

CONFIDENTIAL
MEMORANDUM

18 March 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
FEBRURY 2009

A. OVERVIEW

The **US dollar** continued to strengthen in February due to an increased demand for safe-haven currencies, as risk aversion in the global equity markets picked up again. More reports of weak US economic statistics and more job losses added to the view that the global recession was deepening and encouraged investors to stay safe from risky assets. The Fed held its funds rate at 0.25 percent.

The **Yen** also gained support from its haven appeal as weak global economic statistics continued to undermine equity market performances and risk appetite. However, poor economic data out of Japan, which pointed to a deteriorating economy mainly, weakened the Yen. The BOJ held its official interest rate unchanged at 0.1 percent.

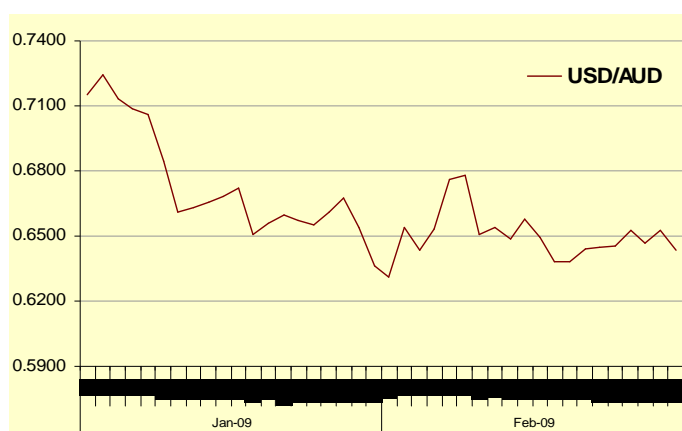
The **Euro** weakened gradually over the month as weak Euro region economic data weighed down the currency. Volatile equity markets and the strengthening US dollar also undermined the Euro. The ECB held its rate at 2.0 percent.

The **Australian dollar** was also trailing downwards in general as the Greenback recovered over the month on its haven appeal. Strong commodity prices and equities helped support the Aussie currency but global equity markets were still volatile and often weighed down the Aussie. The RBA held its interest rate at 3.25 percent.

The **New Zealand dollar** also weakened slowly but surely over the month as a result of the equity markets' volatile movements and the strengthening US dollar. But high commodity prices coupled with periods of equity market recovery helped lift the Kiwi. The RBNZ held its official cash rate unchanged at 3.50 percent.

In February 2009, the Tala weakened against the **USD** but it rose against the **NZD, AUD** and the **EURO**. The Tala also rose against the **YEN** and the **FJD**.

The **Australian dollar** opened the month slightly down at US\$0.6313 but it rebounded to US\$0.6537 after the RBA slashed its cash rate by 100 basis points to 3.25 percent. Optimism that the cash rate reduction and the announcement of an additional A\$42 billion in fiscal spending will support the Australia economy through the global downturn hoisted the currency to US\$0.6764. However, it fell to US\$0.65 on weak business confidence data coupled with news that the Australian Senate blocked the passage of the government's A\$42 billion stimulus bill. Heightened risk aversion amid weak equity markets and the strengthening US dollar continued to undermine the Australian dollar so that it fluctuated between US\$0.63 to US\$0.65. The Aussie currency eventually closed the month at US\$0.6432.



The **New Zealand dollar**, likewise, opened the month slightly weak at US\$0.5047 and unlike the Australian dollar, the Kiwi dollar was fairly steady throughout the month. The rebound in the Aussie dollar helped push up the Kiwi against the Greenback but the support was limited as the Kiwi moved within US\$0.50 to US\$0.51. It surged to US\$0.53 on positive NZ employment data, recovering risk appetite coupled with the weakening US dollar. However, the lack of local data and the weakening Euro saw the Kiwi make a sharp corrective move lower to US\$0.5198. From thereon the NZ dollar was reliant on offshore news and it held steady at US\$0.51 against the backdrop of soft global equities, heightened risk aversion and the strengthening US dollar. The kiwi dollar closed at US\$0.5028; its lowest level recorded for the month.

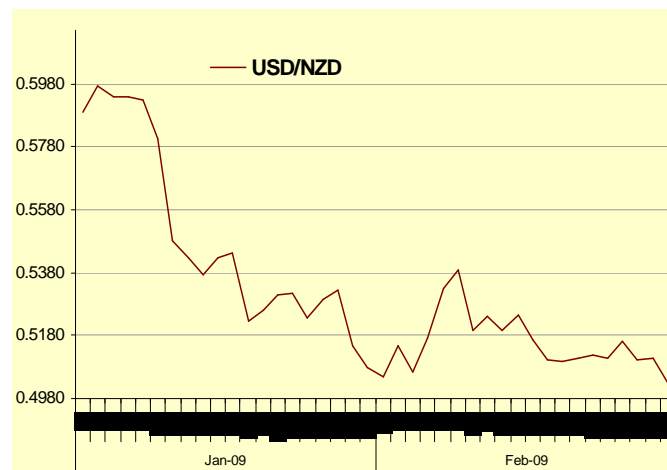


Table 1 shows the movements of the currencies in our currency basket against the US dollar at end February 2009, compared to the previous month and December 2008.

Table 1					
USD per other currencies (end period)					
			Movement of other currencies against the USD		
			(+) appreciation / (-) depreciation		
	Dec-08	Jan-09	Feb-09	Dec-08 (%)	Jan-09 (%)
USD/NZD	0.5856	0.5079	0.5028	-14.14	-1.00
USD/AUD	0.7062	0.6364	0.6432	-8.92	1.07
YEN/USD	90.85	89.93	97.73	-7.58	-8.68
USD/EUR	1.3966	1.2799	1.2703	-9.04	-0.75
USD/FJD	0.5691	0.5410	0.5357	-5.87	-0.98

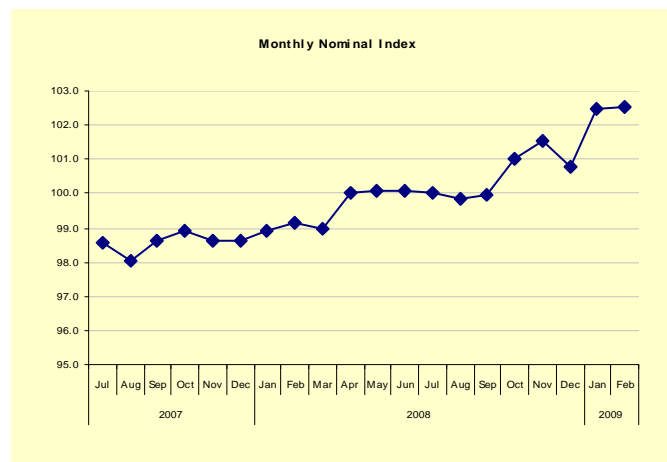
At end February 2009, the Greenback strengthened against the NZD and the Euro but weakened against the AUD when compared to the previous month. The US dollar also strengthened against the FJD and the Yen from the previous month.

C. EFFECT ON THE TALA

Compared to end December 2008 and the previous month, Table 2 shows the movement of the Tala at end February 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)**

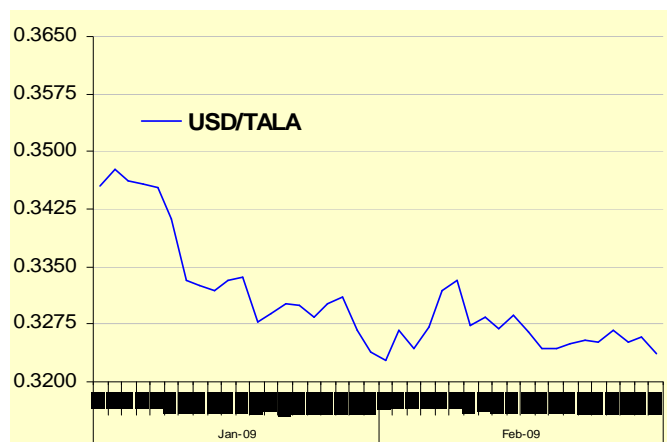
	Movement of the Tala (+) appreciation / (-) depreciation				
	Dec-08	Jan-09	Feb-09	Dec-08	Jan-09
				(%)	(%)
TALA/USD	2.9043	3.0872	3.0902	-6.40	-0.10
TALA/NZD	1.7007	1.5678	1.5538	8.64	0.90
TALA/AUD	2.0509	1.9647	1.9875	3.09	-1.16
TALA/EUR	4.0561	3.9513	3.9255	3.22	0.65
TALA/FJD	1.6528	1.6700	1.6554	-0.16	0.87
YEN/TALA	31.2798	29.1288	31.6256	1.11	8.57
Nominal Index	100.79	102.47	102.55	1.74	0.07



At end February 2009, the Tala weakened against the USD and AUD but it strengthened against the NZD and the EUR from the previous month. The Tala also rose against the YEN and the FJD when compared to the previous month.

In terms of the *Nominal Index*, the Tala appreciated by 0.07 percent at end February 2009 from the previous month. (See Table 2)

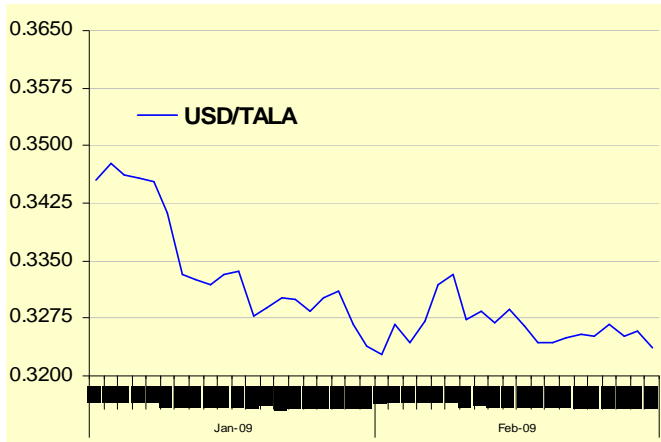
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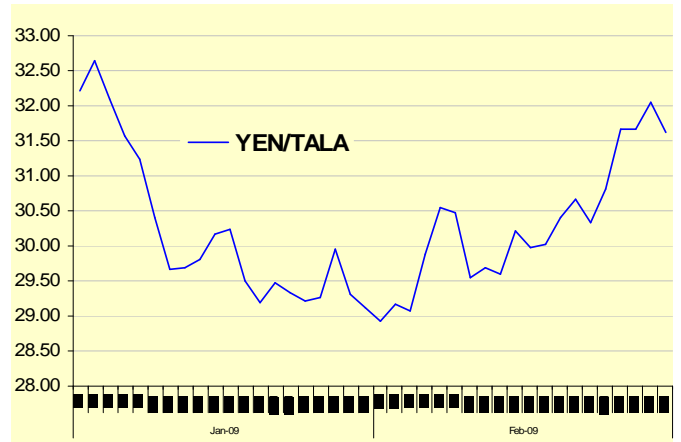
The *Tala* opened the month weak at US\$0.3229. The Tala then rose to US\$0.3320 as the Greenback fell due to reduced haven demand. However, the lack of details about the US Treasury's rescue plan increased the demand for the US currency as a haven and this led to a fall in the Tala to US\$0.3270. The Tala was fairly stable throughout the whole month. The Tala continued to trade against the US dollar at US\$0.32 until it closed the month at US\$0.3236.

TALA GRAPHS

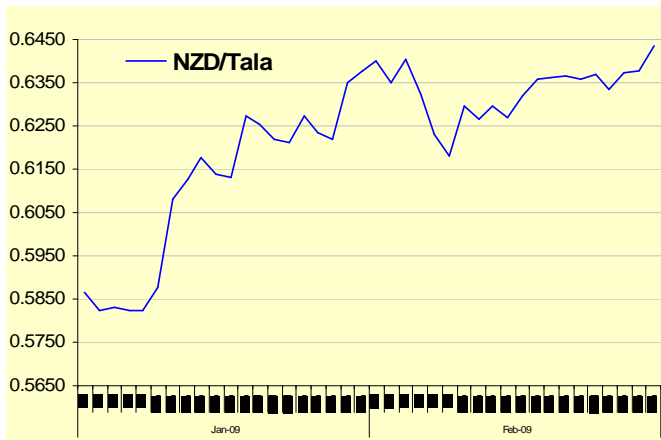
USD/TALA



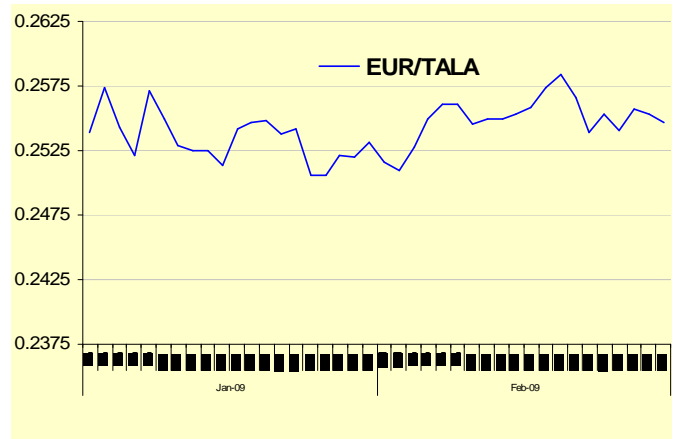
YEN/TALA



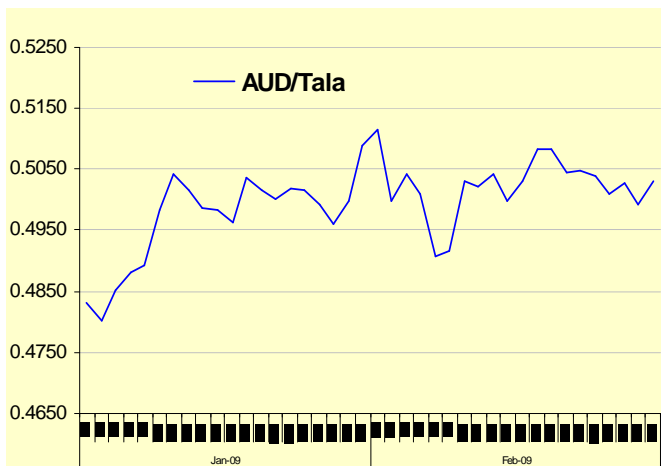
NZD/TALA



EUR/TALA



AUD/TALA



FJD/TALA

