

EXCHANGE RATE DEVELOPMENTS APRIL 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 17, 2020 | crude oil (US\$/bbl) | \$23.87 | \$0.61 | \$23.26 |
| Reserve Bank of Australia | 0.25% | 0.00 | April 8, 2020 | whole milk powder (US\$/t) | \$2,707.00 | -\$90.00 | \$2,797.00 |
| US Federal Reserve | 0.00 - 0.25% | 0.00 | April 29, 2020 | | | | |
| European Central Bank | 0.00% | 0.00 | April 30, 2020 | | | | |
| Bank of England | 0.10% | 0.00 | March 26, 2020 | | | | |

A. CURRENCYWATCH

The overall nominal effective value of the **Samoan Tala depreciated by 0.0407 percent** against the currency basket in April, after the initial shock on the FX markets by swift monetary policy actions of the previous month starting to normalise and national lockdowns across the globe became a norm. This was reflected by the Tala weakening against the United States dollar (by 0.16 percent) and the Australian Dollar (by 1.27 percent) offsetting the Tala's appreciation against the Euro (by 1.52 percent) and New Zealand Dollar (by 0.83 percent).

Of the currencies in the Tala currency basket, the **United States dollar (USD)** slightly strengthened in April, supported by the following developments:

- A moderate effect from the positive US economic releases (including the higher-than-expected building permits) following the unprecedented impacts of the economic lockdowns and restrictions due to the coronavirus pandemic.
- The Federal Reserve opening a Repo Facility to global Central Banks through a temporary repurchase agreement as part of the monetary authorities' Covid-19 economic response.
- The higher status as a safe-haven currency supported the supremacy of the greenback at a time of mounting financial downside risks, as the world is encountering economic damages from the corona-virus such as the crude oil crash and deterioration in trade.

The **Euro** fell notably 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 consumer price index (CPI), weak manufacturing data, a fall on producer indices and industrial production, with plummeting morale in April.
- Mounting worries over a stagnated economic outlook and the downgraded economic projections as risks of the pandemic crisis weighed heavily on the Euro-zone's economic activities.
- The European Central Bank decision to hold its interest rates steady at 0.00%.

The **Australian dollar (AUD)** gained marginally towards an average of USD\$0.63 due to:

- Positive domestic data releases such as a surge on its retail sales triggered by panic buying during the last two weeks of March, an increased investor confidence due to gains in stocks, with a rise on its annualized inflation rate.
- Australia outperforming major economies after revealing early signs that the government's efforts was contributing to the flattening of the Covid-19 curve and a potential recovery sooner, ahead of other larger economies.
- A rebound in crude oil prices, giving some support for risky commodity currencies, with more aggressive monetary and fiscal stimulus including a 130billion stimulus package.
- The Reserve Bank of Australia's decision to hold their policy interest rate unchanged at 0.25% was widely expected.

The **New Zealand dollar (NZD)** traded lower to around USD\$0.60, mainly reflecting:

- The deeper than expected contractions in domestic data reflecting the dire state of New Zealand's economy, including a drop on its business confidence in March.
- Extensive impacts of the Covid-19 as national lockdown measures to prevent the corona-virus from spreading begins to hurt businesses and factories in New Zealand
- 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.

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

- The negative domestic economic releases, including a decline on exports, a fall in availability of stocks and a record high unemployment rate in March.
- Worries on future impacts as Japan starts to feel the effects of the Covid-19 on its people and the economy.

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

- Unfavourable domestic headlines during the month, such as the decline on energy stocks and drop in foreign direct investment.
- Struggles on factories and businesses as the number of new infections doubled and is now seeing a second wave of the virus.

- Market fears over the health of the gravely ill leader of North Korea, Kim Jong UN, as his death may threaten the stability of the Asian region.
- The People's Bank of China's decision to cut its benchmark lending rate, for the second time this year.

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 April 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 | | | | |
| | Apr-19 | Mar-20 | Apr-20 | Mar-20 | Apr-19 |
| | | | | (%) | (%) |
| NZD/USD | 0.6724 | 0.6064 | 0.6000 | -1.06 | -10.77 |
| AUD/USD | 0.7111 | 0.6227 | 0.6291 | 1.03 | -11.53 |
| USD/YEN | 111.6438 | 107.5941 | 107.7190 | -0.12 | 3.52 |
| USD/CNH | 6.7202 | 7.0326 | 7.0867 | -0.77 | -5.45 |
| EUR/USD | 1.1233 | 1.1057 | 1.0867 | -1.72 | -3.26 |
| FJD/USD | 0.4696 | 0.4403 | 0.4403 | 0.01 | -6.23 |

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

Source: Central Bank of Samoa

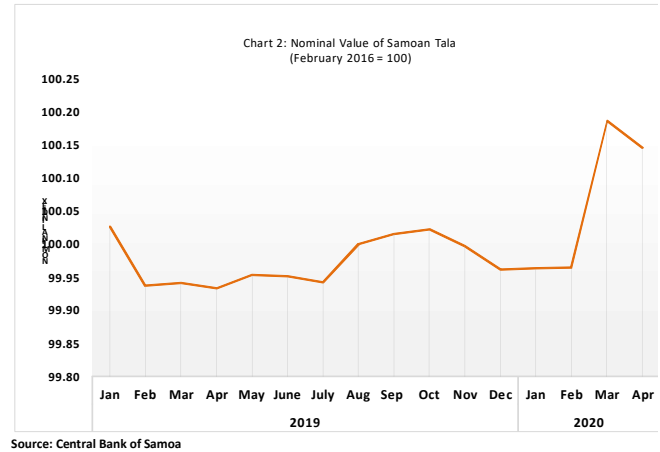
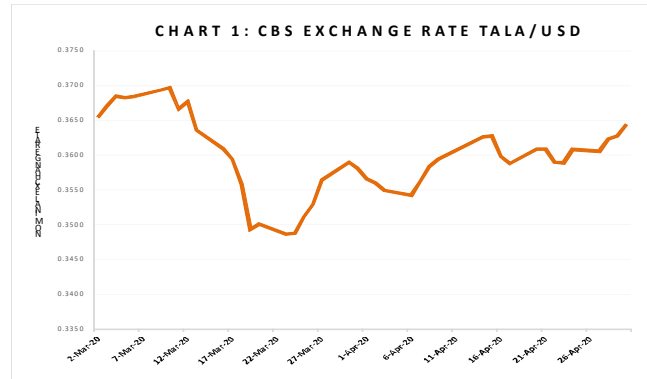


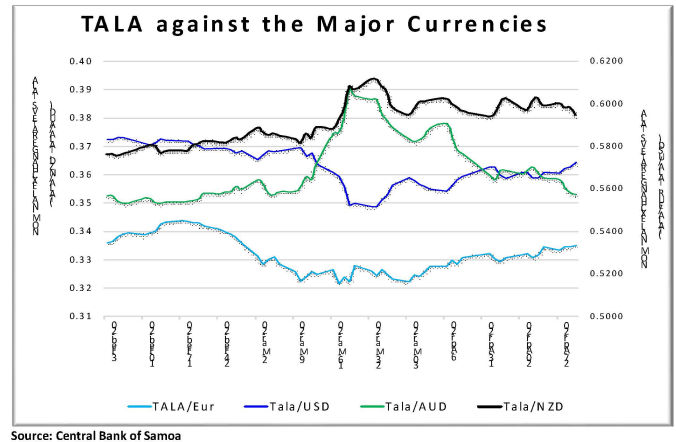
Table 2 shows the movement of the Tala against the currencies in the basket as well as against the FJD, the Yuan and the Yen, compared to the previous month and April 2019.

| Table 2 | | | | | |
|--|--|----------|----------|---------|--------|
| Tala* per foreign currencies (month average) | | | | | |
| | Movement of the Tala over the previous month and the previous year (+) appreciation / (-) depreciation | | | | |
| | Apr-19 | Mar-20 | Apr-20 | Mar-20 | Apr-19 |
| | | | | (%) | (%) |
| USD/TALA | 2.6205 | 2.7774 | 2.7819 | -0.16 | -6.16 |
| NZD/TALA | 1.7620 | 1.6830 | 1.6690 | 0.83 | 5.28 |
| AUD/TALA | 1.8632 | 1.7278 | 1.7498 | -1.27 | 6.09 |
| EUR/TALA | 2.9435 | 3.0698 | 3.0232 | 1.52 | -2.71 |
| FJD/TALA | 1.2360 | 1.2223 | 1.2249 | -0.21 | 0.90 |
| TALA/YEN | 42.6047 | 38.7407 | 38.7226 | -0.05 | -9.11 |
| TALA/CNH | 2.5645 | 2.5326 | 2.5475 | 0.59 | -0.66 |
| Nominal Index | 99.9332 | 100.1866 | 100.1458 | -0.0407 | 0.2127 |

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

Source: Central Bank of Samoa

C. TALA AGAINST THE MAJOR CURRENCIES



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 are forecast to trade around their current low levels of USD\$0.62 and USD\$0.59 respectively while the EUR/USD is expected to trade around US\$1.07, also reflecting the near-zero percent interest rate environment now experienced globally.

ECONOMIC & FINANCIAL FORECASTS

Policy Interest rate forecasts

| | Actual (08 May 2020) | Jun 20 | Sep 20 | Dec 20 | Mar 21 | Jun 21 | Sep 21 |
|-----------------------|-------------------------|--------|--------|--------|--------|--------|--------|
| USA | | | | | | | |
| Fed Funds Rate | 0.125 | 0.125 | 0.125 | 0.125 | 0.125 | 0.125 | 0.125 |
| Australia | | | | | | | |
| RBA Cash Rate | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 |
| New Zealand | | | | | | | |
| RBNZ Cash Rate | 0.25 | 0.25 | 0.25 | -0.50 | -0.50 | -0.50 | -0.50 |
| China | | | | | | | |
| PBOC Interest Rate | 3.85 | 3.70 | 3.70 | 3.70 | 3.70 | 3.70 | 3.70 |
| Euro-Area | | | | | | | |
| ECB Refinance Rate | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| United Kingdom | | | | | | | |
| BOE Base Rate | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 |

Exchange rate forecasts

| | Actual (12 May 2020) | Jun 20 | Sep 20 | Dec 20 | Mar 21 | Jun 21 | Sep 21 |
|---------|-------------------------|--------|--------|--------|--------|--------|--------|
| AUD/USD | 0.6482 | 0.62 | 0.63 | 0.65 | 0.66 | 0.68 | 0.69 |
| NZD/USD | 0.6069 | 0.59 | 0.60 | 0.61 | 0.61 | 0.63 | 0.64 |
| EUR/USD | 1.0809 | 1.07 | 1.09 | 1.12 | 1.12 | 1.08 | 1.09 |
| USD/JPY | 107.7450 | 107 | 105 | 106 | 107 | 107 | 108 |
| GBP/USD | 1.2332 | 1.22 | 1.23 | 1.24 | 1.25 | 1.25 | 1.26 |
| USD/CNH | 7.1062 | 7.11 | 7.11 | 7.14 | 7.14 | 7.20 | - |

US economic indicators and outlook

| | Sep 19 | Dec 19 | Mar 20 | Jun 20(f) | Sep 20(f) | Dec 20(f) | Mar 21(f) |
|---------------------|--------|--------|--------|-----------|-----------|-----------|-----------|
| GDP % qtr. | 2.1 | 2.1 | -4.8 | -26.6 | -2.3 | 4.1 | 3.2 |
| % yr. | 2.1 | 2.3 | 0.3 | -7.6 | -8.6 | -8.2 | -6.3 |
| Unemployment rate % | 3.6 | 3.5 | 3.8 | 23.0 | 21.2 | 15.8 | 12.2 |
| CPI % yr. | 1.7 | 2.0 | 1.9 | 1.9 | 1.9 | 1.9 | 0.0 |

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 | 0.6 | 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 | 8.8 | 8.9 | 7.6 |
| CPI % qtr | 0.6 | 0.5 | 0.7 | 0.3 | -2.0 | 1.3 | 0.6 |
| % yr | 1.6 | 1.7 | 1.8 | 2.2 | -0.4 | 0.3 | 0.3 |

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. | 0.0 | 0.8 | 0.5 | -1.0 | -16.0 | 13.0 | 1.5 |
| Annual avg. change | 2.9 | 2.7 | 2.3 | 1.6 | -2.8 | -4.7 | -6.3 |
| Unemployment rate % | 4.0 | 4.1 | 4.0 | 4.2 | 9.5 | 8.5 | 7.7 |
| CPI % qtr. | 0.6 | 0.7 | 0.5 | 0.8 | -0.4 | 0.8 | 0.2 |
| Annual % change | 1.7 | 1.5 | 1.9 | 2.5 | 1.6 | 1.6 | 1.3 |

Source: Bloomberg, Westpac Economics Update (11 May 2020), Trading Economics