

EXCHANGE RATE DEVELOPMENTS AUGUST 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	August 12, 2020	crude oil (US\$/bbl)	\$45.42	\$3.40	\$42.02
Reserve Bank of Australia	0.25%	0.00	August 4, 2020	whole milk powder (US\$/t)	\$2,936.00	-\$282.00	\$3,218.00
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	August 6, 2020				

A. CURRENCY WATCH

The overall nominal effective value of the **Samoa Tala** appreciated by **0.0062 percent** against the currency basket in August. This nominal appreciation reflected the Tala strengthening against the United States Dollar (by 0.53 percent) and the New Zealand Dollar (by 0.33 percent) offsetting the Tala's depreciation against the Euro (by 2.73 percent) and the Australian Dollar (by 1.86 percent).

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

- A string of downbeat domestic economic releases during the month including weak consumer confidence, low GDP estimates, easing manufacturing activities and the increasing number of jobless claims;
- The escalating political tensions between the US and China which deterred both countries from sharing medical knowledge and collaborate in developing a potential vaccine to cure the Coronavirus disease;
- The greenback's status as a safe haven currency and the world's dominant reserve currency coming under threat;
- The announcement by the US Federal Reserve to focus on achieving full employment ahead of price stability in a change in direction for its monetary policy to address the current challenges from Covid-19.

The **Euro** strengthened against the USD from US\$1.14 to USD\$1.18 on:

- Upbeat economic releases out of the region (such as the Eurozone's better than expected Producer Prices Index (PPI), heightened retail sales, improved manufacturing figures and consumer confidence along with Germany's increased factory orders and inflation rate)
- Investor's optimism over the European Union's (EU) effective handling of the Covid-19 and its economic disruptions, while pharmaceutical firms gets nearer to developing a potentially successful vaccine.

The **Australian dollar** (AUD) gained remarkably towards an average of USD\$0.72 (from the previous month's USD\$0.70 levels) due to:

- The US dollar weakness and favourable domestic data releases such as a surge in retail sales figures, positive trade balance, improved construction works along with the rising private capital expenditure.

- The strong sentiment towards China's improving economy, benefitting commodity currencies that are highly correlated with China in trade, like Australia.
- The Reserve Bank of Australia's (RBA) decision to keep policy interest rate unchanged at 0.25%, which was in line with market expectations.

The **New Zealand dollar** (NZD) slightly appreciated to around USD\$0.66 mainly reflecting:

- The greenback's general weakness and the surprising drop on the unemployment rate, which is the most market moving economic release in NZ since the initial pandemic outbreak.
- The Reserve Bank of New Zealand's (RBNZ) decision to hold Official Cash Rates (OCR) at 0.25%, while expanding its Large-Scale Asset Purchase (LSAP) programme to as much as NZ\$100 billion and implying the possibilities of negative interest rates if necessary.

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

- The release of positive economic data (such as the better than expected industrial output and a declined unemployment rate).
- Japan's Prime Minister Shinzo Abe's resignation due to his worsening health condition to avoid causing problems to the government's decisions.

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

- The upbeat domestic headlines (such as the higher than expected manufacturing data and increased industrial profits).
- Beijing's retaliatory attack with sanctions over Washington after the US cut off Huawei Technologies access to advanced computer chips and sanctioned 11 high-level Hong Kong officials.
- A stimulus support worth 700 billion yuan of one-year medium-term lending facility (MLF) loans.
- Peoples Bank of China's (PBoC) 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 August 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				
	Aug-19	Jul-20	Aug-20	Jul-20 (%)	Aug-19 (%)
NZD/USD	0.6440	0.6579	0.6593	0.21	2.38
AUD/USD	0.6772	0.7022	0.7191	2.41	6.19
USD/YEN	106.3533	106.8322	106.0596	0.72	0.28
USD/CNH	7.0727	7.0139	6.9307	1.19	2.01
EUR/USD	1.1127	1.1448	1.1823	3.28	6.26
FJD/USD	0.4580	0.4647	0.4703	1.21	2.69

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

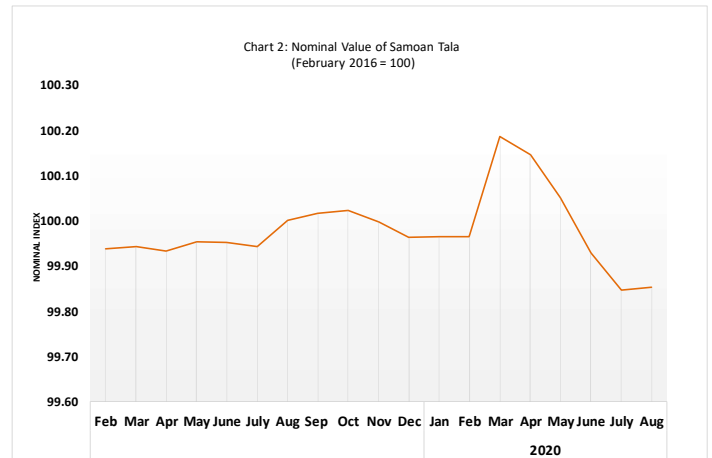
Source: Central Bank of Samoa

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 August 2019.

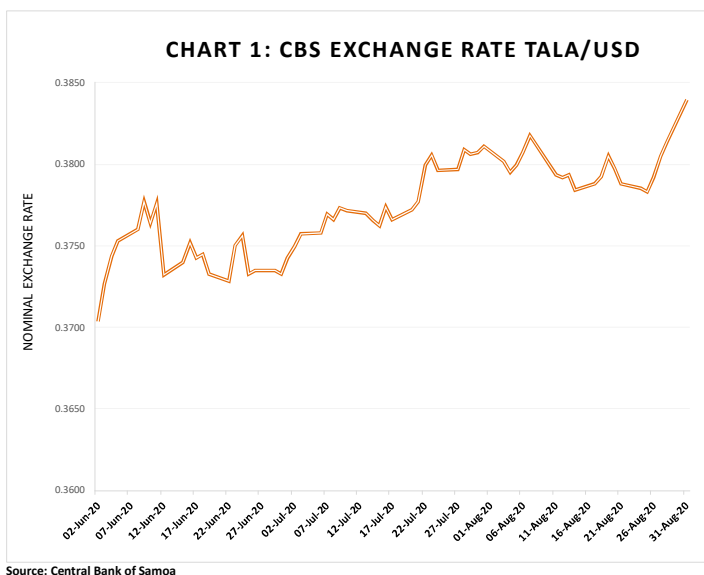
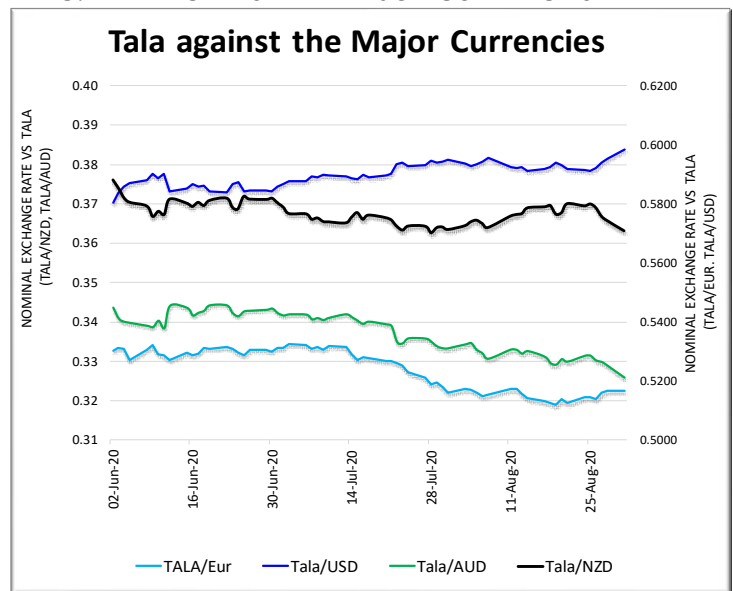
Table 2					
Tala* per foreign currencies (month average)					
	Movement of the Tala over the previous month and the previous year (+) appreciation / (-) depreciation				
	Aug-19	Jul-20	Aug-20	Jul-20 (%)	Aug-19 (%)
USD/TALA	2.6822	2.6466	2.6325	0.53	1.85
NZD/TALA	1.7273	1.7411	1.7355	0.32	-0.47
AUD/TALA	1.8164	1.8584	1.8930	-1.86	-4.22
EUR/TALA	2.9843	3.0296	3.1122	-2.73	-4.29
FJD/TALA	1.2283	1.2297	1.2381	-0.68	-0.80
TALA/YEN	39.6533	40.3659	40.2890	-0.19	1.60
TALA/CNH	2.6369	2.6502	2.6328	-0.66	-0.16
Nominal Index	99.9995	99.8461	99.8522	0.0062	-0.1473

*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 Q4 2020:

All the major currencies, namely the AUD, NZD and EURO are expected to be driven by Covid-19 related developments, lead up to the NZ and US general elections in October and November respectively, revived geographical and trade tensions between nations, domestic data releases, 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 latest forecast levels suggest that both the AUD/USD and NZD/USD may trade around USD\$0.75 and USD\$0.67 respectively while the EUR/USD is expected to trade around US\$1.21. These indicate further weakness in the USD in the last quarter of 2020.

ECONOMIC & FINANCIAL FORECASTS

Policy Interest rate forecasts

	Actual (21 Sep 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 (21 Sept 2020)	Sep 20	Dec 20	Mar 21	Jun 21	Sep 21	Dec 21
AUD/USD	0.7290	0.73	0.75	0.76	0.76	0.78	0.80
NZD/USD	0.6775	0.67	0.67	0.66	0.66	0.70	0.70
EUR/USD	1.1840	1.19	1.21	1.22	1.23	1.24	1.25
USD/JPY	104.5750	105	105	105	106	106	106
GBP/USD	1.2871	1.32	1.33	1.34	1.35	1.37	1.39
USD/CNH	6.7791	6.92	6.86	6.86	6.73	6.71	-

US economic indicators and outlook

	Dec 19	Mar 20	Jun 20	Sep 20(f)	Dec 20(f)	Mar 21(f)	Jun 21(f)
GDP % qtr.	2.4	-5.0	-31.7	20.8	5.1	4.7	3.7
% yr annual change	2.3	0.3	-9.1	-5.3	-4.7	-2.4	8.3
Unemployment rate %	3.5	3.8	13.0	9.4	9.0	8.8	8.3
CPI % yr.	2.3	1.5	0.7	1.2	1.0	1.6	2.3

Australian economic indicators and outlook

	Dec 19	Mar 20	Jun 20	Sep 20(f)	Dec 20(f)	Mar 21(f)	Jun 21(f)
GDP % qtr. / yr. avg	0.6	-0.3	-7.0	1.8	2.2	0.7	0.5
% yr.	2.3	1.6	-6.3	-5.0	-3.5	-2.5	5.3
Unemployment rate %	5.2	5.2	7.0	7.7	7.8	7.9	7.9
CPI % qtr	0.7	0.3	-1.9	1.4	0.9	0.3	0.2
Annual Change	1.8	2.2	-0.3	0.5	0.7	0.4	2.5

New Zealand economic indicators and outlook

	Dec 19	Mar 20	Jun 20(f)	Sep 20(f)	Dec 20(f)	Mar 21(f)	Jun 21(f)
GDP % qtr.	0.5	-1.4	-12.2	8.5	3.9	1.1	0.7
Annual avg. change	2.3	1.5	-12.4	-4.0	-5.1	-5.0	1.1
Unemployment rate %	4.1	4.2	4.0	6.5	7.0	6.9	6.8
CPI % qtr.	0.5	0.8	-0.5	0.6	-0.1	0.1	-0.2
Annual % change	1.9	2.5	1.5	1.3	0.8	0.1	0.4

Source: Bloomberg, Westpac Economics Update (21 September 2020), Trading Economics