

## EXCHANGE RATE DEVELOPMENTS JANUARY 2022

### Highlights:

Policy Interest Rates	Current	Change (basis point)	Last Updated	Commodity Prices	Average Price (in USD)	Change	Previous Month
Reserve Bank of NZ	0.75%	0.25	November 24, 2021	crude oil (US\$/bbl)	\$87.53	\$11.05	\$76.48
Reserve Bank of Australia	0.10%	0.00	February 1, 2021	whole milk powder (US\$/t)	\$4,324.00	\$242.00	\$4,082.00
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				

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figures, a heightening level of core inflation and industrial sentiment, the growing number of factory orders and producer prices;

### A. CURRENCY WATCH

The overall nominal effective value of the **Samoan Tala depreciated by 0.0044 percent** against the currency basket in the first month of 2022. This nominal depreciation reflected the weakening of the Tala against the Australian Dollar (by 0.55 percent) and the Euro (by 0.26 percent), offsetting the Tala's appreciation against the United States Dollar (by 0.06 percent) and the New Zealand Dollar (by 0.33 percent).

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

- A string of downbeat domestic economic releases during the month, including a sharp decline in retail sales and industrial production in December, the lower-than-expected consumer sentiment as people grew less optimistic about business and labour market conditions, manufacturing numbers contracted more than expected, non-farm payrolls missing expected levels along with the soaring number of jobless claims and inflationary pressures;
- US Treasury yields retreated as traders placed bets and anticipations about the Federal Reserve Bank's decision to accelerate its tapering process in response to rising inflation in the US;
- Market's analyzing the Federal Open Market Committee (FOMC) policy meeting minutes for clues about any expected interest rate hikes this year;
- Fears over the escalating spread of the Omicron variant, threatening to slow the fragile rebound in economic growth by continuing to disturb supply chains and increase labor shortages.

The **Euro** gained modestly against the USD, appreciating from US\$1.130 to USD\$1.134 on the back of:

- The greenback's broad weakness along with the favourable economic releases out of the region (such as the Eurozone's higher than expected industrial production and retail sales

The **Australian dollar (AUD)** appreciated to around USD\$0.72 mainly due to:

- The weaker US dollar alongside the upbeat domestic data (such as the positive manufacturing PMI, the strong retail sales surpassing consensus, the growing number of building permits approved in December, the reduced unemployment rate, job creations recording better than expected);
- Support for commodity currencies from the soaring prices of crude oil and commodity goods in the month;

The **New Zealand dollar (NZD)** traded lower against the USD mainly reflecting:

- The disappointing economic releases such as the low consumer and business confidence levels as the swift spread of the Omicron outbreak weighed down on the country's sentiment during the month;
- as speculations on earlier monetary policy tightening by some of the major central banks worldwide dented demands for riskier currencies.

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

- Negative domestic headlines during the month (including the weaker producer price index (PPI) and the lower machinery tools);
- The reduced demands for safe haven currencies as concerns that the Omicron variant could derail the global economic outlook dipped following news that Omicron patients has a reduced risk of being hospitalized.
- The Bank of Japan's (BOJ) decision to hold their interest rate steady at -0.1% as widely expected and reiterated that they will stick to an ultra-loose monetary policy.

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

- To further releases of favorable domestic economic data (such as the stronger than expected manufacturing PMI and housing numbers, the economic growth rate also recorded

higher than expected, as well as increased industrial production and services PMI figures;

- To a decision by the People’s Bank of China (PBoC) during the month to further trim their 1-year loan prime rate by 10 basis points to 3.7%, and 5- year loan prime rate by five basis points to 4.6% for the second time in a month, to shore up its economy.

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					
	Jan-21	Dec-21	Jan-22	Dec-21 (%)	Jan-21 (%)
NZD/USD	0.7197	0.6786	0.6769	-0.25	-5.95
AUD/USD	0.7728	0.7153	0.7196	0.60	-6.88
USD/YEN	103.6788	113.8407	114.9176	-0.95	-10.84
USD/CNH	6.4721	6.3739	6.3633	0.17	1.68
EUR/USD	1.2175	1.1299	1.1336	0.33	-6.89
FJD/USD	0.4914	0.4699	0.4711	0.26	-4.13

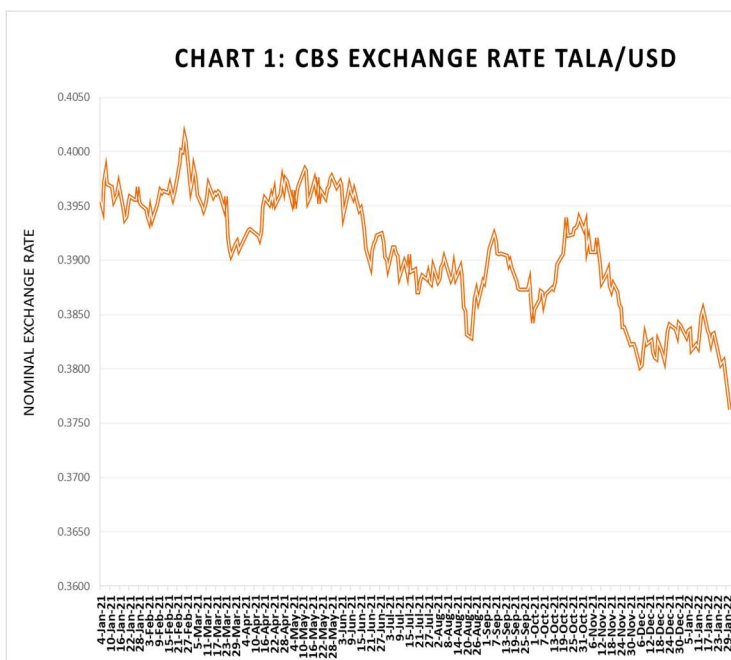
\*with the exception of YEN and CNY which is YEN and CNY per USD

Source: Central Bank of Samoa

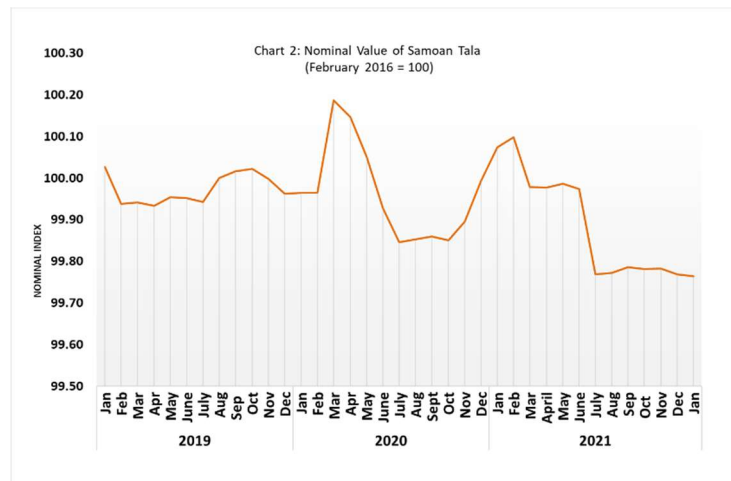
Table 2					
Tala* per foreign currencies (month average)					
Movement of the Tala over the previous month and the previous year (+) appreciation / (-) depreciation					
	Jan-21	Dec-21	Jan-22	Dec-21 (%)	Jan-21 (%)
USD/TALA	2.5266	2.6162	2.6145	0.06	-3.48
NZD/TALA	1.8182	1.7753	1.7695	0.33	2.68
AUD/TALA	1.9525	1.8711	1.8813	-0.55	3.65
EUR/TALA	3.0761	2.9561	2.9637	-0.26	3.65
FJD/TALA	1.2414	1.2920	1.2316	4.67	0.79
TALA/YEN	41.0343	43.5140	43.9534	1.01	7.11
TALA/CNH	2.5615	2.4363	2.4338	-0.10	-4.99
Nominal Index	100.0733	99.7684	99.7640	-0.0044	-0.3091

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

Source: Central Bank of Samoa

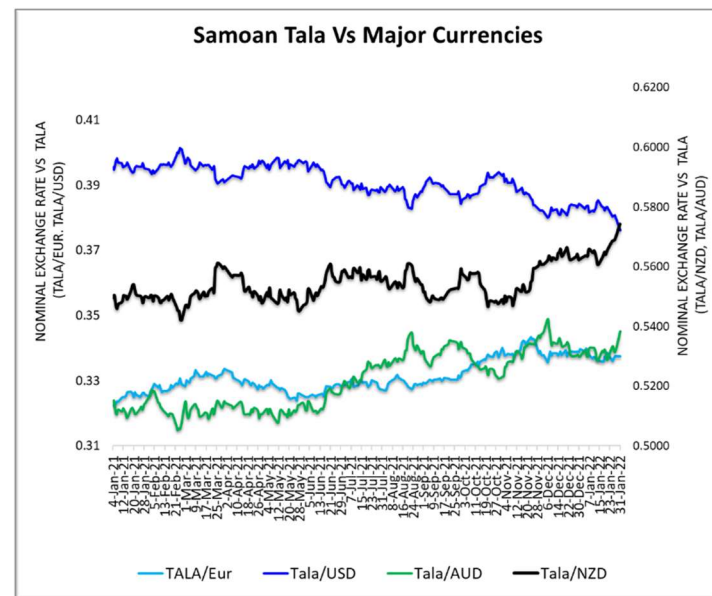


Source: Central Bank of Samoa



Source: Central Bank of Samoa

## C. TALA AGAINST THE MAJOR CURRENCIES



Source: Central Bank of Samoa

## D. MARKET OUTLOOK FOR Q1 2022:

The foreign exchange markets in the first three months of 2022 will continue to be impacted by COVID-19 related developments, monetary policy announcements, any geopolitical and trade tensions, domestic data releases mainly inflationary developments, commodity price movements, and subsequent economic policy measures by the monetary authorities. These factors, along with the continued narrow interest differentials and recovery progresses amongst major countries, are anticipated to drive the AUD/USD and NZD/USD lower to around USD\$0.70 and USD\$0.65 respectively while the EUR/USD is expected to trade around US\$1.10 by end March 2022. These market projections point to a broad strength in the USD in the first quarter of 2022.

# ECONOMIC & FINANCIAL FORECASTS

## Policy Interest rate forecasts

	Actual (09 Feb 2022)	Mar 22	Jun 22	Sep 22	Dec 22	Mar 23	Jun 23
<b>USA</b>							
Fed Funds Rate	0.125	0.375	0.625	0.875	1.125	1.375	1.625
<b>Australia</b>							
RBA Cash Rate	0.10	0.10	0.10	0.25	0.50	0.75	1.00
<b>New Zealand</b>							
RBNZ Cash Rate	0.75	1.00	1.50	2.00	2.25	2.50	2.75
<b>China</b>							
PBOC Loan Prime Rate	3.70	3.65	3.65	3.45	3.45	3.75	3.75
<b>Euro-Area</b>							
ECB Refinance Rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>United Kingdom</b>							
BOE Base Rate	0.50	0.50	0.75	1.00	1.25	1.25	1.25

## Exchange rate forecasts

	Actual (09 Feb 2022)	Mar 22	Jun 22	Sep 22	Dec 22	Mar 23	Jun 23
AUD/USD	0.7143	0.70	0.70	0.71	0.73	0.75	0.76
NZD/USD	0.6645	0.65	0.65	0.66	0.68	0.69	0.70
EUR/USD	1.1424	1.10	1.08	1.09	1.10	1.11	1.12
USD/JPY	115.5000	116.00	116.00	117.00	117.00	118.00	118.00
GBP/USD	1.3553	1.36	1.37	1.38	1.38	1.37	1.37
USD/CNH	6.3675	6.42	6.44	6.42	6.42	-	-

## US economic indicators and outlook

	Jun 21	Sep 21	Dec 21	Mar 22(f)	Jun 22(f)	Sep 22(f)	Dec 22(f)
<b>GDP % qtr.</b>	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
<b>Unemployment rate %</b>	5.9	5.1	4.2	4.0	4.0	3.9	3.8
<b>CPI % YoY.</b>	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(f)	Mar 22(f)	Jun 22(f)	Sep 22(f)	Dec 22(f)
<b>GDP % qtr.</b>	0.7	-1.9	2.6	0.0	2.6	2.0	0.8
% Year end	9.5	3.9	3.2	1.4	3.3	7.4	5.5
<b>Unemployment rate %</b>	5.1	4.6	4.2	4.0	4.0	3.9	3.8
<b>CPI % qtr</b>	0.8	0.8	1.3	1.2	0.9	0.6	0.5
Annual Change	3.8	3.0	3.5	4.2	4.3	4.2	3.3

## 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)
<b>GDP % qtr.</b>	2.4	-3.7	1.1	1.6	2.4	2.1	1.1
Annual avg change	5.3	4.9	5.1	4.6	0.9	2.8	4.4
<b>Unemployment rate %</b>	4.0	3.3	3.2	3.1	3.0	3.0	3.0
<b>CPI % qtr.</b>	1.3	2.2	1.4	1.1	0.7	0.9	0.4
<b>Annual change</b>	3.3	4.9	5.9	6.2	5.5	4.2	3.1

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

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