

EXCHANGE RATE DEVELOPMENTS FEBRUARY 2022

Highlights:

Policy Interest Rates	Current	Change (basis point)	Last Updated	Commodity Prices	Average Price (in USD)	Change	Previous Month
Reserve Bank of NZ	1.00%	0.25	February 23, 2022	crude oil (US\$/bbl)	\$97.02	\$9.49	\$87.53
Reserve Bank of Australia	0.10%	0.00	February 1, 2021	whole milk powder (US\$/t)	\$4,503.00	\$179.00	\$4,324.00
US Federal Reserve	0.00 - 0.25%	0.00	January 26, 2021				
European Central Bank	0.00%	0.00	February 3, 2022				
Bank of England	0.50%	0.25	February 3, 2022				

A. CURRENCY WATCH

The overall nominal effective value of the **Samoan Tala appreciated by 0.0067 percent** against the currency basket in February. This nominal appreciation reflected the Tala strengthening against the New Zealand Dollar (by 0.94 percent) offsetting the Tala's depreciation against the United States Dollar (by 0.58 percent), the Australian Dollar (by 0.02 percent) and the Euro (by 0.60 percent).

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

- The flight to safety as the heightened geopolitical tension following Russia's full-scale invasion of Ukraine on 24th February increased demand for safe haven currencies. Risk sentiments remained high at the end of the month as Western financial and economic sanctions on Russia mounted.
- A string of favourable domestic economic releases during the month, including the better-than-expected employment reports, a rise in US Purchasing Manager Index (PMI) and the upbeat retail sales growth;
- The acceleration of inflationary pressures prompting the markets and some US officials to call for an immediate monetary response, with some calling for Federal Fund Rate hike of 25 to 50 basis points in the FOMC's March;

The **Euro** slightly gained to around USD\$1.13 against the USD:

- On upbeat economic releases out of the region earlier in the month (such as the Eurozone's factory orders, an increase in construction activities, industrial production, upbeat business climate indicators and the positive release of Germany's seasonally adjusted trade surplus);
- The European Central Bank's (ECB) policy interest rate decision to maintain at zero percent as widely anticipated.
- The strengthening earlier in the month more than offset the steep drop in the Euro to USD\$1.11 immediately after the launch of Russia's invasion of Ukraine.

The **Australian dollar (AUD)** weakened against the USD, mainly reflecting:

- The stronger US dollar alongside the unfavourable domestic data (such as waning consumer sentiment with unemployment rate remaining unchanged at recent high in January);
- Investors risk tolerance, with a shift towards the safe-haven USD following the Russia/Ukraine crisis and commodity currencies also taking a hit from the volatile global energy markets.

The **New Zealand dollar (NZD)** fell notably against the USD, depreciating from US\$0.68 to USD\$0.66 mainly due to:

- The disappointing domestic economic releases such as the lower-than-expected Producer Price Index (PPI) and weak consumer confidence as the economic impacts of the Omicron outbreak was further intensified by the Russian-Ukraine war developments;
- Hawkish statements from the US Federal Reserve Bank prompting concerns in the FX markets, including NZD investors.

The **Japanese Yen (JPY)** fell against the USD on:

- The downbeat domestic headlines during the month (including the lower PMI and the reduced year-on-year household spending);
- A global supply constraint due to a sudden rise in energy costs boosting Japan's trade deficit in January;
- The stronger demand for the greenback as the preferred safe haven asset in the Russian/Ukraine crisis.

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

- To favorable domestic economic data (such as the stronger than expected PPI data along with an increased vehicle sales in January);
- To a decision by the People's Bank of China (PBoC) to maintain their 1-year loan prime rate at 3.7%, and 5- year loan prime rate at 4.6%, and injected 300-billion-yuan (\$47.40 billion)

worth of one-year MLF loans ahead of a of 200-billion-yuan maturity of such loans.

Please refer to Table 1 and Table 2

B. TABLES AND CHARTS

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		
	Feb-21	Jan-22	Feb-22	Jan-22	Feb-21
				(%)	(%)
NZD/USD	0.7236	0.6769	0.6666	-1.52	-7.88
AUD/USD	0.7750	0.7196	0.7156	-0.56	-7.66
USD/YEN	105.2755	114.9176	115.1720	-0.22	-9.40
USD/CNH	6.4494	6.3633	6.3460	0.27	1.60
EUR/USD	1.2096	1.1336	1.1340	0.04	-6.25
FJD/USD	0.4915	0.4711	0.4680	-0.66	-4.78

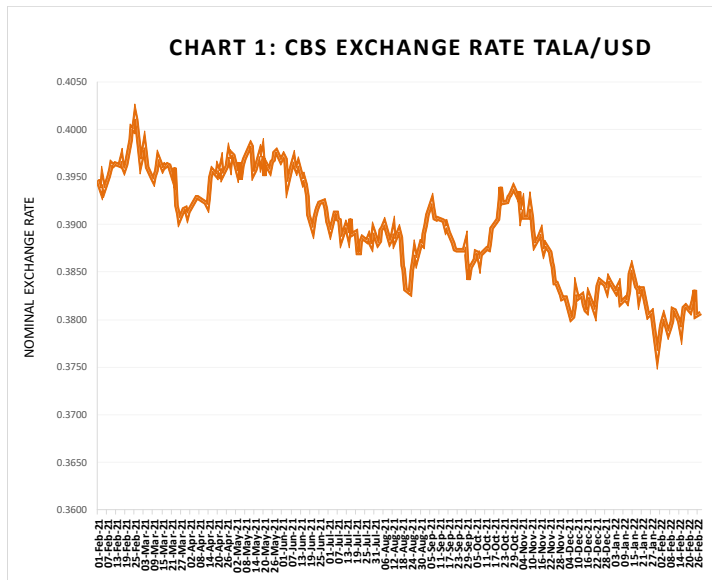
*With the exception of YEN and CNY which is YEN and CNY per USD

Source: Central Bank of Samoa

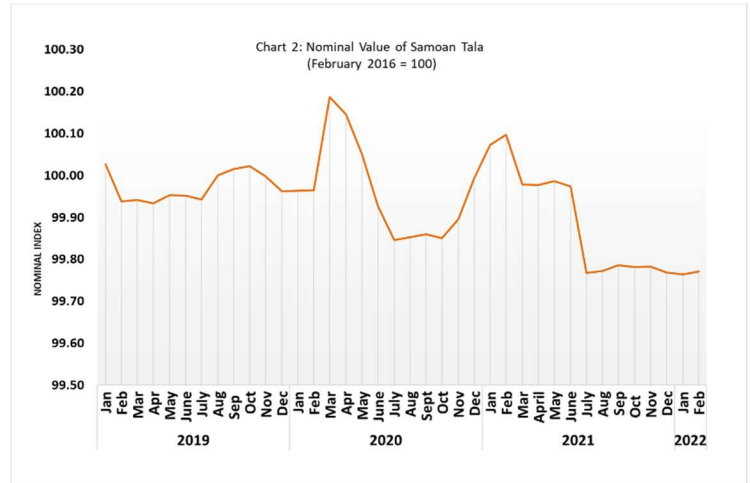
Table 2					
Tala* per foreign currencies (month average)					
			Movement of the Tala over the previous month and the previous year (+) appreciation / (-) depreciation		
	Feb-21	Jan-22	Feb-22	Jan-22	Feb-21
				(%)	(%)
USD/TALA	2.5210	2.6145	2.6296	-0.58	-4.31
NZD/TALA	1.8241	1.7695	1.7528	0.94	3.91
AUD/TALA	1.9535	1.8813	1.8817	-0.02	3.68
EUR/TALA	3.0494	2.9637	2.9816	-0.60	2.22
FJD/TALA	1.2391	1.2316	1.2308	0.06	0.67
TALA/YEN	41.7604	43.9534	43.7971	-0.36	4.88
TALA/CNH	2.5583	2.4338	2.4130	-0.85	-5.68
Nominal Index	100.0975	99.7640	99.7707	0.0067	-0.3265

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

Source: Central Bank of Samoa

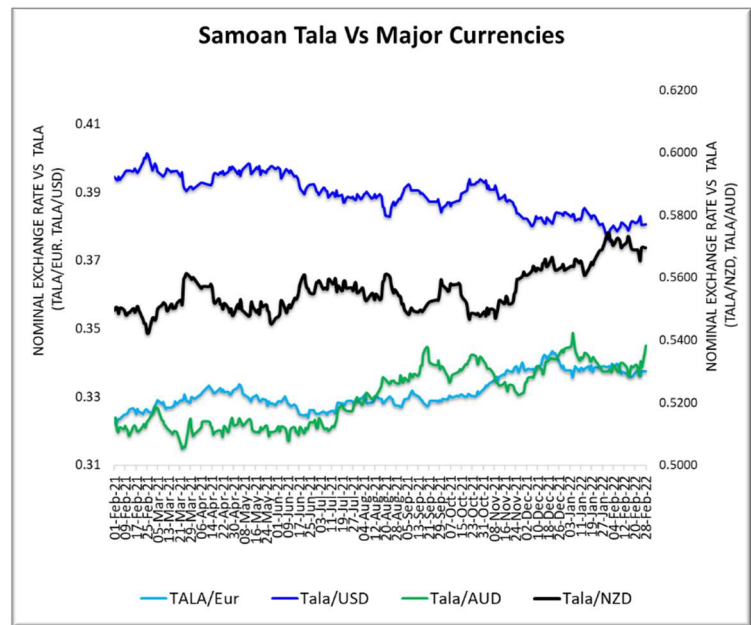


Source: Central Bank of Samoa



Source: Central Bank of Samoa

C. TALA AGAINST THE MAJOR CURRENCIES



Source: Central Bank of Samoa

D. MARKET OUTLOOK FOR Q2 2022:

The Russian/Ukraine war has added further downside risks to the global FX markets already impacted by ongoing COVID-19 related developments. The likely responses by monetary authorities on the market domestic data releases particularly on inflation rates, the volatilities in the international commodity markets and the continued narrow interest differentials and recovery progresses amongst major countries, are anticipated to drive the AUD/USD and NZD/USD to around USD\$0.73 and USD\$0.68 respectively while the EUR/USD is expected to trade around US\$1.10 by end June 2022. These market projections point to a broad weakening in the USD in the second quarter of 2022.

ECONOMIC & FINANCIAL FORECASTS

Policy Interest rate forecasts

	Actual (14 Mar 2022)	Jun 22	Sep 22	Dec 22	Mar 23	Jun 23	Sep 23
USA							
Fed Funds Rate	0.125	0.875	1.125	1.375	1.625	1.875	1.875
Australia							
RBA Cash Rate	0.10	0.10	0.25	0.50	0.75	1.00	1.25
New Zealand							
RBNZ Cash Rate	1.00	1.50	2.00	2.25	2.50	2.75	3.00
China							
PBOC Loan Prime Rate	3.70	3.65	3.45	3.45	3.75	3.75	3.75
Euro-Area							
ECB Refinance Rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00
United Kingdom							
BOE Base Rate	0.50	0.75	1.00	1.25	1.75	1.75	1.75

Exchange rate forecasts

	Actual (14 Mar 2022)	Jun 22	Sep 22	Dec 22	Mar 23	Jun 23	Sep 23
AUD/USD	0.7299	0.73	0.75	0.76	0.77	0.78	0.79
NZD/USD	0.6815	0.68	0.70	0.71	0.72	0.72	0.73
EUR/USD	1.0942	1.10	1.11	1.12	1.13	1.14	1.15
USD/JPY	117.3100	117.00	117.00	118.0	118.0	119.0	119.0
GBP/USD	1.3054	1.33	1.34	1.35	1.36	1.37	1.37
USD/CNH	6.3621	6.36	6.40	6.37	-	-	-

US economic indicators and outlook

	Jun 21	Sep 21	Dec 21	Mar 22(f)	Jun 22(f)	Sep 22(f)	Dec 22(f)
GDP % qtr.	6.7	2.3	6.9	1.5	2.5	2.9	2.8
%yr. annual change	12.2	4.9	5.5	4.3	3.3	3.4	2.4
Unemployment rate %	5.9	5.1	4.2	4.0	4.0	3.9	3.8
CPI % YoY.	4.9	5.4	7.0	6.2	5.0	3.8	2.3

Australian economic indicators and outlook

	Jun 21	Sep 21	Dec 21	Mar 22(f)	Jun 22(f)	Sep 22(f)	Dec 22(f)
GDP % qtr.	0.8	-1.9	3.4	0.5	2.4	1.5	1.0
% Year end	9.6	4.0	4.2	2.8	4.5	8.0	5.5
Unemployment rate %	5.1	4.6	4.7	4.1	4.0	3.9	3.8
CPI % qtr	0.8	0.8	1.3	1.5	1.3	0.8	0.5
Annual Change	3.8	3.0	3.5	4.4	5.0	5.0	4.1

New Zealand economic indicators and outlook

	Jun 21	Sep 21	Dec 21(f)	Mar 22(f)	Jun 22(f)	Sep 22(f)	Dec 22(f)
GDP % qtr.	2.4	-3.7	3.8	0.3	1.0	1.9	1.0
Annual avg change	5.3	4.9	5.8	5.6	1.9	3.7	3.8
Unemployment rate %	4.0	3.3	3.2	3.1	3.0	3.0	3.0
CPI % qtr.	1.3	2.2	1.4	1.5	1.5	1.0	0.4
Annual change	3.3	4.9	5.9	6.6	5.5	4.5	1.4

Source: Bloomberg, Westpac Economics Update (March 2022), Trading Economics

Note: (a) – actual; (e) – estimate; (f) - forecast