

EXCHANGE RATE DEVELOPMENTS JULY 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)	\$42.02	\$1.53	\$40.49
Reserve Bank of Australia	0.25%	0.00	July 7, 2020	whole milk powder (US\$/t)	\$3,218.00	\$389.00	\$2,829.00
US Federal Reserve	0.00 - 0.25%	0.00	July 28, 2020				
European Central Bank	0.00%	0.00	July 16, 2020				
Bank of England	0.10%	0.00	June 18, 2020				

A. CURRENCYWATCH

The overall nominal effective value of the **Samoan Tala depreciated by 0.0820 percent** against the currency basket in July¹. This nominal depreciation reflected the Tala weakening against the New Zealand Dollar (by 1.09 percent), the Australian Dollar (by 0.80 percent) and Euro (by 0.72 percent) offsetting the Tala's appreciation against the United States Dollar (by 0.92 percent).

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

- A string of downbeat economic releases during the month including (the low consumer confidence, and unexpected drop in producer prices and the increasing number of jobless claims).
- The US economic outlook waned and numerous other reasons to abandon the greenback including the record high number of coronavirus cases, falling yields, expired unemployment benefits and civil conflicts, prompting investors to shift their demand to other major currencies.
- The uncertainties over a Phase 2 trade agreement as renewed tensions between the United States and China drove the greenback lower. This followed the tit-for-tat consulate closures by the two nations after the Chinese consulate in Houston was ordered by the US Administration to close, with China immediately responding with the US consulate in Wuhan ordered to close as well. More negotiations to be expected in the months ahead.
- The Federal Reserve Bank, as expected, maintained its Fund rate at a range of 0.00 percent to 0.25 percent.

The **Euro** traded exceedingly higher against the USD from US\$1.09 to USD\$1.13 on the back of the weak USD and:

- Favourable economic releases out of the region (such as the Eurozone's better than expected final manufacturing and composite Purchasing Manager Index (PMI), Germany's rebounding retail sales and factory orders, the improved consumer confidence and higher wholesale price index)
- A historic coronavirus pandemic fiscal package approved by the European Union (EU) leaders, worth of €750 billion, after settling their differences in Brussels early July.
- The European Central Bank's (ECB) decision to hold its policy interest rate at zero percent.

The **Australian dollar (AUD)** gained remarkably towards an average of USD\$0.70 (from the previous month's USD\$0.69 levels) due to:

- The weaker US dollar from the adverse impact of the Covid-19 developments and the positive domestic data releases such as a surge in its retail sales figures, a rise in manufacturing PMI, enhanced business confidence along with the rising prices of copper and other export commodities in Australia.
- The positive developments out of China, reflected by the stronger release of manufacturing data, which more than offset fears on the re-introduction of lockdown measures following the climbing number of coronavirus in Australia's larger states.
- The Reserve Bank of Australia (RBA) held its policy rate unchanged at 0.25%, which was in line with market expectations.

The **New Zealand dollar (NZD)** traded higher to around USD\$0.66 (from USD\$0.64 in June), mainly reflecting:

- The improved domestic economic indicators including an upswing in monthly credit card spending, the heightened business confidence and improving business confidence.
- New Zealand's potential to outperform the United States by being able to contain the coronavirus and any further deteriorating impact on the economy.
- The upbeat China manufacturing data which boosted economic sentiment.

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

- The release of positive economic data (such as the better than expected year-on-year inflation rate, the higher PPI and the upsurge factory orders showing an expanding manufacturing industry).
- Uncertainties surrounding the Covid-19 developments triggering demands for the safe haven yen.
- The Bank of Japan's decision to hold its policy interest rate to -0.1%.

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

- The upbeat domestic headlines and the continuation of positive tone out of China during the month such as the (higher than expected manufacturing data, higher composite

¹ A mid-year review of the Samoa Tala currency basket in view of the impact of Covid-19 developments on the FX markets resulted in new currency weights allocations that took effect on 1st July 2020.

PMI and the increasing profits for large industrial companies).

- China's decision to keep its benchmark lending rate unchanged at 3.85%, and the five-year LPR to remain at 4.65%.

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 July 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-20	Jul-19
	Jul-19	Jun-20	Jul-20	(%)	(%)
NZD/USD	0.6684	0.6448	0.6579	2.04	-1.57
AUD/USD	0.6987	0.6902	0.7022	1.74	0.50
USD/YEN	108.2515	107.5874	106.8322	0.70	1.31
USD/CNH	6.8790	7.0814	7.0139	0.95	-1.96
EUR/USD	1.1225	1.1261	1.1448	1.66	1.99
FJD/USD	0.4671	0.4602	0.4647	0.98	-0.51

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

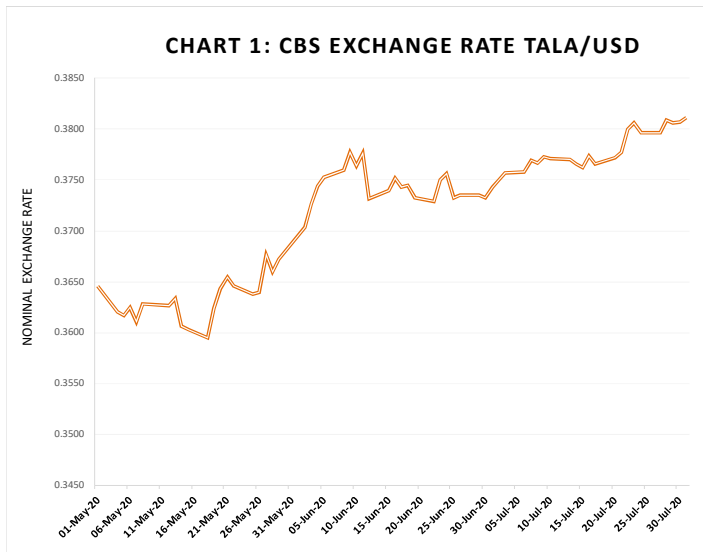
Source: Central Bank of Samoa

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 July 2019.

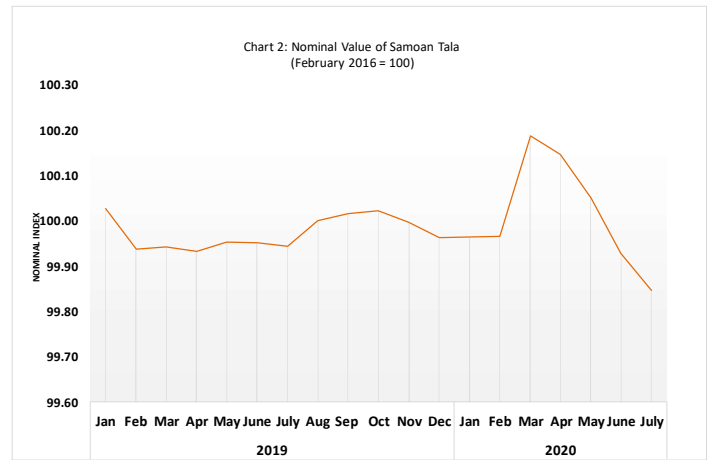
Table 2					
Tala* per foreign currencies (month average)					
				Movement of the Tala over the previous month and the previous year (+) appreciation / (-) depreciation	
	Jul-19	Jun-20	Jul-20	Jun-20	Jul-19
				(%)	(%)
USD/TALA	2.6344	2.6712	2.6466	0.92	-0.46
NZD/TALA	1.7606	1.7223	1.7411	-1.09	1.11
AUD/TALA	1.8405	1.8437	1.8584	-0.80	-0.97
EUR/TALA	2.9571	3.0080	3.0296	-0.72	-2.45
FJD/TALA	1.2305	1.2292	1.2297	-0.04	0.07
TALA/YEN	41.0916	40.2772	40.3659	0.22	-1.77
TALA/CNH	2.6113	2.6510	2.6502	-0.03	1.49
Nominal Index	99.9429	99.9280	99.8461	-0.0820	-0.0969

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

Source: Central Bank of Samoa

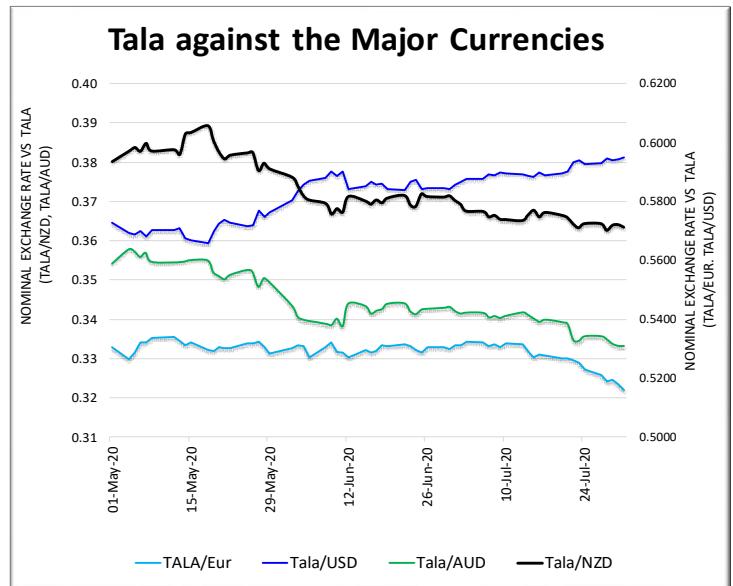


Source: Central Bank of Samoa



Source: Central Bank of Samoa

C. TALA AGAINST THE MAJOR CURRENCIES



Source: Central Bank of Samoa

D. MARKET OUTLOOK FOR 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 that is expected to remain for the next two years, the revised forecast levels suggest 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\$1.14.

FINANCIAL MARKETS DEPARTMENT
18 August 2020

ECONOMIC & FINANCIAL FORECASTS

Policy Interest rate forecasts

	Actual (07 Aug 2020)	Sep 20	Dec 20	Mar 21	Jun 21	Sep 21	Dec 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	-0.50	-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 (14 August 2020)	Sep 20	Dec 20	Mar 21	Jun 21	Sep 21	Dec 21
AUD/USD	0.7138	0.71	0.72	0.73	0.74	0.75	0.76
NZD/USD	0.6540	0.66	0.66	0.66	0.65	0.66	0.67
EUR/USD	1.1800	1.19	1.19	1.20	1.21	1.22	1.23
USD/JPY	106.9400	105	106	107	107	108	108
GBP/USD	1.3047	1.30	1.31	1.31	1.32	1.33	1.35
USD/CNH	6.9527	7.01	7.03	7.01	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	1.1	2.2
% yr.	1.6	1.8	2.2	1.4	-6.3	-5.8	-4.2
Unemployment rate %	5.2	5.2	5.2	5.2	6.9	8.5	8.4
CPI % qtr	0.6	0.5	0.7	0.3	-1.9	1.4	0.9
Annual Change	1.5	1.6	1.6	1.8	1.2	1.1	0.8

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	-0.5	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 (7 August 2020), Trading Economics