

CONFIDENTIAL
MEMORANDUM

09 July 2010

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
JUNE 2010

A. OVERVIEW

The **US dollar** was generally weak against most of the currencies in June 2010 as economic data out of Europe and Japan were reportedly better than expected. Weak U.S labour data and China's move to revalue its currency also weighed on the greenback. The Fed held its funds rate unchanged at 0.25 percent.

The **Yen** strengthened over the month as the U.S dollar weakened. The BOJ held its official interest rate unchanged at 0.10 percent.

The **Euro** likewise strengthened over the month from investors' risk appetites as stock markets rallied and as positive risk sentiment was supported by healthy bond auction activity in Spain, which helped ease concern about Europe's debt crisis. The ECB held its official interest rate unchanged at 1.00 percent.

The **Australian dollar** strengthened on robust equity and commodity markets activity following upbeat economic data out of Europe. Strong Australian employment data and strong Chinese export data also helped support the currency. The RBA held its policy interest rate unchanged at 4.50 percent.

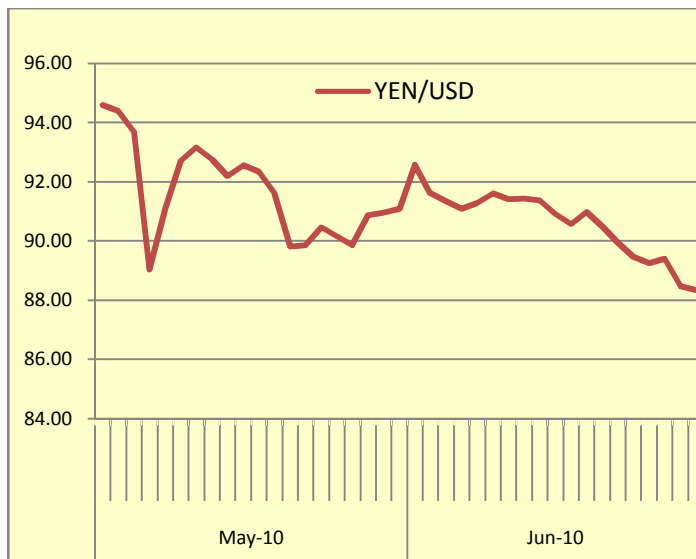
The **New Zealand dollar** also strengthened on the rise in commodity and equity markets on upbeat data from around the globe. The RBNZ's decision to raise its official cash rate by 25 basis points from 2.50 percent to 2.75 percent also helped support the Kiwi unit.

In June 2010, the Tala weakened against the NZD, the FJD and the YEN. The Tala strengthened against the USD, the AUD and the EURO.

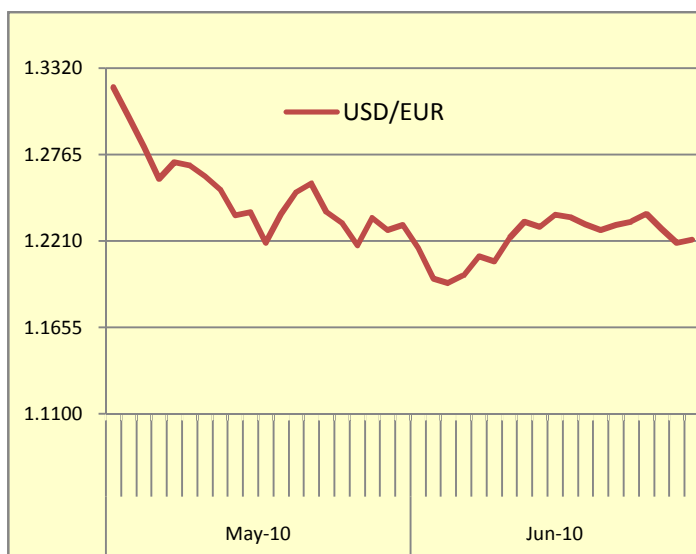
B. CURRENCY 'WATCH'

The **US dollar** opened the month firm as reports showed stocks and oil prices dropped on ongoing concerns about Europe's debt crisis coupled with the fears in the Middle East. It continued to strengthen on its haven status as a lower-than-forecast U.S payrolls report fuelled concern the U.S economic recovery may be slowing. The greenback later fell against other major currencies as commodity and equity markets picked up again on reports which showed that the economic growth in Asia is accelerating, fuelling investor appetite for riskier assets. However, it later strengthened as an unexpected drop in U.S retail sales increased concern the global economic recovery may not be sustainable, boosting the currency's appeal as a haven. The greenback continued to strengthen as another report showed U.S consumer confidence rose to its highest level since 2008. Strong economic data out of Europe and Japan saw the greenback weaken against other major currencies as stock markets gained. Successful government bond auction in Europe eased concern about the region's debt crisis and the rise in jobless claims in the U.S also weighed on the currency. Reports about China's move to allow flexibility in its fixed exchange rate and the Federal Reserve's decision to keep its interest rate unchanged on speculation that Europe's debt crisis may harm global economic recovery led the U.S dollar to weaken even more as stock markets rallied. However, it later bounced back as investors took refuge in the safety of the greenback on worries about the health of Europe's banking system and the U.S economy at the end of the month.

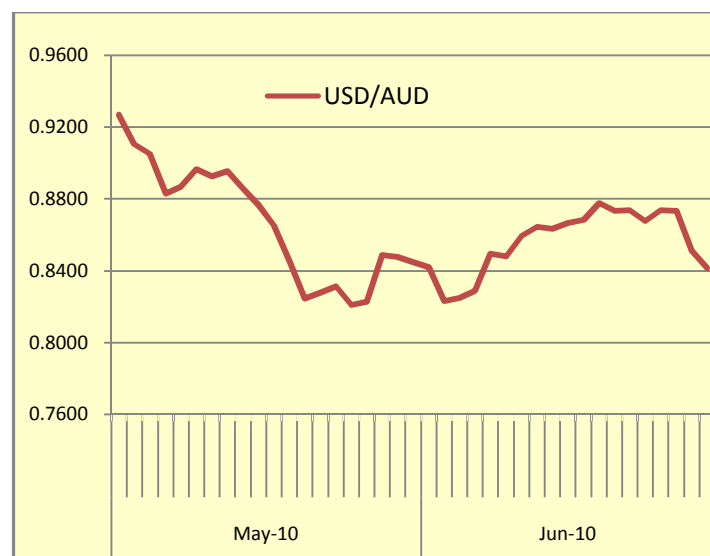
The **Japanese Yen** opened the month weak at Yen92.60 as the U.S dollar strengthened on concerns about problems in the Middle East and Europe. It then rose to Yen91.10 as a report showed worse-than expected U.S labour data. The Yen later weakened to Yen91.29 following reports of accelerating economic growth in Asia. It continued to fall to Yen91.62 as another report showed worse than expected economic data out of the U.S. The Japanese Yen traded most of the month around Yen91 as growth data out of Japan were better than expected coupled with the rise in global stock markets on successful bond auctions in Europe. However, it bounced back to trade at Yen90.91 against the U.S dollar after a report showed a rise in U.S jobless claims. The Yen continued to strengthen to Yen90.48 after another report showed home sales in the U.S unexpectedly fell in May. The Fed's move to keep its interest rate unchanged helped support the Yen to Yen89.95. The Japanese Yen closed off the month firm at Yen88.34.



The **Euro** opened the month weaker at US\$1.2163 on concerns about the European financial sector's ability to stop the region's debt crisis from worsening. It continued to weaken to US\$1.1968 as speculation that the debt crisis in Europe is widening and fell as low as US\$1.1938 as commodity and stock markets fell on concerns Europe's debt crisis will harm global economic recovery. The European Central Bank's decision to hold its official interest rate at 1 percent did not help the Euro. However, it later bounced back to trade at US\$1.2113 as stocks climbed on speculation that Europe's debt crisis is unlikely to dampen global economic recovery. Reports which showed European industrial production expanded by 0.8 percent in April, more than economists forecast saw the common currency surge to US\$1.2230. The Euro strengthened to US\$1.2378 as increased demand at Spain's bond auction eased concern about Europe's debt crisis. The Euro continued to trade around US\$1.22 until it finally closed off the month at US\$1.2219.



The **Australian dollar** opened the month lower at US\$0.8419 as Reserve Bank of Australia kept its key interest rate unchanged at 4.50 percent. It continued to fall to US\$0.8229 against the greenback as investors moved away from risky assets in favour of the safe-haven currencies on ongoing concerns about Europe's debt crisis. The Aussie unit traded around US\$0.82 on poor economic news out of Europe but later strengthened to US\$0.8492 on strong Australian employment data and strong Chinese export data. It later slipped to US\$0.8479 on speculation China may take steps to cool its economy after reports showed that its inflation accelerated in May. However, the Australian dollar gained and traded at US\$0.8664 on positive government bond auction in Europe as U.S equity markets rallied. It continued to strengthen to US\$0.8774 after reports about China's move to revalue its currency, boosted demand for currencies linked to growth. The fall in U.S stock markets saw the Aussie unit weaken to US\$0.8507. The Australian dollar traded at US\$0.8411 at the end of the month.



The **New Zealand dollar** opened the month firm at US\$0.6827 as U.S equity markets rallied. It later fell to US\$0.6695 as the greenback strengthened on worse than expected labour data out of the U.S. The kiwi unit remained around US\$0.66 against the U.S dollar as Europe region continued to struggle with its debt crisis but later strengthened to US\$0.6864 after Reserve Bank of New Zealand raised its official cash rate by 25 basis points from 2.50 percent to 2.75 percent. It continued to strengthen to trade around US\$0.69 and eventually to US\$0.70 as U.S equity markets rallied after successful government bond sales in Europe. The New Zealand dollar traded at US\$0.7039 as the greenback weakened on poor labour data out of the U.S. China's move to revalue its currency, spurred optimism that the economic recovery may strengthen further and helped to support the kiwi unit to

US\$0.7085. The New Zealand dollar finally reached its month's high at US\$0.7136 after the Fed's decision to keep interest rate unchanged. It later slipped to US\$0.7093 and eventually to US\$0.6931 as reports showed business confidence in New Zealand fell in June on interest rate hike and Europe's debt crisis. The Kiwi unit traded at US\$0.6846 at the end of the month.

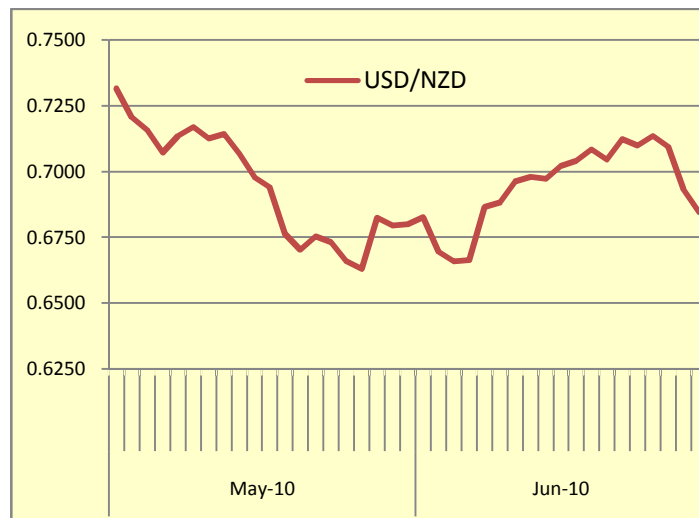


Table 1 shows the movements of the currencies in our currency basket together with the FJD and the Yen against the US dollar at end June 2010, compared to the previous month and December 2009.

Table 1					
USD per other currencies (end period)					
				Movement of other currencies against the USD	
				(+ appreciation / (-) depreciation	
	Dec-09	May-10	Jun-10	Dec-09	May-10
				(%)	(%)
USD/NZD	0.7262	0.6800	0.6846	-5.73	0.68
USD/AUD	0.8981	0.8448	0.8411	-6.35	-0.44
YEN/USD	93.05	91.10	88.34	5.06	3.03
USD/EUR	1.4327	1.2312	1.2219	-14.71	-0.76
USD/FJD	0.5144	0.5000	0.5015	-2.51	0.30

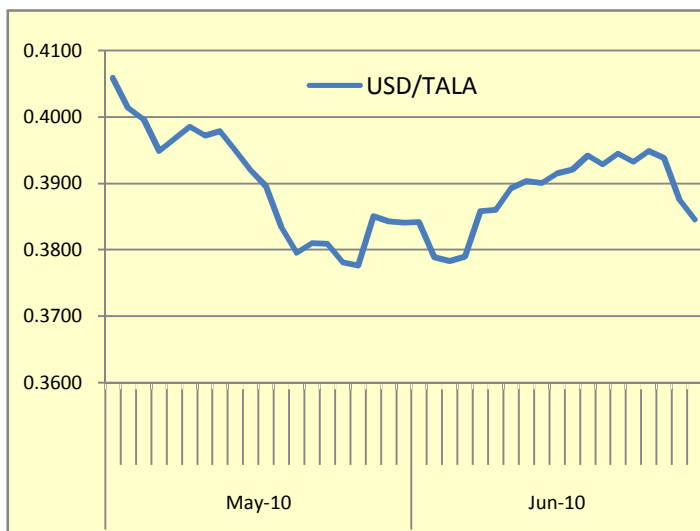
At end June 2010, the Greenback weakened against the **NZD**, the **YEN** and the **FJD** when compared to the previous month. The US dollar strengthened against the **AUD** and the **EURO** from the previous month.

C. EFFECT ON THE TALA

Compared to end December 2009 and end May 2010, Table 2 shows the movement of the Tala at end June 2010 against the currencies in our currency basket as well as its movement against the FJD and the YEN.

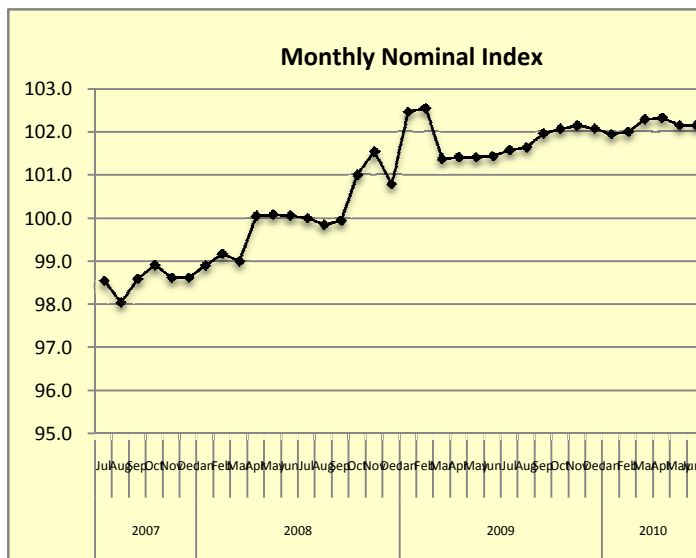
Table 2					
Tala per foreign currencies (end period)					
	Dec-09	May-10	Jun-10	Movement of the Tala	
				(+ appreciation / (-) depreciation	
				Dec-09 (%)	May-10 (%)
TALA/USD	2.4936	2.6039	2.6009	-4.30	0.12
TALA/NZD	1.8108	1.7705	1.7805	1.67	-0.57
TALA/AUD	2.2395	2.1997	2.1876	2.32	0.55
TALA/EUR	3.5724	3.2058	3.1780	11.04	0.87
TALA/FJD	1.2827	1.3020	1.3043	-1.69	-0.18
YEN/TALA	37.3160	34.9859	33.9658	-8.98	-2.92
Nominal Index	102.08	102.15	102.15	0.07	0.00

At end June 2010, the Tala weakened against the **NZD**, the **FJD** and the **YEN**. The Tala strengthened against the **USD**, the **AUD**, and the **EURO** from the previous month.



The **Tala** opened the month weak at US\$0.3842 and it continued to fall to trade around US\$0.37 as the U.S dollar strengthened on poor economic data out of Europe and the U.S. However, it later strengthened and traded at around US\$0.38 against the U.S dollar as equity and stock markets rallied on successful government bond sales in Europe together with the better than expected growth data out of Japan. China's move to revalue its currency boosted investors' risk appetite helped strengthen the Tala

to US\$0.3942. However, the Tala fell to US\$0.3875 as U.S stock markets dropped on worries about the global economic recovery. The Tala traded at the end of the month at US\$0.3845.

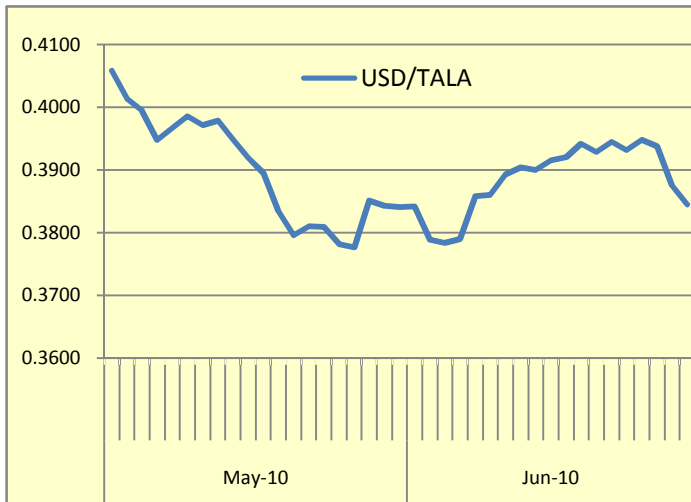


In terms of the **Nominal Index**, the Tala showed no effect against the currency basket at end June 2010 from the previous month. (See Table 2)

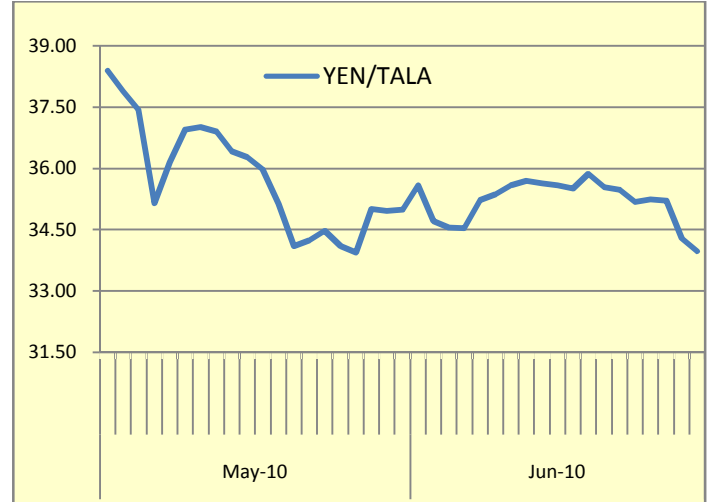
Iosefo Bourne
Acting Governor

TALA GRAPHS

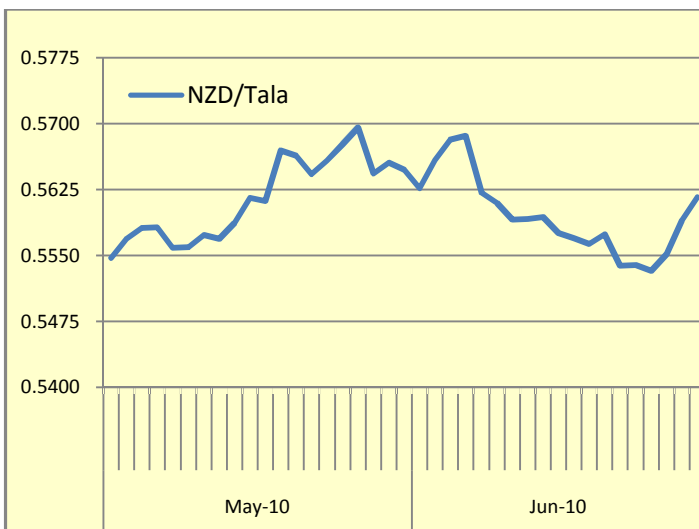
USD/TALA



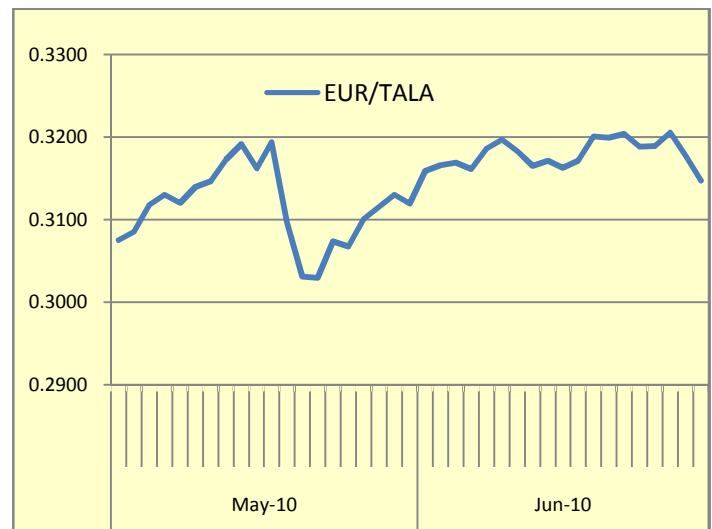
YEN/TALA



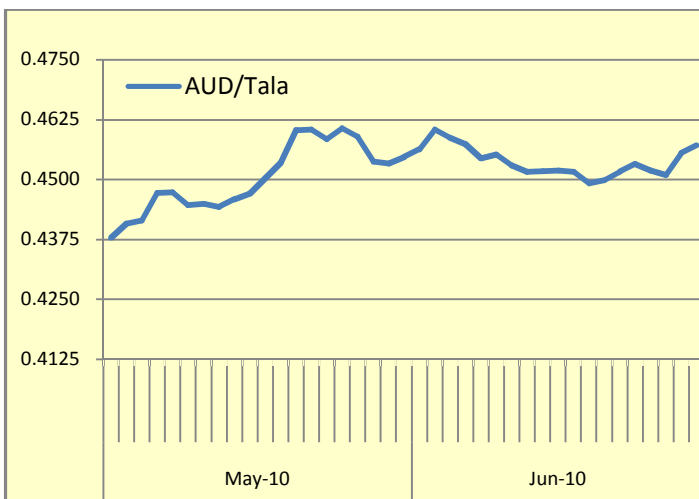
NZD/TALA



EUR/TALA



AUD/TALA



FJD/TALA

