

**CONFIDENTIAL**  
**MEMORANDUM**

03 November 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**  
**OCTOBER 2009**

**A. OVERVIEW**

The **US dollar** continued to weaken in October due to more decreased demand for its safe-haven status. Upbeat economic data out of US and other main developed economies came out better than expected which led investors to higher yielding investments instead of the safe greenback. The Fed held its funds rate unchanged at 0.25 percent.

The **Yen** weakened over the month as the global economy continued to show signs of recovery. Better than expected economic releases, out of the US and around the world continued to undermine haven demand, and pared back support for the Yen. In its October monetary policy review, the BOJ held its official interest rate unchanged at 0.10 percent.

The **Euro** strengthened over the month as equity markets picked up again. The weakening US dollar also helped support the Euro. The ECB held its official interest rate unchanged at 1.00 percent.

The **Australian dollar** was stronger against the Greenback in October, as robust commodity and equity prices in October helped underpin the Aussie currency's strength. The recent run of upbeat Australian economic data finally led the RBA to raise its policy interest rate by 25 basis points from 3.00 percent to 3.25 percent.

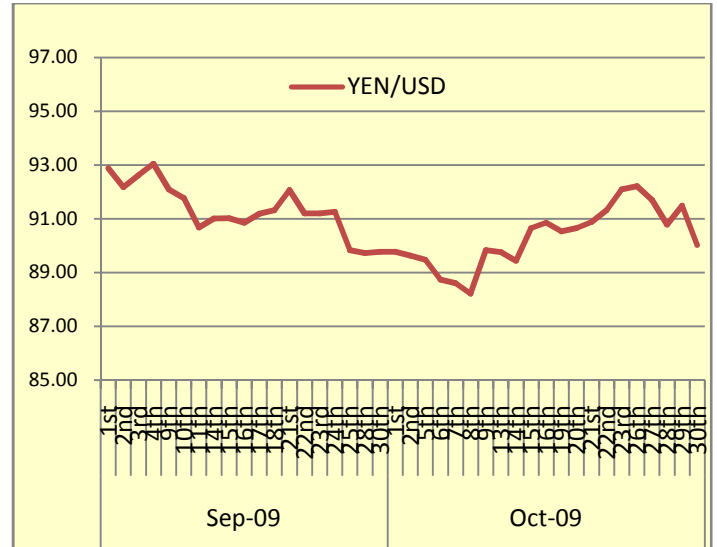
The **New Zealand dollar** likewise strengthened considerably over the month, supported by recoveries in the equity markets coupled with the weakening US dollar. The strengthening Australian dollar also helped to support the kiwi unit. The RBNZ held its official cash rate unchanged at 2.50 percent.

**In October 2009, the Tala weakened against the AUD, the EURO, and the FJD. The Tala rose against the USD, the NZD, and the Yen.**

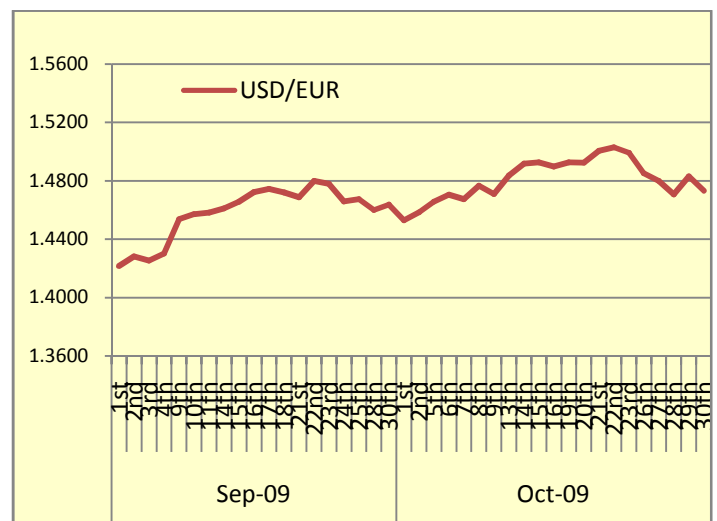
## B. CURRENCY 'WATCH'

The **US dollar** continued to weaken in October as the global economy continued to show signs of improvement which dampened safe-haven demand for the greenback. It fell against major currencies as more job losses reinforced speculation about the Federal Reserve's determination to hold borrowing costs near zero into next year. The US dollar slipped against other major currencies after a meeting of finance chiefs from the Group of seven wealthy nations underscored the market's view that policy-makers are resigned to a gradually weakening greenback. The dollar moreover continued to weaken after the Reserve Bank of Australia lifted their cash target rate by 25 basis points from 3.00 percent to 3.25 percent and signaled further increases. The US dollar fell against the currencies of six major U.S. trading partners as signs of global economic recovery spurred the demand for riskier assets. In addition it weighed down the demand for the greenback as investors' confidence improved and led them away from safer assets. The US dollar later rose against most of its major counterparts after the reported fall in consumer confidence in the US led to reduced risk demand in the currency trade market. Speculation on an unexpected decrease in U.S. new-home sales in September dampened demand for higher yielding assets.

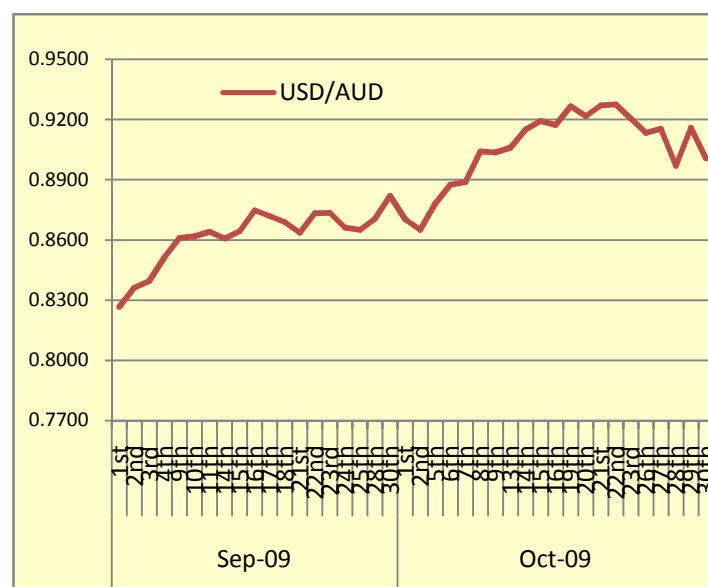
The **Japanese Yen** opened the month at Yen89.77 and briefly rose to Yen88.74 as the worse than expected US jobs report, stirred investor flight into safer and more secured investments instead of higher yielding investments. It later weakened to Yen90.65 on speculation the Bank of Japan would trail other central banks in increasing interest rates as the global recession comes to an end. The Yen continued to weaken to Yen91.32 on speculation the Federal Reserve would increase interest rates sooner than forecasted. The Yen trekked lower as the greenback rebounded against most of its major trading partners' currencies. In addition, strong economic growth data reported in the US helped encourage risk demand, which consequently weighed down the safe-haven currencies; the Yen and the US dollar. The Yen continued to trade between Yen91 and Yen92 before closing the month slightly firmer at Yen90.02.



The **Euro** opened the month slightly weaker at US\$1.4531. It fell mainly against the greenback as disappointing jobs and manufacturing data out of US fuelled worries about the global recovery and boosted the greenback's safe-haven appeal. Excess volatility and disorderly movements in exchange rates which have adverse implications for economic and financial stability forced the Euro to weaken even more. The Euro later strengthened to US\$1.4766 and further to US\$1.4927 as investors opted for riskier assets instead of the safer greenback amid signs of a global economic recovery. It later rose to US\$1.5029 as commodity and equity prices picked up again before dropping to US\$1.4800 following the release of weak consumer confidence data out of the US. This led traders to seek safer assets as risk demand retreated. The Euro rose to US\$1.4831 due to strong growth data in the US but it was the weak consumer confidence data which took the spotlight. The Euro traded at US\$1.4731 at the end of the month.

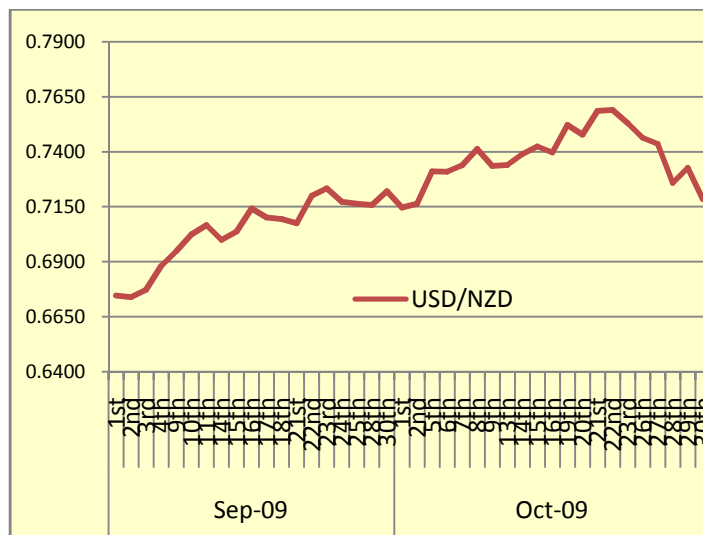


The **Australian dollar** opened the month weaker at US\$0.8703 before rising to US\$.8875 and further to US\$0.9040 as investors bought into higher yielding assets in the course of better than expected retail sales data out of Australia. The RBA's increase to the cash rate of 25 basis points to 3.25 percent also helped lift the dollar even higher. Australia is the first among the Group of 20 nations to raise interest rates since the financial crisis began. The Australian dollar rose to as high as US\$0.9274 supported by its yield advantage coupled with signs of recovery in the Australian economy, while equity markets rallied strengthening the dollar to its highs. Other data showed the unemployment fell past the expected 5.8 percent to 5.7 percent. The Australian dollar closed the month firm at US\$0.9006.



The **New Zealand dollar** likewise, opened the month weaker at US\$0.7147 as weak labour and manufacturing data in the US heavily weighed down equity and commodity prices. Consequently, investors discarded the higher yielding currencies in favor of the US dollar. Nevertheless, the Kiwi rebounded to US\$0.7338 and eventually to US\$0.7424 as equity markets rallied amid upbeat global economic data, which added to expectations for a recovery. While the poor US economic releases highlighted the kiwi unit's vulnerability, the market was quick to buy up the currency at its lows, thus spiking the kiwi dollar to US\$0.7522. It rose further to US\$0.7590, on support of Reserve Bank of Australia's outlook for interest rate hikes. Nevertheless, it dropped to US\$0.7464 and even lower to US\$0.7259 after the Reserve Bank of New Zealand's Governor stated that the official cash rate will

remain fixed at 2.50 percent. The kiwi unit closed the month slightly weaker at US\$0.7184.



**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 October 2009, compared to the previous month and December 2008.

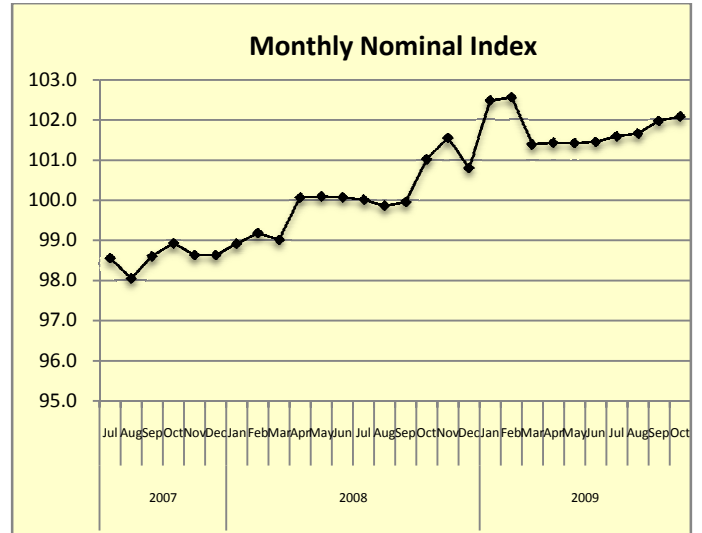
<b>Table 1</b>					
<b>USD per other currencies (end period)</b>					
				Movement of other currencies against the USD	
				(+ appreciation / (-) depreciation	
	Dec-08	Sep-09	Oct-09	Dec-08	Sep-09
				(%)	(%)
USD/NZD	0.5856	0.7221	0.7184	22.68	-0.51
USD/AUD	0.7062	0.8819	0.9006	27.53	2.12
YEN/USD	90.85	89.76	90.02	0.91	-0.30
USD/EUR	1.3966	1.4637	1.4731	5.48	0.64
USD/FJD	0.5691	0.5176	0.5303	-6.82	2.45

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

### **C. EFFECT ON THE TALA**

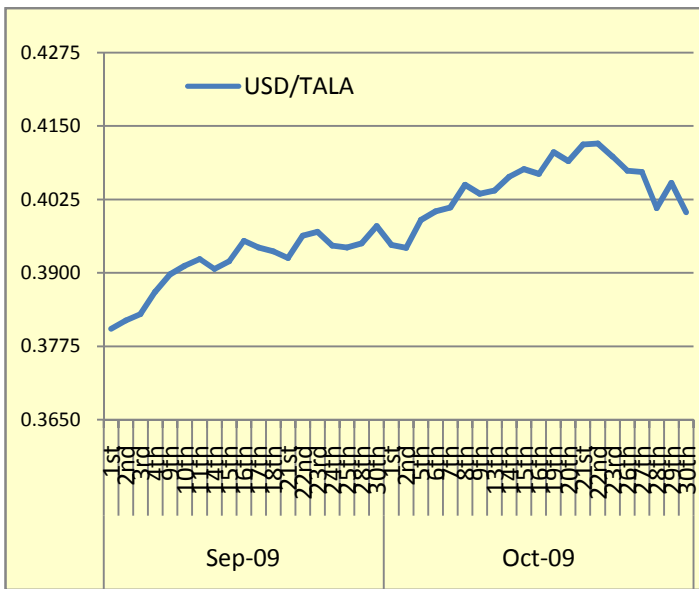
Compared to end December 2008 and the previous month, Table 2 shows the movement of the Tala at end October 2009 against the currencies in our currency basket as well as its movement against the FJD and the YEN.

<b>Table 2</b>					
<b>Tala per foreign currencies (end period)</b>					
	Dec-08	Sep-09	Oct-09	Movement of the Tala	
				(+ appreciation / (-) depreciation	
				Dec-08 (%)	Sep-09 (%)
TALA/USD	2.9043	2.5127	2.4979	13.99	0.59
TALA/NZD	1.7007	1.8144	1.7945	-5.51	1.10
TALA/AUD	2.0509	2.2158	2.2496	-9.69	-1.52
TALA/EUR	4.0561	3.6778	3.6796	9.28	-0.05
TALA/FJD	1.6528	1.3004	1.3246	19.86	-1.86
YEN/TALA	31.2798	35.7210	36.0387	15.21	0.89
Nominal Index	100.79	101.97	102.07	1.27	0.10



At end October 2009, the Tala weakened against the **AUD**, the **EURO**, and the **FJD**. The Tala strengthened against the **USD**, the **NZD**, and the **Yen** from the previous month.

In terms of the **Nominal Index**, the Tala appreciated by 0.10 percent at end October 2009 from the previous month. (See Table 2)

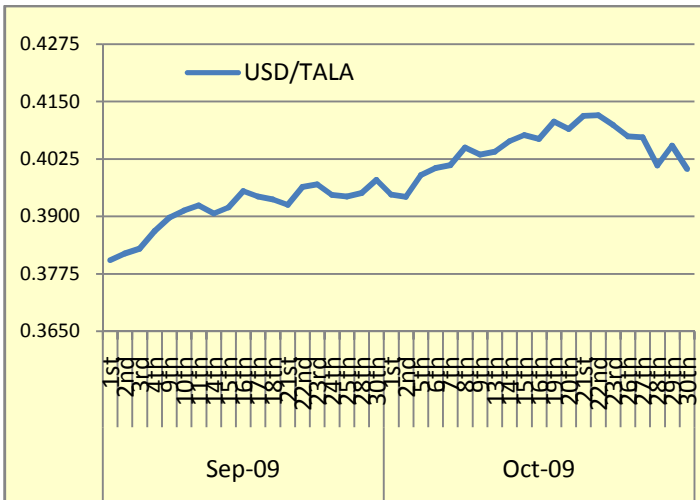


The **Tala** also opened the month weak at US\$0.3948 as the Australian and New Zealand currencies fell against the US dollar from the previous month. However, the Tala steadily rose as the rebound in investors' risk appetite lifted demand for the Australian and New Zealand dollars while the Greenback's haven appeal was gradually undermined by positive economic data from around the world. The Tala continued strengthening to US\$0.4040 with the occasional dip as the US dollar found short-lived support from haven demand. Nevertheless, the Tala moved higher as major currencies surged against the Greenback. The Tala traded at US\$0.4003 at the end of the month.

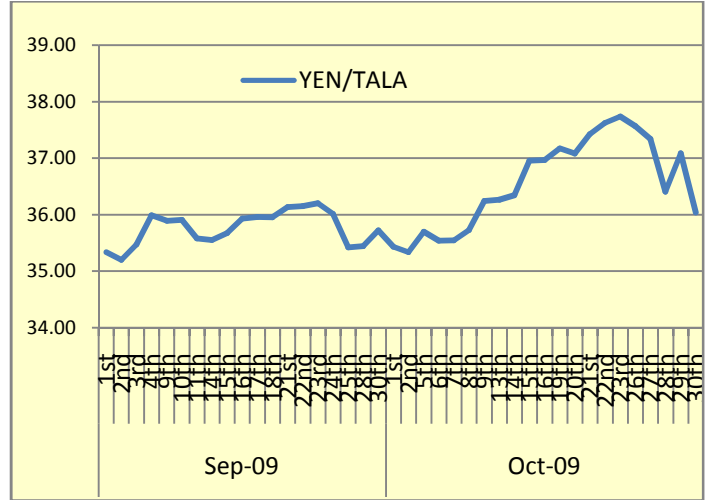
**Leasi P T Scanlan**  
Governor

# TALA GRAPHS

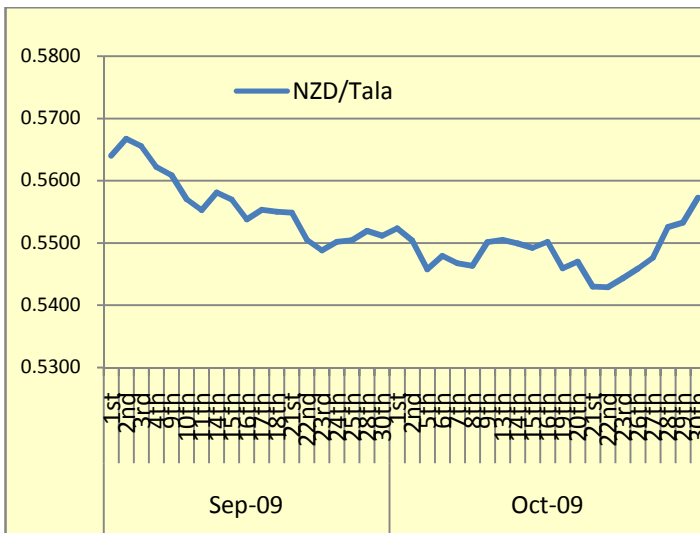
## USD/TALA



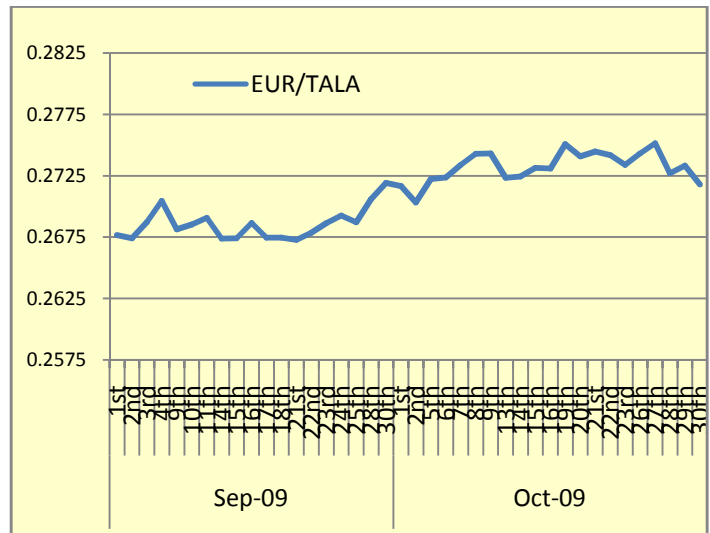
## YEN/TALA



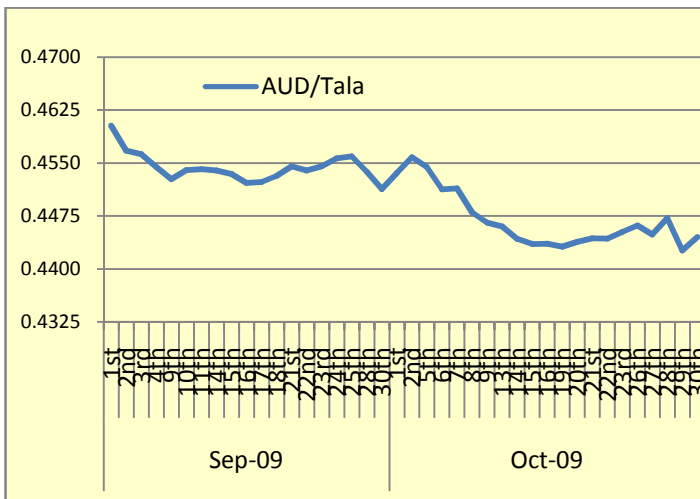
## NZD/TALA



## EUR/TALA



## AUD/TALA



## FJD/TALA

