

EXCHANGE RATE DEVELOPMENTS OCTOBER 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)	\$36.92	-\$2.39	\$39.31
Reserve Bank of Australia	0.25%	0.00	October 6, 2020	whole milk powder (US\$/t)	\$2,985.00	-\$52.00	\$3,037.00
US Federal Reserve	0.00 - 0.25%	0.00	September 16, 2020				
European Central Bank	0.00%	0.00	October 29, 2020				
Bank of England	0.10%	0.00	September 17, 2020				

A. CURRENCY WATCH

The overall nominal effective value of the **Samoan Tala depreciated by 0.0097 percent** against the currency basket in October. This nominal depreciation reflected the Tala weakening against the United States Dollar (by 0.42 percent) and the Euro (by 0.13 percent) offsetting the Tala's appreciation against the New Zealand Dollar (by 0.03 percent) and the Australian Dollar (by 1.05 percent).

Of the currencies in the Tala currency basket, the **United States dollar (USD)** slightly strengthened in October, supported by the following developments:

- A string of upbeat domestic economic releases during the month including a drop in the unemployment rate and jobless claims with strong new job growth, the higher than expected Producer Price Index (PPI), the stronger durable goods orders, retail sales and Gross Domestic Product (GDP);
- Headlines about a new fiscal stimulus package anticipated to emerge after the election, following a number of progressive talks and constant dialogues between the House Speaker Nancy Pelosi and Treasury Secretary Steve Mnuchin;
- The escalating tensions between China and the US, after China announced unspecified sanctions over the US defense unit and reiterated that the US arms sales worth \$1.8 billion to Taiwan violates the one-China principle and harm China's security interests.

The **Euro** dropped against the USD from US\$1.180 to USD\$1.177 on the back of:

- Disappointing economic releases out of the region (such as the drop in Germany's inflation rate, economic sentiment, consumer confidence, wholesale price and Ifo business climate, along with the Euro-zone's declined industrial production);
- An upturn on Covid-19 cases continuing to pose a grim outlook for the Eurozone and the unresolved BREXIT deal making the nation very doubtful of progresses been made and believed that a serious divergence persists;
- The European Central Bank's (ECB) decision to hold their policy interest rate steady at 0.00%.

The **Australian dollar (AUD)** traded between US\$0.72 and US\$0.71, depreciating against the USD due to:

- The stronger greenback and the downbeat domestic data releases such as the declined retail sales, weaker Purchasing Manager's Index (PMI) and trade data, shrinking consumer spending, coupled with a drop on its Industry Group Service;
- A verbal ban enacted by China on Australian coal imports which impacted slightly on Australia's financial markets as two of its main exports are iron ore and liquified natural gas;
- High market anticipations for a historical cut in Australia's official interest rate by 15 basis points from 0.25% to 0.10% in the November policy meeting.

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

- Negative domestic data released during the month including the widened trade deficit, a decline in global dairy trade price index and the lower than expected year-on-year inflation rate;
- An uneven recovery for the New Zealand economy, after slumping during the lockdown earlier in the year. This weighed heavily on the nation's exports mainly on the outlook for sheep meat, as economists forecast pointed to an unfavourable direction in 2020/21.

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

- Favorable domestic data releases during the month, mainly reflecting the better than expected industrial production, retail sales, corporate services and coincident index.
- A wave of risk aversion supporting the Yen, following news that the US President Donald Trump was tested positive with Covid-19.
- The Bank of Japan's (BOJ) decision to keep its policy interest rate unchanged at -0.1%.

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

- To the robust recovery of China's economy following the release of Chinese upbeat domestic headlines (such as the stronger PMI data, a surge in vehicle and retail sales, the higher than expected industrial production 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 October 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				
	Oct-19	Sep-20	Oct-20	Sep-20 (%)	Oct-19 (%)
NZD/USD	0.6330	0.6669	0.6638	-0.46	4.87
AUD/USD	0.6790	0.7236	0.7129	-1.48	4.99
USD/YEN	108.1530	105.6332	105.2538	0.36	2.68
USD/CNH	7.0971	6.8177	6.7132	1.53	5.41
EUR/USD	1.1046	1.1795	1.1771	-0.20	6.56
FJD/USD	0.4561	0.4731	0.4701	-0.63	3.07

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

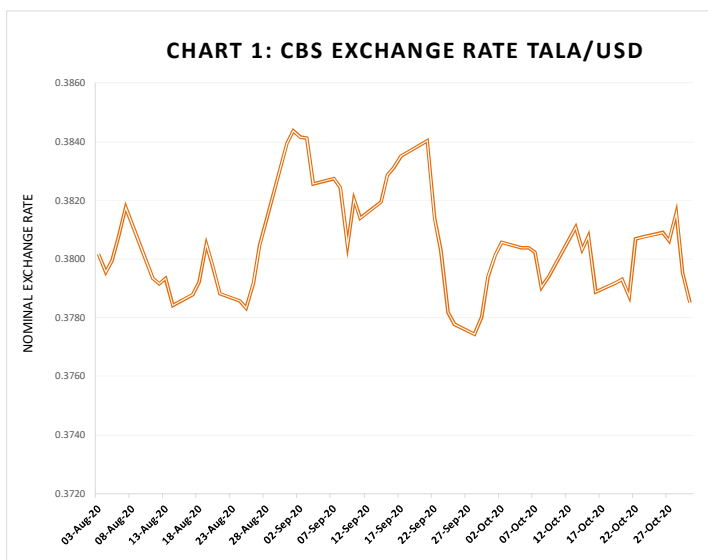
Source: Central Bank of Samoa

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 October 2019.

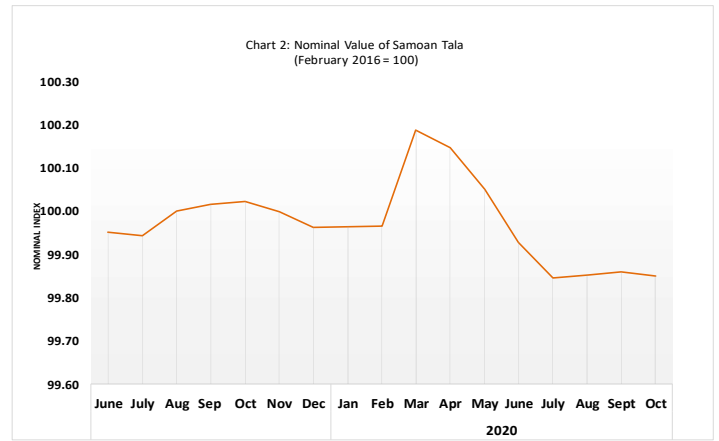
Table 2					
Tala* per foreign currencies (month average)					
	Movement of the Tala over the previous month and the previous year (+) appreciation / (-) depreciation				
	Oct-19	Sep-20	Oct-20	Sep-20 (%)	Oct-19 (%)
USD/TALA	2.6960	2.6203	2.6312	-0.42	2.40
NZD/TALA	1.7065	1.7471	1.7466	0.03	-2.35
AUD/TALA	1.8306	1.8958	1.8758	1.05	-2.47
EUR/TALA	2.9780	3.0906	3.0945	-0.13	-3.91
FJD/TALA	1.2295	1.2397	1.2370	0.22	-0.61
TALA/YEN	40.1174	40.3128	39.9824	-0.82	-0.34
TALA/CNH	2.6325	2.6018	2.5513	-1.94	-3.08
Nominal Index	100.0225	99.8600	99.8503	-0.0097	-0.1721

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

Source: Central Bank of Samoa

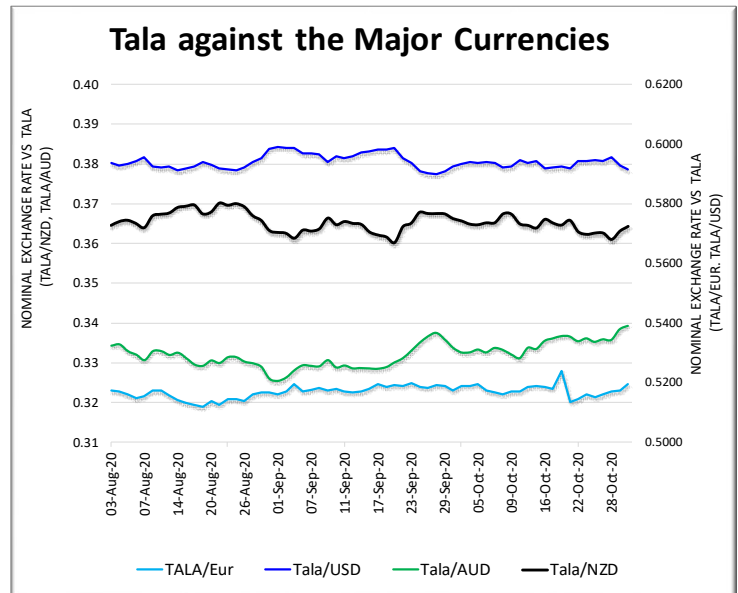


Source: Central Bank of Samoa



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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 US general elections in November, 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\$0.69 respectively while the EUR/USD is expected to trade around US\$1.19. These indicates further weakness in the USD in the last quarter of 2020.

FINANCIAL MARKETS DEPARTMENT
18 November 2020

ECONOMIC & FINANCIAL FORECASTS

Policy Interest rate forecasts

	Actual (17 Nov 2020)	Dec 20	Mar 21	Jun 21	Sep 21	Dec 21	Jun 22
USA							
Fed Funds Rate	0.125	0.125	0.125	0.125	0.125	0.125	0.125
Australia							
RBA Cash Rate	0.10	0.10	0.10	0.10	0.10	0.10	0.10
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 (17 Nov 2020)	Dec 20	Mar 21	Jun 21	Sep 21	Dec 21	Jun 22
AUD/USD	0.7316	0.75	0.76	0.76	0.78	0.80	0.80
NZD/USD	0.6894	0.69	0.69	0.69	0.69	0.70	0.70
EUR/USD	1.1842	1.19	1.20	1.21	1.22	1.24	1.25
USD/JPY	104.5450	104	105	106	106	106	107
GBP/USD	1.3197	1.31	1.33	1.35	1.37	1.38	1.40
USD/CNH	6.5739	6.65	6.59	6.51	6.50	6.54	6.50

US economic indicators and outlook

	Mar 20	Jun 20	Sep 20	Dec 20(f)	Mar 21(f)	Jun 21(f)	Sep 21(f)
GDP % qtr.	-5.0	-31.4	33.1	3.5	1.6	2.2	2.7
% annual change	0.3	-9.0	-2.9	-2.6	-1.0	9.4	2.5
Unemployment rate %	3.8	13.0	8.8	7.8	7.3	6.8	6.6
CPI % yr.	1.5	0.7	1.2	1.0	1.6	1.7	1.7

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	1.0	0.5
% annual change	2.3	1.6	-6.3	-5.0	-3.5	-2.3	5.6
Unemployment rate %	5.2	5.2	7.0	7.1	7.5	7.8	7.8
CPI % qtr	0.7	0.3	-1.9	1.6	0.6	0.3	0.2
Annual Change	1.8	2.2	-0.3	0.7	0.6	0.5	2.6

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	5.3	6.0	6.2	6.2
CPI % qtr.	0.5	0.8	-0.5	0.7	0.0	0.1	-0.2
Annual % change	1.9	2.5	1.5	1.4	1.0	0.3	0.6

Source: Bloomberg, Westpac Economics Update (13 November 2020), Trading Economics