

CONFIDENTIAL
MEMORANDUM

19 December 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
NOVEMBER 2008

A. OVERVIEW

The **US dollar** continued on its path of gaining by default rather than by merit as risk aversion continued to plague investors' sentiment towards risky assets and boost the appeal of safe US assets. Another rescue package approved for bailout purposes slowed down the gains to the dollar.

The **Yen**, likewise, gained much ground over the month as weak global economic statistics continued to weaken equity market performances and risk appetite, while increasing demand for safe currencies like the Yen.

The **Euro** was rather volatile on the downside as weak Euro region data, concern for the deepening global slowdown, coupled with a 'less-aggressive' interest rate cut of 50 basis points drove down demand for the Euro.

The **Australian dollar** was also a victim of the volatile equity markets. Although, the thaw in the money market freeze and the RBA's cash rate reduction by 75 basis points to 6.0 percent offered some relief to the plunging Aussie dollar, heightened risk aversion kept sustainable gains to the dollar at bay.

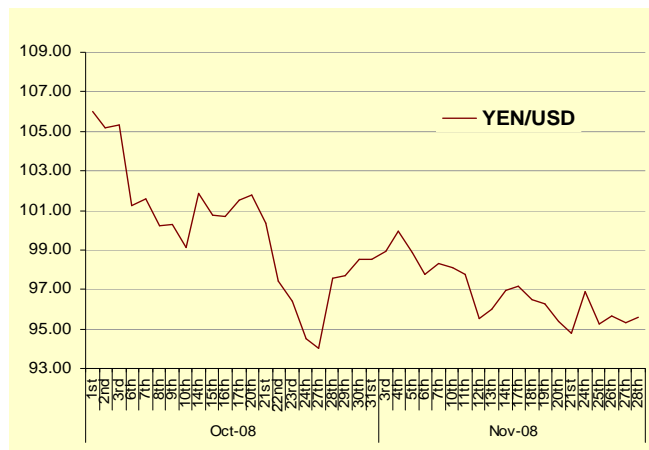
The **New Zealand dollar** also weakened over the month as a result of the equity markets' volatile movements, which were driven by fears of the deepening global recession.

In November 2008, the **Tala** strengthened against the **NZD** but it weakened against the **USD**, **AUD** and the **EURO**. The Tala also fell against the **YEN** but it strengthened against the **FJD**.

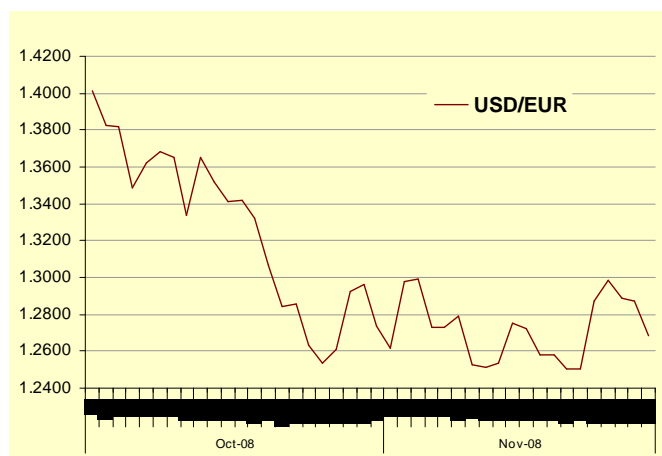
B. CURRENCY WATCH

The *US dollar* resumed strengthening in November as increasing fears of a deep global recession continued to undermine investors' risk sentiment towards carry trades while at the same time boosting the appeal of safer US assets. The US dollar was resilient throughout the month as investors continuously repositioned themselves with regard to the economy's state-approved rescue packages and its growth fundamentals, which when printed to the upside, equities would recover and the dollar would decline as the need for safety abated amidst the improving risk environment. However, when statistics were negative, equities would plunge and the flight to safety in US Treasuries would again support the dollar. Overall, while the US economy's growth fundamentals were weak, the theme guiding the dollar's trade for the month was the movement in the equity markets. A second rescue package proposed by the US Government of \$800 billion also led to a decline in the Greenback but losses to the dollar were brief. Although the US dollar was still relatively firm, it was slightly down on a recovery in equity markets by the end of the month.

The *Japanese Yen* opened the month at Yen98.90 and it gradually strengthened to Yen97.76 on the back of weakening equity markets. The Yen, like the Greenback, is also considered a safe currency, which investors have demanded in recent months amid the turmoil in the financial markets. Movements in the equity markets, which continued to shift frequently in response to the economic statistics across the major industrial economies, also dominated the trade direction of the Yen. The plunge in global stocks saw the Yen strengthen to Yen97. It briefly weakened to Yen98 as the stock markets rebounded on prospects of lower interest rates in the US. Nevertheless, the Yen recovered to Yen95.53 as recession fears returned to the forefront of concern. This pattern continued over the month and the Yen eventually peaked at Yen94.78. The Yen closed the month slightly weaker at Yen95.55 but compared to the month's open level, the Yen was still strong.



The *Euro* opened the month at US\$1.2617 slightly weaker from the previous month but then it surged to US\$1.2975 as the thaw in the money markets led to a reduction in the demand for the safety of US assets. The Euro retreated to US\$1.2731 after the ECB lowered its interest rate by only 50 basis points to 3.25 percent, which the market perceived as 'less aggressive' next to the BOE's rate cut of 150 basis points. The Euro continued its decline to US\$1.25 as global stocks plunged on growing fears of a recession, which consequently pared back the demand for carry trades. A strong rally in equities on Wall Street saw the Euro back up at US\$1.27 but gains were quickly reversed on weak Euro region growth data and fresh declines in the equity markets, which again led the Euro down to US\$1.2502. Recently, the Euro rebounded to US\$1.2874 on a recovery in global equity markets, which was set off by news of another substantial rescue package in the US. Despite the rally in equity markets and a somewhat weaker US dollar, the Euro closed the month lower at US\$1.2685 after slower inflation in the Euro region cemented market expectations for another ECB rate cut to boost Euro-region growth.



The *Australian dollar* opened the month firm at US\$0.6767 as the markets were calm, the credit freeze gently thawed and investors' risk appetite picked up. Speculations that the thaw in money markets will revive carry trade activity also led to a rebound in the Aussie unit to US\$0.6953. The RBA's 75 basis points rate cut also supported the Australian dollar; moves to stimulate economies were seen as currency positive given the global financial crisis. Ongoing volatility in the equity markets and heightened risk aversion saw the Aussie unit ease lower until it gradually weakened to US\$0.6403. The RBA's intervention in the markets helped stem the Aussie unit's decline. Nevertheless, it resumed fluctuating on equity market movements until finally it tumbled to US\$0.6167 on a massive sell off in equities, despite the RBA's intervention efforts to cushion the fall. The Australian dollar later closed the month firm on a rebound in the equity markets and it traded at US\$0.6546.

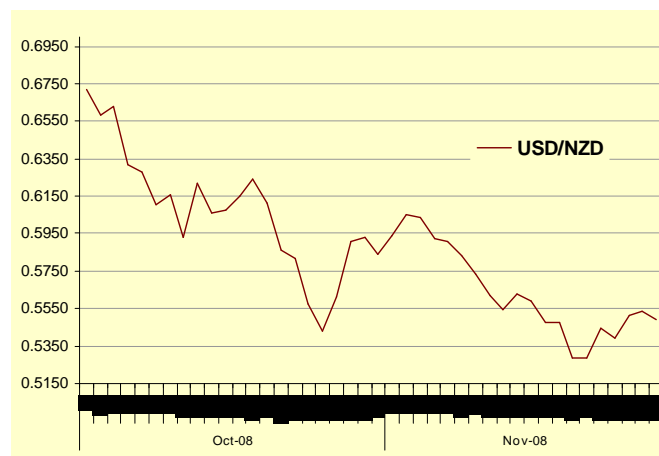
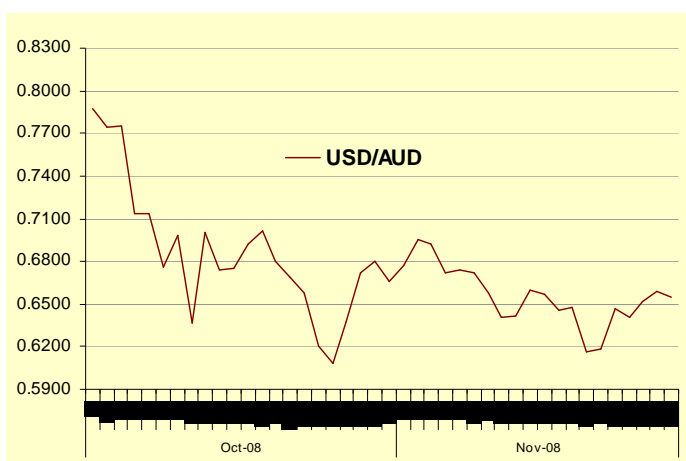


Table 1 shows the movements of the currencies in our currency basket against the US dollar at end November 2008, compared to the previous month and December 2007.

Table 1					
USD per other currencies (end period)					
				Movement of other currencies against the USD	
				(+ appreciation / -) depreciation	
	Dec-07	Oct-08	Nov-08	Dec-07	Oct-08
				(%)	(%)
USD/NZD	0.7643	0.5842	0.5490	-28.17	-6.03
USD/AUD	0.8752	0.6658	0.6546	-25.21	-1.68
YEN/USD	111.51	98.50	95.56	14.31	2.98
USD/EUR	1.4581	1.2737	1.2685	-13.00	-0.41
USD/FJD	0.6422	0.5610	0.5469	-14.84	-2.51



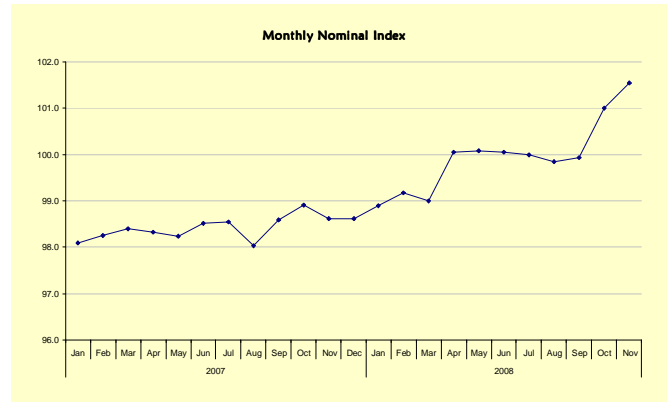
The *New Zealand dollar* similarly opened the month firm at US\$0.5936 as risk aversion eased and the relative calm in the markets consolidated the Kiwi to US\$0.60. Like the Australian dollar, movements in the equity markets drove the Kiwi's trade direction. Volatility in the equity markets continued over the month and this saw the NZ dollar gradually fluctuate from US\$0.58 down to US\$0.55 as recession fears rattled confidence in the equity markets. The Kiwi weakened further to US\$0.54 as equity market movements again dictated the currency's move lower. It fell to its lowest for the month at US\$0.5284 on a massive decline in equity markets. A recovery in the equity markets consolidated the NZ dollar at US\$0.5536 before dipping to a close at US\$0.5490.

At end November 2008, the Greenback strengthened against all the currencies in the basket when compared to the previous month. The US dollar also strengthened against the FJD but it weakened against the YEN from the previous month.

C. EFFECT ON THE TALA

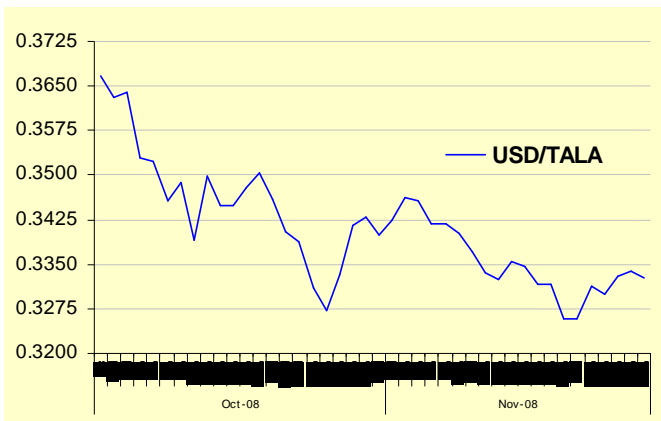
Compared to end December 2007 and the previous month, **Table 2** shows the movement of the Tala at end November 2008 against the currencies in our currency basket as well as its movement against the FJD and the YEN.

Table 2					
Tala per foreign currencies (end period)					
				Movement of the Tala (+) appreciation / (-) depreciation	
	Dec-07	Oct-08	Nov-08	Dec-07 (%)	Oct-08 (%)
TALA/USD	2.5580	2.9428	3.0061	-17.52	-2.15
TALA/NZD	1.9549	1.7192	1.6504	15.58	4.00
TALA/AUD	2.2387	1.9592	1.9677	12.11	-0.43
TALA/EUR	3.7298	3.7481	3.8133	-2.24	-1.74
TALA/FJD	1.6427	1.6509	1.6439	-0.07	0.43
YEN/TALA	43.593	33.4699	31.7869	-27.08	-5.03
Nominal Index	98.62	101.01	101.54	2.97	0.53



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

In terms of the *Nominal Index*, the Tala appreciated by 0.53 percent at end November 2008 from the previous month. (See Table 2)

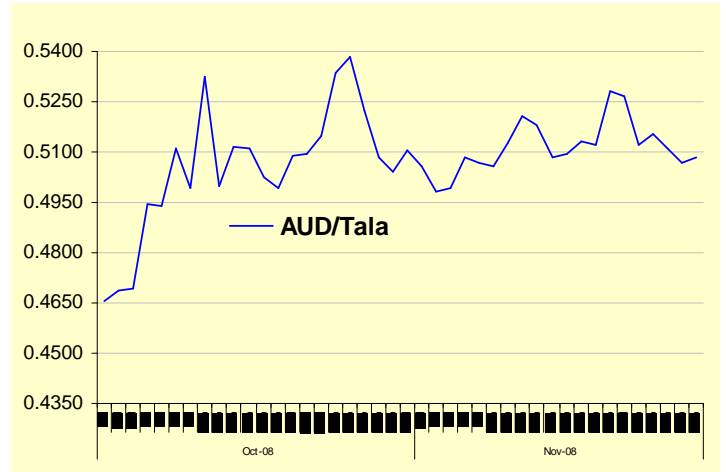
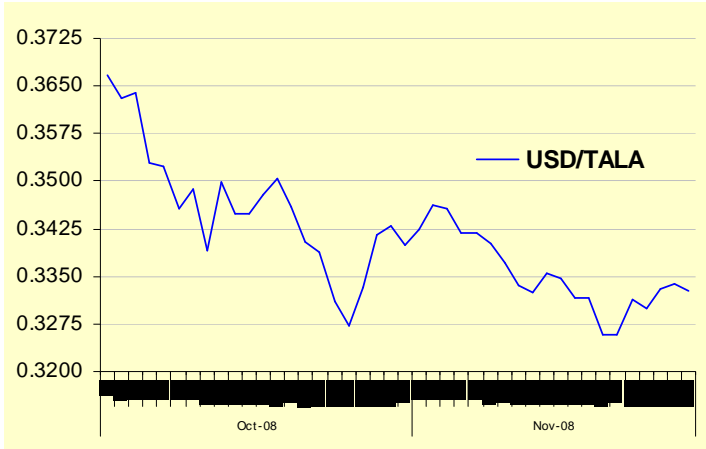


The Tala opened the month firm at US\$0.3424 and it continued strengthening until the US dollar rebounded on a surge in demand, weakening the Tala to US\$0.3371. The Tala continued lower to US\$0.3316 and it eventually reached its lowest for the month at US\$0.3257 as the Australasian currencies took a dive on a plunge in global stocks. The Tala recovered to US\$0.3313 and steadily made its way up to US\$0.3339. The Tala closed the month stronger at US\$0.3327.

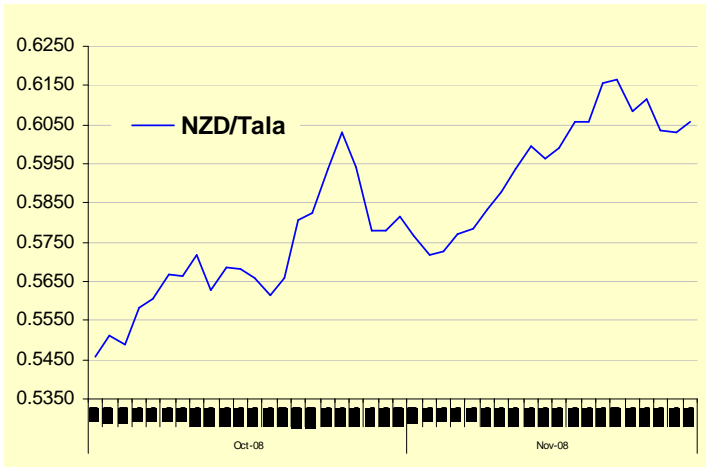
**Leasi P T Scanlan
Governor**

TALA GRAPHS

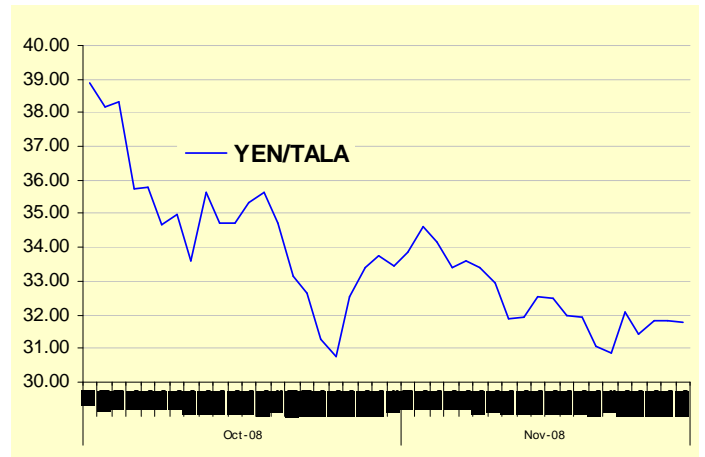
USD/TALA



NZD/TALA

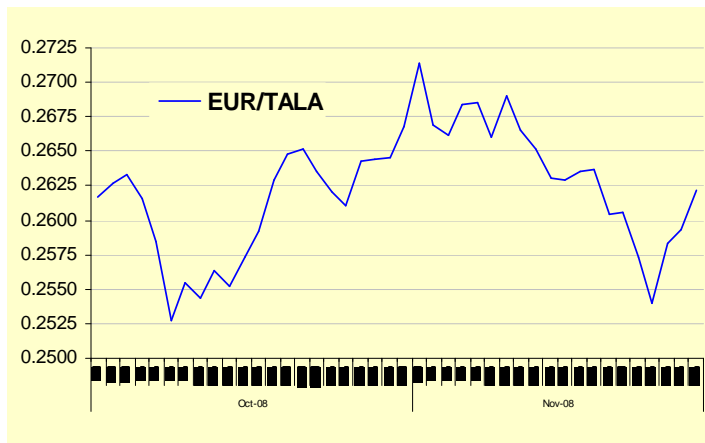


YEN/TALA



AUD/TALA

EUR/TALA



FJD/TALA

