

CONFIDENTIAL
MEMORANDUM

20 June 2008

THE MINISTER OF FINANCE

Cc: Hon. Prime Minister
Deputy Prime Minister
Members of the CBS Board
CEO, Foreign Affairs and Trade
CEO, Commerce, Industry and Labour

EXCHANGE RATES DEVELOPMENTS IN
MAY 2008

A. OVERVIEW

The **US dollar** held its ground in May, having acquired some support from market speculations that the Fed may cease its series of rate cuts as upbeat economic data suggested the US economy may withstand the downturn. However, vigorously rising oil prices continued to weigh down the dollar.

The **Yen** continued to be driven by offshore events. For the most part, it gained as the US dollar weakened but it also quite frequently lost gains as carry trades picked up amid recovering equity markets and rising investor risk appetite. Surging oil prices also contributed to the Yen's decline.

The **Euro** was well supported by the weakening of the dollar coupled with the ECB's reiteration of its tight monetary policy stance, despite holding its interest rate unchanged at 4.0 percent. Mixed economic data bound the Euro in a range but strong growth data coupled with the decline in the US dollar hauled the Euro higher.

The **Australian dollar** likewise gained much from periods of US dollar weakening but it drew its strength more from soaring crude oil and gold prices. Rising international commodity prices also underlined the currency's strength.

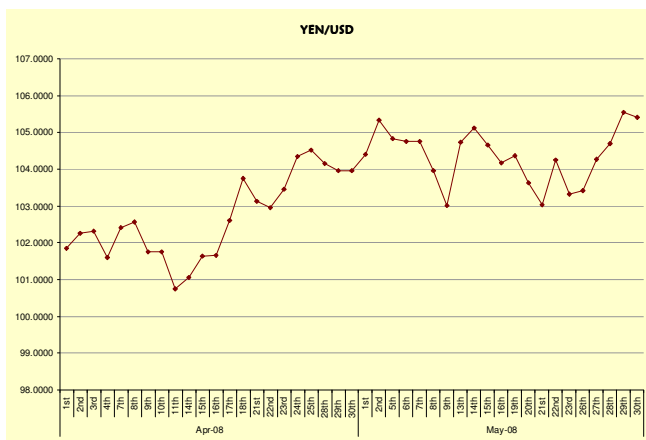
The **New Zealand dollar** also gained support from rising commodity prices but ongoing yield demand remained the key factor behind the Kiwi's strength.

At end May 2008, the **Tala** strengthened against the **USD**, **NZD** and the **EURO** but it weakened against the **AUD** from the previous month. The Tala also strengthened against the **FJD** and the **YEN** from the previous month.

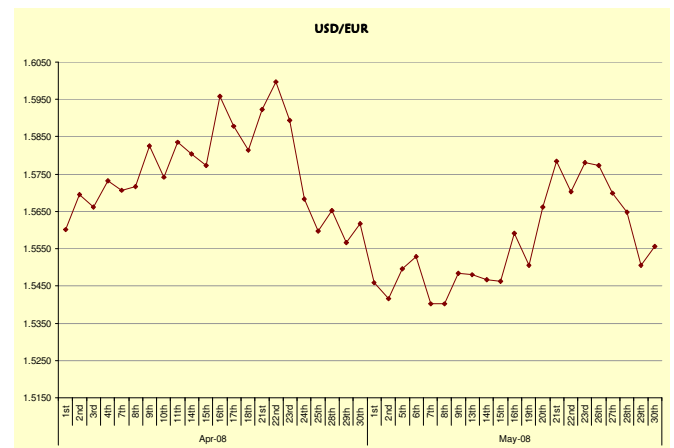
B. CURRENCY 'WATCH'

The **US dollar** opened the month strong on speculations the Fed's interest rate cuts may soon end as the economy appeared to be weathering the slowdown amid unexpectedly softer declines in US manufacturing and job numbers in April. However, gains were cut short after another large provider of US home financing posted a larger than expected loss, adding to concerns that the housing-led slowdown may not be over. The Greenback picked up again as April sales activities rose, worker productivity improved and building permits and construction starts for new US homes rebounded. However, weak May consumer confidence and resilient crude oil prices, which soared as high as \$135 per barrel, again saw the dollar under pressure. It tracked lower on rising gold and commodities prices but a brief lapse in oil prices, coupled with unexpectedly upbeat durable goods orders, housing and US growth data saw the Greenback gain some traction before it closed the month slightly subdued.

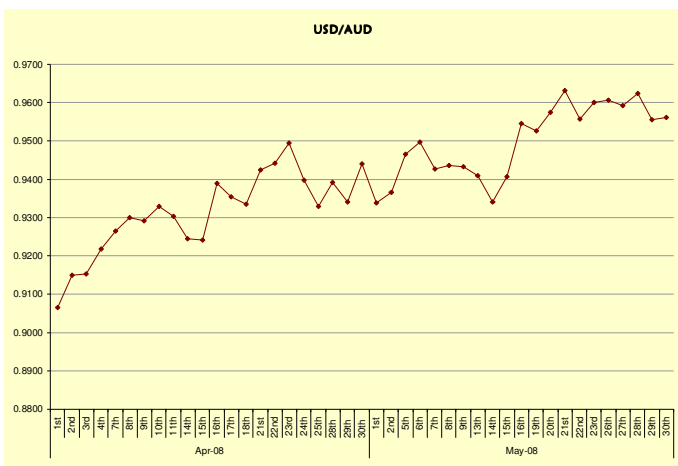
The **Japanese Yen** opened the month weak at Yen104.41 against the rallying US dollar in early May. It resumed weakening to Yen105 before trading back to Yen104.83, driven mostly by the easing US dollar and poor performances in the equity markets, which often upset the popularity of carry trades. The Greenback's decline saw the Yen rise to Yen103.01 but it fell to Yen104.12 after US equity markets rebounded, boosting investors' risk appetite and carry trade activity. Further weakening of the dollar and the BOJ's decision to keep its benchmark rate on hold, amid rising global inflation risks finally lifted the Yen to Yen103.03 but resilient oil prices held the currency down at Yen104. A brief rebound in the dollar and carry trades eased the Yen to the month's close at Yen105.41.



The **Euro** opened the month 159 points lower at US\$1.5458 against the strengthening US dollar. It slipped further to US\$1.5415 on weaker Euro region retail sales and poor German manufacturing data. Although the disappointing data weighed down the Euro on speculations for slower growth in Europe, it rebounded to US\$1.5528 after the ECB held its interest rate at 4.0 percent and reiterated that with risks clearly to the upside, inflation was still its highest priority, thus suggesting that rate cuts were not on the agenda. These comments led the Euro higher but the lack of local data left the Euro at the whims of the US dollar. The Euro was left range-bound before it made a break for US\$1.5592 on strong March quarter growth data in Germany and France, which highlighted the relative strength of the Euro economy compared to the US. The currency edged higher to US\$1.56 and finally held at US\$1.57 levels as the Greenback eased amid surging oil prices. The Euro later weakened to US\$1.5647 on quiet trading and finally closed the month at US\$1.5557 on weak French consumer confidence in May and unexpectedly weak German retail sales for April.



The **Australian dollar** similarly opened the month slightly down at US\$0.9339 against the rallying Greenback but it picked up as commodity prices rose and the RBA re-emphasized its tight monetary policy stance. Although the cash rate was kept on hold at 7.25 percent, the Board spent considerable time discussing the case for a rate hike given the strong inflationary pressures seen in April. The Aussie unit stormed ahead to US\$0.9497 on stronger than expected labor data in Australia and soaring crude oil and gold prices. The Australian dollar held its ground at US\$0.94 but it dipped to US\$0.9340 on a rebound in the Greenback. The surge in crude oil and gold prices towards the end of May led the Aussie dollar to peak at US\$0.9631 before subsiding to US\$0.9592 on quiet trading. The Aussie unit finally closed the month at US\$0.9561.



The **New Zealand Dollar** also started the month a little weaker at US\$0.7781 but lost gains were recouped on soaring commodity prices. As US equity markets recovered, investor risk appetite picked up and demand for the Kiwi unit rose, taking the NZ dollar higher to US\$0.7922. The Kiwi later plummeted to US\$0.7687 from US\$0.78 after the March quarter job report showed a loss of 28,000 workers and the NZ unemployment rate jumped to 3.6 percent. The currency lingered at US\$0.76 where disappointing retail sales data, resilient appetite for risk and high yields, dragged the NZ dollar to opposite ends. Later, it picked up momentum at US\$0.77 and finally leveled off at US\$0.78 as the Greenback weakened and commodity prices consolidated again. The Kiwi dollar remained strong at US\$0.7898 on upbeat May business confidence data but it slipped to US\$0.7783 when the US dollar rebounded. Nevertheless, it closed the month stronger at US\$0.7837 on more upbeat domestic data.

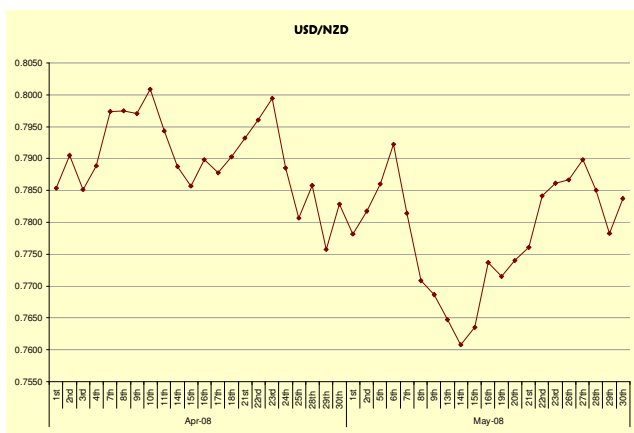


Table 1 shows the movements of the currencies in our currency basket against the US dollar at end May 2008, compared to the previous month and December 2007.

Table 1					
USD per other currencies (end period)					
			Movement of other currencies against the USD		
			(+ appreciation / (-) depreciation		
	Dec-07	Apr-08	May-08	Dec-07 (%)	Apr-08 (%)
USD/NZD	0.7643	0.7828	0.7837	2.54	0.11
USD/AUD	0.8752	0.9441	0.9561	9.24	1.27
YEN/USD	111.51	103.97	105.42	5.47	-1.39
USD/EUR	1.4581	1.5617	1.5557	6.69	-0.38

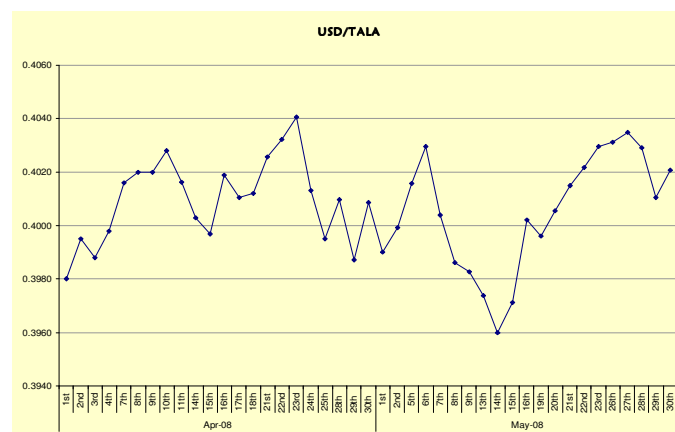
At end May 2008, the Greenback strengthened against the YEN and the EURO but it weakened against the NZD and the AUD, when compared to the previous month.

C. EFFECT ON THE TALA

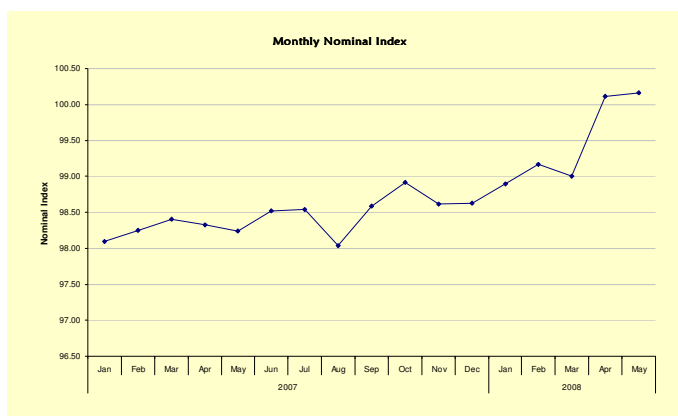
Compared to end December 2007 and the previous month, **Table 2** shows the movement of the Tala at end May 2008 against the currencies in our currency basket as well as its movement against the YEN and the FJD.

Table 2					
Tala per foreign currencies (end period)					
			Movement of the Tala		
			(+ appreciation / (-) depreciation		
	Dec-07	Apr-08	May-08	Dec-07 (%)	Apr-08 (%)
TALA/USD	2.5580	2.4946	2.4871	2.77	0.30
TALA/NZD	1.9549	1.9528	1.9491	0.30	0.19
TALA/AUD	2.2387	2.3550	2.3779	-6.22	-0.97
TALA/EUR	3.7298	3.8958	3.8690	-3.73	0.69
TALA/FJD	1.6427	1.6760	1.6789	2.20	0.17
YEN/TALA	43.593	41.6763	42.3850	-2.77	1.70
Nominal Index	98.62	100.11	100.16	1.56	0.05

At end May 2008, the Tala strengthened against the USD, NZD and the EURO but it weakened against the AUD from the previous month. The Tala also strengthened against the FJD and the YEN from the previous month.

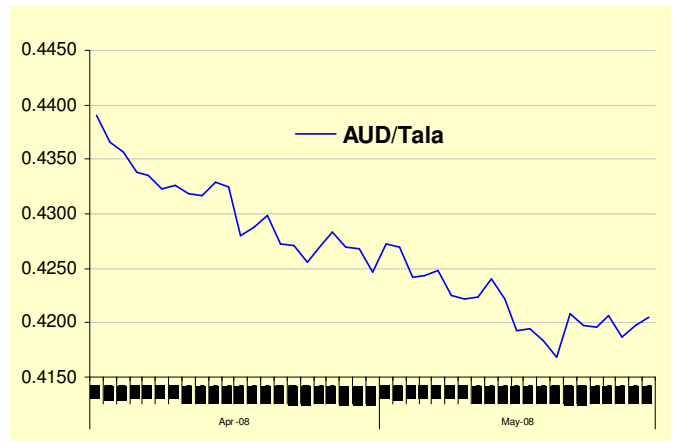


The Tala opened the month at US\$0.3990 slightly down against the US dollar as the Australasian currencies weakened against the rebounding US dollar. A pick up in the Australian and New Zealand currencies saw the Tala exceed US\$0.40 where it continued to hover until slipping back again on a recovery in the Greenback. The Tala traded in tandem with the Australasian currencies, to as low as US\$0.3960 before picking up again at US\$0.4002. The Tala finally closed the month stronger at US\$0.4021.



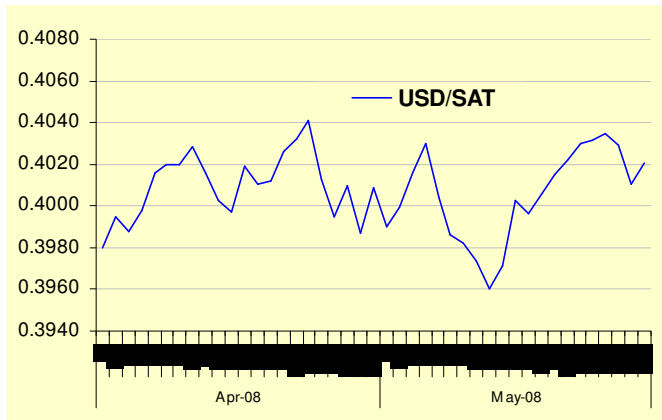
In terms of the Nominal Index, the Tala appreciated by 0.05 percent at end May 2008 from the previous month. (See Table 2)

Leasi P T Scanlan
Governor

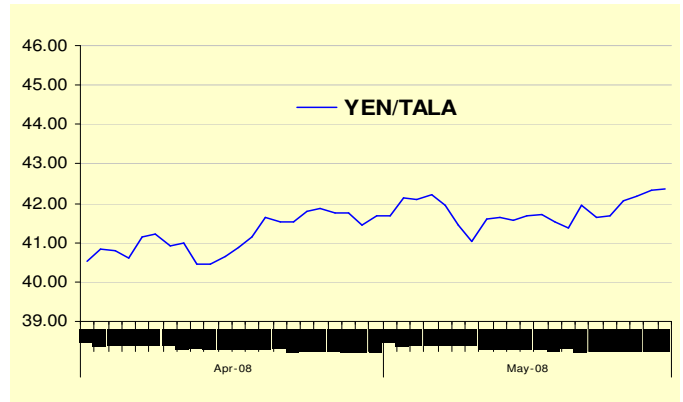


TALA GRAPHS

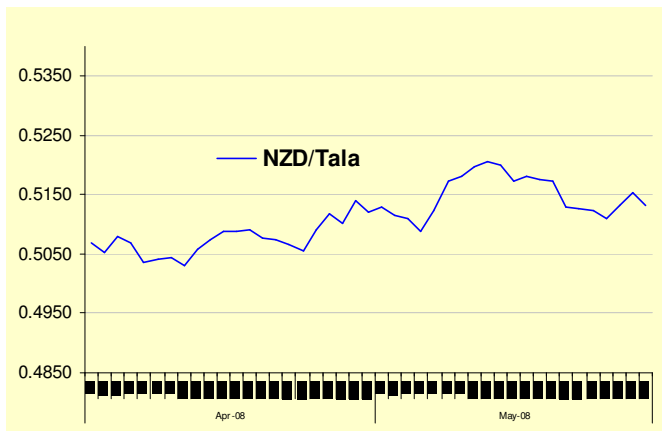
USD/TALA



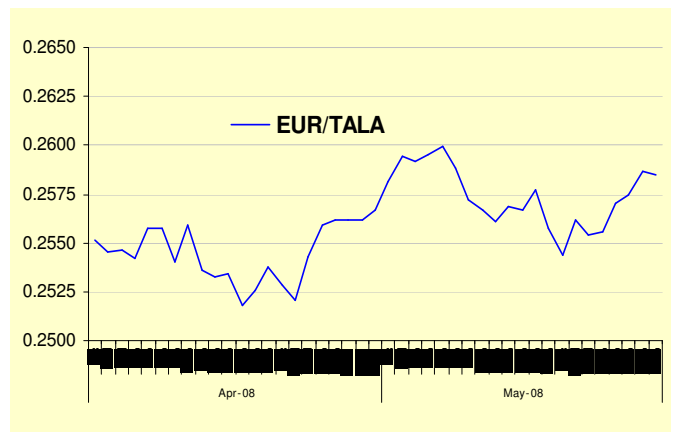
YEN/TALA



NZD/TALA



EUR/TALA



AUD/TALA

FJD/TALA

