PLEASE ADDRESS CORRESPONDENCE TO THE GOVERNOR

CENTRAL BANK OF SAMOA

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EXCHANGE RATE DEVELOPMENTS MARCH 2021

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	April 14, 2021	crude oil (US$/bbl)	$63.54	$0.48	$63.06
Reserve Bank of Australia	0.10%	0.00	April 6, 2021	whole milk powder (US$/t)	$4,085.00	-$279.00	$4,364.00
US Federal Reserve	0.00 - 0.25%	0.00	March 17, 2021				
European Central Bank	0.00%	0.00	March 11, 2020				
Bank of England	0.10%	0.00	March 18, 2021				

A. CURRENCY WATCH

New weights for the major currencies in the Samoa Tala currency basket took effect on the 1st March following the endorsement of the Board of Directors in its meeting on the 26th February 2021.

The overall nominal effective value of the **Samoan Tala depreciated by 0.12 percent** against the currency basket in March 2021. This nominal depreciation reflected the weakening of the Tala against the United States Dollar (by 0.45 percent), offsetting the Tala's appreciation against the New Zealand Dollar (by 0.82 percent), the Australian Dollar (by 0.04 percent) and Euro (by 1.05 percent).

Of the currencies in the Tala currency basket, the **United States dollar** (USD) rebounded strongly in March, due to the following developments:

- A string of favourable domestic economic releases during the month such as the higher personal income and spending, improved consumer sentiment, lesser jobless claims, the surging factory orders and nonfarm payrolls, better-than-expected trade figures, along with the upbeat manufacturing purchasing manager index (PMI) and Q4 2020 gross domestic product (GDP);
- Progress in one of the largest fiscal relief packages in U.S history, worth $1.9 trillion proposed by the new President Joe Biden, which was finally approved by the Democrats on March 11th;
- Risk sentiments following the revived US-China tensions after human rights sanctions on China imposed by the United States, Europe and Britain prompted retaliatory sanctions from Beijing;
- The Federal Reserve Bank subsequent decision to continue to hold interest rates steady at the lowest level of 0.00-0.25%.

The **Euro** maintained a downtrend against the USD, dropping from US$1.21 to USD$1.19 on the back of:

- The negative economic releases out of the region (such as the lower-than-expected retail sales and industrial production out of Germany, the Eurozone's plummeted retail sales, the escalating unemployment figures, and the negative GDP data);
- Investors' anxiety over a repetition of restrictions amid the slowed vaccine rollouts across Europe, prompting doctors in Germany to call for an immediate lockdown to avoid a possible third-wave of the Covid-19 pandemic;
- Markets feeling unease about fresh BREXIT tensions between the European Union (EU) and United Kingdom (UK), following an unexpected decline in trade activities between the two nations soon after the UK left the EU in January.

The **Australian dollar** (AUD) traded between US$0.78 and US$0.77, weakening against the USD due to:

- The greenback's robust gains and the unfavourable domestic data releases including a drop in the GDP growth rate, the disappointing housing price index and the weaker-than-expected retail sales figures;
- The reduced risk appetite for commodity currencies on persisting fears over global tensions and renewed Covid-19 restrictions amongst major economies;

The **New Zealand dollar** (NZD) also traded lower to around USD$0.71 from USD$0.72 mainly reflecting:

- The stronger greenback and the downbeat domestic data releases during the month, including the declined electronic card spending, the diminished PMI and GDP growth data, and the lower demand for building permits;
- The immediate lockdown measures to prevent a new COVID-19 outbreak in Auckland which hurt businesses and consumer confidence during the month;
- Concerns over the adverse implications of a housing reform by the NZ government aimed at increasing the supply of houses and improve home affordability for first home buyers.

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

- The greenback's broad appeal together with negative domestic data releases during the month, such as the downwardly revised GDP data, weaker PPI and manufacturing figures, decreasing exports, along with a drop in retail sales;

The **Chinese Yuan** (CNY) dropped against the US currency reflecting:

- The stronger greenback and the release of unfavorable domestic indicators (including the declined Caixin PMI, the negative manufacturing PMI and a rise in the unemployment rate);

- The escalating geopolitical tensions between China and the world's largest economy as US sanctions over the alleged abuse of human rights drew counterattacks from Beijing;
- The People's Bank of China (PBoC)'s decision to hold their 1-year Loan Prime Rate (LPR) at 3.85% and 5-years at 4.65% respectively.

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 March 2020.

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	
	Mar-20	Feb-21	Mar-21	Feb-21 (%)	Mar-20 (%)
NZD/USD	0.6064	0.7236	0.7145	-1.26	17.83
AUD/USD	0.6227	0.7750	0.7712	-0.50	23.85
USD/YEN	107.5941	105.2755	108.5359	-3.10	-0.88
USD/CNH	7.0326	6.4494	6.5104	-0.95	7.43
EUR/USD	1.1057	1.2096	1.1916	-1.49	7.77
FJD/USD	0.4403	0.4915	0.4897	-0.37	11.22

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 March 2020.

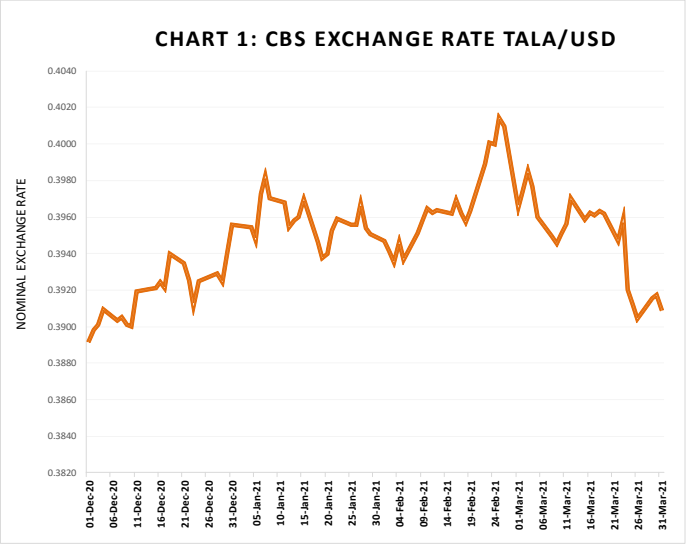
Table 2

Tala* per foreign currencies (month average)

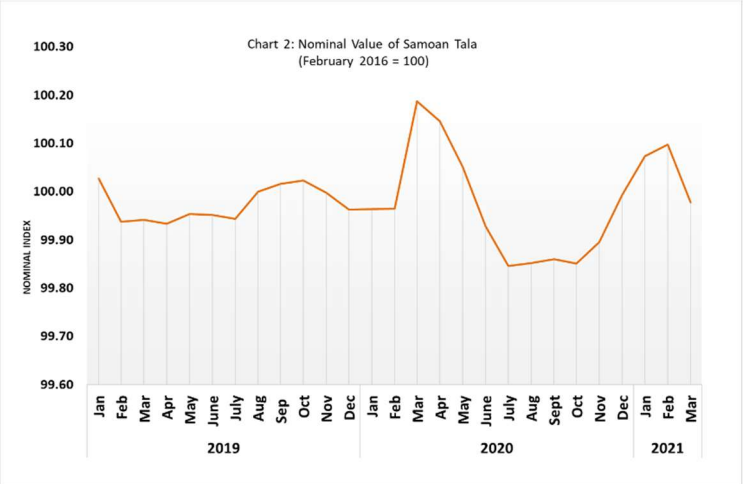
				Movement of the Tala over the previous month and the previous year (+) appreciation / (-) depreciation	
	Mar-20	Feb-21	Mar-21	Feb-21 (%)	Mar-20 (%)
USD/TALA	2.7762	2.5210	2.5324	-0.45	8.78
NZD/TALA	1.6825	1.8241	1.8092	0.82	-7.53
AUD/TALA	1.7263	1.9535	1.9528	0.04	-13.12
EUR/TALA	3.0696	3.0494	3.0173	1.05	1.71
FJD/TALA	1.2222	1.2391	1.2399	-0.07	-1.45
TALA/YEN	34.7407	41.7604	42.8582	2.63	23.37
TALA/CNH	2.5326	2.5583	2.5708	0.49	1.51
Nominal Index	100.1866	100.0975	99.9781	-0.1193	-0.2081

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

Source: Central Bank of Samoa

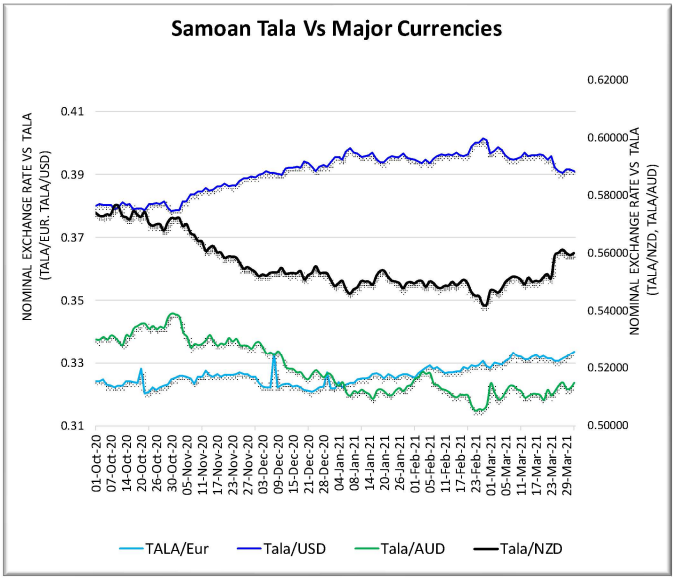


Source: Central Bank of Samoa



Source: Central Bank of Samoa

C. TALA AGAINST THE MAJOR CURRENCIES



Source: Central Bank of Samoa

D. MARKET OUTLOOK FOR Q2 2021:

Covid-19 related developments, revived geopolitical and trade tensions, domestic data releases, and subsequent economic policy measures by the monetary authorities are expected to drive the AUD, NZD and EURO trends in the next few months. These factors, along with the continued narrow interest differentials between the major countries, are anticipated to drive the AUD/USD and NZD/USD higher around USD$0.79 and USD$0.72 respectively while the EUR/USD is expected to trade around US$1.20 by end June quarter 2021. These indicates further weakness in the USD in the second quarter of 2021.

FINANCIAL MARKETS DEPARTMENT
16 April 2021

ECONOMIC & FINANCIAL FORECASTS

Policy Interest rate forecasts

	Actual (16 Apr 2021)	Jun 21	Sep 21	Dec 21	Mar 22	Jun 22	Sep 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	0.25	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 (16 April 2021)	Jun 21	Sep 21	Dec 21	Mar 22	Jun 22	Sep 22
AUD/USD	0.7752	0.79	0.80	0.82	0.85	0.85	0.84
NZD/USD	0.7173	0.72	0.73	0.74	0.76	0.76	0.75
EUR/USD	1.1976	1.20	1.21	1.23	1.25	1.26	1.27
USD/JPY	108.6750	109	110	111	112	111	111
GBP/USD	1.3788	1.40	1.40	1.41	1.41	1.42	1.42
USD/CNH	6.5261	6.45	6.45	6.42	6.45	6.25	-

US economic indicators and outlook

	Jun 20	Sep 20	Dec 20	Mar 21(f)	Jun 21(f)	Sep 21(f)	Dec 21(f)
GDP	-31.4	33.4	4.1 (2nd Est)	4.6	9.2	6.8	4.7
%yr annual change	-9.0	-2.8	-2.4 (2nd Est)	-0.1	12.2	6.2	6.3
Unemployment rate %	13.1	8.8	6.8	6.2	5.3	5.1	4.8
CPI % yr.	0.7	1.3	1.1	2.6	2.2	2.3	1.9

Australian economic indicators and outlook

	Jun 20	Sep 20	Dec 20	Mar 21(f)	Jun 21(f)	Sep 21(f)	Dec 21(f)
GDP % qtr.	-7.0	3.4	3.1	1.6	0.8	1.0	1.1
% year end	-6.3	-3.7	-1.1	0.7	9.2	6.6	4.5
Unemployment rate %	6.9	7.1	6.8	6.0	6.0	5.9	5.7
CPI % qtr	-1.9	1.6	0.9	1.0	0.5	0.5	0.6
Annual Change	-0.3	0.7	0.9	1.5	4.0	2.9	2.6

New Zealand economic indicators and outlook

	Jun 20	Sep 20	Dec 20	Mar 21(f)	Jun 21(f)	Sep 21(f)	Dec 21(f)
GDP % qtr.	-11.0	13.9	-1.0	-0.4	1.8	0.4	0.3
Annual avg change	-1.7	-2.3	-2.9	-3.0	3.1	3.9	2.4
Unemployment rate %	4.0	5.3	4.9	5.0	5.1	5.0	4.9
CPI % qtr.	-0.5	0.7	0.5	0.8	0.6	0.7	0.3
Annual change	1.5	1.4	1.4	1.4	2.5	2.6	2.4

Source: Bloomberg, Westpac Economics Update (09 April 2021), Trading Economics