

EXCHANGE RATE DEVELOPMENTS DECEMBER 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)	\$50.23	\$3.68	\$46.55
Reserve Bank of Australia	0.10%	0.00	December 2, 2020	whole milk powder (US\$/t)	\$3,210.00	\$28.00	\$3,182.00
US Federal Reserve	0.00 - 0.25%	0.00	December 16, 2020				
European Central Bank	0.00%	0.00	December 10, 2020				
Bank of England	0.10%	0.00	December 17, 2020				

A. CURRENCY WATCH

The overall nominal effective value of the **Samoan Tala** appreciated by **0.0976 percent** against the currency basket in December. This nominal appreciation reflected the Tala strengthening against the United States Dollar (by 1.72 percent) offsetting the Tala's depreciation against the Euro (by 0.85 percent), the New Zealand Dollar (by 1.69 percent) and the Australian Dollar (by 1.73 percent).

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

- A string of downbeat domestic economic releases during the month including a sharp decline in pending home sales, manufacturing purchasing managers' index (PMI) and private sector employment, the lower-than-expected industrial output, manufacturing index, durable goods order, retail sales and personal consumption expenditure along with the soaring number of jobless claims;
- The investors continuing to abandon the safe haven greenback after suffering from improving risk-sentiment and growing optimism over a swift recovery, following ceaseless news on successful vaccine trials from several pharmaceutical companies around the world;
- U.S. jobs recovery losing momentum on the third wave of coronavirus infections as the nation recorded historic levels of deceased and hospitalized Covid-19 patients, forcing more people out of their offices due to stricter lockdown measures;
- The U.S. President Donald Trump and lawmakers pushing forward with an enhanced COVID-19 relief package worth \$900bn, triggering fears that an increased relief payment may not be able to amply demand to recuperate the US' deteriorated economy.

The **Euro** strengthened against the USD from US\$1.18 to USD\$1.21 on the back of:

- Upbeat economic releases out of the region (such as the Eurozone's higher-than-expected manufacturing and retail sales figures, the increased industrial output and composite PMI, along with the improved unemployment rate, retail sales, industrial production and manufacturing data out of Germany, the nation's largest economy);
- Positive news that the United Kingdom prepares to roll out vaccines from both the BioNTech/Pfizer Inc. and AstraZeneca/Oxford University, where the government intended to vaccinate a count of 2 million people;

The **Australian dollar** (AUD) traded between US\$0.73 and US\$0.75, appreciating against the USD due to:

- The weaker US dollar and the favourable domestic data releases such as the better-than-expected gross domestic product (GDP), services PMI, export data, consumer confidence, unemployment rate, retail-sales and housing figures;
- Reports that the iron ore production, the nation's biggest export commodity, saw a surge in prices to a two and-a-half year high, following a rise on exports for Australia's iron ore in the last quarter of 2020, mainly to China;
- The Reserve Bank of Australia's decision to hold its policy interest rates at 0.1%, as expected after a historical cut by 15 basis points in November 2020.

The **New Zealand dollar** (NZD) traded higher to around USD\$0.71 mainly reflecting:

- The upbeat domestic data releases during the month, including the surging retail sales figures and GDP growth rate, the heightened business and consumer confidence, along with a rise in electronic retail card spending;
- The stronger release of Chinese data, showing an expansion in its factory activities, employment and trading, which is beneficial for New Zealand's exporting sector as they are highly correlated to China in trade;

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

- Positive domestic data releases during the month, mainly reflecting the better-than-expected retail sales and industrial production, stronger consumer confidence and improved employment rate;
- Persisting safe haven demands, following the greenback's broad weakness.

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

- To the constant release of Chinese upbeat domestic headlines (such as the stronger-than-expected manufacturing data and unemployment rate, the higher services and composite PMI and a surge in exports, industrial production and retail sales);
- To the People's Bank of China (PBoC) decision to hold their 1-year Loan Prime Rate (LPR) at 3.85% and 5-years 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 December 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				
	Dec-19	Nov-20	Dec-20	Nov-20 (%)	Dec-19 (%)
NZD/USD	0.6586	0.6850	0.7087	3.46	7.61
AUD/USD	0.6876	0.7264	0.7520	3.53	9.36
USD/YEN	109.1782	104.4595	103.8457	0.59	4.88
USD/CNH	7.0119	6.6016	6.5327	1.04	6.83
EUR/USD	1.1107	1.1819	1.2148	2.78	9.37
FJD/USD	0.4610	0.4759	0.4861	2.14	5.44

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

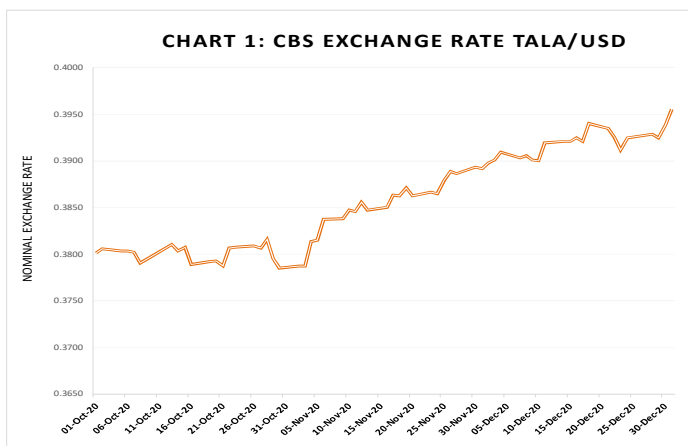
Source: Central Bank of Samoa

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 December 2019.

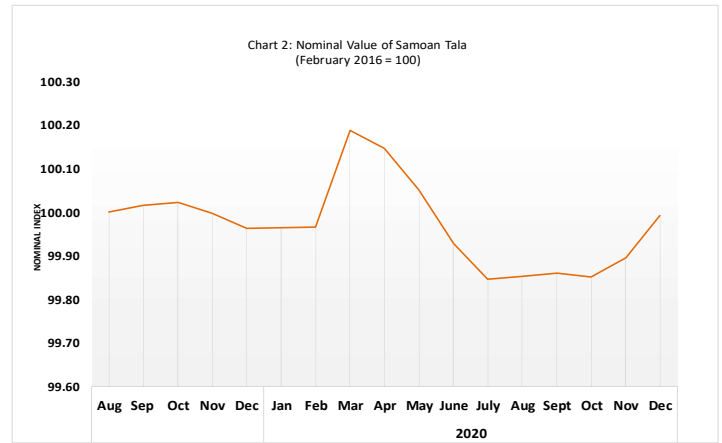
Table 2					
Tala* per foreign currencies (month average)					
	Movement of the Tala over the previous month and the previous year (+) appreciation / (-) depreciation				
	Dec-19	Nov-20	Dec-20	Nov-20 (%)	Dec-19 (%)
USD/TALA	2.6554	2.5969	2.5522	1.72	3.89
NZD/TALA	1.7488	1.7785	1.8086	-1.69	-3.42
AUD/TALA	1.8259	1.8862	1.9189	-1.73	-5.09
EUR/TALA	2.9492	3.0693	3.0954	-0.85	-4.95
FJD/TALA	1.2241	1.2358	1.2405	-0.38	-1.34
TALA/YEN	41.1163	40.2238	40.6884	1.15	-1.04
TALA/CNH	2.6406	2.5448	2.5584	0.53	-3.11
Nominal Index	99.9621	99.8954	99.9929	0.0976	0.0308

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

Source: Central Bank of Samoa

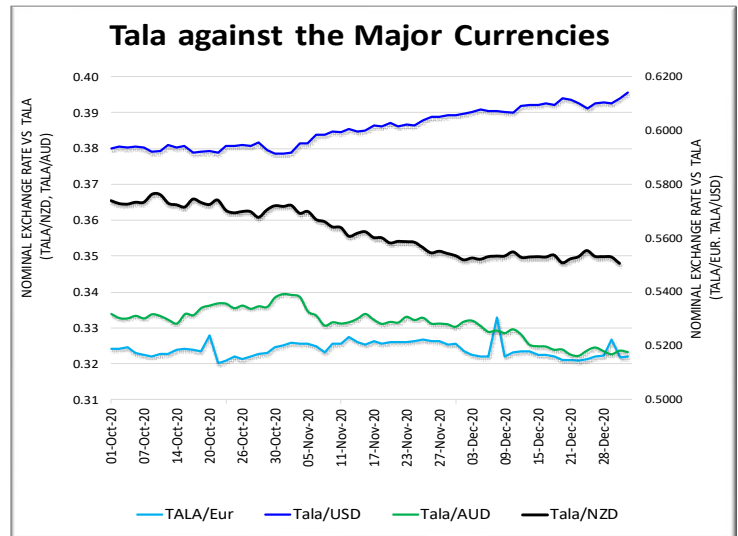


Source: Central Bank of Samoa



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C. TALA AGAINST THE MAJOR CURRENCIES



Source: Central Bank of Samoa

D. MARKET OUTLOOK FOR Q1 2021:

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 higher around USD\$0.76 and USD\$0.72 respectively while the EUR/USD is expected to trade around US\$1.23 by end March quarter 2021. These indicates further weakness in the USD in the first quarter of 2021.

FINANCIAL MARKETS DEPARTMENT
13 January 2021

ECONOMIC & FINANCIAL FORECASTS

Policy Interest rate forecasts

	Actual (13 Jan 2021)	Mar 21	Jun 21	Sep 21	Dec 21	Mar 22	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	0.00	-0.25	-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 (13 Jan 2021)	Mar 21	Jun 21	Sep 21	Dec 21	Mar 22	Jun 22
AUD/USD	0.7736	0.76	0.78	0.79	0.80	0.82	0.82
NZD/USD	0.7194	0.72	0.73	0.74	0.74	0.74	0.74
EUR/USD	1.2176	1.23	1.24	0.25	0.26	1.27	1.28
USD/JPY	104.0750	104	104	104	104	105	105
GBP/USD	1.3626	1.34	1.36	1.38	1.39	1.41	1.41
USD/CNH	6.4570	6.45	6.40	6.35	6.35	6.30	-

US economic indicators and outlook

	Mar 20	Jun 20	Sep 20	Dec 20(f)	Mar 21(f)	Jun 21(f)	Sep 21(f)
GDP	-5.0	-31.4	33.1	3.5	3.2	3.7	4.3
%yr annual change	0.3	-9.0	-2.9	-2.6	-0.6	10.2	3.7
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	2.3	1.7

Australian economic indicators and outlook

	Jun 20	Sep 20	Dec 20(f)	Mar 21(f)	Jun 21(f)	Sep 21(f)	Dec 21(f)
GDP % qtr. / yr. avg	-7.0	3.3	2.3	1.4	0.8	0.9	0.9
% annual change	-6.4	-3.8	-2.0	-0.3	8.0	5.4	4.0
Unemployment rate %	7.0	7.1	6.9	6.7	6.5	6.2	6.0
CPI % qtr	-1.9	1.6	0.9	0.6	0.2	0.4	0.6
Annual Change	-0.3	0.7	0.9	1.1	3.2	2.1	1.8

New Zealand economic indicators and outlook

	Jun 20	Sep 20	Dec 20(f)	Mar 21(f)	Jun 21(f)	Sep 21(f)	Dec 21(f)
GDP % qtr.	-11.0	14.0	0.0	0.6	1.6	0.7	0.6
% annual change	-1.7	-2.2	-2.6	-2.1	4.3	5.0	5.9
Unemployment rate %	4.0	5.3	6.0	5.9	5.7	5.5	5.4
CPI % qtr.	-0.5	0.7	0.0	0.4	0.1	0.5	0.1
Annual % change	1.5	1.4	1.0	0.6	1.1	0.9	1.0

Source: Bloomberg, Westpac Economics Update (11 January 2021), Trading Economics