

CONFIDENTIAL
MEMORANDUM

14 July 2009

THE MINISTER OF FINANCE

EXCHANGE RATES DEVELOPMENTS IN
JUNE 2009

A. OVERVIEW

The **US dollar** continued to weaken in June due to a decreased demand for safe-haven currencies. Reports of weak US economic statistics added to the view of weak recovery of global markets and led investors to stay away from risky assets. The Fed held its funds rate unchanged at 0.25 percent.

The **Yen** strengthened slightly over the month as global markets contracted, indicating weak economic data around the world. In its June monetary policy review, the BOJ also held its official interest rate unchanged at 0.1 percent.

The **Euro** was fairly stable right through the month as equity markets picked up again. This was due to volatile equity markets and weakening US dollar. The ECB also held its official interest rate unchanged at 1.00 percent.

The **Australian dollar** strengthened generally in June as the Greenback weakened over the month. Robust commodity prices and equities helped support the Aussie currency. In its June monetary policy review, the RBA also held its policy interest rate at 3.00 percent.

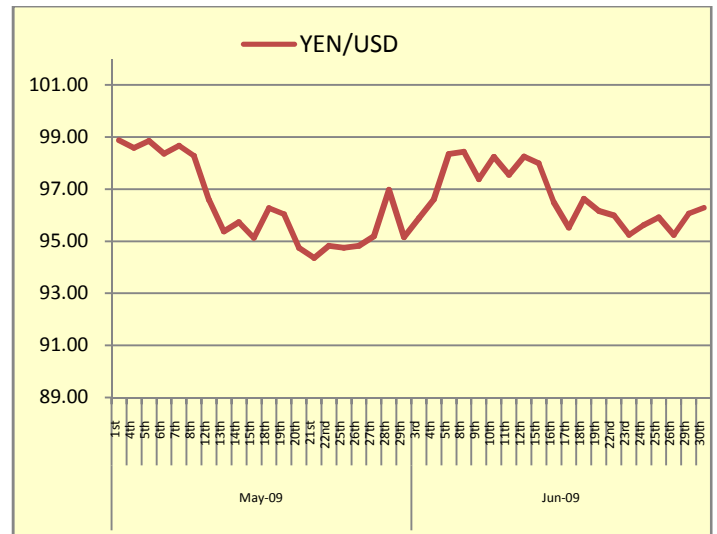
The **New Zealand dollar** likewise strengthened over the month, supported by recoveries in the equity markets. The strengthening Australian dollar coupled with the weakening US dollar also helped support the New Zealand dollar. The RBNZ also held its official cash rate unchanged at 2.50 percent.

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

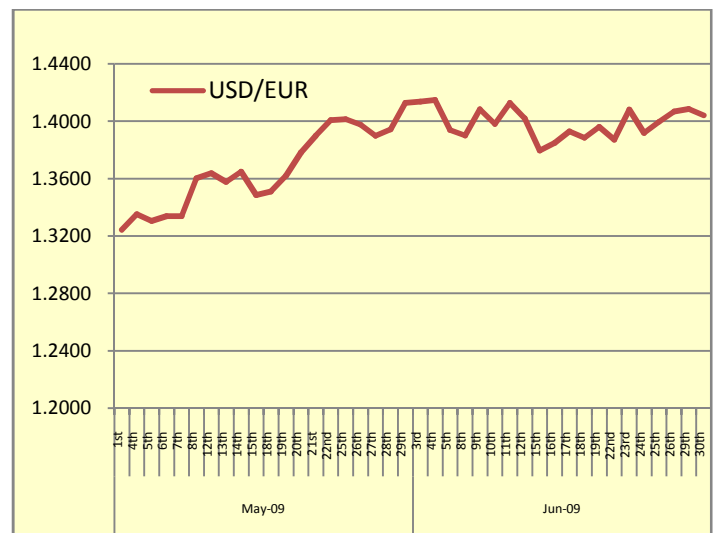
B. CURRENCY 'WATCH'

The **US dollar** opened the month slightly weak but it gained impetus over the month on haven demand as markets speculated that the economy's recovery may be too weak to sustain gains in the equity markets. Weak US statistics such as the increase in the unemployment rate in May coupled with the growing US budget deficit were just some of the reasons behind the speculations for a weak recovery. Nevertheless, upbeat data pared back gains to the Greenback as haven demand waned amid strong US retail sales data, softer than expected manufacturing data and fewer claims for jobless benefits. The dollar found support from speculations that the Fed may increase the funds rate as economic statistics improved but gains were short-lived as the speculations were dampened by the May inflation data, which came out slower than expected. The Greenback rebounded after the Fed held its key interest rate unchanged at 0.25 percent but recently the dollar has been subdued by a recovery in risk appetite as markets speculated on increased demand for higher yielding assets as further evidence of a global recovery unfolded.

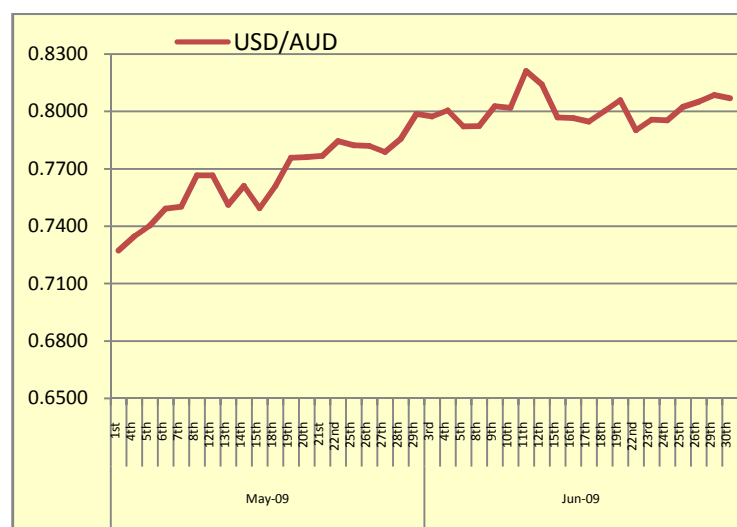
The **Japanese Yen** opened the month at Yen95.89 and it gradually fell from Yen95 to Yen98 on reduced haven demand for the Yen. The Yen later fluctuated between Yen97 and Yen98 following equity market movements as mixed data out the US kept investors' demand shifting between risky assets and safe investments. The Yen slowly but surely strengthened to around Yen96 and Yen95 as weak data in the US and Europe, coupled with the slide in global equities boosted safe haven demand for the Yen. The Yen held steady at Yen95 in the latter weeks, supported by the weakening US dollar and ongoing haven demand after the World Bank commented that the outlook for the global economy remains 'fairly uncertain'. The Yen continued to trade fairly steady around Yen95 until it fell back to Yen96. The Yen finally closed off the month slightly weaker at 96.28.



The **Euro** opened the month firm at US\$1.4137 and it continued strengthening to US\$1.4149 on comments from the ECB that it had no plans of lowering its key interest rate further. A brief recovery in the US dollar led to a sharp drop in the Euro to US\$1.39. The Euro then slid into a range between US\$1.39 to US\$1.41 but it lost some support after Standard and Poor's downgraded Ireland's credit rating. Speculations on the speed and timing of the global recovery with regard to economic data out of the US and Europe often directed the equity markets' movements and this also kept the Euro range bound. Although the Euro plunged to US\$1.37 on weak Euro zone industrial production data, the recent decline in the dollar, coupled with the Euro's yield advantage over the Greenback has seen the Euro climb back to levels around US\$1.40. The Euro closed the month firm at US\$1.4041



The **Australian dollar** opened the month slightly down at US\$0.7973 but it rose to US\$0.80 after GDP data for Australia came out stronger than expected. An unwinding of currency hedges after a proposed deal went bad between an Australian mining company and a Chinese importer of Australian metals, led the currency down to US\$0.79. The Aussie dollar picked up again on support from upbeat consumer confidence data, strong labor data, rising commodity prices coupled with renewed weakness in the Greenback. The Aussie unit continued to fluctuate between US\$0.79 to US\$0.80 as it tailed volatile equity markets. Throughout the month, the Australian dollar mainly traded at levels around US\$0.79 but it finally closed the month at US\$0.8068.



The **New Zealand dollar** likewise, opened the month slightly weaker at US\$0.6305 and while it was firm at US\$0.63, the sharply lower Australian dollar coupled with the resurgent US currency, weakened the Kiwi to US\$0.6269. Offshore data and the generally stronger Greenback kept the NZ dollar subdued at US\$0.62. The Reserve Bank of New Zealand's decision to hold the OCR at 2.50 percent boosted the Kiwi currency to US\$0.64 but only for a short while. The NZ dollar later held steady at levels just above US\$0.63 as mixed offshore data orchestrated volatile movements in the equity markets. The Kiwi currency recently strengthened to US\$0.64 from US\$0.6320, supported by renewed weakness in the US dollar coupled with the revival of risk appetite. The NZ dollar firmly traded at US\$0.6458 at the end of the month.

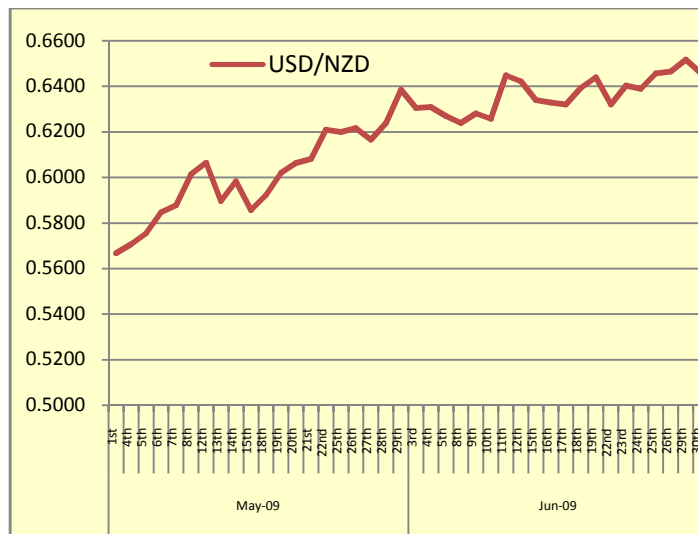


Table 1 shows the movements of the currencies in our currency basket against the US dollar at end June 2009, compared to the previous month and December 2008.

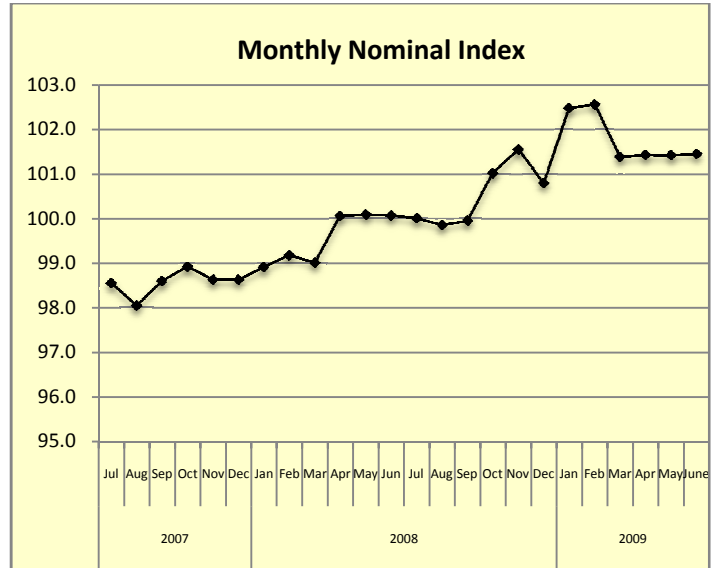
Table 1					
USD per other currencies (end period)					
				Movement of other currencies against the USD (+) appreciation / (-) depreciation	
	Dec-08	May-09	Jun-09	Dec-08 (%)	May-09 (%)
USD/NZD	0.5856	0.6385	0.6458	10.28	1.14
USD/AUD	0.7062	0.7987	0.8068	14.25	1.01
YEN/USD	90.85	95.15	96.28	-5.98	-1.19
USD/EUR	1.3966	1.4129	1.4041	0.54	-0.62
USD/FJD	0.5691	0.4721	0.4905	-13.81	3.90

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

C. EFFECT ON THE TALA

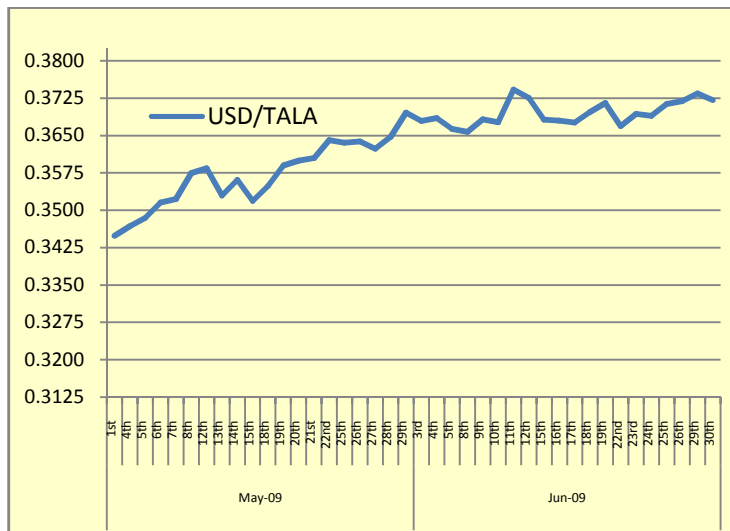
Compared to end December 2008 and the previous month, Table 2 shows the movement of the Tala at end June 2009 against the currencies in our currency basket as well as its movement against the FJD and the YEN.

Table 2					
Tala per foreign currencies (end period)					
	Dec-08	May-09	Jun-09	Movement of the Tala	
				(+ appreciation / (-) depreciation	
				Dec-08 (%)	May-09 (%)
TALA/USD	2.9043	2.7058	2.6877	7.46	0.67
TALA/NZD	1.7007	1.7277	1.7356	-2.05	-0.46
TALA/AUD	2.0509	2.1610	2.1683	-5.72	-0.34
TALA/EUR	4.0561	3.8231	3.7737	6.96	1.29
TALA/FJD	1.6528	1.2774	1.3183	20.24	-3.20
YEN/TALA	31.2798	35.1628	35.8232	14.53	1.88
Nominal Index	100.79	101.41	101.44	0.65	0.03



At end June 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** but it weakened against the **FJD** when compared to the previous month.

In terms of the **Nominal Index**, the Tala appreciated by 0.03 percent at end June 2009 from the previous month. (See Table 2)

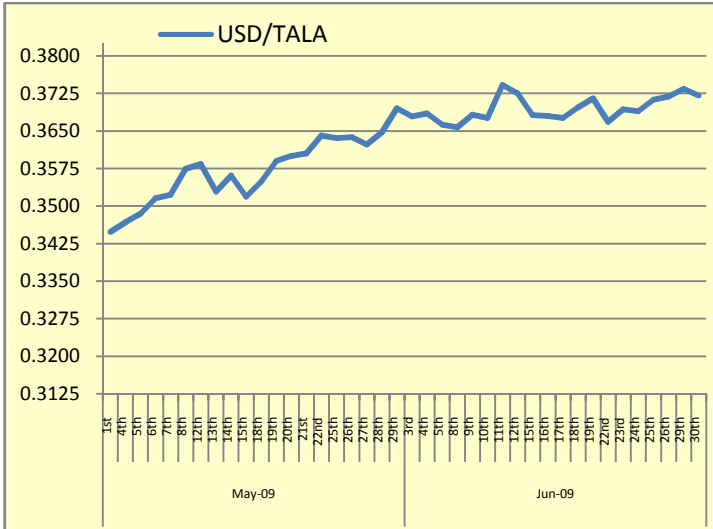


**Financial Markets Department
June 2009**

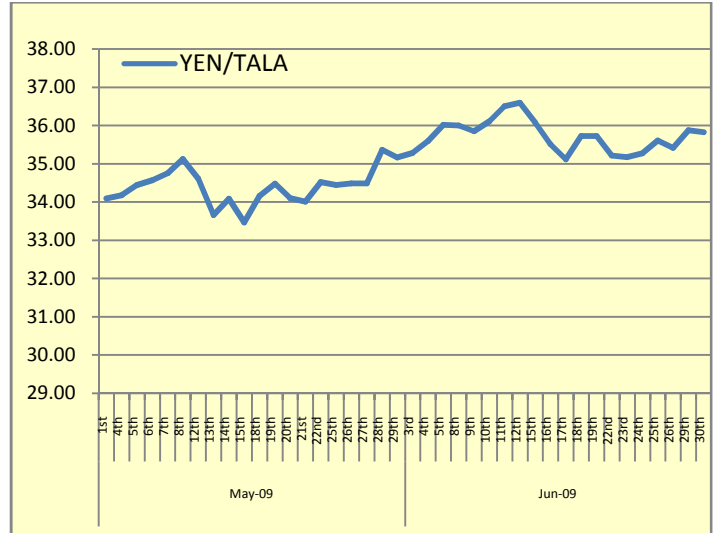
The **Tala** opened the month at US\$0.3679 and it slowly gained some ground against the Greenback as the currencies of the Euro area, Australia and New Zealand held firm against the US dollar. The Tala eventually surpassed US\$0.37 where it steadied for a short period before easing back to US\$0.3676. The Tala also fluctuated for some time between US\$0.36 and US0.37 until the recent decline in the dollar led the Tala back up to US\$0.37. The Tala continued to trade at US\$0.37 until it finally closed the month firm at US\$0.3721.

TALA GRAPHS

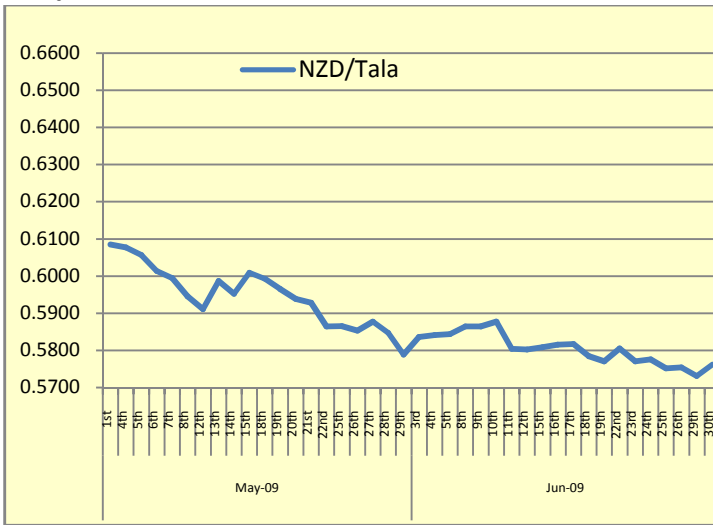
USD/TALA



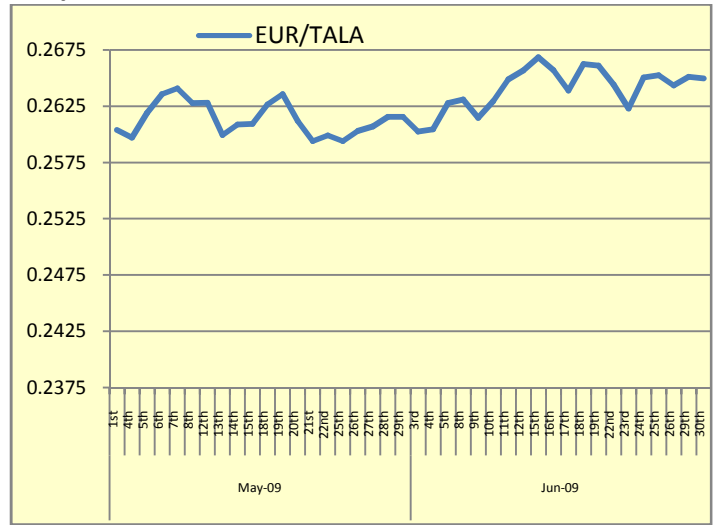
YEN/TALA



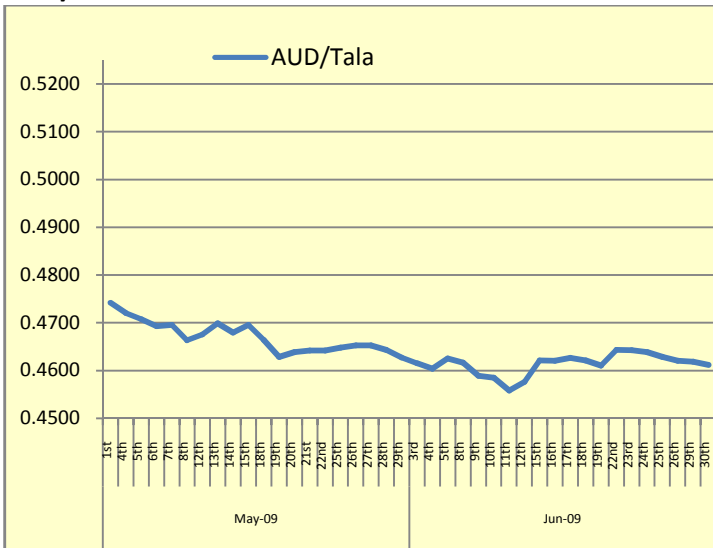
NZD/TALA



EUR/TALA



AUD/TALA



FJD/TALA

