

CONFIDENTIAL
MEMORANDUM

14 October 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
SEPTEMBER 2009

A. OVERVIEW

The **US dollar** continued to weaken in September due to more decreased demand for its safe-haven status. Throughout the month, economic data out of US and other main developed economies came out better than expected which led investors to risky currency trades instead of the safe greenback. The Fed held its funds rate unchanged at 0.25 percent.

The **Yen** strengthened considerably over the month as a result of the weakening US dollar. The increase in industrial production out of Japan, a better than expected release, also supported the Yen. In its September monetary policy review, the BOJ held its official interest rate unchanged at 0.10 percent.

The **Euro** strengthened slightly 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 stronger against the Greenback in September, as robust commodity prices and equities helped to underpin the Aussie currency's strength. In its September monetary policy review, the RBA held its policy interest rate at 3.00 percent.

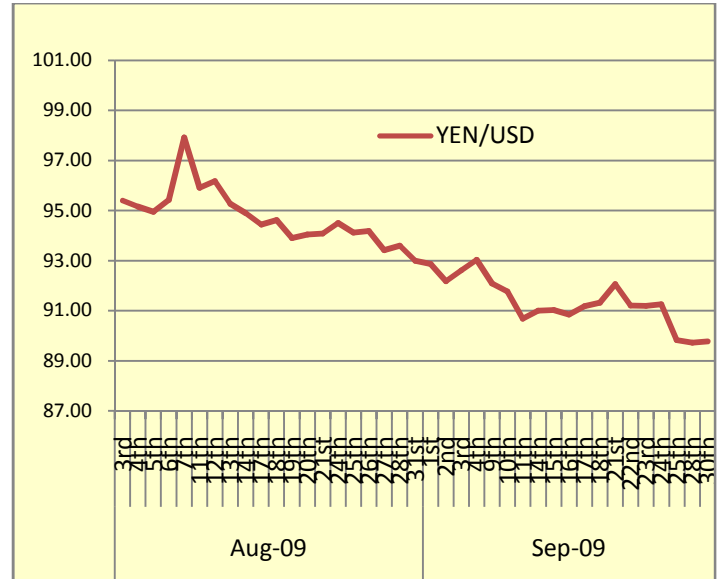
The **New Zealand dollar** likewise strengthened considerably over the month, supported by recoveries in the equity markets coupled with the weakening US dollar. The strengthening Australian dollar also helped to support the kiwi unit. The RBNZ held its official cash rate unchanged at 2.50 percent.

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

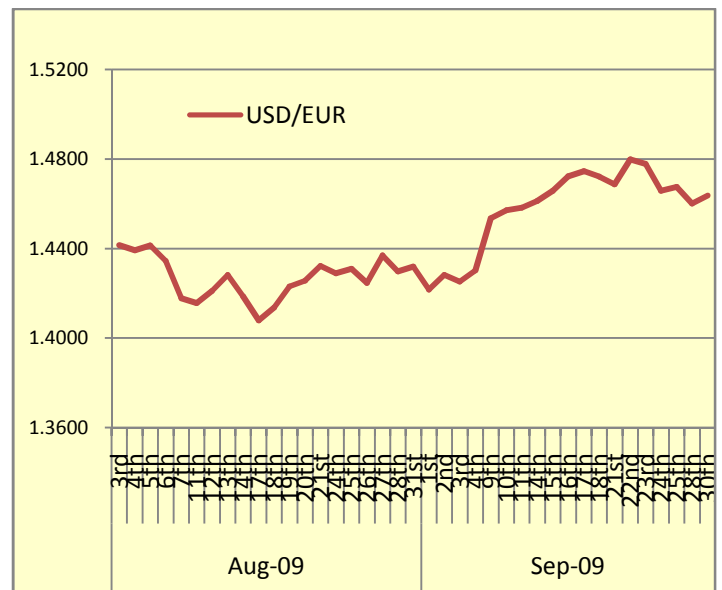
B. CURRENCY 'WATCH'

The **US dollar** continued to lose strength in September as more economic data out of the US and other major industrial economies came out better than expected. A series of upbeat statistics helped shore up prospects for a global recovery and have also fired up investors' demand for risky but higher yielding assets. As such, haven demand, the Greenback's key source of support since the financial markets collapsed has been fading in the lead up to recent months. Indices gauging activity in the manufacturing and non-manufacturing sectors showed improvements in September. Furthermore, pending sales of existing homes rose more than expected, suggesting a pick-up in the housing sector demand. Consumer sentiment also improved in September but consumer spending remained soft, while loan demand weakened amid tight credit standards. The labor market continued to soften as the unemployment rate rose to 9.7 percent despite the slow-down in job losses and claims on unemployment benefits. While gains to the dollar were short-lived during bouts of declining share markets and investors' flight into haven currencies, they were often erratic as haven demand was overwhelmed by increasing risk appetite.

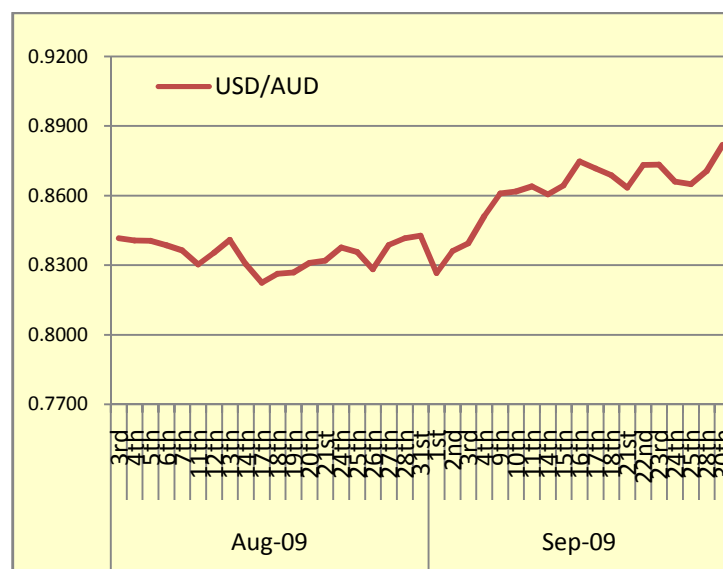
The **Japanese Yen** opened the month at Yen 92.87 and briefly rose to Yen92.18 as US financial shares fell, stirring investor flight to safety but a revival of investors' appetite for riskier, higher yielding investments amid upbeat global economic data, weakened the Yen to Yen93.04. It later strengthened from Yen92.09 to Yen90.68 on speculations that China's recovery will boost the growth of its Asian neighbors and offshore companies will send funds earned abroad back to Japan to take advantage of the tax break that recently went into effect. The Yen continued to stabilize at Yen91 against the softening Greenback, despite thinning demand for haven currencies and the Bank of Japan's decision to hold its official interest rate at 0.1 percent. The Yen fell to Yen92 on reduced haven demand but picked up to Yen91.20 against the weaker US dollar. Japan's industrial production in the month rose a better-than-expected 1.2 percent from August supported the Yen. The weakening US Dollar gave support to the Yen and it gained from Yen91 to trade around Yen89 until it finally closed off the month firm at Yen89.77.



The **Euro** opened the month at US\$1.4216 before rising to US\$1.4283 following ongoing USD weakness. The Euro dropped to US\$1.4253 after the ECB held its repo rate unchanged at 1.0 percent and failed to offer any signs of an exit from its unconventional measures aimed at stimulating the economy. From there on, it has been a risk appetite story as improved global economic statistics fuelled prospects for a global recovery and boosted investors' demand for higher yielding assets. Although retail sales and investor expectations data out of Europe were mixed, both showed signs of improvement. The Euro surged to US\$1.4536 and steadily trekked higher to US\$1.47 as a result of the weakening US dollar and strong rallies in global equity markets. The Euro finally closed off the month slightly weaker at US\$1.4637.



The **Australian dollar** opened the month weaker at US\$0.8266 after the RBA held its cash rate unchanged at 3.0 percent and said its current accommodative monetary policy remained appropriate. However, gains in the Chinese share market helped boost risk appetite, which led to a firmer Aussie unit. The Australian dollar later surged to US\$0.8511 after Australia's GDP data showed the economy unexpectedly accelerated in the June quarter by 0.6 percent from the previous quarter. The Aussie dollar continued rising to US\$0.8640 and finally surpassed US\$0.87 as upbeat global economic data coupled with expectations for future increases to the cash rate following Australia's GDP report, helped boost risk appetite. The Aussie unit slipped back to US\$0.8635 as trade tensions between the US and China knocked off investor confidence and temporarily lifted haven demand. However, the Australian dollar gained and traded around US\$0.87 until it closed at its highest level recorded for the month at US\$0.8819.



The **New Zealand dollar** likewise, opened the month weaker at US\$0.6747 as talks that Chinese state owned enterprises may terminate commodity contracts heavily weighed down equity and commodity prices. Subsequently, investors ditched the higher yielding currencies in favor of the US dollar. Nevertheless, the Kiwi rebounded to US\$0.6880 and eventually to US\$0.7067 as equity markets rallied amid upbeat global economic data, which added to expectations for a recovery. The Kiwi slipped briefly after the RBNZ held its OCR at 2.5 percent but it strengthened further to US\$0.7142 as investors' robust appetites for risk continued to support the currency. The NZ dollar fell to US\$0.70 following unexpectedly weak retail sales data for July but it recouped losses after the GDP report

showed the NZ economy expanded by 0.1 percent in the June quarter 2009. The Kiwi unit traded at US\$0.7221 at the end of the month.

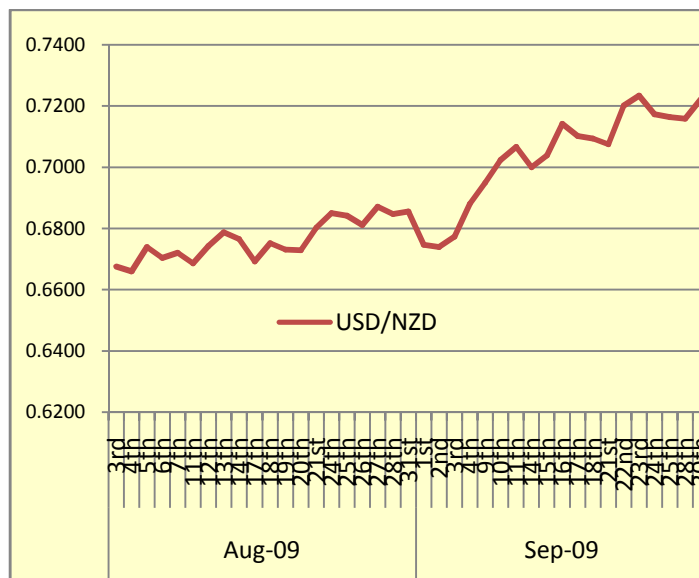


Table 1 shows the movements of the currencies in our currency basket together with the FJD and the Yen against the US dollar at end September 2009, compared to the previous month and December 2008.

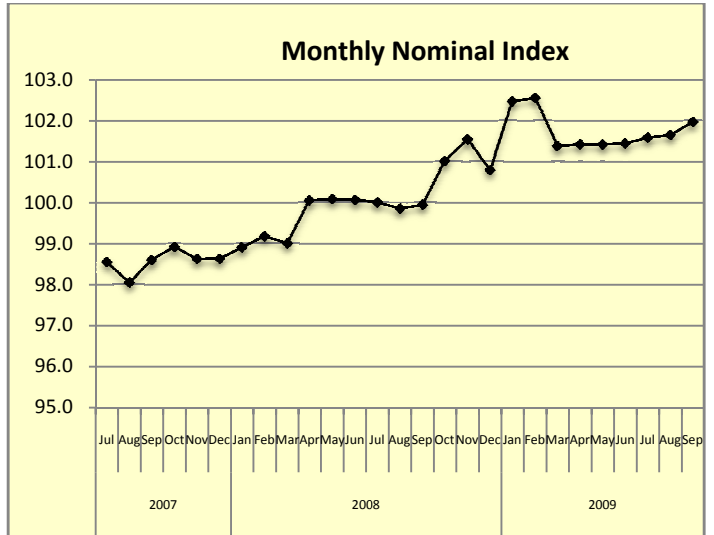
Table 1					
USD per other currencies (end period)					
Movement of other currencies against the USD					
(+ appreciation / (-) depreciation					
	Dec-08	Aug-09	Sep-09	Dec-08 (%)	Aug-09 (%)
USD/NZD	0.5856	0.6855	0.7221	23.31	5.34
USD/AUD	0.7062	0.8427	0.8819	24.88	4.65
YEN/USD	90.85	93.00	89.76	1.20	3.48
USD/EUR	1.3966	1.4320	1.4637	4.80	2.21
USD/FJD	0.5691	0.5011	0.5176	-9.05	3.29

At end September 2009, the Greenback weakened against the **NZD**, the **AUD**, the **EURO**, the **FJD**, and the **YEN** when compared to the previous month.

C. EFFECT ON THE TALA

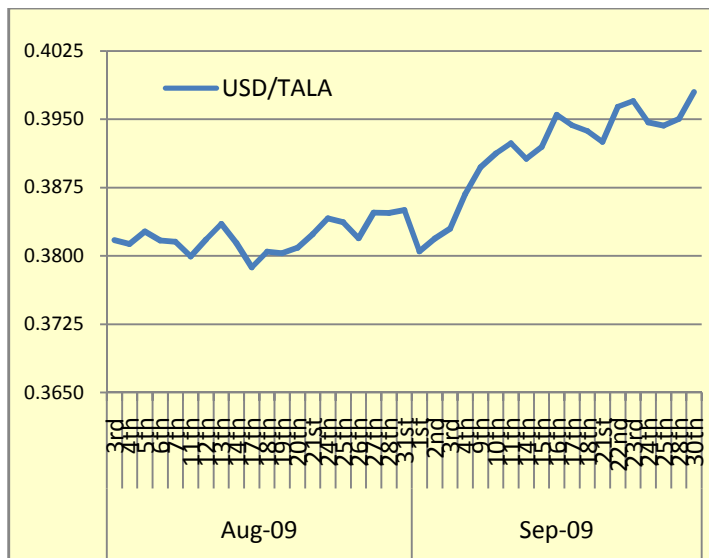
Compared to end December 2008 and the previous month, Table 2 shows the movement of the Tala at end September 2009 against the currencies in our currency basket as well as its movement against the FJD and the YEN.

Table 2					
Tala per foreign currencies (end period)					
	Dec-08	Aug-09	Sep-09	Movement of the	
				Tala	
				(+ appreciation / (-) depreciation	
				Dec-08 (%)	Aug-09 (%)
TALA/USD	2.9043	2.5972	2.5127	13.48	3.26
TALA/NZD	1.7007	1.7803	1.8144	-6.68	-1.92
TALA/AUD	2.0509	2.1886	2.2158	-8.04	-1.24
TALA/EUR	4.0561	3.7191	3.6778	9.33	1.11
TALA/FJD	1.6528	1.3015	1.3004	21.32	0.08
YEN/TALA	31.2798	35.8056	35.7210	14.20	-0.24
Nominal Index	100.79	101.65	101.97	1.17	0.32



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

In terms of the **Nominal Index**, the Tala appreciated by 0.32 percent at end September 2009 from the previous month. (See Table 2)

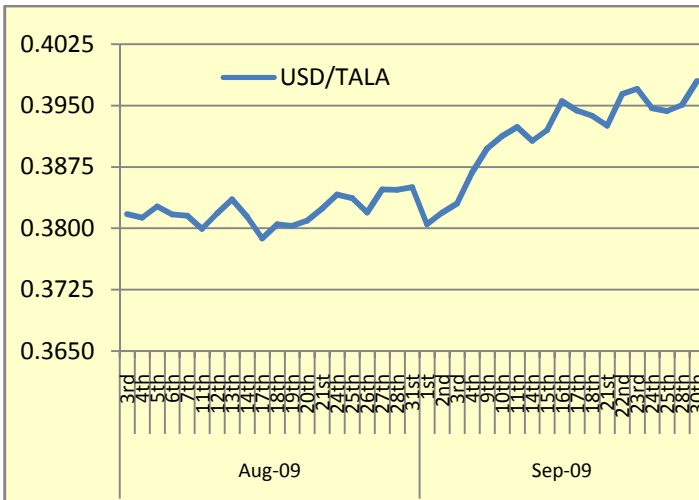


The **Tala** also opened the month weak at US\$0.3805 as the Australasian currencies fell against the US dollar from the previous month. However, the Tala steadily rose as the rebound in investors' risk appetite lifted demand for the Australian and New Zealand dollars while the Greenback's haven appeal was gradually undermined by upbeat economic data from around the world. The Tala continued strengthening to US\$0.3913 with the occasional dip as the US dollar found short-lived support from haven demand. Nevertheless, the Tala moved higher as the Australasian currencies surged against the Greenback. At the end of the month the Tala traded at US\$0.3980, its highest level recorded for this month.

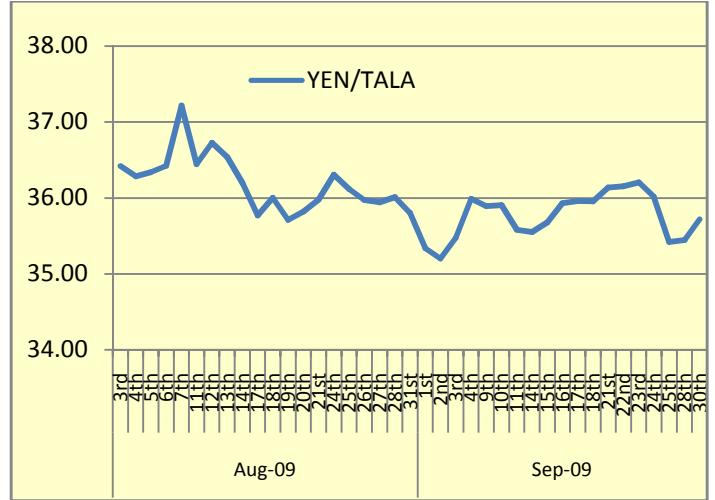
Leasi P T Scanlan
Governor

TALA GRAPHS

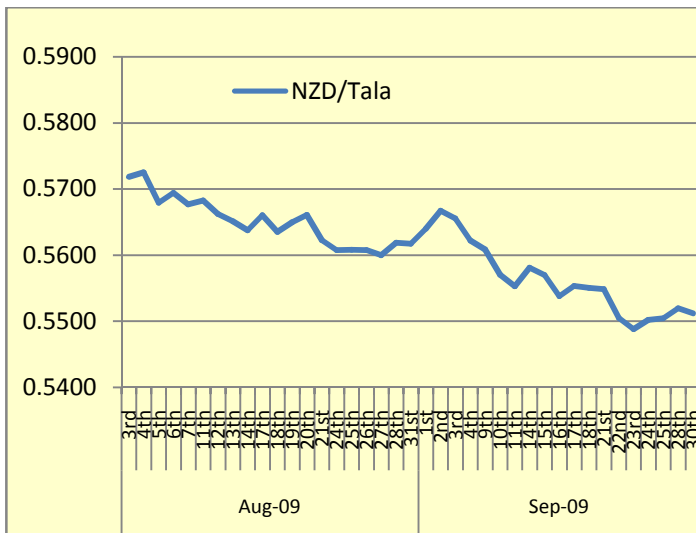
USD/TALA



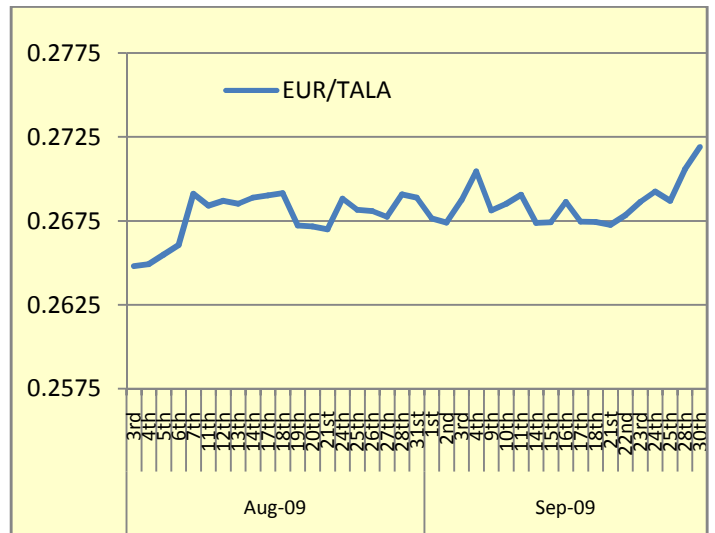
YEN/TALA



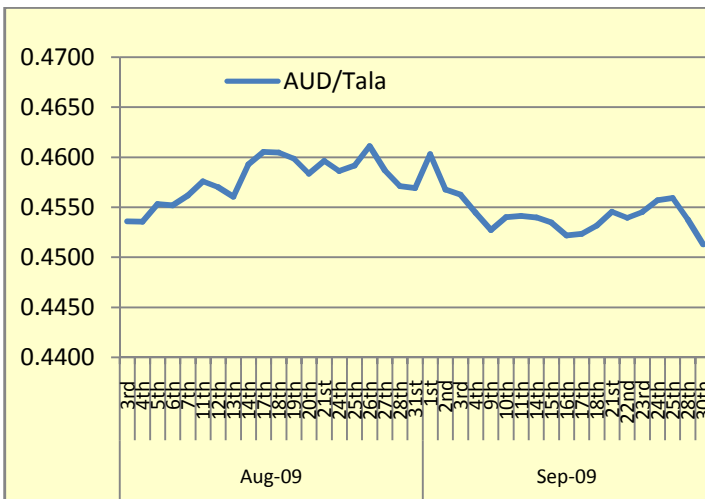
NZD/TALA



EUR/TALA



AUD/TALA



FJD/TALA

