

EXCHANGE RATE DEVELOPMENTS NOVEMBER 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	November 11, 2020	crude oil (US\$/bbl)	\$46.55	\$9.63	\$36.92
Reserve Bank of Australia	0.10%	0.15	November 3, 2020	whole milk powder (US\$/t)	\$3,182.00	\$197.00	\$2,985.00
US Federal Reserve	0.00 - 0.25%	0.00	November 5, 2020				
European Central Bank	0.00%	0.00	October 29, 2020				
Bank of England	0.10%	0.00	November 5, 2020				

A. CURRENCY WATCH

The overall nominal effective value of the **Samoa Tala** appreciated by **0.0451 percent** against the currency basket in October. This nominal appreciation reflected the Tala strengthening against the United States Dollar (by 1.30 percent) and the Euro (by 0.82 percent) offsetting the Tala's depreciation against the New Zealand Dollar (by 1.83 percent) and the Australian Dollar (by 0.55 percent).

Of the currencies in the Tala currency basket, the **United States dollar** (USD) traded steeply lower in November, weighed by the following developments:

- A modest effect from a string of downbeat domestic economic releases during the month including a rise in the jobless claims, lower than expected inflation rate, eased consumer confidence, retail sales and building permits;
- The on-going coronavirus pandemic which kept on taking its toll in the US, triggering market volatility and rising fears over a return of restrictions;
- The US presidential election known as the most market moving event during the month, which prompted mounting uncertainties over the legal contest between the newly appointed President, Joe Biden and the former President Donald Trump, adding turmoil to the FX markets and further undermine the greenback's safe haven status;
- On pre-election, investors worry that Joe Biden leading the polls, would result in a softer tone on trade policy over countries that often faced the threat of tariffs during Trump's administration and will gradually diminish tensions between the US and China;
- On post-election, traders' fears loomed in on political affairs and civil unrest over the transitioning of power in the US, as Trump promised to nullify the votes, following higher anticipations over a large-scale stimulus package after the newly appointed President, Joe Biden called on US lawmakers to pass a new stimulus bill before he officially takes office in January;
- The US markets closed for Thanksgiving holiday and modest flows out of the US economy weighed more on the USD;
- The greenback suffering further from risk-on markets after a Covid-19 vaccine trials by Pfizer, an American multinational pharmaceutical had proven a 90% successful analysis, followed by an American-based biotechnology, Moderna, with a 94.5% efficacy rate results.

The **Euro** strengthened against the USD from US\$1.177 to US\$1.182 on the back of:

- Positive economic releases out of the region (such as Germany's improved GDP growth, economic sentiment, and industrial output);
- Increasing hopes over a potential vaccine that can cure the accelerated number of Covid-19 cases, with the Euro continuing to outperform the US dollar by becoming remarkably resilient;

The **Australian dollar** (AUD) traded between US\$0.71 and US\$0.73, appreciating against the USD due to:

- The broad weakness of the US dollar and the upbeat domestic data releases such as the better than expected inflation data, retail sales figures and building permits, along with the improved business and consumer confidence;
- a historical cut in Australia's official interest rate by 15 basis points from 0.25% to 0.10% as expected;
- an expanded Quantitative Easing Programs including the purchase of \$100 billion of government bonds over the next six months to support the AUD amid the extant Covid-19 pandemic.

The **New Zealand dollar** (NZD) traded higher to around US\$0.68 mainly reflecting:

- the weaker US dollar following Joe Biden's victory in the US presidential election, coupled with the positive domestic data released during the month including the higher consumer confidence, rise in electronic retail card spending and the surged retail sales;
- a request from the Finance Minister to the Reserve Bank of New Zealand regarding the housing market being part of its monetary policy including negative interest rates;
- the Reserve Bank of New Zealand's decision to hold its Official Cash Rate (OCR) at 0.25%.

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 GDP growth rate, the stronger PMI, and positive employment data,
- persisting safe haven demands, following the US election and rising uncertainties over a global economic recovery.

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

- To the outstanding performance by China's economy ahead of the US economy, following the constant release of Chinese upbeat domestic headlines (such as the stronger PMI data, a surge in exports and retail sales, the higher than expected industrial production and industrial profits);
- To Joe Biden's victory that would possibly prevent the US government from raising tariffs and ease restrictions on trade with China.

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 November 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	
	Nov-19	Oct-20	Nov-20	Oct-20	Nov-19
				(%)	(%)
NZD/USD	0.6395	0.6638	0.6850	3.19	7.11
AUD/USD	0.6833	0.7129	0.7264	1.89	6.30
USD/YEN	108.8326	105.2538	104.4595	0.75	4.02
USD/CNH	7.0209	6.7132	6.6016	1.66	5.97
EUR/USD	1.1054	1.1771	1.1819	0.41	6.92
FJD/USD	0.4581	0.4701	0.4759	1.23	3.88

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

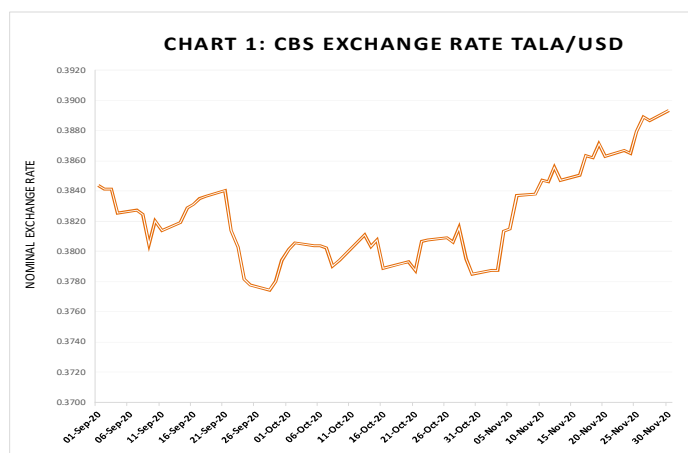
Source: Central Bank of Samoa

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 November 2019.

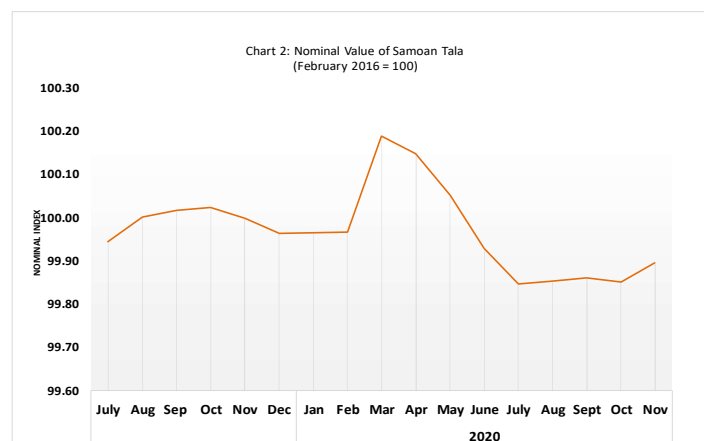
Table 2					
Tala* per foreign currencies (month average)					
				Movement of the Tala over the previous month and the previous year	
				(+ appreciation / (-) depreciation	
	Nov-19	Oct-20	Nov-20	Oct-20	Nov-19
				(%)	(%)
USD/TALA	2.6841	2.6312	2.5969	1.30	3.25
NZD/TALA	1.7164	1.7466	1.7785	-1.83	-3.62
AUD/TALA	1.8340	1.8758	1.8862	-0.55	-2.85
EUR/TALA	2.9669	3.0945	3.0693	0.82	-3.45
FJD/TALA	1.2296	1.2370	1.2358	0.10	-0.50
TALA/YEN	40.5477	39.9824	40.2238	0.60	-0.80
TALA/CNH	2.6158	2.5513	2.5448	-0.25	-2.71
Nominal Index	99.9974	99.8503	99.8954	0.0451	-0.1020

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

Source: Central Bank of Samoa

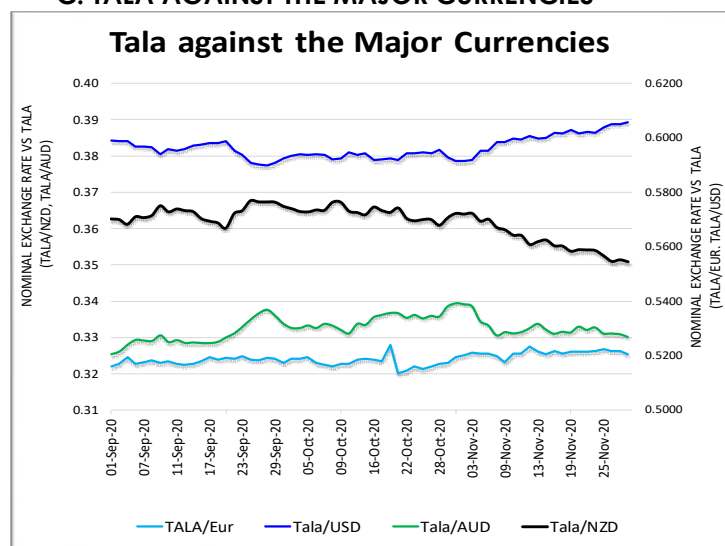


Source: Central Bank of Samoa



Source: Central Bank of Samoa

C. TALA AGAINST THE MAJOR CURRENCIES



Source: Central Bank of Samoa

D. MARKET OUTLOOK FOR Q4 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, 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\$0.71 respectively while the EUR/USD is expected to trade around US\$1.20. These indicates further weakness in the USD in the last quarter of 2020.

FINANCIAL MARKETS DEPARTMENT
15 December 2020

ECONOMIC & FINANCIAL FORECASTS

Policy Interest rate forecasts

	Actual (14 Dec 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	0.00	-0.25	-0.25	-0.25
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 Dec 2020)	Dec 20	Mar 21	Jun 21	Sep 21	Dec 21	Jun 22
AUD/USD	0.7543	0.75	0.76	0.78	0.79	0.80	0.80
NZD/USD	0.7089	0.71	0.72	0.73	0.74	0.74	0.73
EUR/USD	1.2124	1.20	1.20	1.21	1.22	1.24	1.25
USD/JPY	104.0600	104	105	106	106	106	107
GBP/USD	1.3342	1.34	1.34	1.36	1.38	1.39	1.40
USD/CNH	6.5397	6.54	6.50	6.45	6.44	6.44	-

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	0.4	-0.3	-7.0	3.3	2.3	1.4	0.8
% annual change	2.2	1.4	-6.4	-3.8	-2.0	-0.3	8.0
Unemployment rate %	5.2	5.2	7.0	7.1	7.0	6.7	6.4
CPI % qtr	0.7	0.3	-1.9	1.6	0.9	0.5	0.3
Annual Change	1.8	2.2	-0.3	0.7	0.9	1.0	3.2

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	12.0	1.0	1.3	1.6
% annual change	2.3	1.5	-2.0	-3.2	-4.2	-4.0	2.6
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	-0.3
Annual % change	1.9	2.5	1.5	1.4	1.0	0.3	0.5

Source: Bloomberg, Westpac Economics Update (04 December 2020), Trading Economics