

**CONFIDENTIAL**  
**MEMORANDUM**

19 November 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**  
**OCTOBER 2008**

**A. OVERVIEW**

The **US dollar** continued to strengthen in October more by default rather than by merit as risk aversion sent investors scurrying for safer US Treasuries. The approval of the \$700 billion bailout plan in the US helped restore some confidence in the US financial markets but this was insufficient to melt the credit freeze, which then called for interest rate cuts across the globe by major Central Banks. The Fed reduced its funds rate twice in October, from 2.0 percent to 1.0 percent.

The **Yen** also gained over the month as credit market turmoil and global growth concerns pushed investors to liquidate their risky carry trades and buy back the Yen. Although the BOJ lowered its official rate to 0.3 percent, volatility in the equity markets continued to support the Yen's rally throughout the month.

The **Euro** weakened significantly over the month as a result of the volatile equity markets and the ensuing confidence crisis, which drove investors to sell out of carry trade currencies. Easing Euro region inflation, weaker economic data and lower interest rates also added to the Euro's decline. The ECB lowered its interest rate from 4.25 percent to 3.75 percent in early October during the bout of global rate cuts.

Apart from weakening on poor economic data, the **Australian dollar** was weighed down by investors liquidating their carry trades as risk appetite went downhill due to high volatility in the equity markets. The RBA also lowered its cash rate in early October, from 7.0 percent to 6.0 percent.

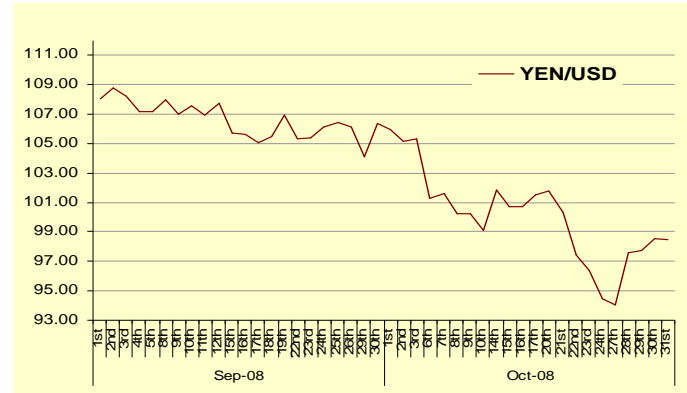
The **New Zealand dollar** similarly weakened over the month due to heightened risk aversion as equity markets fluctuated aggressively amid the global economic and financial crisis. The RBNZ also slashed its OCR in October, from 7.5 percent to 6.5 percent.

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

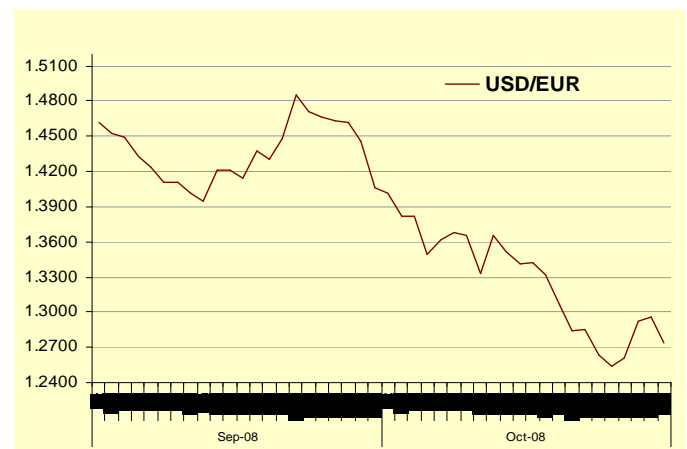
## B. CURRENCY WATCH

The *US dollar* rebounded into October after the US' bailout plan of \$700 billion was amended and finally approved. The resulting restoration of confidence in the US' financial markets helped revive the equity markets and secured the dollar's rally. However, the effects of the US credit turmoil eventually spread globally and it led to a joint move by major central banks to lower their interest rates in order to unlock the credit markets, to stimulate growth. The global move to cut interest rates saw the Fed lowering its funds rate to 1.5 percent from 2.0 percent. Still, even after the rate reductions, the markets remained anxious as mounting evidence of deteriorating world growth, coupled with significant uncertainty surrounding the credit crisis, added to fears of a global recession. Amid all this, the US dollar was still gaining momentum as demand for the Greenback surged on the back of jittery investors avoiding risky carry trades and opting for safer US Treasuries. Receding oil prices to levels below \$70 per barrel also supported the dollar but by the end of the month, the dollar was somewhat weaker after the Fed cut its interest rate by another 50 basis points to 1.0 percent. Weak US growth data in the third quarter also undermined the dollar.

The *Japanese Yen* opened the month at Yen106 and like the US dollar it strengthened over October as the credit markets turmoil led investors to liquidate their risky carry trades and buy back the Yen. The Yen was mainly driven by the movements in the equity markets and for most of the month, the financial markets were highly volatile. Heightened risk aversion supported a rally in the Yen, from Yen100 to Yen97 and eventually to peak at Yen94.48 as concern about global growth continued to weigh down equity markets' performance. The Yen more recently fell to Yen97 on speculations the BOJ may lower its official rate due to Japan's exports income being undermined by the recent appreciation of the Yen. Despite the BOJ lowering its official interest rate to 0.3 percent, it closed the month marginally stronger at Yen98.49 as more signs of a global recession led investors to shed carry trades and seek safety in the Yen and US Treasuries.

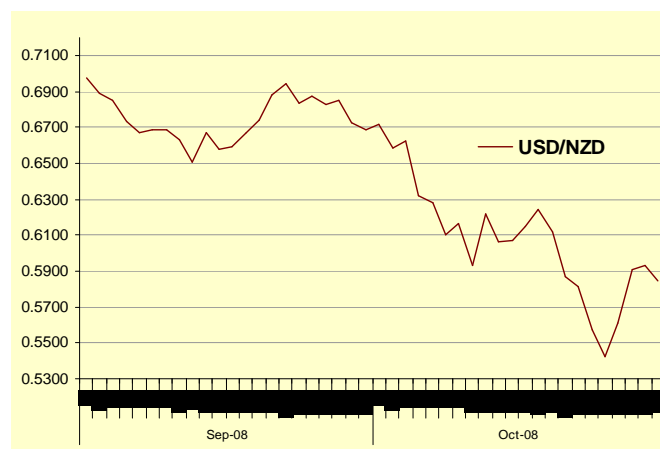


The *Euro* opened the month at US\$1.4016 and from there it began its long descent as the credit market crisis and concern about sluggish growth in Europe weakened the Euro. The rallying US dollar weakened it to US\$1.38 but the Euro slid to US\$1.3489 as the credit crisis deepened and negative risk sentiment overwhelmed the markets. The Euro picked up at US\$1.3625 after the ECB lowered its official interest rate to 3.75 percent in a collaborated move by central banks to stimulate growth via lower key interest rates. However, it fell to US\$1.33 as risk aversion again resurfaced. Against the backdrop of weak Euro region data and volatile equity markets, the Euro fluctuated between US\$1.34 and US\$1.36 and eventually weakened to its lowest for the month at US\$1.2538. It staged a brief recovery on a rebound in equity markets but later closed the month much weaker at US\$1.2737 as easing inflation in October bolstered speculations the ECB will continue to lower its key interest rate after twice reducing it in less than a month in response to the financial and economic crisis.

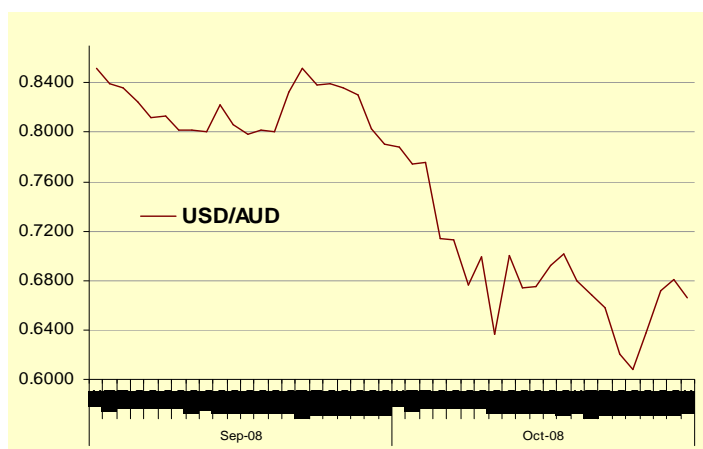


The *Australian dollar* opened trade at US\$0.7878 and like the Euro it was driven down over the month by growth concern amid the turmoil in global financial markets. The strengthening US dollar eased the

Aussie down to US\$0.77 but it later slipped to US\$0.71 as weak equity markets pared back risk appetite, undermining demand for carry trades. Ongoing trouble in the financial markets and subsequently weaker equity markets saw the Australian dollar drop to US\$0.67. It rose momentarily to US\$.69 after the RBA slashed its cash rate from 7.0 percent to 6.0 percent during a bout of global rate cuts to ignite growth. Nevertheless, risk aversion remained at play for most of the month and this continued to weigh down the Australian dollar to US\$0.6083. The Aussie dollar picked up at US\$0.63 and eventually recovered to US\$0.6804 on a rebound in global equity markets. However, equity market gains were quickly reversed on fresh signs of a global recession and investors again relinquished their risky trades, weakening the Australian dollar to its close at US\$0.6658.



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



<b>Table 1</b>					
<b>USD per other currencies (end period)</b>					
Movement of other currencies against the USD					
(+ appreciation / (-) depreciation					
	Dec-07	Sep-08	Oct-08	Dec-07 (%)	Sep-08 (%)
USD/NZD	0.7643	0.6685	0.5842	-23.56	-12.61
USD/AUD	0.8752	0.7898	0.6658	-23.93	-15.70
YEN/USD	111.51	106.38	98.50	11.67	7.41
USD/EUR	1.4581	1.4067	1.2737	-12.65	-9.45
USD/FJD	0.6422	0.6103	0.5610	-12.64	-8.08

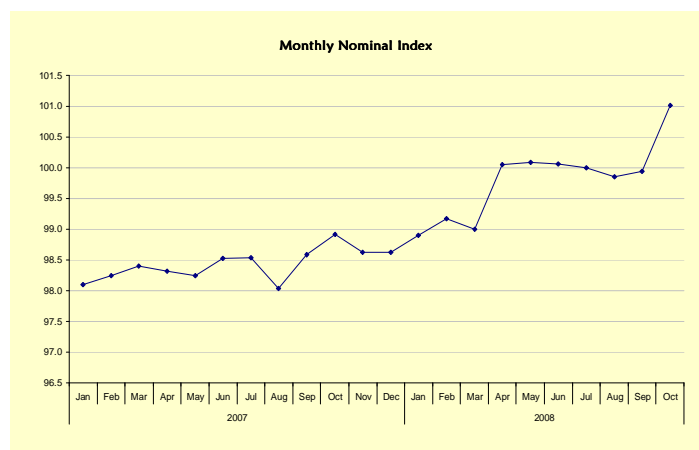
The *New Zealand dollar*, similarly, took a blow as risk aversion led the Kiwi lower from its open level at US\$0.6721 to US\$0.63 against the resilient Greenback. Weak NZ data also undermined the Kiwi currency but it was mainly driven by the volatile equity markets. Sliding equity markets saw the NZ dollar resume its decline from US\$0.62 to US\$0.5933, with very little response to the global rate cuts. A brief recovery in equity markets supported the NZ dollar at US\$0.6219 but risk aversion would later return to hammer down the Kiwi to US\$0.58 and eventually to US\$0.55. The NZ dollar initially fell to US\$0.54 after the RBNZ reduced the OCR from 7.5 percent to 6.5 percent but it picked up again at US\$0.56 on a global rally in equity markets coupled with the slightly weaker US dollar. The Kiwi gradually climbed to US\$0.5932 only to ease back to close the month at US\$0.5842 as more signs of a global recession shook the equity markets out of its recovery.

At end October 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

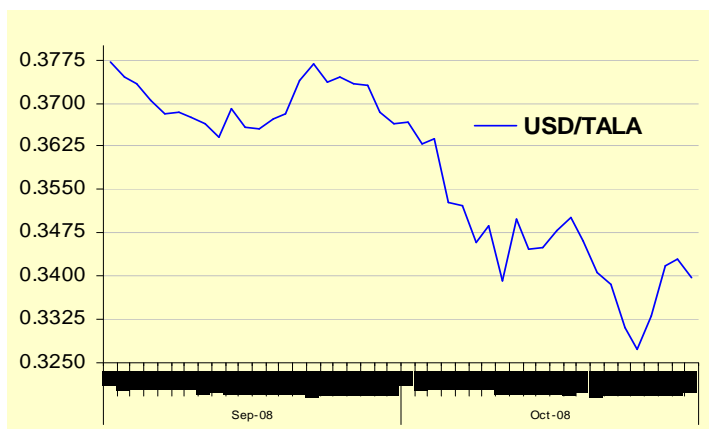
Compared to end December 2007 and the previous month, **Table 2** shows the movement of the Tala at end October 2008 against the currencies in our currency basket as well as its movement against the FJD and the YEN.

<b>Table 2</b>					
<b>Tala per foreign currencies (end period)</b>					
	Dec-07	Sep-08	Oct-08	Movement of the Tala	
				(+ appreciation / (-) depreciation	
				Dec-07 (%)	Sep-08 (%)
TALA/USD	2.5580	2.7299	2.9428	-15.04	-7.80
TALA/NZD	1.9549	1.8249	1.7192	12.06	5.80
TALA/AUD	2.2387	2.1560	1.9592	12.49	9.13
TALA/EUR	3.7298	3.8402	3.7481	-0.49	2.40
TALA/FJD	1.6427	1.6659	1.6509	-0.50	0.90
YEN/TALA	43.593	38.9683	33.4699	-23.22	-14.11
Nominal Index	98.62	99.94	101.01	2.42	1.06



At end October 2008, the Tala strengthened against the NZD, AUD and the EURO but it weakened against the USD 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 1.06 percent at end October 2008 from the previous month. (See Table 2)

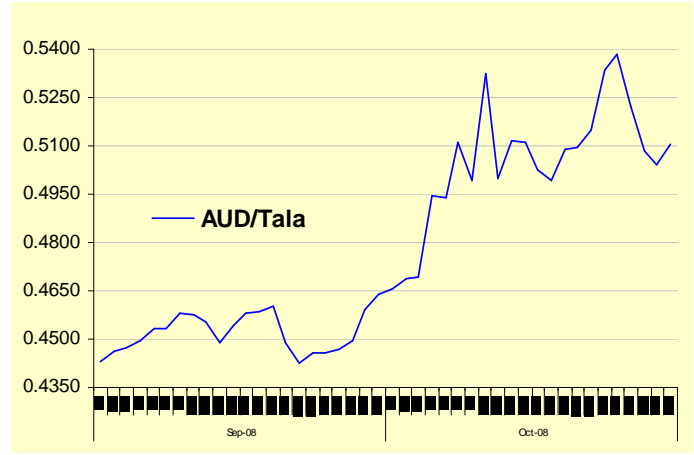


The *Tala* opened the month at US\$0.3667 and it continued to weaken to US\$0.3528 as most major currencies, particularly the Euro and Australasian currencies, fell against the US dollar amid havoc in the US financial markets and ongoing concern about slowing global growth. The Tala continued weakening to US\$0.34, where it fluctuated for some time between US\$0.33 to US\$0.35. A strong rally in the Greenback saw the Tala fall to its weakest for the month at US\$0.3273 and towards the end of the month it was gradually recovering. The Tala closed at US\$0.3398, much weaker compared to its open level for the month.

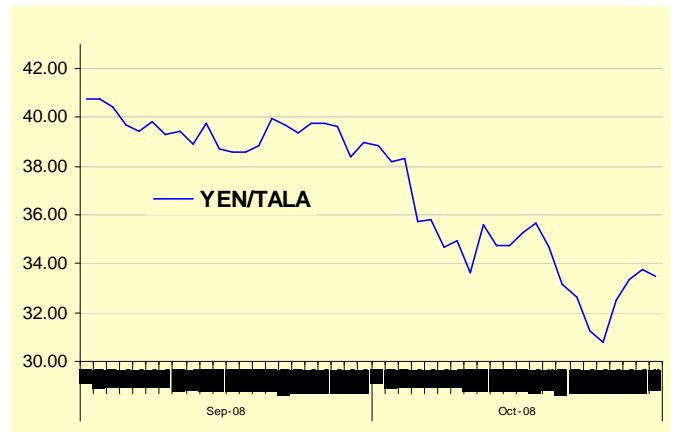
Leasi P T Scanlan  
Governor

# TALA GRAPHS

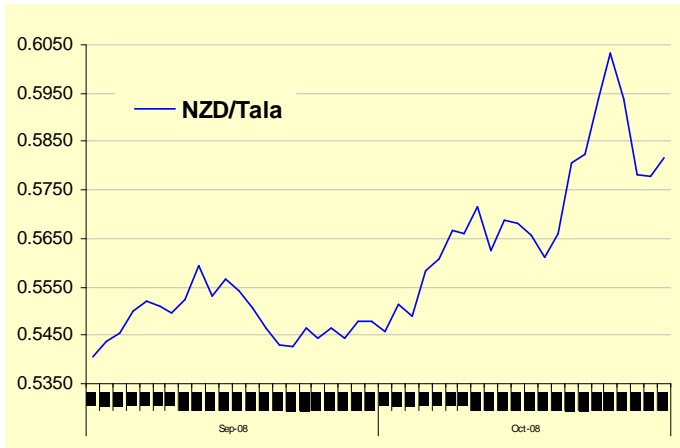
## USD/TALA



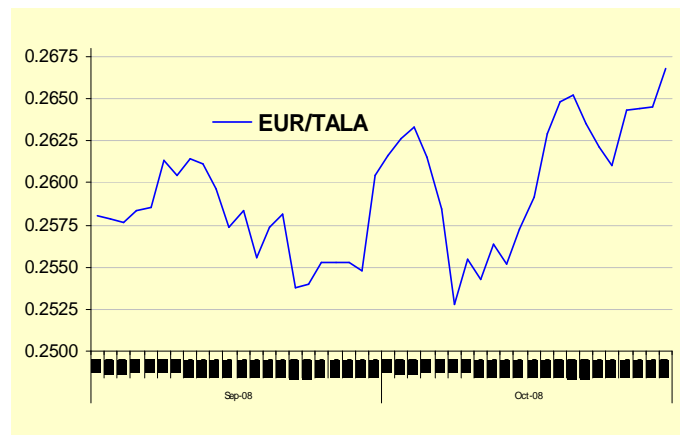
## YEN/TALA



## NZD/TALA



## EUR/TALA



## AUD/TALA

# FJD/TALA

