

## EXCHANGE RATE DEVELOPMENTS JUNE 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	June 24, 2020	crude oil (US\$/bbl)	\$40.49	\$5.96	\$34.53
Reserve Bank of Australia	0.25%	0.00	June 3, 2020	whole milk powder (US\$/t)	\$2,829.00	\$152.00	\$2,677.00
US Federal Reserve	0.00 - 0.25%	0.00	June 10, 2020				
European Central Bank	0.00%	0.00	April 30, 2020				
Bank of England	0.10%	0.00	June 18, 2020				

### A. CURRENCYWATCH

The overall nominal effective value of the **Samoan Tala depreciated by 0.1228 percent** against the currency basket in June, after the initial shocks to the FX markets from Covid-19 developments started to normalise and national lockdowns in Australia and New Zealand were gradually eased. This nominal depreciation reflected the Tala weakening against the New Zealand Dollar (by 2.84 percent), the Australian Dollar (by 2.87 percent) and Euro (by 0.23 percent) offsetting the Tala's appreciation against the United States Dollar (by 2.95 percent).

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

- A string of downbeat economic releases during the month including (the escalating number of jobless claims, weaker than expected housing data, and the disappointing GDP figures for March quarter).
- The positive economic data out of the United States' rivals, the announcing of an end to the US-China agreement and hopes for a potential vaccine prompted investors to edge out of the currency that is sought as a safe haven during times of heightened risks.
- The mounting worries over a repetition of lockdown containment measures due to a second wave of the Covid-19 pandemic and the violent civil disturbance on racial issues in many US cities added adverse pressure on the local economy and waning investors' confidence.
- The Federal Reserve Bank, as expected, maintained its Fund rate at a range of 0.00 percent to 0.25 percent.

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

- Upbeat economic releases out of the region (such as the better than expected flash Purchasing Manager Index (PMI), Euro-zone's higher than expected consumer confidence, Germany's improved economic sentiment and a rise on the preliminary inflation rate)
- A €750 billion coronavirus stimulus relief fund discussed by the European Union to cope with the economic fallout of the coronavirus pandemic.
- The European Central Bank's (ECB) decision to increase its emergency bond purchase scheme to €1.35 trillion.
- Market optimisms on the Euro-zone's handling of the coronavirus pandemic, while the greenback struggled to attract safe haven demands due to the United States' dire economic outlook.

The **Australian dollar (AUD)** gained remarkably towards an average of USD\$0.69 (from the previous month's USD\$0.65 levels) due to:

- The weaker US dollar and the positive domestic data releases such as a surge in its retail turnover, a rise in manufacturing PMI, with the better than expected consumer confidence index.
- China's stronger release of manufacturing data and easing tensions between the two largest powerhouses, benefitting its main trading partners including Australia.
- 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)** traded higher to around USD\$0.64 (from lows of USD\$0.60 in May), mainly reflecting:

- The improved economic indicators including the increased electronic card retail sales, the heightened consumer sentiment, business PMI and business confidence index in June with a reduced seasonally adjusted current account deficit.
- The positive mood following reports that New Zealand was finally declared as a Covid-19 free nation, more stimulus packages and further easing of national lockdown measures which supported demand for the NZD.
- The RBNZ's official cash rate decision to hold at 0.25 percent, as widely expected.

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

- The release of poor economic data (such as the lower than expected industrial production and the declined retail sales).
- A drop in demand for Japanese services due to the state of emergency (SOE), weighing heavily on the tourism sector and consumption spending in Japan.

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

- The favourable domestic headlines during the month such as the (improved manufacturing and services PMI, increased investment and consumption, a widened trade surplus, rising industrial output and a declined unemployment rate).
- A stimulus and relief package announced by the government to help economic growth stay on track.
- The positive investor sentiment as China brought the coronavirus outbreak under control after the economy reopened for economic activities.

## 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 June 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				
	Jun-19	May-20	Jun-20	May-20 (%)	Jun-19 (%)
NZD/USD	0.6596	0.6084	0.6448	5.97	-2.25
AUD/USD	0.6945	0.6512	0.6902	6.00	-0.62
USD/YEN	108.0763	107.2153	107.5874	-0.35	0.45
USD/CNH	6.9089	7.1253	7.0814	0.62	-2.50
EUR/USD	1.1294	1.0903	1.1261	3.28	-0.29
FJD/USD	0.4650	0.4462	0.4602	3.14	-1.03

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

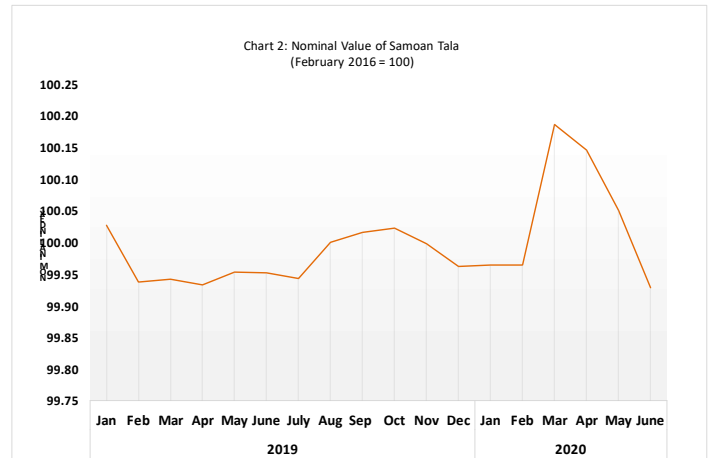
Source: Central Bank of Samoa

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 June 2019.

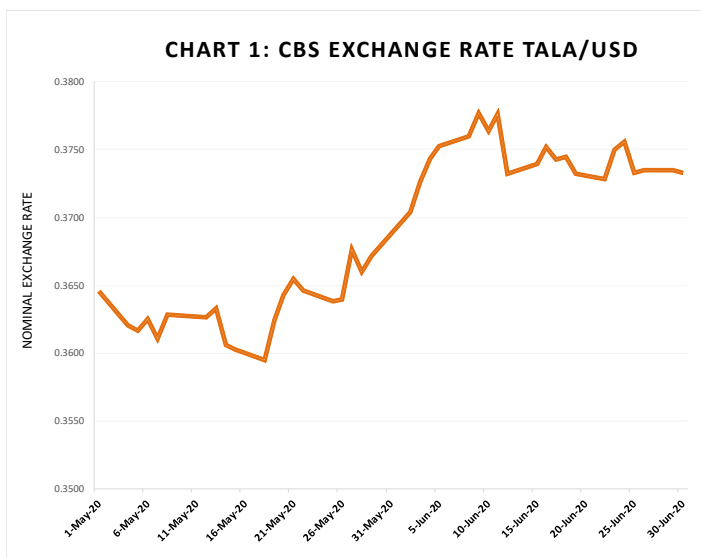
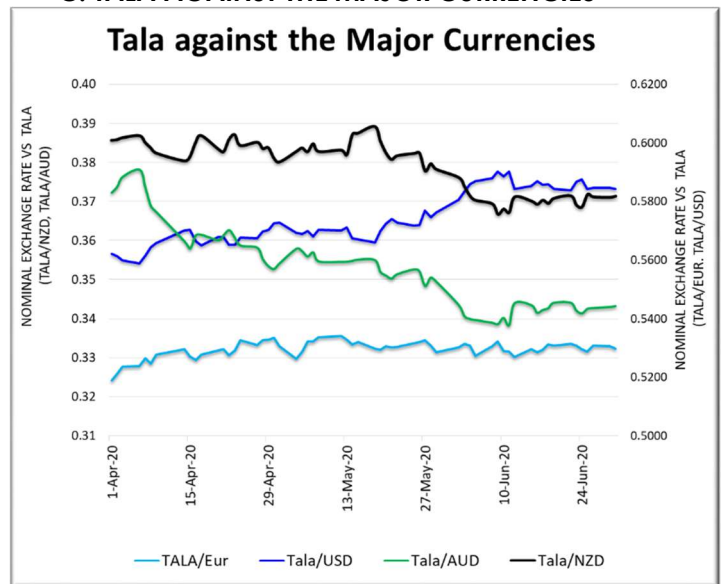
Table 2					
Tala* per foreign currencies (month average)					
	Movement of the Tala over the previous month and the previous year (+) appreciation / (-) depreciation				
	Jun-19	May-20	Jun-20	May-20 (%)	Jun-19 (%)
USD/TALA	2.6484	2.7525	2.6712	2.95	-0.86
NZD/TALA	1.7467	1.6746	1.7223	-2.84	1.40
AUD/TALA	1.8392	1.7922	1.8437	-2.87	-0.24
EUR/TALA	2.9911	3.0010	3.0080	-0.23	-0.57
FJD/TALA	1.2314	1.2281	1.2292	-0.09	0.18
TALA/YEN	40.8084	38.9537	40.2772	3.40	-1.30
TALA/CNH	2.6087	2.5888	2.6510	2.40	1.62
Nominal Index	99.9517	100.0508	99.9280	-0.1228	-0.0237

\*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 forecast levels suggests that both the AUD/USD and NZD/USD may trade around USD\$0.70 and USD\$0.66 respectively while the EUR/USD is expected to trade around US\$1.13.

# ECONOMIC & FINANCIAL FORECASTS

## Policy Interest rate forecasts

	Actual (29 June 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	-0.50	-0.50	-0.50
<b>China</b>							
PBOC Interest Rate	3.85	3.70	3.70	3.70	3.70	3.70	3.70
<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	0.10	0.10	0.10	0.10	0.10	0.10

## Exchange rate forecasts

	Actual (7 July 2020)	Sep 20	Dec 20	Mar 21	Jun 21	Sep 21	Dec 21
AUD/USD	0.6971	0.70	0.72	0.73	0.74	0.75	0.76
NZD/USD	0.6559	0.65	0.65	0.64	0.65	0.66	0.67
EUR/USD	1.1311	1.13	1.14	1.15	1.16	1.17	1.18
USD/JPY	107.3150	106	106	107	107	108	108
GBP/USD	1.2493	1.26	1.27	1.27	1.28	1.29	1.30
USD/CNH	7.0146	7.06	7.04	7.02	6.94	6.99	6.95

## US economic indicators and outlook

	Sep 19	Dec 19	Mar 20	Jun 20	Sep 20(f)	Dec 20(f)	Mar 21(f)
GDP % qtr.	2.1	2.1	-4.8	-28.3	4.8	5.6	3.9
% yr annual change	2.1	2.3	0.3	-8.1	-7.5	-6.8	-4.7
Unemployment rate %	3.6	3.5	3.8	14.0	13.0	12.3	11.5
CPI % yr.	1.7	2.3	1.5	0.6	0.4	0.3	0.9

## Australian economic indicators and outlook

	Jun 19	Sep 19	Dec 19	Mar 20	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	7.0	8.3	8.3
CPI % qtr	0.6	0.5	0.7	0.3	-2.1	1.5	0.4
Annual Change	1.6	1.7	1.8	2.2	-0.5	0.4	0.2

## New Zealand economic indicators and outlook

	Jun 19	Sep 19	Dec 19	Mar 20	Jun 20(f)	Sep 20(f)	Dec 20(f)
GDP % qtr.	0.1	0.8	0.5	-1.6	-13.5	14.0	0.9
Annual avg. change	2.9	2.7	2.3	1.5	-2.4	-3.6	-4.6
Unemployment rate %	4.0	4.1	4.0	4.2	7.0	8.0	7.5
CPI % qtr.	0.6	0.7	0.5	0.8	-0.4	0.8	-0.3
Annual % change	1.7	1.5	1.9	2.5	1.5	1.5	0.8

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