CONFIDENTIAL
MEMORANDUM

06 February 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 JANUARY 2009

A. OVERVIEW

The **US dollar** rebounded in January on increased demand for safe-haven currencies, as risk aversion in the global equity markets picked up again. More reports of weak US economic statistics added to the view that the global slump was deepening and prompted investors to flee from risky assets. The Fed held its funds rate at 0.25 percent.

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 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 rebounding US dollar also undermined the Euro. The ECB lowered its repo rate by 50 basis points to 2.0 percent.

The **Australian dollar** was also trailing downwards 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.

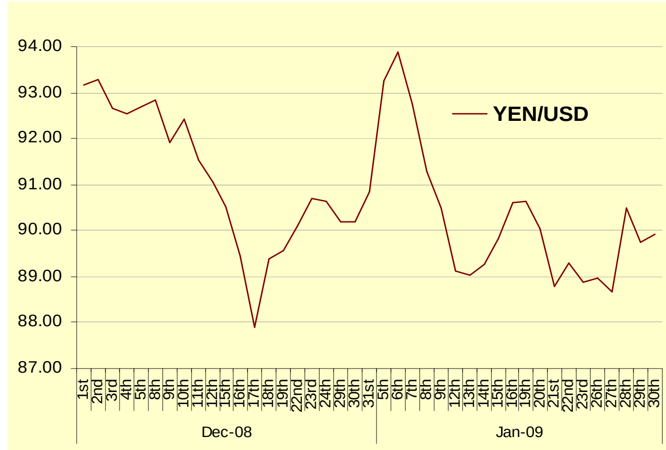
The **New Zealand dollar** also weakened over the month as a result of the equity markets' volatile movements and the strengthening US dollar but high commodity prices coupled with periods of equity market recovery helped lift the Kiwi. The RBNZ slashed its OCR by 150 basis points from 5.0 to 3.50 percent.

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

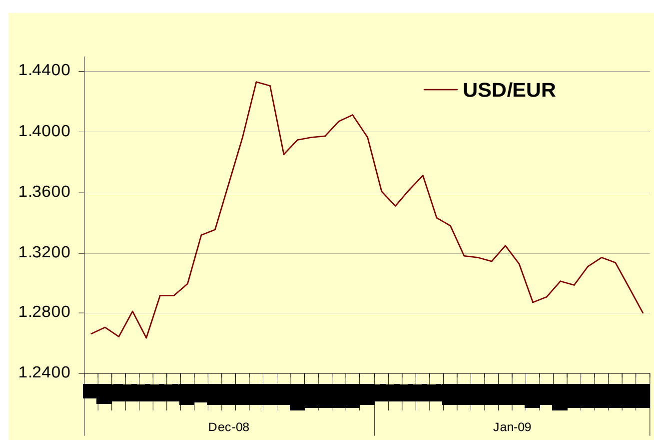
B. CURRENCY 'WATCH'

Throughout the month, the ***US dollar*** gained support from its safe-haven appeal as the incessant flow of grim US economic data reminded investors of the bleak economic outlook worldwide and encouraged them to flee into risk-free assets. The Greenback was also supported by speculations that President-elect Obama's proposed fiscal stimulus packages will help the economy recover from recession. There were talks of bailout plans to stabilize the banks but this only undermined the dollar's safe haven appeal as recovering global equity markets led investors to buy back into risky trades. The Greenback initially fell on weak payrolls data for December and low consumer confidence in January but these reports added to the concern that the global recession was growing deeper and consequently increased the US dollar's appeal as a safe haven currency. The Greenback lost some support after President Obama failed to mention in his inauguration speech, any new details on measures to address the economic crisis. On the monetary policy side of reviving economic growth, the Fed kept its Federal funds rate at 0.25 percent. The Greenback closed the month firmly supported by its haven appeal.

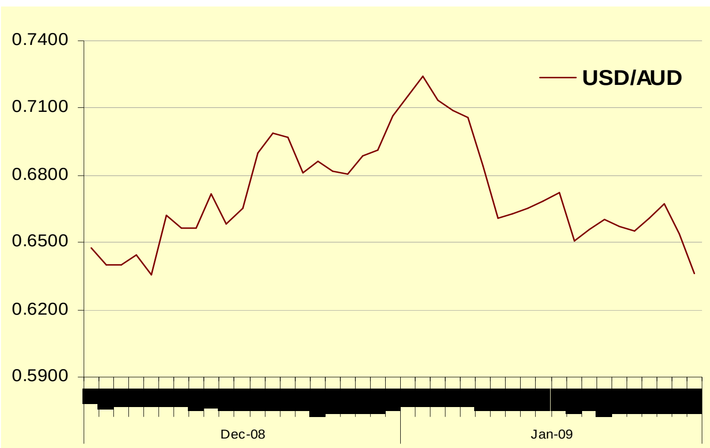
The ***Japanese Yen*** opened the month at Yen93.26 and like the US dollar it gained much support from the movements in the equity markets. The global equity markets were largely influenced by any plans of a fiscal stimulus in the US or talks of bailout plans for stabilizing banks, which were speculated, will help the US pull through its recession and subsequently drag the world economy out of a prolonged economic slump. In a nutshell, a global economic recovery will undermine the demand for safe currencies, like the Yen. Volatility in the global stock markets continued to see the Yen supported at Yen89 and Yen90 but it strengthened further to Yen88 as the Greenback weakened. The BOJ held its official rate at 0.1 percent but this failed to influence the Yen as it stood firm at levels near Yen88. The Yen slipped to Yen90.84 on a brief recovery in global equities and risk appetite but it rebounded to Yen89 as a result of increased risk aversion following the release of more weak US data. The Yen closed the month at Yen89.92 as poorly performing global equity markets, kept investors highly risk averse.



The ***Euro*** opened the month weak at US$1.3608 as gloomy Euro region data continued to signal a deepening recession. This only added to investors' fear of holding risky assets and increased risk aversion continued to see the Euro slip further to US$1.33. Ahead of the ECB interest rate review, the Euro was pressured down to US$1.31 on expectations for a 50 basis points rate cut but even after the ECB cut its repo rate to 2.0 percent, the currency did not move as much. It was not until global markets rallied on optimistic news in the US regarding bank bailout plans and stimulus packages that the Euro rebounded to US$1.32. Still, concern about the health of the Euro region, more bank failures in Europe coupled with the credit rating downgrade on Spain, sent the Euro back to US$1.31. It plunged to US$1.2869 on weak equity markets but rebounded to US$1.31 on unexpectedly upbeat business sentiment in Germany. A US dollar rebound weakened the Euro to US$1.2966 and finally to a close at US$1.2799.



The ***Australian dollar*** kicked off the month firm at US$0.7152 and was supported by strong commodity prices coupled with the global equities bounce that was led by hopes of an economic stimulus package in the US. Gains, however, were short-lived as the Aussie unit steadily fell to US$0.7058 on weak Australian housing data coupled with declines in commodities and crude oil prices. It eventually held steady at US$0.66 for some time before staging a brief rebound to US$0.67 on a short recovery in equities, commodity and gold prices. The Aussie unit was further undermined by the weak Euro coupled with ongoing risk aversion in the equity markets. Later, the Australian dollar fluctuated between US$0.65 and US$0.66 on volatile movements in the stock markets but the rebound in the Greenback drove the Aussie currency down to a close for the month at US$0.6364.



The ***New Zealand dollar***, likewise, opened the month firm at US$0.5890 on strong commodity prices and firm equity markets. However, it was gradually led lower by the weak Euro and the strengthening US dollar. The Kiwi slipped to US$0.58 on heightened risk aversion but it plunged to US$0.54 after Standard & Poor's downgraded its credit rating on the nation from 'stable' to 'negative.' Bad business confidence data in New Zealand worsened the blow to the Kiwi. The NZ dollar continued to ease lower to US$0.53 and eventually to US$0.52 on weak inflation data. Ahead of the OCR review the Kiwi unit traded at US$0.5323 but the RBNZ's 150 basis points rate cut to 3.5 percent coupled with the rebounding US dollar, weakened the Kiwi to US$0.5145. Ongoing resilience in the Greenback kept the New Zealand dollar subdued until it finally closed the month at US$0.5079.

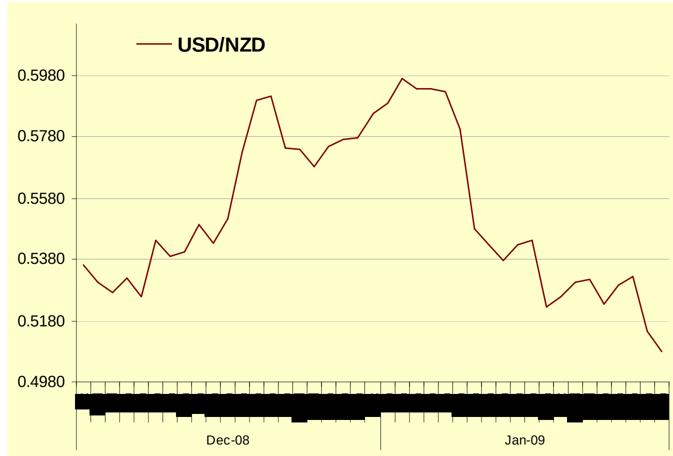


Table 1 shows the movements of the currencies in our currency basket against the US dollar at end January 2009, compared to the previous month and December 2007.

Table 1

USD per other currencies (end period)

				Movement of other currencies against the USD (+) appreciation / (-) depreciation	
	Dec-07	**Dec-08**	**Jan-09**	**Dec-07** (%)	**Dec-08** (%)
USD/NZD	0.7643	0.5856	0.5079	-33.55	-13.27
USD/AUD	0.8752	0.7062	0.6364	-27.29	-9.88
YEN/USD	111.51	90.85	89.93	19.36	1.01
USD/EUR	1.4581	1.3966	1.2799	-12.22	-8.36
USD/FJD	0.6422	0.5691	0.5410	-15.76	-4.94

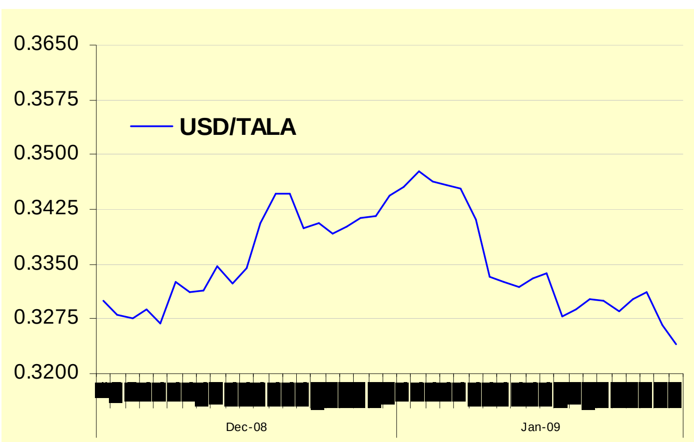
At end January 2009, the Greenback strengthened against all the currencies in the basket when compared to the previous month. The US dollar also strengthened against the FJD but it weakened against the YEN from the previous month.

C. EFFECT ON THE TALA

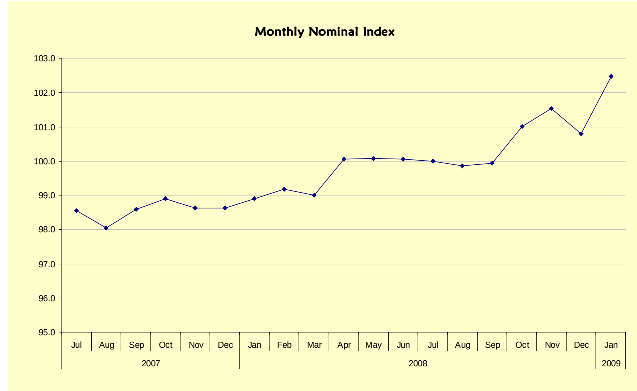
Compared to end December 2007 and the previous month, Table 2 shows the movement of the Tala at end January 2009 against the currencies in our currency basket as well as its movement against the FJD and the YEN.

Table 2					
Tala per foreign currencies (end period)					
				Movement of the Tala	
				(+) appreciation / (-) depreciation	
	Dec-07	Dec-08	Jan-09	Dec-07 (%)	Dec-08 (%)
TALA/USD	2.5580	2.9043	3.0872	-20.69	-6.30
TALA/NZD	1.9549	1.7007	1.5678	19.80	7.82
TALA/AUD	2.2387	2.0509	1.9647	12.24	4.20
TALA/EUR	3.7298	4.0561	3.9513	-5.94	2.59
TALA/FJD	1.6427	1.6528	1.6700	-1.66	-1.04
YEN/TALA	43.593	31.2798	29.1288	-33.18	-6.88
Nominal Index	98.62	100.79	102.47	3.91	1.67

At end January 2009, the Tala weakened against the USD but it strengthened against the NZD, AUD and the EURO from the previous month. The Tala fell against the YEN and the FJD when compared to the previous month.



The ***Tala*** opened the month firm at US$0.3455 and it continued strengthening in tandem with the rising Australian and New Zealand dollars. The Tala then fell to US$0.3412 as the Greenback rebounded on increased demand for safe haven currencies. Volatile global stock markets continued to weaken the Euro and the Australasian currencies, which also saw the Tala weaken to US$0.3333 and eventually to its first low for the month at US$0.3278. The Tala recovered to levels above US$0.3300 where it mostly traded in recent days. Significant weakness in the Aussie and Kiwi currencies saw the Tala trade back down to US$0.3267. The Tala closed the month at US$0.3239.

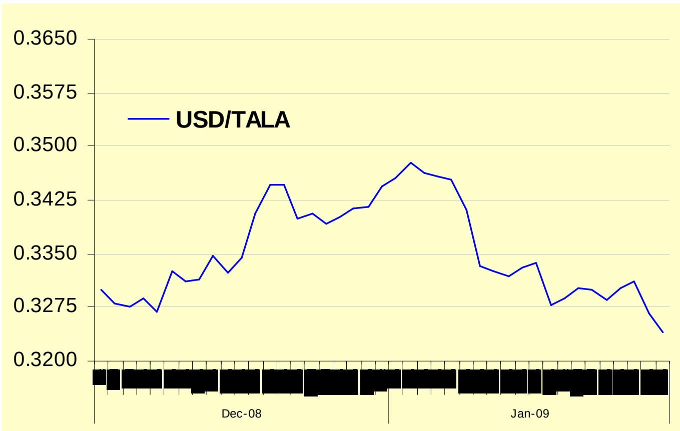


In terms of the ***Nominal Index***, the Tala appreciated by 1.67 percent at end January 2009 from the previous month. (See Table 2)

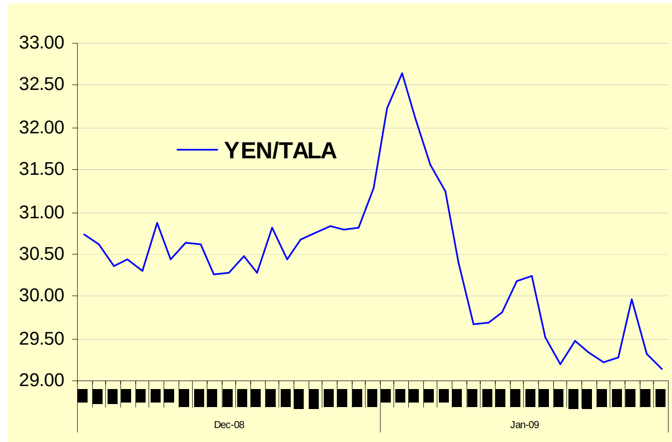
Leasi P T Scanlan
Governor

TALA GRAPHS

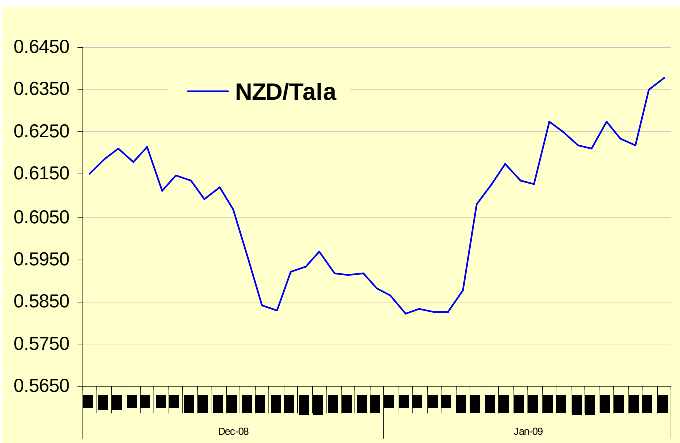
USD/TALA



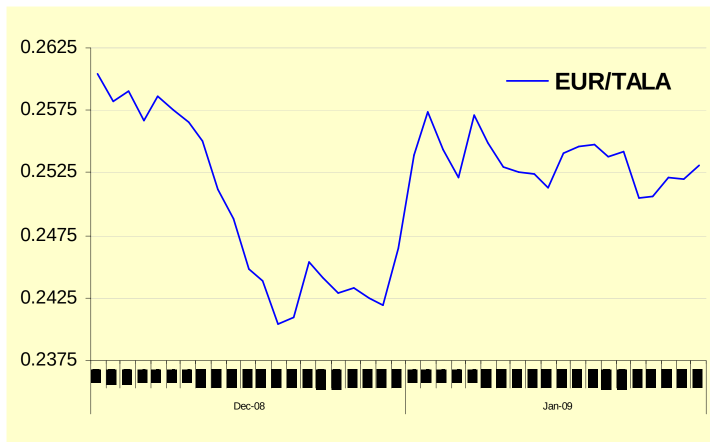
YEN/TALA



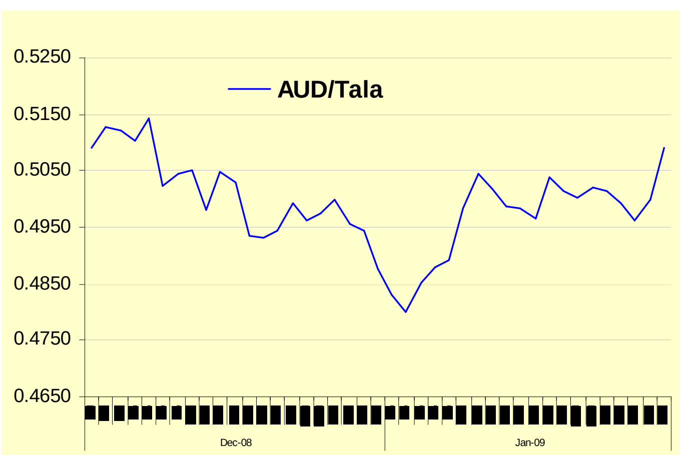
NZD/TALA



EUR/TALA



AUD/TALA



FJD/TALA