

CONFIDENTIAL
MEMORANDUM

10 September 2009

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
AUGUST 2009

A. OVERVIEW

The **US dollar** weakened considerably in August due to more decreased demand for its safe-haven status. During the month, the investors were keen on risky currency trades owing to improved prospects of an economic recovery. The Fed held its funds rate unchanged at 0.25 percent.

The **Yen** strengthened slightly over the month as a result of the weakening US dollar. In its August monetary policy review, the BOJ held its official interest rate unchanged at 0.1 percent.

The **Euro** was fairly stable over the month as equity markets picked up again. The weakening US dollar also helped to support the Euro. The ECB held its official interest rate unchanged at 1.00 percent.

The **Australian dollar** was slightly stronger in August as the Greenback weakened over the month. Robust commodity prices and equities also helped to underpin the Aussie currency's strength. In its August monetary policy review, the RBA held its policy interest rate at 3.00 percent.

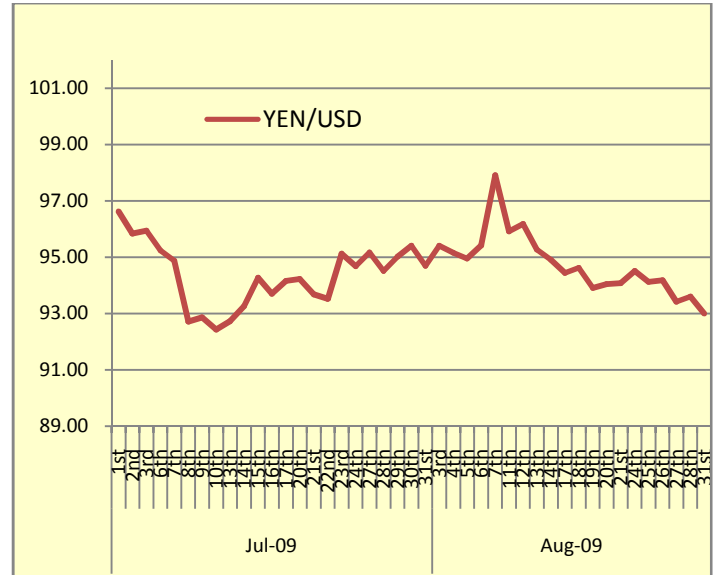
The **New Zealand dollar** likewise strengthened considerably over the month, supported by recoveries in the equity markets coupled with the weakening US dollar. The strengthening Australian dollar also helped to support the kiwi unit. The RBNZ held its official cash rate unchanged at 2.50 percent.

In August 2009, the **Tala** weakened against the **NZD**, the **Yen** and the **FJD**. The Tala rose against the **USD**, the **AUD** and the **EURO**.

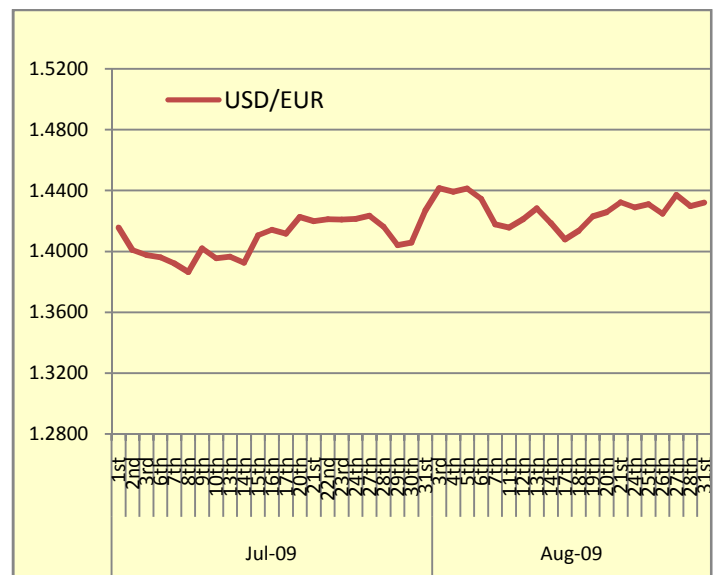
B. CURRENCY 'WATCH'

The **US dollar** opened the month weak after growth reports showed the US economy contracted 1.0 percent in the June quarter. The decline was smaller than expected but the Greenback failed to rally as the decline served only as a reminder of the economy's poor performance. As such, the dollar continued to find support from its haven appeal but this was gradually undermined by a series of better-than-expected data released throughout the month. The US housing sector continued to show signs of stability while manufacturing activity rose. Service industries however, continued to decline. The labor market slump was also softer as job losses fell short of expectations. Despite growing optimism about a global recovery as improved global economic data suggested, the Greenback was generally under pressure due to slowing demand for safety in the dollar. The Fed's decision to hold its funds rate at 0.25 percent did not move the currency. The unexpected decline in retail sales and consumer confidence recently revived haven demand in the dollar. However, since strong economic data prevailed over the gloomy statistics, gains to the Greenback were limited.

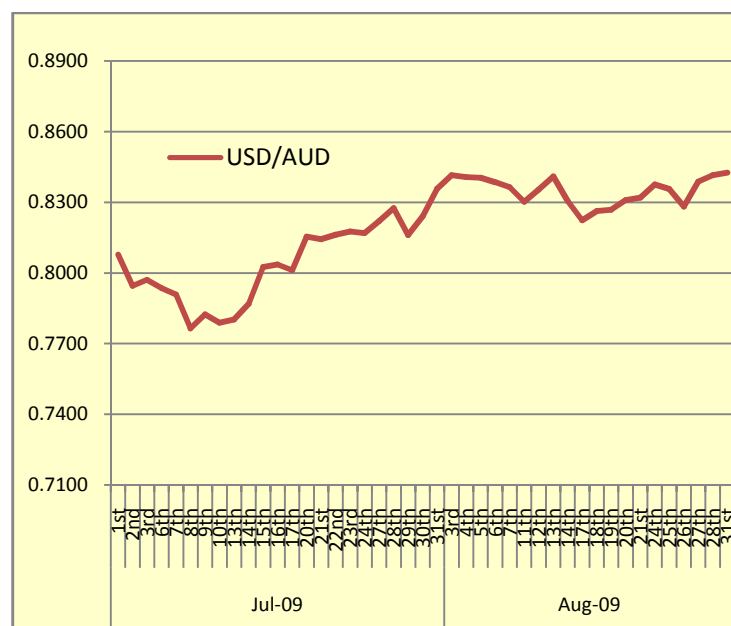
The **Japanese Yen** weakened into the new month at Yen95.40 as investors speculated that global recovery prospects will encourage Japanese investors to buy higher yielding assets overseas. The Yen later rose to Yen94.95 as weak US data reminded investors of currently bleak economic conditions, sparking a revival of haven demand for the Yen. A sharp rebound in the US dollar eased the Yen lower to Yen97.91. The Yen picked up as the Greenback lost haven support amid an improvement in risk sentiment inspired by upbeat US and Euro region data. However, faltering equity markets and increased risk aversion stirred by poor US consumer confidence data increased demand for safety in the Yen and lifted the currency to Yen94. Upbeat GDP data for Japan kept the Yen well supported. The Yen continued to strengthen in the last days of the month until it finally closed the month firm at Yen92.99.



The **Euro** opened the month at US\$1.4415 supported by the weakening US dollar and the growing optimism that a global economic recovery may be underway as indicated by recent upbeat Euro region data. The Euro fell to US\$1.43 after the ECB held its key interest rate unchanged at 1.0 percent and weakened further to US\$1.4178 on a rebound in the dollar. Better than expected Euro region growth data helped boost the Euro to US\$1.4211, while unexpected growth in Germany in the June quarter ensured firm support for the Euro above US\$1.42. The revival of risk aversion after unexpectedly weak US confidence data raised doubts about a global recovery, weakened the Euro back to US\$1.41 and eventually to US\$1.4079. The Euro steadily recovered to US\$1.43 due to upbeat investor confidence, services and manufacturing data out of Germany and France. The Euro closed the month at US\$1.4320.



The **Australian dollar** opened the month firm at US\$0.8416 but it slid to US\$0.8405 after the Reserve Bank of Australia held its cash rate unchanged at 3.0 percent and cited resilience in consumer spending and exports. Nevertheless, the Aussie unit found support from strong commodity prices and rallying equity markets as improved economic data out of Europe and the US raised positive sentiment regarding a global recovery. An upbeat labor report also strengthened the Aussie unit but a rebound in the US dollar coupled with weak equity markets amid poor factory and investment data out of China led the Australian dollar down to US\$0.83. A brief rally in the Euro lifted the Aussie unit to US\$0.8410 but risk aversion weakened it US\$0.82. The Aussie dollar traded at US\$0.8357 as it recouped lost gains through weak support from equity markets but it finally closed off the month at its highest recording for the month at US\$0.8427.



The **New Zealand dollar** likewise, opened the month strong at US\$0.6676 and initially fell following the Aussie unit's decline but it picked up again as the Greenback weakened and investor risk appetites improved amid rising commodities and equity markets. The Kiwi dollar mostly held above US\$0.67 but brief rebounds in the US dollar would see the NZ dollar slip to US\$0.66. The Kiwi currency weakened as a result of weak New Zealand labor data coupled with bouts of weakening equity markets. However, despite losing some gains, the Kiwi held well above US\$0.67. The NZ dollar recently rose higher to US\$0.68, led by the strengthening Euro and Australian dollar. Weak equity market gains also helped

prop up the NZ dollar to US\$0.6842. Weakening US dollar also helped to support the kiwi unit until it closed off the month firm at US\$0.6855.

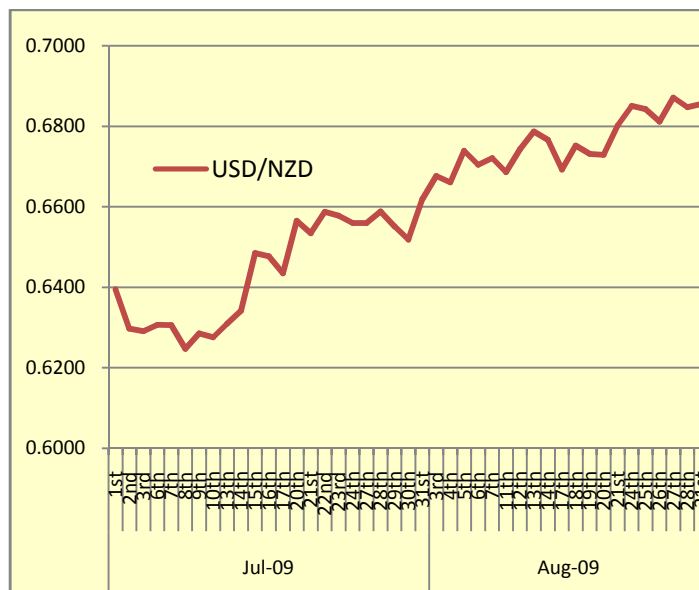


Table 1 shows the movements of the currencies in our currency basket together with the FJD and the Yen against the US dollar at end August 2009, compared to the previous month and December 2008.

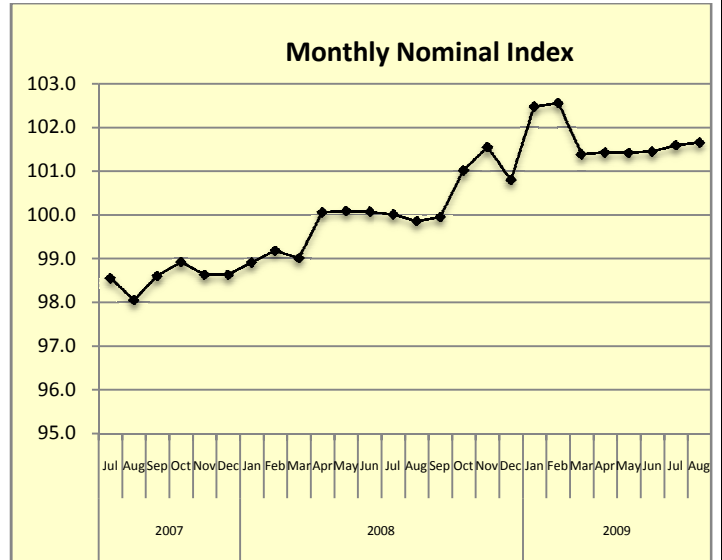
Table 1					
USD per other currencies (end period)					
				Movement of other currencies against the USD (+) appreciation / (-) depreciation	
	Dec-08	Jul-09	Aug-09	Dec-08 (%)	Jul-09 (%)
USD/NZD	0.5856	0.6619	0.6855	17.06	3.57
USD/AUD	0.7062	0.8358	0.8427	19.33	0.83
YEN/USD	90.85	94.69	93.00	-2.37	1.79
USD/EUR	1.3966	1.4269	1.4320	2.53	0.36
USD/FJD	0.5691	0.4902	0.5011	-11.95	2.22

At end August 2009, the Greenback weakened against the **NZD**, the **AUD**, the **EURO**, the **FJD**, and the **YEN** when compared to the previous month.

C. EFFECT ON THE TALA

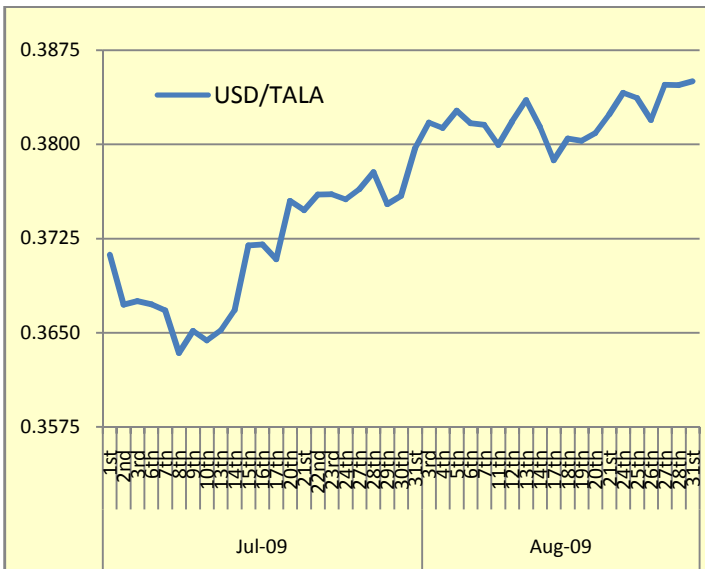
Compared to end December 2008 and the previous month, Table 2 shows the movement of the Tala at end August 2009 against the currencies in our currency basket as well as its movement against the FJD and the YEN.

Table 2					
Tala per foreign currencies (end period)					
	Dec-08	Jul-09	Aug-09	Movement of the Tala	
				(+ appreciation / (-) depreciation	
				Dec-08 (%)	Jul-09 (%)
TALA/USD	2.9043	2.6337	2.5972	10.57	1.38
TALA/NZD	1.7007	1.7432	1.7803	-4.68	-2.13
TALA/AUD	2.0509	2.2012	2.1886	-6.71	0.58
TALA/EUR	4.0561	3.7578	3.7191	8.31	1.03
TALA/FJD	1.6528	1.2909	1.3015	21.26	-0.82
YEN/TALA	31.2798	35.9538	35.8056	14.47	-0.41
Nominal Index	100.79	101.58	101.65	0.85	0.06



At end August 2009, the Tala weakened against the **NZD**, the **Yen** and the **FJD**. The Tala strengthened against the **USD**, the **AUD** and the **EURO** from the previous month.

In terms of the **Nominal Index**, the Tala appreciated by 0.06 percent at end August 2009 from the previous month. (See Table 2)

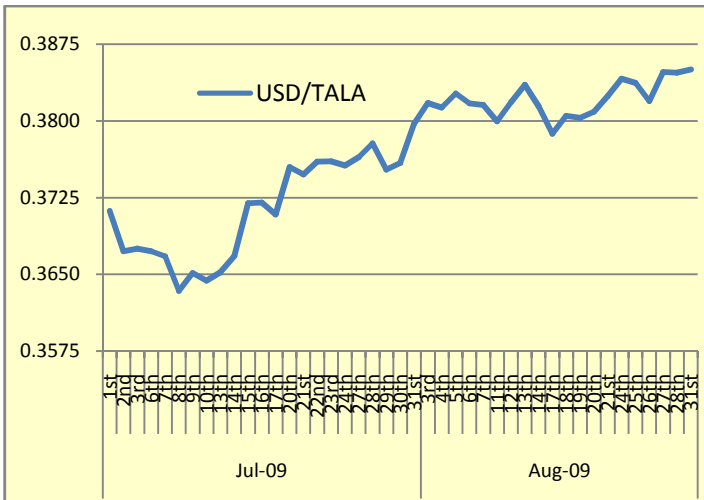


The **Tala** opened the month at US\$0.3817 and after slipping 4 points, it rebounded to US\$0.3827 as it followed the Australasian currencies higher against the US dollar. The Tala slipped again as the Australian and New Zealand dollars weakened again while the Greenback rallied on upbeat US employment data. The Tala mostly held above US\$0.3800 but short rallies in the US dollar weakened the Tala to levels just over US\$0.3700. A recovery in the Australasian currencies, led by weak gains in equity markets helped to lift the Tala to US\$0.38. The Tala continued to strengthen until it closed at its month's high at US\$0.3850.

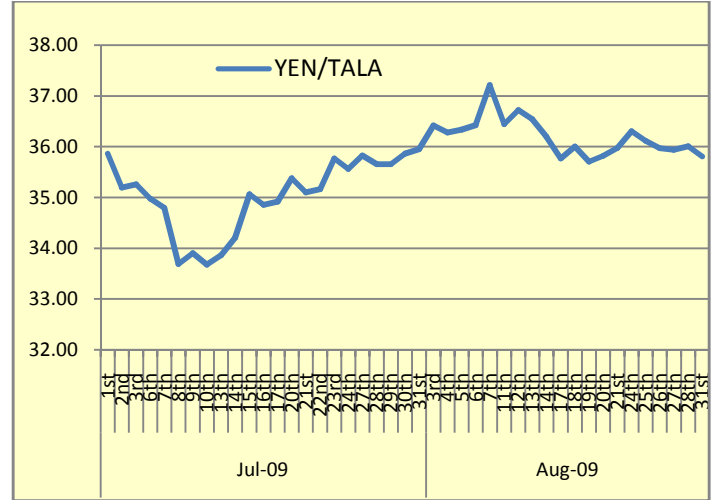
Leasi P T Scanlan
Governor

TALA GRAPHS

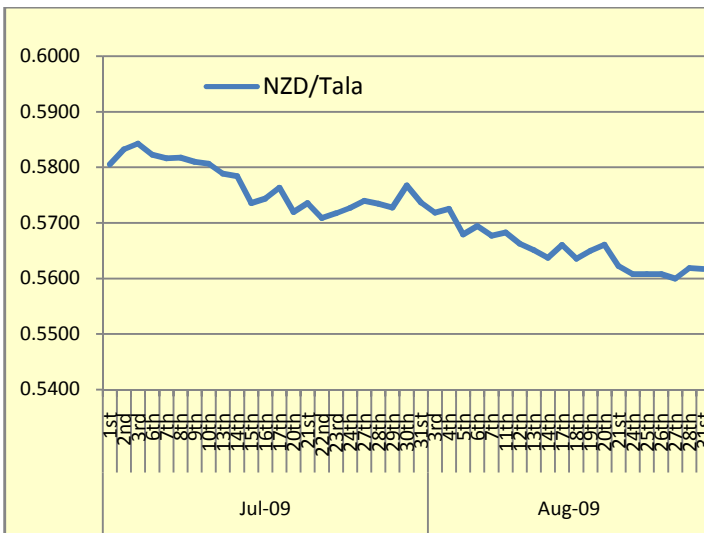
USD/TALA



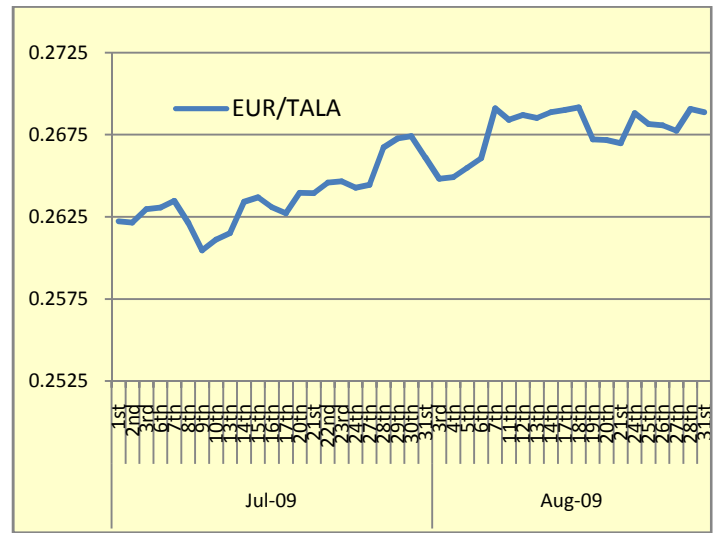
YEN/TALA



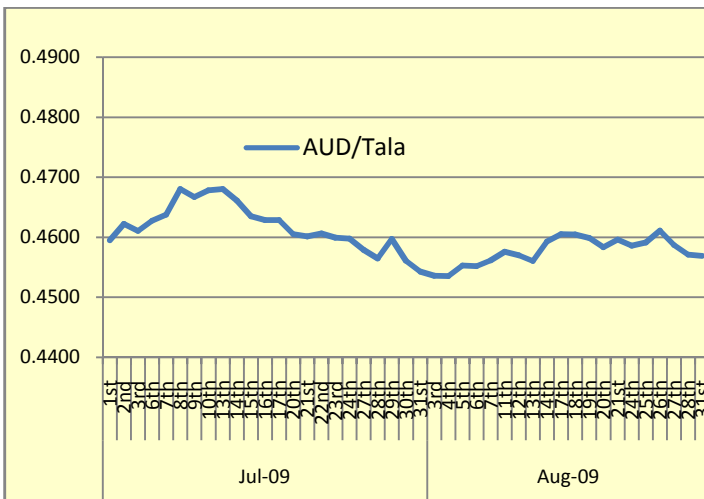
NZD/TALA



EUR/TALA



AUD/TALA



FJD/TALA

