

## EXCHANGE RATE DEVELOPMENTS SEPTEMBER 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	September 23, 2020	crude oil (US\$/bbl)	\$39.31	-\$6.11	\$45.42
Reserve Bank of Australia	0.25%	0.00	September 1, 2020	whole milk powder (US\$/t)	\$2,985.00	\$49.00	\$2,936.00
US Federal Reserve	0.00 - 0.25%	0.00	September 16, 2020				
European Central Bank	0.00%	0.00	September 10, 2020				
Bank of England	0.10%	0.00	September 17, 2020				

### A. CURRENCY WATCH

The overall nominal effective value of the **Samoan Tala appreciated by 0.007 percent** against the currency basket in September. This nominal appreciation reflected the Tala strengthening against the United States Dollar (by 0.46 percent) and the Euro (by 0.69 percent) offsetting the Tala's depreciation against the New Zealand Dollar (by 0.67 percent) and the Australian Dollar (by 0.15 percent).

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

- A string of downbeat domestic economic releases during the month including the weak consumer confidence, low Gross Domestic Product (GDP) estimates, easing manufacturing activities and the increasing number of jobless claims;
- A wildfire ravaged a million acres across the Western US, imperiling dozens of species and disrupting the already deteriorated US economy from the relentless Covid-19;
- Improved risk sentiments after mounting hopes for a Covid-19 vaccine restored investor confidence and a shift to risky-assets after pharmaceutical authorities implied of a possible vaccine.
- Currency flows in the options and stock markets dominating the Presidential Debate, which took place on Sept 29<sup>th</sup>, with the outcome having little impact on the foreign exchange markets.

The **Euro** dropped notably against the USD from US\$1.18 to USD\$1.17 on:

- Downbeat economic releases out of the region (such as the lower than expected industrial production, inflation figures falling more than expected and Germany's manufacturing PMI revising lower)
- Growing concerns over the extended strength of the Euro and mounting risks over the BREXIT deal after the UK Prime Minister threatened to walk away from Brexit negotiations.
- The surging counts of new corona-virus cases in the Euro-zone in early September, surpassing the recorded peak in March, which prompted authorities to look into further restrictions.

The **Australian dollar (AUD)** strengthened towards an average of USD\$0.72 (from the previous month's USD\$0.71 levels) due to:

- The weaker greenback and upbeat domestic data releases such as the increased company gross operating profit, improved consumer confidence index and housing industry, along with the better than expected employment data.
- The Reserve Bank of Australia's (RBA) decision to keep its monetary policy unchanged at 0.25%, aligning with market expectations and the extension of its Term Funding Facility to ensure ample liquidity, given projections of an uncertain and uneven economic recovery for most parts of Australia.

The **New Zealand dollar (NZD)** traded higher to around USD\$0.67 mainly reflecting:

- Positive domestic data released during the month including the improved business confidence and the stronger terms of trade with a rise in export and a decline on imports.
- Government's decision to ease social-distancing requirements for Air New Zealand and slowly lift restrictions in every major city except Auckland.
- Positive release on China's industrial profits which boosted demand for currencies correlated to China, including New Zealand.
- The Reserve Bank of New Zealand's (RBNZ) decision to hold Official Cash Rates (OCR) at 0.25%, and reiterated additional measures, with the increasing possibility for a negative interest rates in the coming months in efforts to stabilise the economy.

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

- The greenback's broad-based weakness and the Yen's status as a safe haven currency during times when the world economy is hit hard by the coronavirus pandemic.
- The Bank of Japan's (BOJ) determination to keep its policy interest rate steady at -0.1% as widely anticipated.
- The Liberal Democratic Party's selection of Yoshihide Suga as Japan's new Prime Minister, replacing the long-serving leader Shinzo Abe.

The **Chinese Yuan (CNY)** rose against the US currency mainly due:

- to upbeat domestic headlines (such as the stronger manufacturing data, increased foreign investments and inflation rate, the higher than expected industrial output and a declined unemployment rate).

- to the People's 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 September 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				
	Sep-19	Aug-20	Sep-20	Aug-20 (%)	Sep-19 (%)
NZD/USD	0.6344	0.6593	0.6669	1.15	5.12
AUD/USD	0.6807	0.7191	0.7236	0.63	6.30
USD/YEN	107.3826	106.0596	105.6332	0.40	1.63
USD/CNH	7.1162	6.9307	6.8177	1.63	4.19
EUR/USD	1.1013	1.1823	1.1795	-0.24	7.10
FJD/USD	0.4564	0.4703	0.4731	0.60	3.66

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

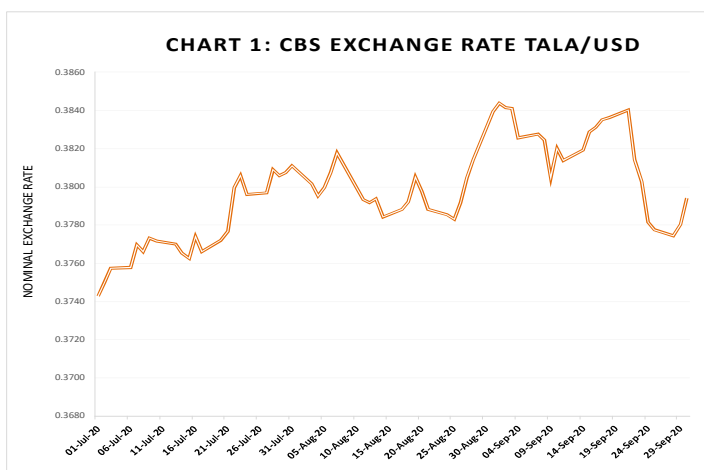
Source: Central Bank of Samoa

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 September 2019.

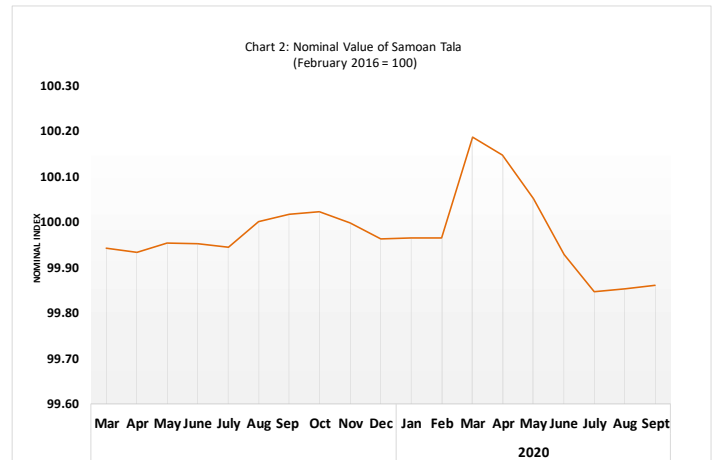
Table 2					
Tala* per foreign currencies (month average)					
	Movement of the Tala over the previous month and the previous year (+) appreciation / (-) depreciation				
	Sep-19	Aug-20	Sep-20	Aug-20 (%)	Sep-19 (%)
USD/TALA	2.6931	2.6325	2.6204	0.46	2.70
NZD/TALA	1.7084	1.7355	1.7471	-0.67	-2.27
AUD/TALA	1.8332	1.8930	1.8959	-0.15	-3.42
EUR/TALA	2.9660	3.1122	3.0907	0.69	-4.20
FJD/TALA	1.2291	1.2381	1.2397	-0.13	-0.86
TALA/YEN	39.8738	40.2890	40.3128	0.06	1.10
TALA/CNH	2.6423	2.6328	2.6018	-1.18	-1.53
Nominal Index	100.0157	99.8522	99.8600	0.0077	-0.1557

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

Source: Central Bank of Samoa

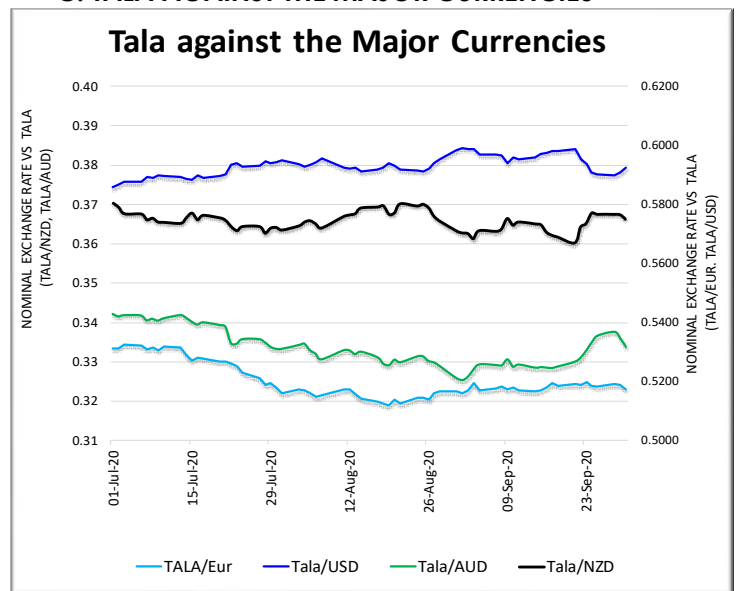


Source: Central Bank of Samoa



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## C. TALA AGAINST THE MAJOR CURRENCIES



Source: Central Bank of Samoa

## 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 indicates further weakness in the USD in the last quarter of 2020.

FINANCIAL MARKETS DEPARTMENT  
14 October 2020

# ECONOMIC & FINANCIAL FORECASTS

## Policy Interest rate forecasts

	Actual (09 Oct 2020)	Dec 20	Mar 21	Jun 21	Sep 21	Dec 21	Jun 22
<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	0.10	0.10	0.10	0.10	0.10	0.10
<b>New Zealand</b>							
RBNZ Cash Rate	0.25	0.25	0.25	-0.50	-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 (13 Oct 2020)	Dec 20	Mar 21	Jun 21	Sep 21	Dec 21	Jun 22
AUD/USD	0.7214	0.75	0.76	0.76	0.78	0.80	0.80
NZD/USD	0.6650	0.67	0.66	0.66	0.68	0.70	0.70
EUR/USD	1.1810	1.21	1.22	1.23	1.24	1.25	1.25
USD/JPY	105.3450	105	105	106	106	106	107
GBP/USD	1.3070	1.33	1.34	1.35	1.37	1.39	1.40
USD/CNH	6.7428	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
% 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
% annual change	2.3	1.6	-6.3	-5.0	-3.5	-2.5	5.3
Unemployment rate %	5.2	5.2	7.0	7.6	7.7	7.9	7.9
CPI % qtr	0.7	0.3	-1.9	1.3	0.7	0.3	0.2
Annual Change	1.8	2.2	-0.3	0.4	0.4	0.4	2.5

## New Zealand economic indicators and outlook

	Dec 19	Mar 20	Jun 20	Sep 20(f)	Dec 20(f)	Mar 21(f)	Jun 21(f)
GDP % qtr.	0.5	-1.4	-12.2	8.5	3.7	0.5	1.3
% annual change	2.3	1.5	-2.0	-4.0	-5.1	-5.3	0.9
Unemployment rate %	4.1	4.2	4.0	5.5	6.2	6.6	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 (12 October 2020), Trading Economics