

## EXCHANGE RATE DEVELOPMENTS MAY 2022

### Highlights:

Policy Interest Rates	Current	Change (basis point)	Last Updated	Commodity Prices	Average Price (in USD)	Change	Previous Month
Reserve Bank of NZ	2.00%	0.50	May 25, 2022	crude oil (US\$/bbl)	\$117.10	\$11.06	\$106.04
Reserve Bank of Australia	0.35%	0.25	May 3, 2022	whole milk powder (US\$/t)	\$3,934.00	-\$273.00	\$4,207.00
US Federal Reserve	0.75 - 1.00%	0.50	May 4, 2022				
European Central Bank	0.00%	0.00	May 5, 2022				
Bank of England	1.00%	0.25	May 5, 2022				

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### A. CURRENCY WATCH

The overall nominal effective value of the **Samoa Tala appreciated by 0.07 percent** against the currency basket in May. This nominal appreciation reflected the Tala's strengthening against the New Zealand Dollar (by 2.90 percent) and the Australian Dollar (by 1.85 percent) offsetting the Tala's depreciation against the United States Dollar (by 2.80 percent) and the Euro (by 0.35 percent).

Of the currencies in the Tala currency basket, the **United States dollar (USD)** remained stronger in May, supported by the following developments:

- A string of favourable domestic economic releases during the month, including the strong increase on retail sales, the surging industrial production along with the rise on personal consumption expenditure (PCE) price index. These outweighed the higher-than-expected CPI data;
- The US Treasury yields generally trending upwards as risk sentiments were supported by persisting concerns that most central banks' actions to curb soaring inflation would dim global economic growth;
- The greenback's safe-haven appeal triggered by investors' flight to safety amid a rout across the markets resulting from surging global inflationary pressures and the ongoing Russia-Ukraine conflict.
- The Federal Reserve Bank announcing its largest interest rate increase by 50-basis point, which drove the Fund rate to 0.75 per cent to 1 per cent as well as subsequent plans to shrink its \$9tn balance sheet as it embraces a more aggressive approach to tackling high US inflation to date.

The **Euro** weakened against the USD, from US\$1.08 to USD\$1.06 on the back of:

- Unfavourable economic releases out of the region (including a weaker than expected retail sales and the deteriorated consumer confidence, worsening the current economic situation in the region);
- Mounting concerns about the soaring inflation following the CPI data in the month which skyrocketed, along with the

weaker economic growth and energy insecurity as a result of sanctions imposed on Russia after invading Ukraine.

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

- The greenback's robust gains, alongside the unfavourable domestic data (such as the softened employment reports, a sharp fall on construction activities, a steep decline in consumer confidence, a downwardly revised manufacturing and services purchasing manager index (PMI), with the plummeting new private capital expenditure and building permits figures);
- A major slowdown in China's export growth and the reduced demand for iron ore also weighing heavily on the single currency and limiting an upward movement for the AUD;
- The Reserve Bank of Australia's decision to raise interest rates to 0.35 percent for the first time since late 2010 to curb inflationary pressures.

The **New Zealand dollar (NZD)** weakened against the USD, depreciating from US\$0.68 to USD\$0.64 mainly due to:

- The stronger US Dollar and the downbeat domestic economic releases such as the declined overnight Global Dairy trade price index, the contracting manufacturing index, and a downwardly sloped economic sentiment;
- The declined manufacturing activities due to local labor shortages as well as the effects of global supply chain disruptions, particularly in China due to its heightened number of COVID-19 cases, which continued to pose challenges to global economic growth.

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

- The stronger US Dollar along with the unfavorable domestic headlines during the month (including the low consumer confidence and the weaker-than-expected household spending);
- An uptick in investors' appetite for riskier currencies.

The **Chinese Yuan (CNY)** also fell against the US currency mainly reflecting:

- The unfavorable economic releases such as the lower-than-expected manufacturing PMI and retail sales, the declined industrial production and fixed asset investments, the contracted services sector activities, the plunged auto sales along with a steep fall in export growth in April.
- Strict COVID-19 restrictions hampering China’s efforts to boost economic growth, and leading to sharper reduction in China’s manufacturing and labor market activities.
- A decision by the People’s Bank of China (PBoC) to maintain their 1 Year Loan Prime Rate (LPR) at 3.70% while lowering their 5 Years LPR by 15 basis points to 4.45%.

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				
	May-21	Apr-22	May-22	Apr-22	May-21
				(%)	(%)
NZD/USD	0.7219	0.6776	0.6400	-5.56	-11.34
AUD/USD	0.7756	0.7379	0.7045	-4.53	-9.18
USD/YEN	109.1488	126.0018	128.7252	-2.16	-17.94
USD/CNH	6.4336	6.4413	6.7193	-4.32	-4.44
EUR/USD	1.2138	1.0832	1.0574	-2.38	-12.88
FJD/USD	0.4927	0.4739	0.4605	-2.83	-6.54

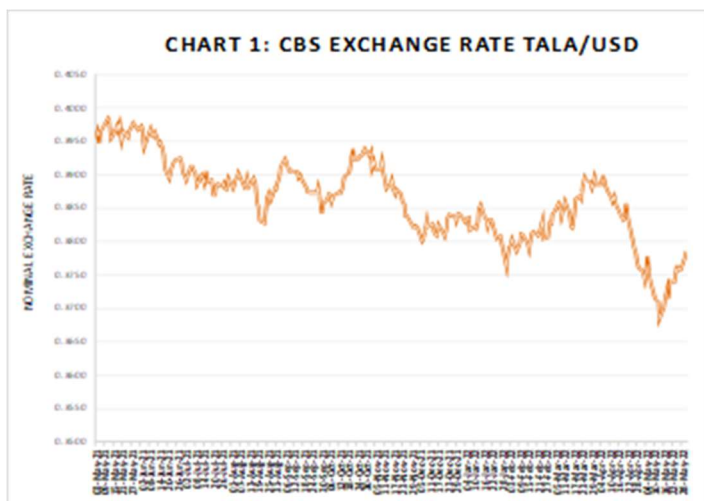
\*with the exception of YEN and CNY which is YEN and CNY per USD

Source: Central Bank of Samoa

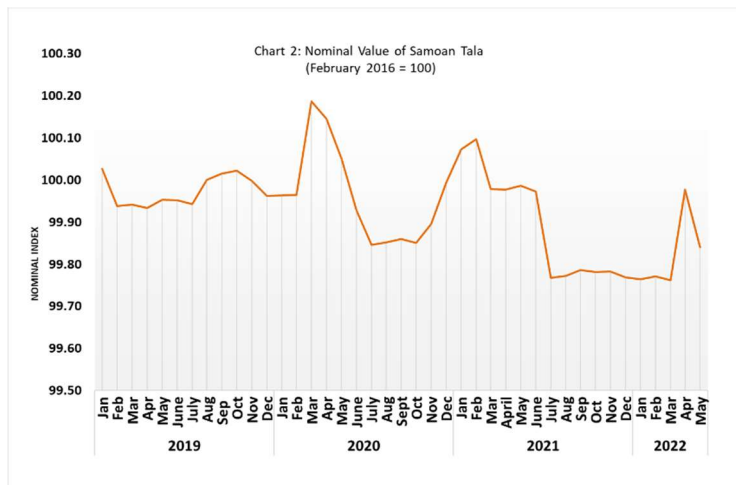
Table 2					
Tala* per foreign currencies (month average)					
	Movement of the Tala over the previous month and the previous year (+) appreciation / (-) depreciation				
	May-21	Apr-22	May-22	Apr-22	May-21
				(%)	(%)
USD/TALA	2.5214	2.6010	2.6739	-2.80	-6.05
NZD/TALA	1.8199	1.7621	1.7110	2.90	5.99
AUD/TALA	1.9556	1.9189	1.8834	1.85	3.69
EUR/TALA	3.0603	2.8173	2.8273	-0.35	7.61
FJD/TALA	1.2423	1.2327	1.2313	0.12	0.89
TALA/YEN	43.2888	48.4336	48.1406	-0.60	11.21
TALA/CNH	2.5516	2.4760	2.5128	1.49	-1.52
Nominal Index	99.9859	99.7712	99.8402	0.07	-0.1457

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

Source: Central Bank of Samoa

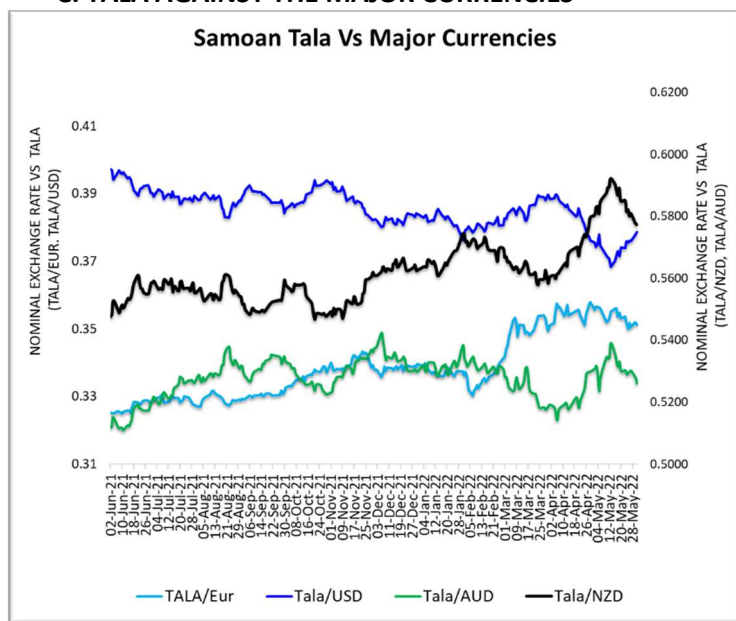


Source: Central Bank of Samoa



Source: Central Bank of Samoa

## C. TALA AGAINST THE MAJOR CURRENCIES



Source: Central Bank of Samoa

## D. MARKET OUTLOOK FOR Q2 2022:

The accelerating global inflationary pressures stemming from ongoing COVID-19 related developments and the ongoing Russian/Ukraine war continued to exert downside risks across the FX markets. 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\$0.72 and USD\$0.65 respectively while the EUR/USD is expected to trade around US\$1.07 by end June 2022. These market projections point to a broad weakening in the USD in the second quarter of 2022 relative to Q1.

FINANCIAL MARKETS DEPARTMENT  
6 June 2022

# ECONOMIC & FINANCIAL FORECASTS

## Policy Interest rate forecasts

	Actual (June 2022)	Jun 22	Sep 22	Dec 22	Mar 23	Jun 23	Sep 23
<b>USA</b>							
Fed Funds Rate	0.875	1.375	2.125	2.625	2.625	2.625	2.625
<b>Australia</b>							
RBA Cash Rate	0.35	0.75	1.25	1.75	2.00	2.25	2.25
<b>New Zealand</b>							
RBNZ Cash Rate	2.00	2.00	3.00	3.50	3.50	3.50	3.50
<b>China</b>							
PBOC Loan Prime Rate	3.70	3.65	3.45	3.45	3.45	3.75	3.75
<b>Euro-Area</b>							
ECB Refinance Rate	0.00	0.00	0.25	0.50	0.50	0.75	0.75
<b>United Kingdom</b>							
BOE Base Rate	1.00	1.25	1.75	2.00	2.50	2.75	2.75

## Exchange rate forecasts

	Actual (06 June 2022)	Jun 22	Sep 22	Dec 22	Mar 23	Jun 23	Sep 23
AUD/USD	0.7211	0.72	0.74	0.76	0.77	0.78	0.79
NZD/USD	0.6526	0.65	0.67	0.69	0.70	0.71	0.72
EUR/USD	1.0728	1.07	1.08	1.09	1.11	1.13	1.14
USD/JPY	130.9450	128.00	127.00	126.00	125.00	124.00	122.00
GBP/USD	1.2500	1.25	1.25	1.26	1.28	1.30	1.32
USD/CNH	6.6557	6.68	6.66	6.67	6.67	6.37	-

## US economic indicators and outlook

	Jun 21	Sep 21	Dec 21	Mar 22	Jun 22(f)	Sep 22(f)	Dec 22(f)
GDP % qtr.	6.7	2.3	6.9	-1.4	3.2	2.0	2.1
%yr. annual change	12.2	4.9	5.5	3.6	2.7	2.6	1.5
Unemployment rate %	5.9	5.1	4.2	3.8	3.6	3.6	3.6
CPI % YoY.	5.4	5.4	7.0	8.3	7.0	5.8	4.3

## Australian economic indicators and outlook

	Jun 21	Sep 21	Dec 21	Mar 22	Jun 22(f)	Sep 22(f)	Dec 22(f)
GDP % qtr.	0.8	-1.8	3.6	0.8	1.3	1.1	0.8
% Year end	9.7	4.1	4.4	3.3	3.9	6.9	4.0
Unemployment rate %	5.2	4.6	4.7	4.0	3.7	3.4	3.2
CPI % qtr	0.8	0.8	1.3	2.1	0.9	1.0	1.5
Annual Change (%)	3.8	3.0	3.5	5.1	5.2	5.4	5.6

## New Zealand economic indicators and outlook

	Jun 21	Sep 21	Dec 21	Mar 22(f)	Jun 22(f)	Sep 22(f)	Dec 22(f)
GDP % qtr.	2.5	-3.6	3.0	0.6	0.3	1.0	1.1
Annual avg change	5.2	4.8	5.6	5.3	1.4	2.7	2.7
Unemployment rate %	4.0	3.3	3.2	3.2	3.1	3.0	3.0
CPI % qtr.	1.3	2.2	1.4	1.8	1.1	1.2	0.4
Annual change (%)	3.3	4.9	5.9	6.9	6.7	5.6	4.5

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

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