

CONFIDENTIAL
MEMORANDUM

17 August 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
JULY 2009

A. OVERVIEW

The **US dollar** was slightly weaker in July due to a decreased demand for its safe-haven status. During the month, the market was keen to put on risky trades as improved prospects of an economic recovery took traders away from the safe greenback. 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 caused by weak economic data releases. More favourable US releases towards the end of the month eased anxiety about the global downturn and consequently demand for the Yen. In its July monetary policy review, the BOJ held its official interest rate unchanged at 0.1 percent.

The **Euro** strengthened 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 considerably stronger in July as the Greenback weakened over the month. However robust commodity prices and equities helped underpin the Aussie currency's strength. In its July monetary policy review, the RBA held its policy interest rate at 3.00 percent.

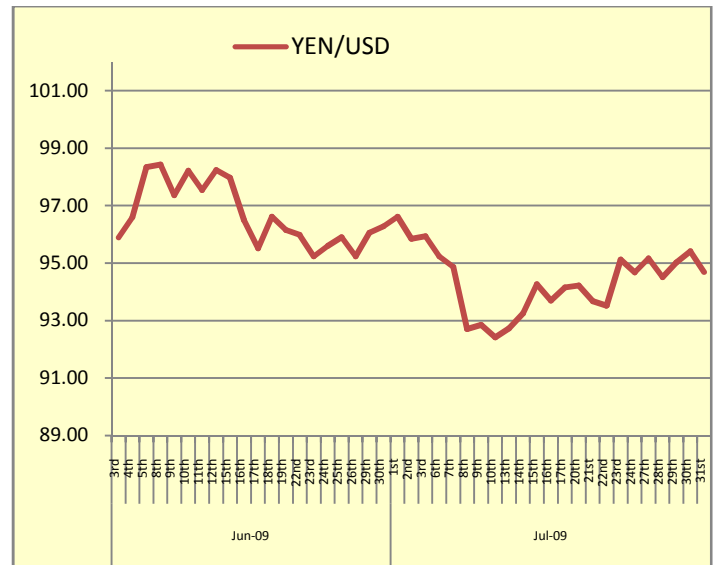
The **New Zealand dollar** likewise strengthened over the month, supported by recoveries in the equity markets coupled with the weakening US dollar. The strengthening Australian dollar also helped support the kiwi unit. The RBNZ held its official cash rate unchanged at 2.50 percent.

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

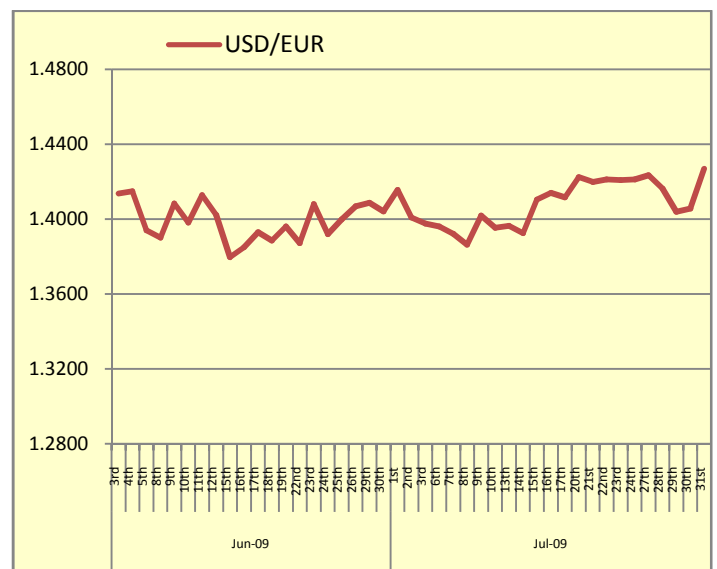
B. CURRENCY 'WATCH'

The **US dollar** continued to gain support from haven demand as disappointing US consumer confidence and employment data for June kept investors wary of the outlook for the world economy. The dollar rally, however, was capped by reports of strong US retail sales data, coupled with news of US companies reporting higher than expected earnings in June, a slower pace of decline in factory production and upbeat housing data. On the whole, US economic data have come out better than anticipated, thus fuelling speculations that the recession may be easing. Such optimism has led to global rallies in stock markets, the revival of investors' appetite for higher yielding yet riskier investments and the diminishing need for refuge in the dollar. Nevertheless, while statistics were positive, the occasional release of gloomy data kept market sentiment oscillating between demands for risky assets and refuge in the Greenback. The dollar weakened again as more reports of healthy US corporate earnings and 'new home' sales data, stoked equity markets and subsequently investors' risk appetites. Refuge in the dollar returned on weak July confidence data but an unexpected decline in US jobless claims revived speculations for an easing recession, thus paring back haven demand. The US dollar dropped to its lowest level this year against the currencies of its six major trading partners at the end of the month.

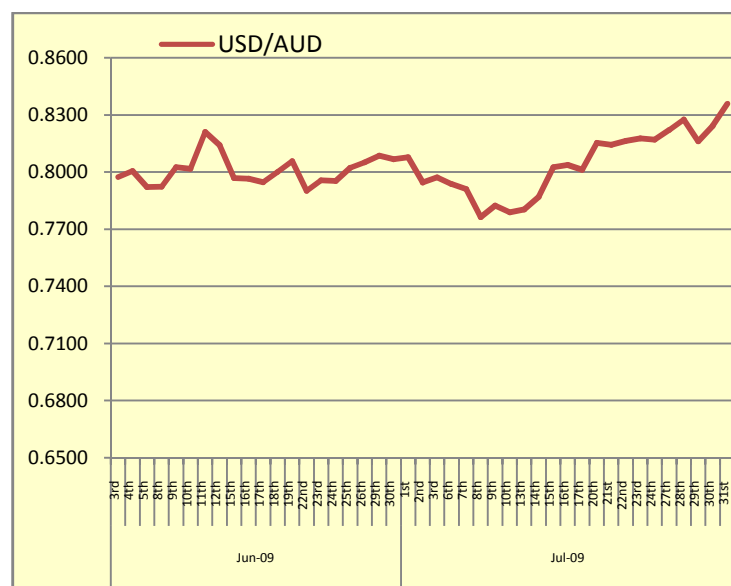
The **Japanese Yen** opened the month at Yen96.62 and it continued strengthening to Yen95 as haven demand picked up following the release of weak US economic data. The Yen briefly traded at Yen94 on increased demand for refuge as uncertainty about the global economic outlook grew. It rose further to Yen92 as some investors speculated that corporate earnings in the US will drop, thus prompting Japanese investors to sell overseas assets and withhold funds. As such, haven demand kept the Yen well supported. The release of sound US corporate earnings data eased speculators' anxiety about the downturn and also eased demand for refuge in the Yen. This led to a gradual decline in the Yen from Yen92 to around Yen95. Diminishing haven demand pinned the Yen at Yen95.41 but it finally traded and closed the month slightly firm at Yen94.61.



The **Euro** opened the month firm at US\$1.4156 on reports of unexpectedly strong retail sales in Germany but gains were brief as it proceeded to weaken to US\$1.38 after the European Central Bank kept its interest rate unchanged at 1.0 percent, and the dollar surged on haven demand. Another surprise report out of Germany on increased factory orders for May led to a rebound in the Euro to US\$1.4019. The Euro slipped to US\$1.39 as haven demand picked up amid uncertainty about the global recovery, however, strong corporate earnings data in the US led the global rally in equity markets, which fired up investors' risk appetite. As such, the euro jumped to US\$1.41 and trekked higher to US\$1.42. The Euro slipped back to US\$1.40 on receding risk appetite as weak US July confidence data revived haven demand. Weak data out of the US helped support the Euro which finally closed the month firmer at US\$1.4269.



The **Australian dollar** opened the month at US\$0.8078 and little by little it weakened to US\$0.7909 as the Greenback surged on haven demand. The Aussie unit was fairly unmoved by local economic data as better than expected retail sales were offset by surprisingly weak building approvals data. However, the Australian dollar slumped to US\$0.77 as uncertainty about the global economy sent equity markets lower, and investors scurrying to the safer Greenback. Falling commodity prices added to the Aussie unit's decline. While the Australian dollar recovered to US\$0.78 on better than expected Australian unemployment data, robust equity markets recharged investors' risk appetites, which helped boost the Aussie unit to US\$0.81. The Australian dollar eventually peaked at US\$0.8276 but it eased back to US\$0.8162 due to the resurgent US dollar. The Australian dollar finally closed the month at US\$0.8358; its highest level recorded for the month.



The **New Zealand dollar**, likewise, opened the month firm at US\$0.6395 but it fell just under US\$0.63 due to weaker commodity prices and the rebounding Greenback. The Kiwi managed to soar past US\$0.63 on a short-lived rally in equities but it drifted down to US\$0.62 as risk aversion led by uncertainty about the global economic outlook sent investors back into the safety of the Yen and the US dollar. Upbeat corporate earnings data in the US, strong retail sales in New Zealand coupled with rising commodity prices, sparked a solid rally in global equities, cementing the Kiwi's strength above US\$0.64. The NZ dollar pushed past US\$0.65 and peaked at US\$0.6588 but it eased down to US\$0.6551, weakened by the resurgent US dollar. The RBNZ held the OCR at 2.5 percent and despite the US

dollar's decline, the Kiwi was slightly down at US\$0.6518. The New Zealand dollar closed the month slightly stronger at US\$0.6619.

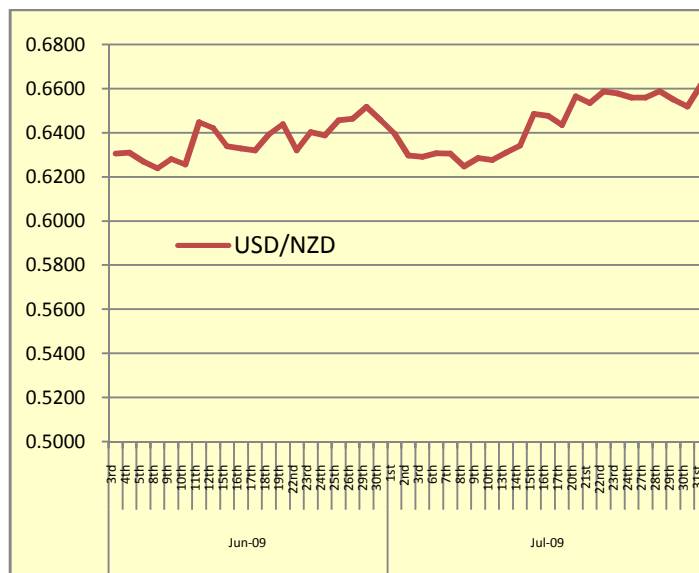


Table 1 shows the movements of the currencies in our currency basket together with the FJD and the Yen against the US dollar at end July 2009, compared to the previous month and December 2008.

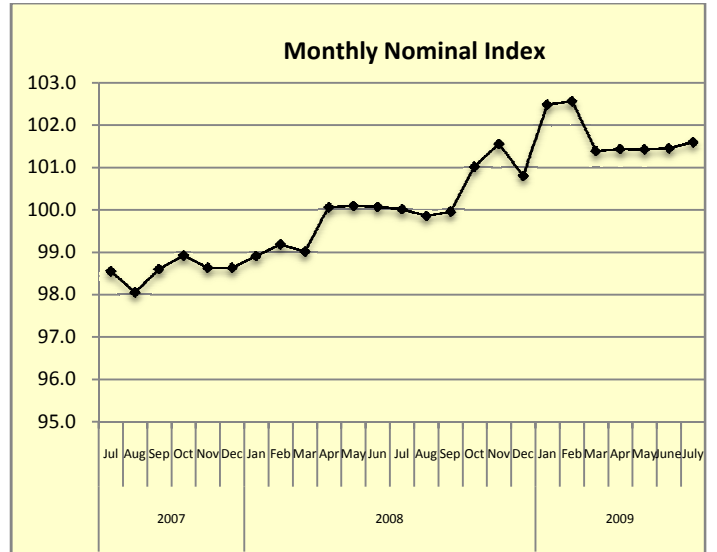
Table 1					
USD per other currencies (end period)					
				Movement of other currencies against the USD	
				(+ appreciation / (-) depreciation	
	Dec-08	Jun-09	Jul-09	Dec-08	Jun-09
				(%)	(%)
USD/NZD	0.5856	0.6458	0.6619	13.03	2.49
USD/AUD	0.7062	0.8068	0.8358	18.35	3.59
YEN/USD	90.85	96.28	94.69	-4.23	1.65
USD/EUR	1.3966	1.4041	1.4269	2.17	1.62
USD/FJD	0.5691	0.4905	0.4902	-13.86	-0.06

At end July 2009, the Greenback weakened against the **NZD**, the **AUD**, the **EURO**, and the **YEN** when compared to the previous month. The US dollar strengthened against the **FJD** from the previous month.

C. EFFECT ON THE TALA

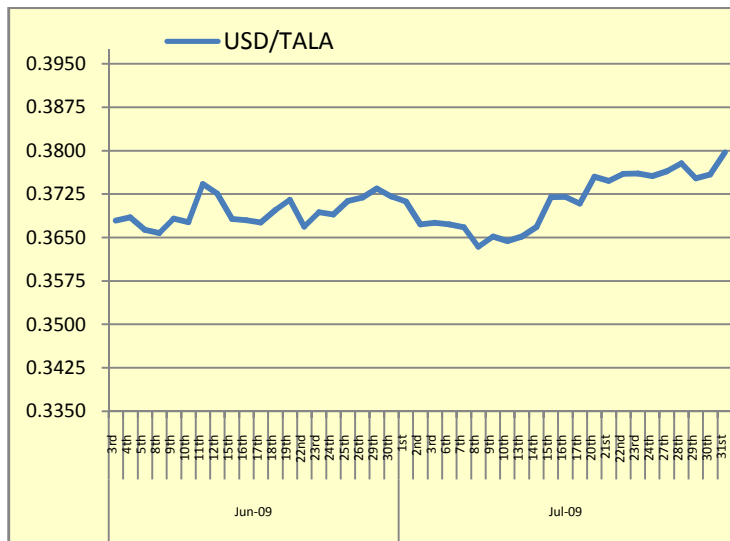
Compared to end December 2008 and the previous month, Table 2 shows the movement of the Tala at end July 2009 against the currencies in our currency basket as well as its movement against the FJD and the YEN.

Table 2					
Tala per foreign currencies (end period)					
	Dec-08	Jun-09	Jul-09	Movement of the Tala	
				(+ appreciation / (-) depreciation	
				Dec-08 (%)	Jun-09 (%)
TALA/USD	2.9043	2.6877	2.6337	9.32	2.01
TALA/NZD	1.7007	1.7356	1.7432	-2.50	-0.44
TALA/AUD	2.0509	2.1683	2.2012	-7.33	-1.52
TALA/EUR	4.0561	3.7737	3.7578	7.35	0.42
TALA/FJD	1.6528	1.3183	1.2909	21.90	2.08
YEN/TALA	31.2798	35.8232	35.9538	14.94	0.36
Nominal Index	100.79	101.44	101.58	0.79	0.14



At end July 2009, the Tala weakened against the **NZD** and the **AUD** but it strengthened against the **USD** and the **EURO** 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 0.14 percent at end July 2009 from the previous month. (See Table 2)

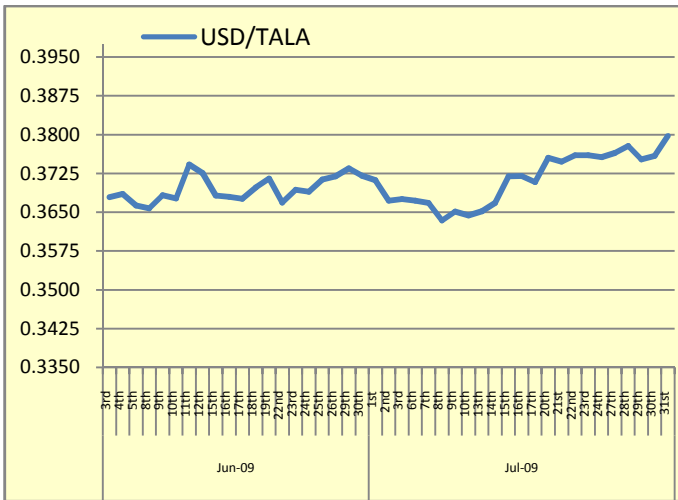


The **Tala** opened the month at US\$0.3712 and after initially dropping 40 points, the Tala gradually weakened from US\$0.3672 to as low as US\$0.3634 as it followed the Australasian currencies lower against the US dollar. The Tala picked up again at US\$0.3719 as diminishing haven demand for the dollar led to stronger gains in the Australian and New Zealand currencies. The Tala pushed its way up to US\$0.3778 but the decline in the Aussie and Kiwi currencies led to a slightly weaker Tala as the Greenback rebounded on haven demand. The Tala weakened again to US\$0.3759 before finally closing at its highest level recorded for the month at US\$0.3797.

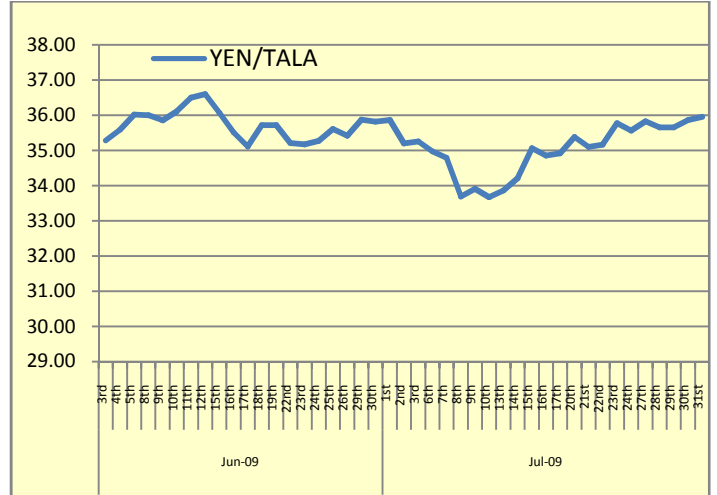
Leasi P T Scanlan
Governor

TALA GRAPHS

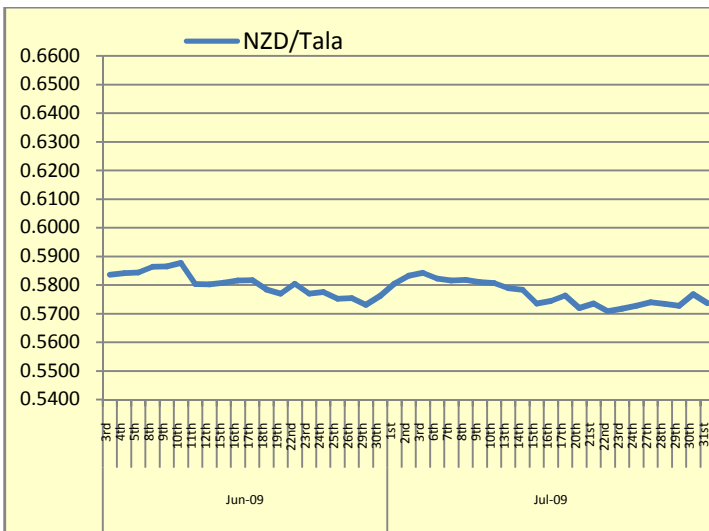
USD/TALA



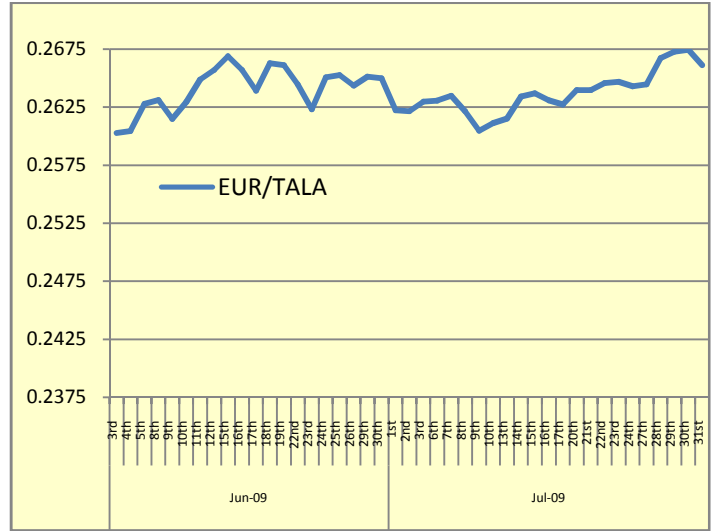
YEN/TALA



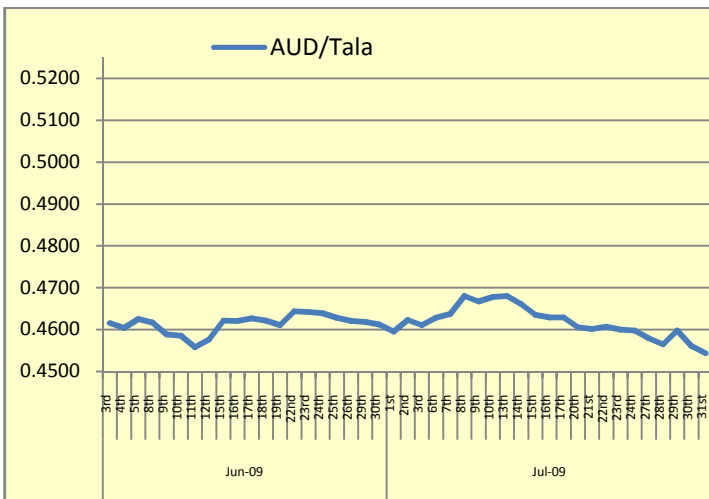
NZD/TALA



EUR/TALA



AUD/TALA



FJD/TALA

