

EXCHANGE RATE DEVELOPMENTS MAY 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%	0.00	May 13, 2020	crude oil (US\$/bbl)	\$34.53	\$10.66	\$23.87
Reserve Bank of Australia	0.25%	0.00	May 6, 2020	whole milk powder (US\$/t)	\$2,677.00	-\$30.00	\$2,707.00
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 0.0948 percent** against the currency basket in May, after the initial shocks to the FX markets from swift monetary policy actions in the previous month started to normalise and national lockdowns across the globe became a norm. This nominal depreciation reflected the Tala weakening against the New Zealand Dollar (by 0.34 percent) and the Australian Dollar (by 2.42 percent) offsetting the Tala's appreciation against the Euro (by 0.73 percent) and United States Dollar (by 1.06 percent).

Of the currencies in the Tala currency basket, the **United States dollar (USD)** significantly weakened in May, on the following developments:

- A string of downbeat economic releases during the month (including a steep decline in its personal income and personal spending, declining retail sales and inflation data, low housing market activities, reduced capital goods order and a contracted gross domestic product).
- The weekly releases on job losses was the most market-moving announcement of the month with a total of more than one million people filing for unemployment benefits since the corona-virus reached the United States.
- Hopes for a potential vaccine and global economy reopening also prompted investors to edge out of the safe haven US dollar.
- Renewed trade war concerns between the US and China during this vulnerable time intensified investors' anxiety for the global economy, as the US Administration is said to consider tariffs against China as the ultimate punishment regarding the virus outbreak.

The **Euro** strengthened modestly against the USD from USD\$1.08 to USD\$1.09 on the back of:

- Upbeat Germany's economic sentiment for March, boosted by multiple unprecedented economic stimulus measures by the European Central Banks (ECB) targeted at driving a swift economic recovery in the European Union.
- The broad weakness of the greenback due to US trader's uncertainty and poor domestic economic data.
- The ECB maintaining their benchmark interest rates at zero percent.

The **Australian dollar (AUD)** gained notably towards an average of USD\$0.65 due to:

- The weaker US dollar and positive domestic data releases such as a surge in its retail sales figures, a rise in trade

surplus exports with a surprise increase in the National Australia Bank's (NAB) survey on business confidence.

- The increased investors risk appetite, along with the upbeat sentiments and growing optimism across the global markets buoyed by the government's plan to further ease restrictions. These more than offset tensions with the Chinese authorities for supporting the World Health Organisation's (WHO) calls for a coronavirus investigation against China.
- The Reserve Bank of Australia's decision, as anticipated, to maintain their policy interest rate unchanged at 0.25 percent.

The **New Zealand dollar (NZD)** rebounded strongly, trading between USD\$0.59 to USD\$0.62, mainly reflecting:

- The surprisingly positive domestic data, including the better than anticipated trade data and an improved business confidence in May, bringing some optimism to domestic economic activities.
- The surprised expansion in New Zealand's Quantitative Easing programme to NZ\$60 billion from the previous NZ\$33 billion limit by the Reserve Bank of New Zealand (RBNZ), with the aim to get the country ahead from this global economic crisis.
- The RBNZ's official cash rate decision to hold at 0.25 percent, as expected.

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

- The Yen's ultimate status as a safe haven currency amid mounting worries over a second wave of the Covid-19, coupled with fears over a second round of tensions between the two largest economies in the world.
- The negative global economic releases weighing heavily on the US dollar, outweighing Japan's weakness from the extensive impacts of the nationwide state of emergency orders.

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

- Downbeat domestic headlines during the month, such as the (low inflation rate and manufacturing producer manager index (PMI), the plummeted retail sales, declined industrial profits and producer price index (PPI)).

- Threats from the United States to reroute supply chains out of China and limit Huawei's ability to access modern chips.
- China Central Bank's decision to hold its loan prime rates constant at 3.85 percent.

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 May 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					
	May-19	Apr-20	May-20	Apr-20	May-19
				(%)	(%)
NZD/USD	0.6563	0.6000	0.6084	1.41	-7.29
AUD/USD	0.6947	0.6291	0.6512	3.50	-6.26
USD/YEN	110.1000	107.7190	107.2153	0.47	2.62
USD/CNH	6.8705	7.0867	7.1253	-0.55	-3.71
EUR/USD	1.1183	1.0867	1.0903	0.33	-2.50
FJD/USD	0.4645	0.4403	0.4462	1.33	-3.94

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

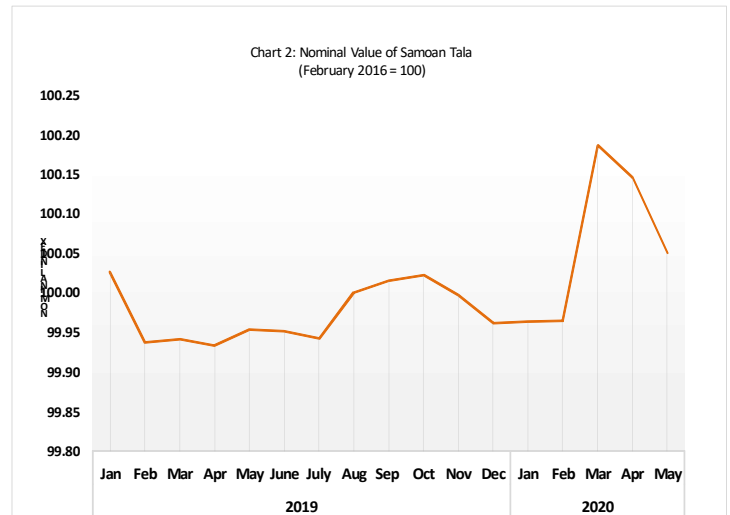
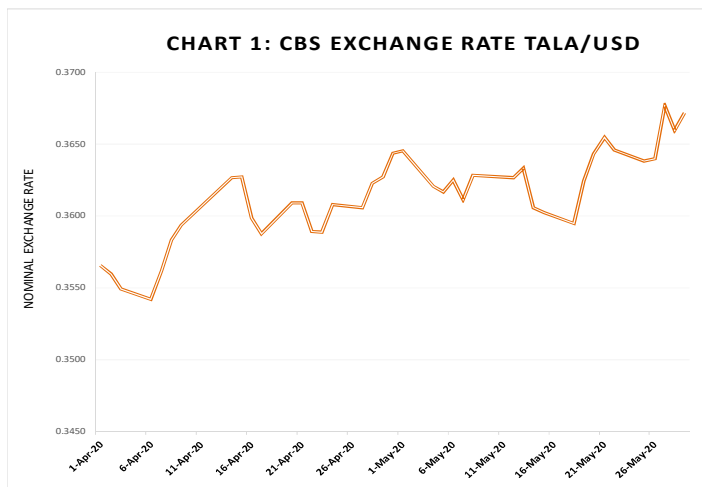
Source: Central Bank of Samoa

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 May 2019.

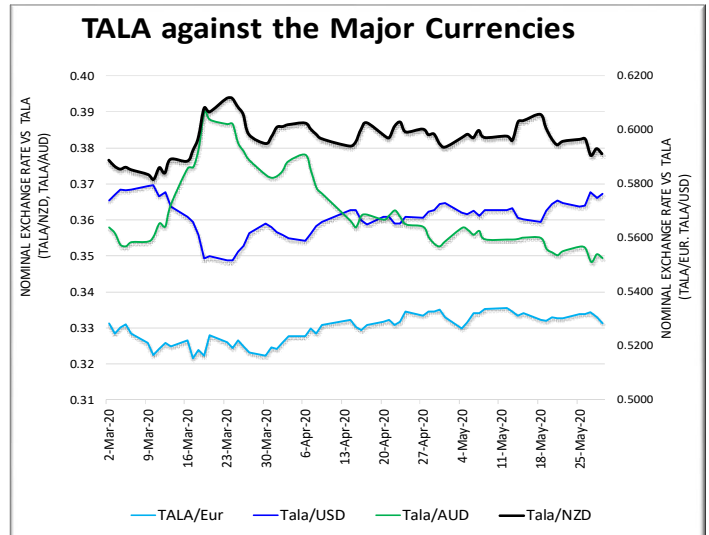
Table 2					
Tala* per foreign currencies (month average)					
Movement of the Tala over the previous month and the previous year					
(+ appreciation / (-) depreciation					
	May-19	Apr-20	May-20	Apr-20	May-19
				(%)	(%)
USD/TALA	2.6531	2.7819	2.7525	1.06	-3.75
NZD/TALA	1.7412	1.6690	1.6746	-0.34	3.82
AUD/TALA	1.8428	1.7498	1.7922	-2.42	2.75
EUR/TALA	2.9658	3.0232	3.0010	0.73	-1.19
FJD/TALA	1.2322	1.2249	1.2281	-0.26	0.34
TALA/YEN	41.4996	38.7226	38.9537	0.60	-6.13
TALA/CNH	2.5895	2.5475	2.5888	1.62	-0.03
Nominal Index	99.9536	100.1458	100.0508	-0.0948	0.0973

*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 Q3 2020:

All the major currencies, namely the AUD, NZD and EURO are expected to be driven by Covid-19 related developments, revived geographical and trade tensions between nations, domestic data releases and policy measures by their respective authorities in the next few months. Along with the near-zero percent interest rate environment now experienced globally, the revised levels suggests that both the AUD/USD and NZD/USD are forecast to trade around their current low levels of USD\$0.66 and USD\$0.60 respectively while the EUR/USD is expected to trade around US\$1.11.

FINANCIAL MARKETS DEPARTMENT
10 June 2020

ECONOMIC & FINANCIAL FORECASTS

Policy Interest rate forecasts

	Actual (10 June 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	0.25	0.25	-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 (10 June 2020)	Jun 20	Sep 20	Dec 20	Mar 21	Jun 21	Sep 21
AUD/USD	0.6966	0.68	0.66	0.68	0.70	0.70	0.71
NZD/USD	0.6518	0.63	0.60	0.61	0.62	0.62	0.63
EUR/USD	1.1345	1.11	1.09	1.10	1.11	1.11	1.12
USD/JPY	107.7250	107	105	106	107	107	108
GBP/USD	1.2741	1.25	1.23	1.24	1.25	1.26	1.29
USD/CNH	7.0776	7.12	7.08	7.04	7.05	7.02	6.78

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	-0.3	-7.0	1.5	2.0
% yr.	1.6	1.8	2.2	1.4	-6.3	-5.4	-4.0
Unemployment rate %	5.2	5.2	5.2	5.2	7.5	8.6	8.3
CPI % qtr	0.6	0.5	0.7	0.3	-2.0	1.3	0.6
% yr	1.6	1.6	1.6	1.8	1.3	1.2	1.1

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	-17.0	14.5	2.3
Annual avg. change	2.9	2.7	2.3	1.6	-3.0	-4.9	-6.3
Unemployment rate %	4.0	4.1	4.0	4.2	9.5	8.5	7.5
CPI % qtr.	0.6	0.7	0.5	0.8	-0.4	0.8	-0.1
Annual % change	1.7	1.5	1.9	2.5	1.6	1.6	1.1

Source: Bloomberg, Westpac Economics Update (08 June 2020), Trading Economics