

CONFIDENTIAL
MEMORANDUM

17 April 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
MARCH 2009

A. OVERVIEW

The **US dollar** weakened considerably in March due to a decreased demand for safe-haven currencies. Reports of weak US economic statistics added to the view that the global recession was deepening and led investors to stay away from risky assets as they fled into the safety of the US currency. The US Federal Reserve's plan to boost the economy through quantitative easing mainly affected the currency. The Fed held its funds rate at 0.25 percent.

The **Yen** also weakened slightly over the month due to poor economic data indicating a deepening recession in Japan. The sharp contraction in Japan's GDP mainly weakened the Yen. In its March monetary policy review, the BOJ held its official interest rate unchanged at 0.1 percent.

The **Euro** strengthened gradually over the month as equity markets picked up again. The weakening US dollar also helped support the Euro. The ECB reduced its official interest rate by 50 basis points from 2.00 percent to 1.50 percent.

The **Australian dollar** was also on a general uptrend as the Greenback weakened over the month. Strong commodity prices and equities helped support the Aussie currency. In its March monetary policy review, the RBA held its policy interest rate at 3.25 percent.

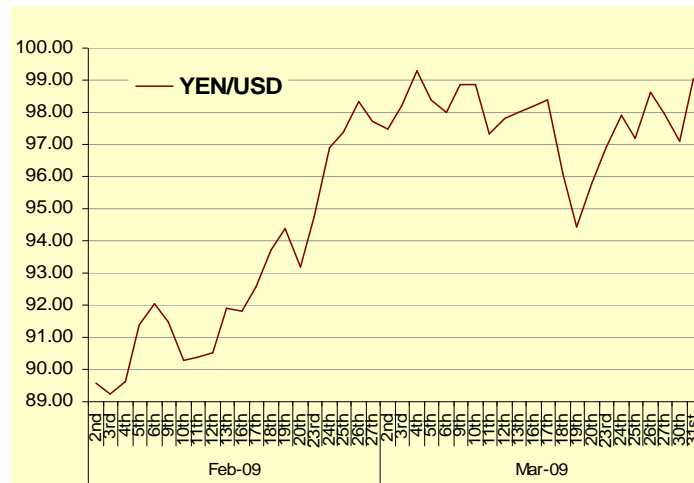
The **New Zealand dollar** likewise strengthened over the month, supported by brief recoveries in the equity markets coupled with the weakening US dollar. The RBNZ reduced its official cash rate by 50 basis points from 3.50 percent to 3.00 percent.

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

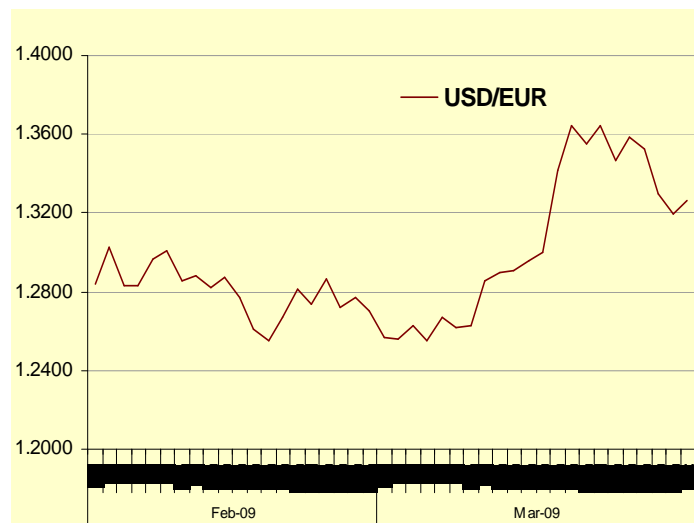
B. CURRENCY WATCH

The *US dollar* resumed strengthening into March as gloomy economic data out of the US continued to increase haven demand for the currency. However softer than expected job losses in February eased back demand for the dollar as markets took on a little more risk, based on speculations that the labor market slump may have bottomed out. The rally in global share markets following Citigroup's report on its best quarterly performance in December since 2007 also added to the slump in haven demand for the US dollar as risk appetite picked up. Nevertheless, losses were brief amid volatility in the equity markets, which continued to see the Greenback fluctuating on risk aversion as markets reacted to mixed economic data. Risk aversion remained the key supporter of the dollar, for the market was generally wary of the deepening global downturn. The Greenback weakened again as global equity markets picked up on surprisingly upbeat data in the US, coupled with the US Federal Reserve's plan to print money to buy US\$300 billion of longer term government debt. Markets remain concerned about the Fed's plan to increase money supply in the US, which is feared, will stoke inflation and erode the currency's purchasing power. The U.S. currency dropped against most major counterparts as stocks rose, improving risk sentiment and reducing demand for safety in the dollar at the end of the month.

The *Japanese Yen* opened the month firm at Yen 97.45 as it too gained support from haven demand. Increased concern about the global economic downturn saw the Yen hold firm as global equities fell. The Yen later eased to Yen 98 and finally to Yen 99.26 as global stocks rose on the prospect of a Chinese economic stimulus. Market speculations that Japanese investors will resume buying overseas assets for higher returns as the economy slumps also dampened trade in the Yen. A sharp contraction in Japan's GDP, led by plummeting exports in the fourth quarter of 2008, kept the currency weak at Yen 98. The Yen rose to Yen 97 for a short period, supported by bouts of weakness in the dollar but it fell again as equity markets recovered and risk appetite picked up again. The Yen steadily rose to Yen 94, again as the Greenback weakened but it recently fell back to Yen 97 on reports of BOJ's plan to provide subordinated loans to banks as well as increased purchases of government debt. The Yen eventually closed the month weaker at Yen 99.03.



The *Euro* opened the month weak at US\$1.2570 as the Greenback held firm on haven demand. The Euro weakened despite the ECB lowering its official interest rate to 1.5 percent and signaled that further rate cuts are possible as it will only consider taking new policy steps such as buying government debt if deflation became a significant risk. The Euro jumped from levels around US\$1.26 to \$1.2858 as global equity markets recovered on news of Citigroup Bank's upbeat quarterly performance. The continued rally in share markets kept the Euro well supported at US\$1.29 and eventually at levels above US\$1.30 as the Fed embarked on its plans for quantitative easing. The Euro was firmly supported by the dollar's decline but it later weakened on revived concern about the deepening recession, which led traders to seek safety in other currencies. Although the Euro closed the month slightly weak at US\$1.3266, it was significantly stronger compared to its opening level for the month.

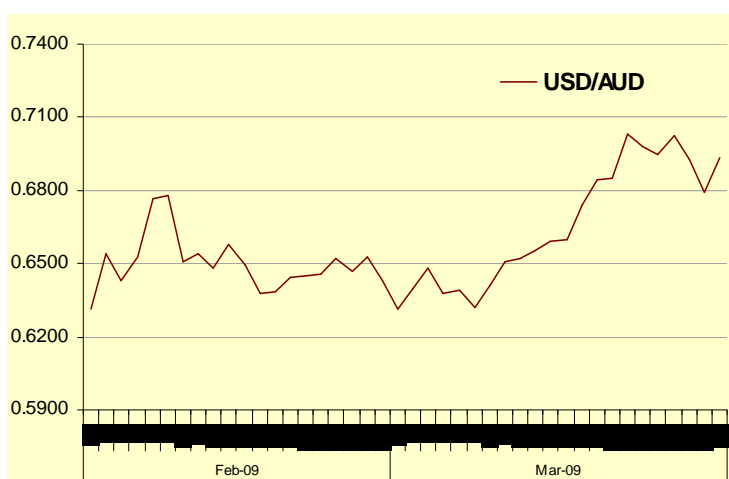


The *Australian dollar* also opened the month slightly weaker at US\$0.6312 on the back of the Greenback's rally. However, it rose to US\$0.6483 following the RBA's 'no change' decision on the cash rate at 3.25 percent. Risk aversion continued to dominate the markets, and this coupled with Australia's weak GDP, housing and labor data, weakened the Australian dollar to US\$0.6377. The Aussie unit picked up again on the back of recovering equity markets, led by softer than expected job losses in the US coupled with Citigroup's upbeat performance news. The Australian dollar continued climbing to US\$0.65 as strong performances in the global stock markets kept the Aussie unit well supported. It eventually surged past US\$0.67 and finally to US\$0.7032 on the back of strong equities and the weakening US dollar. The Australian dollar stood firm at US\$0.6950 and briefly rose to US\$0.7024 before closing the month at US\$0.6934.



Table 1 shows the movements of the currencies in our currency basket against the US dollar at end March 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	Feb-09	Mar-09	Dec-08 (%)	Feb-09 (%)
USD/NZD	0.5856	0.5028	0.5693	-2.78	13.23
USD/AUD	0.7062	0.6432	0.6934	-1.81	7.80
YEN/USD	90.85	97.73	99.03	-9.00	-1.33
USD/EUR	1.3966	1.2703	1.3266	-5.01	4.43
USD/FJD	0.5691	0.5357	0.5551	-2.46	3.62



The *New Zealand dollar* similarly started the month weak at US\$0.4943 as a result of the strengthening US dollar. However, it managed a spike to US\$0.50 following the RBA's cash rate review but fell again to US\$0.49 as markets remained highly risk averse. The recovery in global stocks following news of US Citigroup's upbeat financial performance lifted the Kiwi to US\$0.50 and from there it steadily climbed to US\$0.52 on gains from RBNZ's 50 basis points reduction in the OCR to 3.0 percent. The weakening US dollar and rallying global equity markets also supported the NZ dollar so that it continued strengthening from US\$0.54 to US\$0.55 and finally surged to US\$0.5716 on news of the Fed's plan to purchase government debt by printing money. The Kiwi unit traded firmly between US\$0.56 and US\$0.57 until it finally closed the month at US\$0.5693.

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

C. EFFECT ON THE TALA

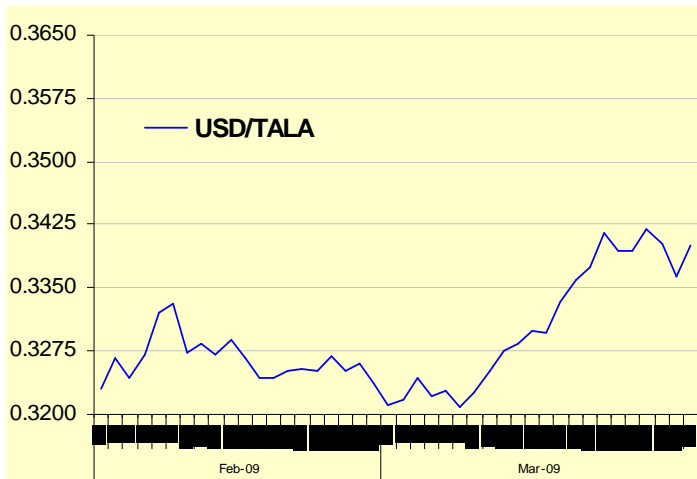
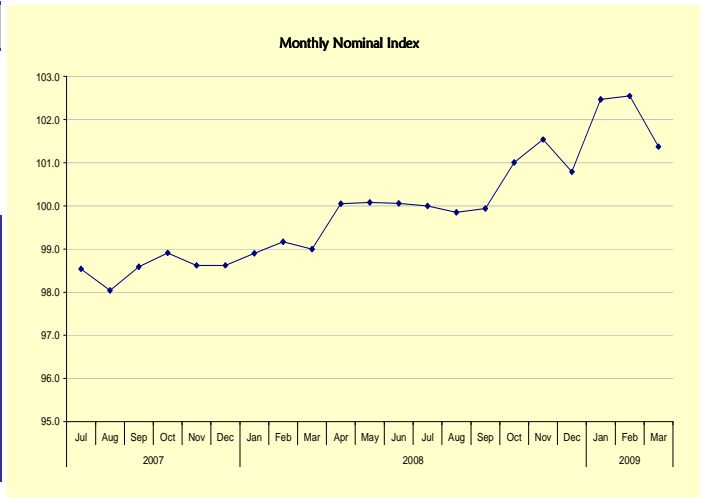
Compared to end December 2008 and the previous month, Table 2 shows the movement of the Tala at end March 2009 against the currencies in our currency basket as well as its movement against the FJD and the YEN.

Table 2**Tala per foreign currencies (end period)**

	Dec-08	Feb-09	Mar-09	Movement of the Tala (+) appreciation / (-) depreciation	
				Dec-08 (%)	Feb-09 (%)
TALA/USD	2.9043	3.0902	2.9413	-1.27	4.82
TALA/NZD	1.7007	1.5538	1.6743	1.55	-7.76
TALA/AUD	2.0509	1.9875	2.0395	0.55	-2.62
TALA/EUR	4.0561	3.9255	3.9019	3.80	0.60
TALA/FJD	1.6528	1.6554	1.6327	1.22	1.37
YEN/TALA	31.2798	31.6256	33.6672	7.63	6.46
Nominal Index	100.79	102.55	101.38	0.58	-1.14

At end March 2009, the Tala weakened against the NZD and the AUD but it strengthened against the USD 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 depreciated by 1.14 percent at end March 2009 from the previous month. (See Table 2)

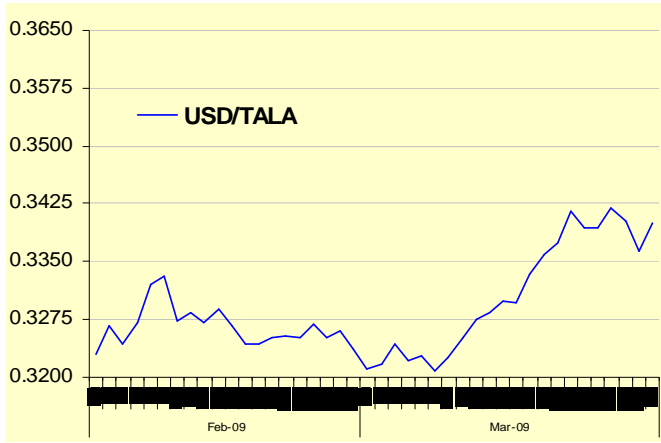


The *Tala* opened the month weak at US\$0.3210 as the Greenback rose to the highest since April 2006 against the currencies of its major trading partners. The Tala then rose to US\$0.3218 and finally to US\$0.3334 on diminishing haven demand for the US dollar, which ensured the steady rise in the Tala. The Tala eventually closed the month firmer at US\$0.3400.

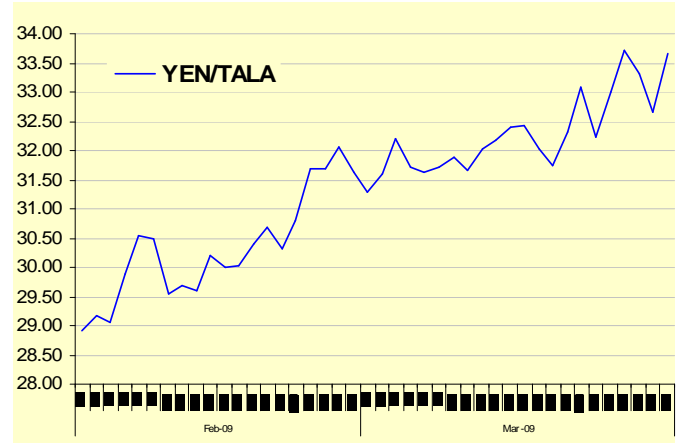
Magele Filipino Magele
Acting Governor

TALA GRAPHS

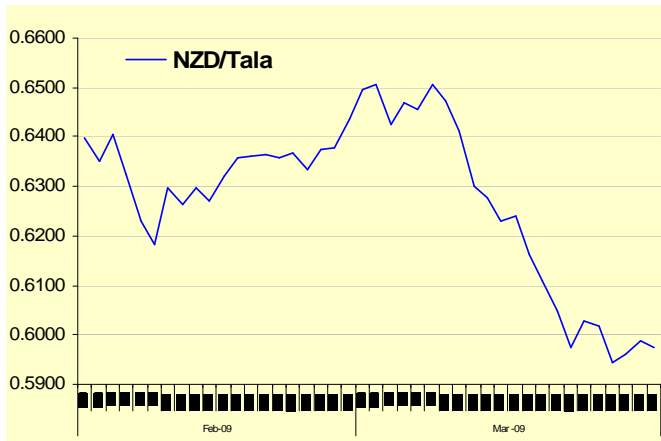
USD/TALA



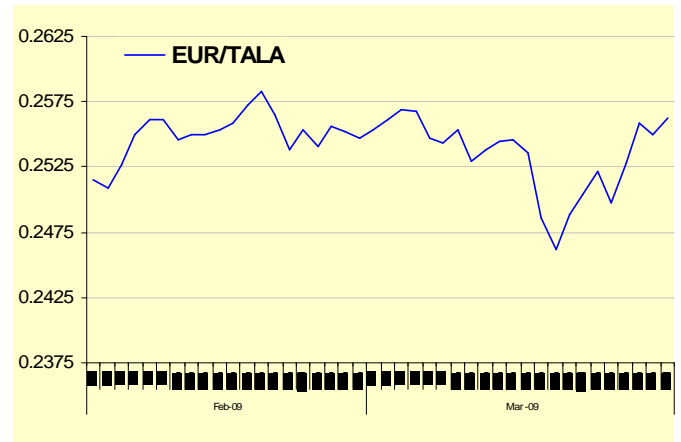
YEN/TALA



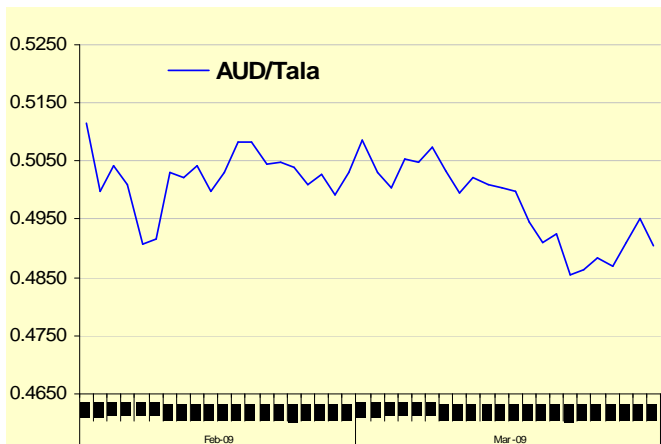
NZD/TALA



EUR/TALA



AUD/TALA



FJD/TALA

