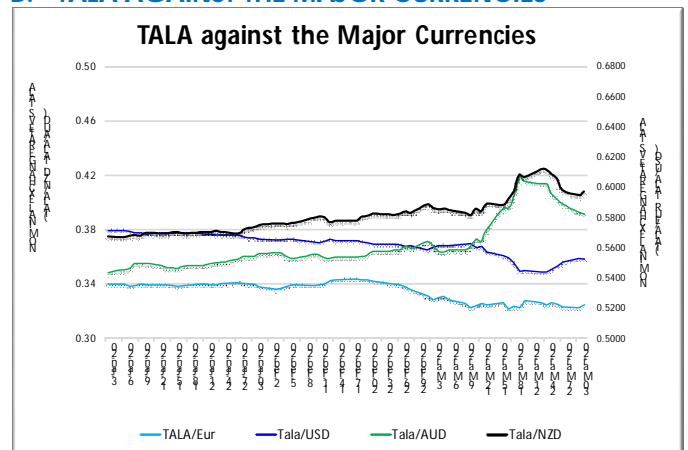
Central Bank of Samoa

Source:



Source: Central Bank of Samoa

## B. TALA AGAINST THE MAJOR CURRENCIES



Source: Central Bank of Samoa

## D. MARKET OUTLOOK FOR Q2 2020:

All the major currencies, namely the AUD, NZD and EURO are expected to be driven by Covid-19 related developments, domestic data releases and policy measures by their respective countries in the next few months. Both the AUD/USD and NZD/USD will trade around their current low levels of USD\$0.62 and USD\$0.60 respectively while the EUR/USD is revised to trade around US\$1.07, also reflecting the near-zero percent interest rate environment now recorded globally

## ECONOMIC & FINANCIAL FORECASTS

### Policy Interest rate forecasts

	Actual (8 Apr 2020)	Jun 20	Sep 20	Dec 20	Mar 21	Jun 21	Sep 21
<b>USA</b>							
Fed Funds Rate	0.125	0.125	0.125	0.125	0.125	0.125	0.125
<b>Australia</b>							
RBA Cash Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25
<b>New Zealand</b>							
RBNZ Cash Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25
<b>China</b>							
PBOC Interest Rate	4.05	3.95	3.90	3.90	3.90	3.90	3.90
<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	0.10	0.25	0.25	0.25	0.25	0.25	0.25

### Exchange rate forecasts

	Actual (8 Apr 2020)	Jun 20	Sep 20	Dec 20	Mar 21	Jun 21	Sep 21
AUD/USD	0.6195	0.62	0.64	0.67	0.68	0.68	0.69
NZD/USD	0.5989	0.60	0.62	0.64	0.65	0.65	0.66
EUR/USD	1.0908	1.07	1.07	1.06	1.06	1.07	1.08
USD/JPY	108.8350	107	105	106	107	107	108
GBP/USD	1.2341	1.22	1.23	1.24	1.25	1.25	126
USD/CNH	7.0634	7.00	7.00	6.98	7.14	7.00	-

### US economic indicators and outlook

	Jun 19	Sep 19	Dec 19(f)	Mar 20(f)	Jun 20(f)	Sep 20(f)	Dec20(f)
GDP % qtr.	2.0	2.1	2.1	1.6	-0.7	1.2	1.8
% yr.	2.3	2.1	2.3	2.0	1.3	1.1	1.0
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)	Dec20(f)
GDP % qtr. / yr.avg	0.6	0.6	0.5	-0.7	-8.5	-0.6	5.2
% yr.	1.6	1.8	2.2	1.0	-8.2	-9.3	-5.0
Unemployment rate %	5.2	5.2	5.2	5.2	8.1	8.8	7.3
CPI % qtr	0.6	0.5	0.7	0.2	-0.2	0.7	0.8
% yr	1.6	1.7	1.8	2.0	1.2	1.4	1.5

### New Zealand economic indicators and outlook

	Jun 19	Sep 19	Dec 19(f)	Mar 20(f)	Jun 20(f)	Sep 20(f)	Dec20(f)
GDP % qtr.	0.0	0.8	0.5	-1.0	-14.0	9.9	3.2
Annual avg. change	2.9	2.7	2.3	1.6	-2.3	-4.3	-5.6
Unemployment rate %	4.0	4.1	4.0	4.7	9.0	8.0	7.0
CPI % qtr.	0.6	0.7	0.5	0.5	0.4	0.9	0.5
<b>Annual % change</b>	1.7	1.5	1.9	2.2	2.0	2.3	2.3

Source: Bloomberg, Westpac Economics Update (6 April 2020), Trading Economics