CONFIDENTIAL
MEMORANDUM

18 June 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 MAY 2009

A. OVERVIEW

The **US dollar** weakened considerably in May due to decreased demand for safe-haven currencies, as risk aversion in the global equity markets picked up again. Throughout the month, the market was keen to put on risk trades in order to gain more as demand for the US currency fell. 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 May 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 25 basis points from 1.25 percent to 1.00 percent.

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

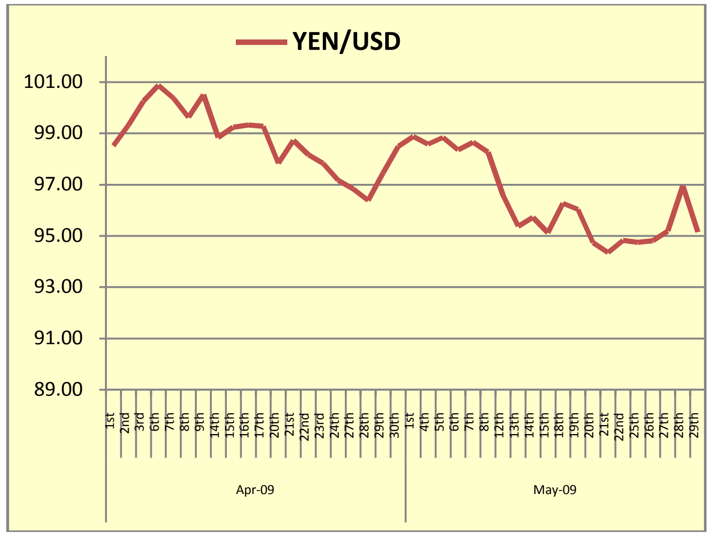
The **New Zealand dollar** likewise strengthened over the month, supported by recoveries in the equity markets coupled with the weakening US dollar. The RBNZ held its official cash rate unchanged at 2.50 percent.

In May 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.**

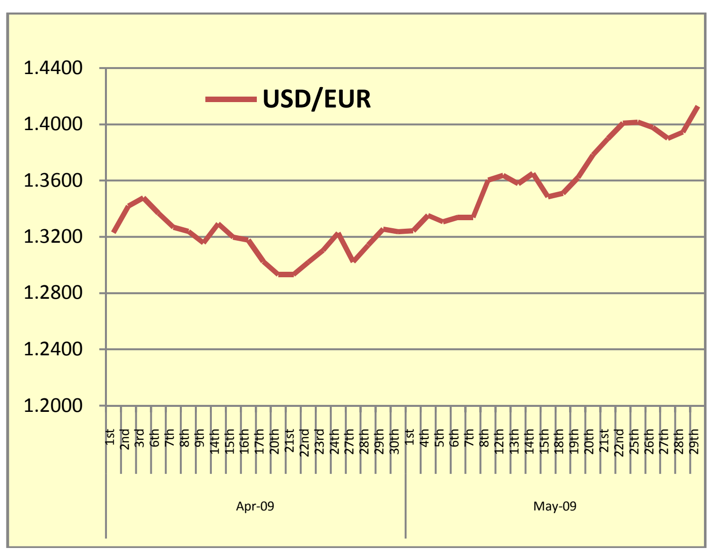
B. CURRENCY 'WATCH'

The ***US dollar*** opened the new month fairly subdued as economic data suggestive of a recovery in the United States pared back demand for safety in the dollar. Recent US housing, manufacturing, service industry and labor statistics unexpectedly pointed to the upside and as such, global equities have been strengthening on the optimism that the US contraction may be easing. A sparse distribution of softer US data coupled with persistent worries about the global economic prospects generally saw the Greenback stage brief rebounds on haven demand. The US dollar fluctuated lower on mixed data as haven demand for the dollar waned amid revived speculations that the recession may be moderating given that better than expected economic releases outweighed the weaker statistics. The Greenback then headed downhill on upbeat US consumer confidence data but this trend reversed after the US Government auction of $35 billion in securities attracted the most demand in three months, indicating that US dollar-denominated assets were still attractive.

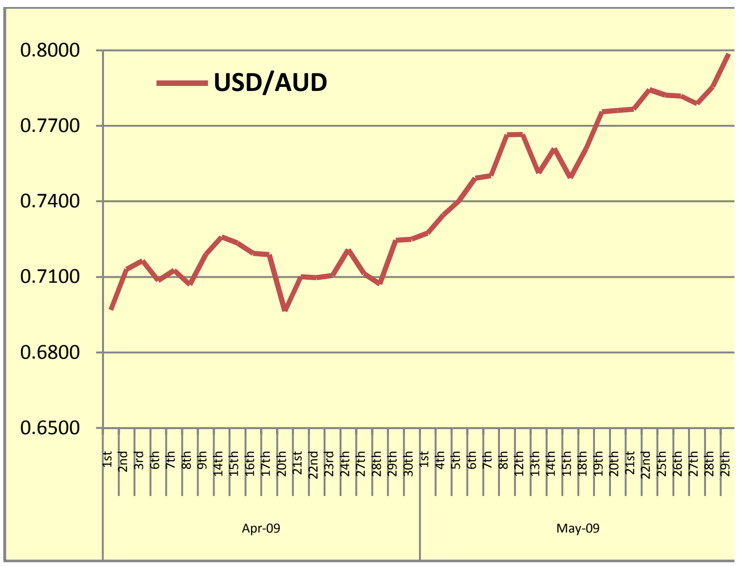
The ***Japanese Yen*** opened the month at Yen98.88 and was fairly steady at Yen98 despite upbeat data out of the US eroding investors' demand for safety in the Yen. The Yen gradually rose to Yen95.37 on increased haven demand as global equity prices fell amid ongoing concerns about the world economic outlook. However, gains were brief as the Yen fell back to Yen96 on a recovery in the equity markets following some positive US data. The last weeks of May saw the Yen progressively rise to Yen94, where it was supported by haven demand, Yen-positive comments from Japan's Finance Minister that rules out the prospect of a government intervention in the currency market coupled with Bank of Japan's raised economic assessment. The Yen fell back to Yen96 on a rebound in the US dollar and on concern about North Korea's recent nuclear testing. The Yen closed the month slightly firmer at Yen95.15.



The ***Euro*** opened the month at US$1.3243 and it steadily rose to US$1.3339, supported by the rally in the global equity markets amid upbeat data out of China and the US, which suggested the pace of the global economic downturn, may be slowing. The revival of risk appetite given the run of better than expected data out of the US coupled with the ECB's interest rate cut to 1.0 percent, continued to support the Euro's rally to US$1.3637 before it fluctuated on mixed data both offshore and on the local front. Weak growth data for the Euro region coupled with reports that the ECB may increase its asset purchases program after recently announcing a €60 billion plan to buy government debt weakened the Euro to US$1.34. The Euro steadily recovered to US$1.36 and climbed as high as US$1.40 on a recent rebound in equity markets coupled with upbeat business confidence data out of the Euro area. The rebound in the dollar saw the Euro trade down to US$1.3899 but it finally closed the month at US$1.4129; its highest level recorded for the month.



The ***Australian dollar*** opened the month firm at US$0.7273 and step by step climbed its way to US$0.7666 on stronger equity markets and commodity prices, which rejuvenated Aussie dollar-support from investors' appetite for risk. The RBA's 'no change' decision to the cash rate at 3.0 percent and better than expected labor data in Australia accentuated the currency's strength. However, some unexpectedly weak US retail sales data revived demand for haven currencies as global stocks fell and the Australian dollar slid to US$0.7494. While concern about the global economic outlook persisted, the Australian dollar eventually rose to US$0.77 as it caught a lift with the rallying Euro and another sturdy rebound in global equities. The Aussie unit rose as high as US$0.7844 but it eased lower on a recovery in the Greenback. The Australian dollar continued to trade between US$0.77 and US$0.78 before closing the month firmly at US$0.7987.



The ***New Zealand dollar*** opened the month firm at US$0.5667 and was driven higher by support from investors' risk appetite, which recovered on stronger than expected US data. Rallying equity markets amid rising optimism that the worst of the recession may be over mainly drove the Kiwi dollar's rally to as high as US$0.60. The strengthening Australian dollar also helped prop up the NZ dollar. A mixed bag of weak and positive, offshore and local data led the Kiwi through a brief period of considerable volatility before it steadily trekked higher to US$0.62 on a recovery in global equity markets, coupled with support from the rallying Euro and Australian dollar. The Kiwi unit closed the month at its highest level recorded for the month at US$0.7987.

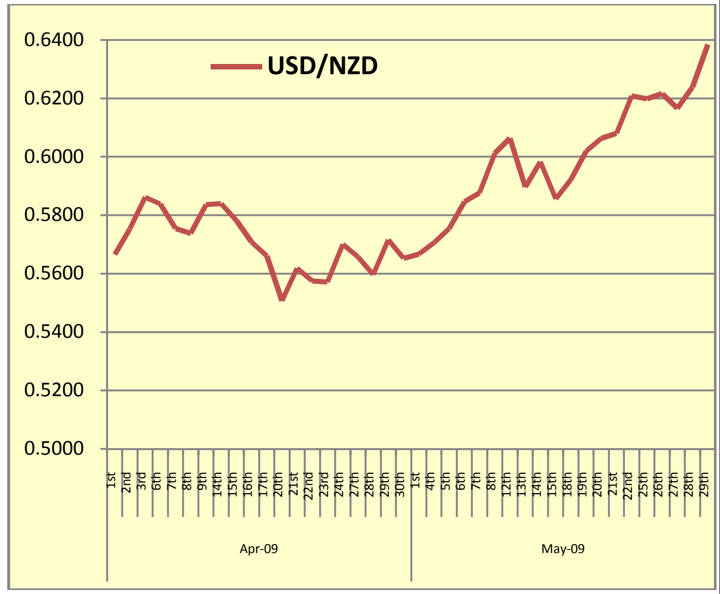


Table 1 shows the movements of the currencies in our currency basket against the US dollar at end May 2009, compared to the previous month and December 2008.

Table 1

USD per other currencies (end period)

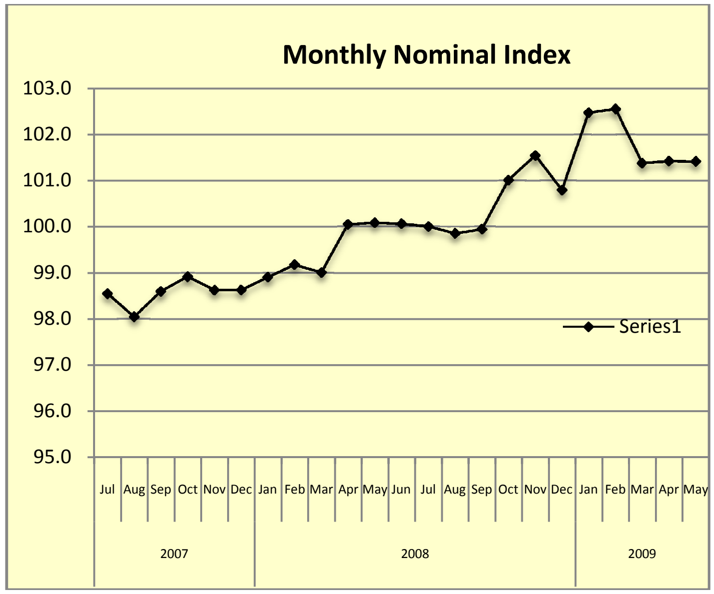
				Movement of other currencies against the USD (+) appreciation / (-) depreciation	
	Dec-08	Apr-09	May-09	Dec-08 (%)	Apr-09 (%)
USD/NZD	0.5856	0.5652	0.6385	9.03	12.97
USD/AUD	0.7062	0.7250	0.7987	13.10	10.17
YEN/USD	90.85	99.49	95.15	-4.73	4.36
USD/EUR	1.3966	1.3236	1.4129	1.17	6.75
USD/FJD	0.5691	0.4540	0.4721	-17.04	3.99

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

C. <u>EFFECT ON THE TALA</u>

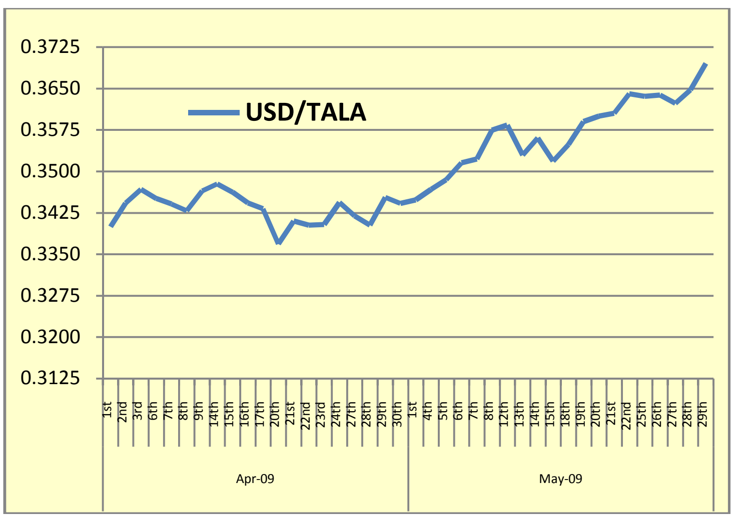
Compared to end December 2008 and the previous month, Table 2 shows the movement of the Tala at end May 2009 against the currencies in our currency basket as well as its movement against the FJD and the YEN.

Table 2					
Tala per foreign currencies (end period)					
				Movement of the Tala (+) appreciation / (-) depreciation	
	Dec-08	Apr-09	May-09	Dec-08 (%)	Apr-09 (%)
TALA/USD	2.9043	2.9052	2.7058	6.83	6.86
TALA/NZD	1.7007	1.6420	1.7277	-1.58	-5.22
TALA/AUD	2.0509	2.1063	2.1610	-5.37	-2.60
TALA/EUR	4.0561	3.8454	3.8231	5.75	0.58
TALA/FJD	1.6528	1.3190	1.2774	22.71	3.15
YEN/TALA	31.2798	33.8991	35.1628	12.41	3.73
Nominal Index	100.79	101.42	101.41	0.62	-0.01



At end May 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 depreciated by 0.01 percent at end May 2009 from the previous month. (See Table 2)

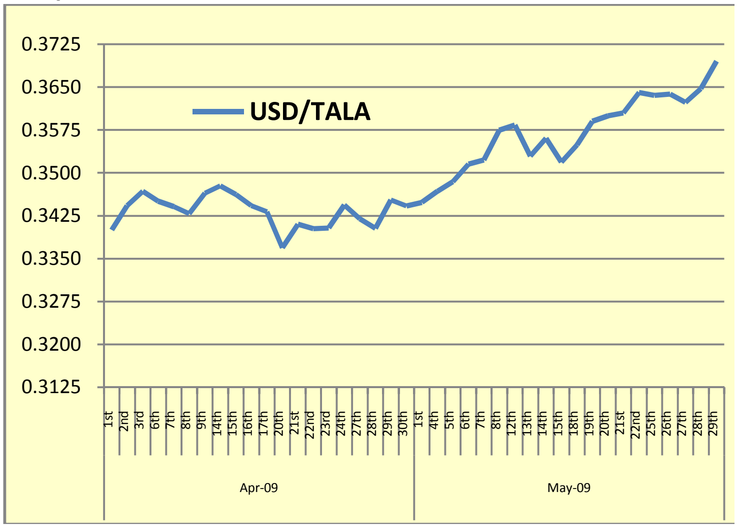


The **Tala** opened the month at US$0.3448 and it continued to strengthen against the Greenback as the currencies of the Euro area, Australia and New Zealand rose against the US dollar. The weakening US dollar helped lift the Tala. The Tala has steadily risen from US$0.34 to US$0.35 and later on it traded to US$0.3641. The rebound in the Greenback saw the Tala ease off but it remains strong when compared to its opening level of the month. The Tala continued to trade at US$0.36 until it finally closed the month slightly firmer at US$0.3696.

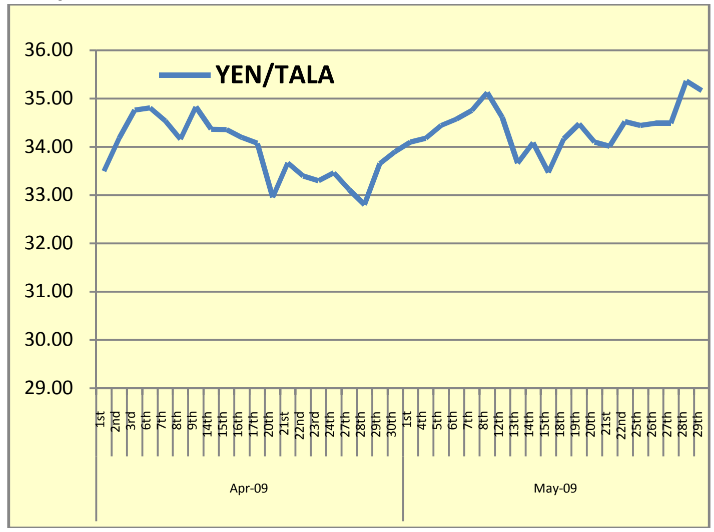
Leasi P T Scanlan
Governor

TALA GRAPHS

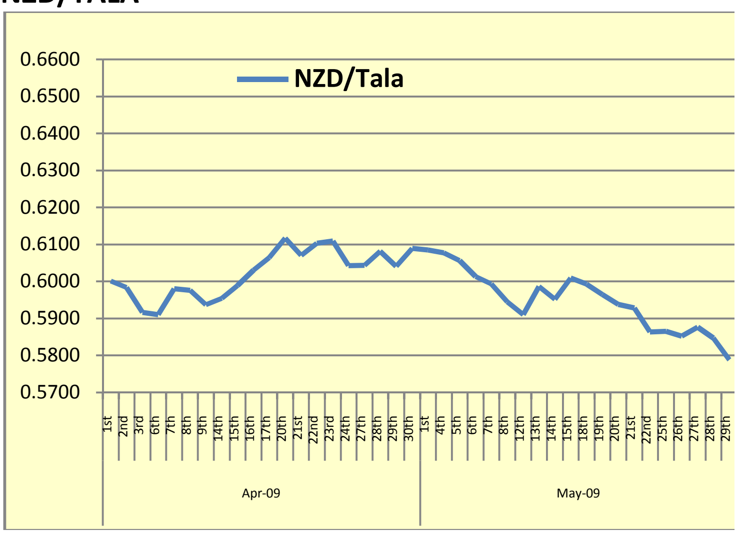
USD/TALA



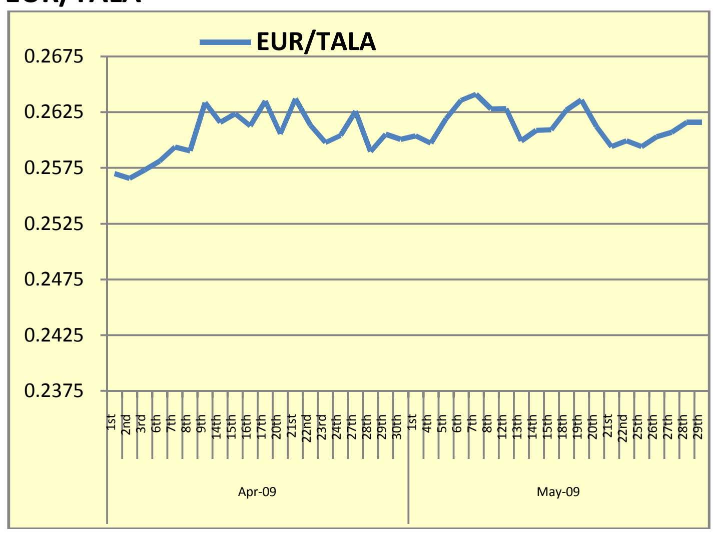
YEN/TALA



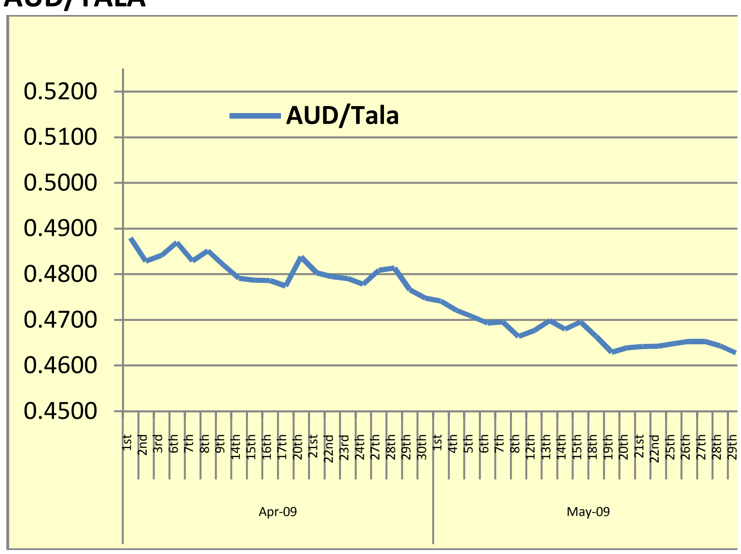
NZD/TALA



EUR/TALA



AUD/TALA



FJD/TALA