

**CONFIDENTIAL**  
**MEMORANDUM**

14 October 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**  
**SEPTEMBER 2010**

**A. OVERVIEW**

The **US dollar** was generally weak against most of the major currencies in September 2010 as economic data from around the globe were reportedly better than expected. Speculation of further quantitative easing from the Fed also weighed on the greenback. The Fed held its funds rate unchanged at 0.25 percent.

The **Yen** strengthened over the month as a result of the weakening US dollar led by an upsurge in risk appetite amid strong economic data releases. The BOJ held its official interest rate unchanged at 0.10 percent.

The **Euro** also strengthened over the month from investors' risk appetites as stock markets rallied. The weakening US dollar also lent support to the Euro. The ECB held its official interest rate unchanged at 1.00 percent.

The **Australian dollar** was considerably stronger in September owing to the generally weakened US dollar, coupled with support from upbeat economic data out of Australia. The RBA held its policy interest rate unchanged at 4.50 percent.

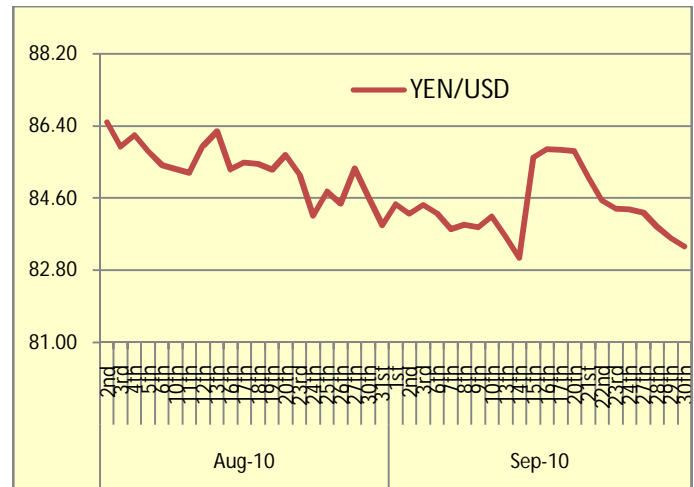
The **New Zealand dollar** likewise strengthened on the rise in commodity and equity markets from strong economic data out of the U.S and China. The RBNZ held its official cash rate unchanged at 3.00 percent.

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

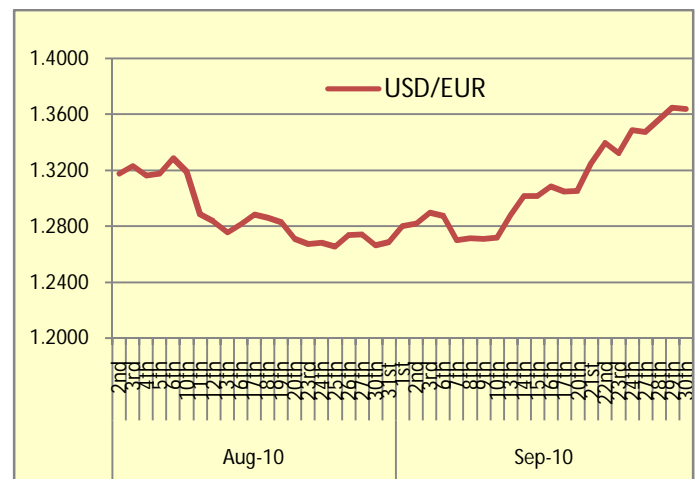
## B. CURRENCY 'WATCH'

The **US dollar** opened the month weak as reports showed manufacturing in the U.S and China accelerated, spurring demand for higher yielding currencies. It continued to fall as U.S home sales unexpectedly rose in July and U.S employers added more jobs than forecast in August, fuelling investor's risk appetite. The U.S dollar later strengthened as slowing economic growth increased investors' demand for refuge assets as stock markets dropped. Improved demand for Portuguese and Polish bonds which helped ease concerns that the Europe's debt crisis will trigger another recession and the rise in stock markets saw the greenback weaken against most of the major currencies. It continued to weaken as another report showed a bigger than forecast drop in U.S jobless claims and a narrower trade deficit eased concerns the world's largest economy is slipping back into a recession. Speculation that the Federal Reserve will buy additional Treasury securities to help sustain growth as the economic recovery falters also continued to undermine the greenback. It later strengthened after Japan intervened to sell its currency to protect the country's exporters coupled with reports which showed manufacturing in the Philadelphia region unexpectedly contracted in September for a second month. Poor economic reports out of the U.S and Europe also helped support the U.S dollar. Nevertheless, it weakened as U.S durable goods orders fell in August and on reports of better than expected confidence data out of Europe. The U.S dollar continued to be undermined by the rise in stock markets, the Federal Reserve's willingness to ease monetary policy and better than expected economic data from around the globe.

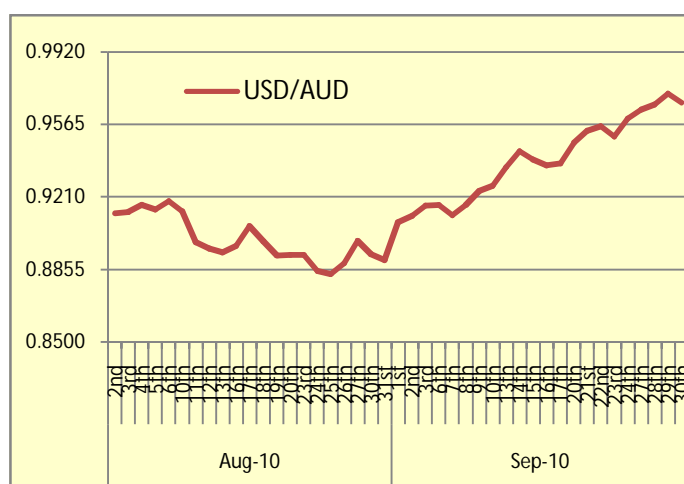
The **Japanese Yen** opened the month firm at Yen84.45 as the U.S dollar weakened on better than expected manufacturing data out of the U.S and China. It continued to trade around Yen84 against the U.S dollar as investors opted to buy higher yielding currencies on strong economic data from around the globe. It later strengthened to Yen83.83 as slowing economic growth increased demand for the Japanese Yen. However, it weakened to trade around Yen85 as Japan intervened for the first time since 2004 and sold its currency to protect its exporters. The Yen later strengthened to Yen84.55 against the U.S dollar as it weakened on speculation the Federal Reserve will debase the currency by purchasing government debt. It continued to trade around Yen84 and eventually to Yen83 until it finally closed off the month slightly firmer at Yen83.39.



The **Euro** opened the month firm at US\$1.2798 as stock markets gained coupled with better than expected manufacturing data out of the U.S and China. It continued to strengthen to US\$1.2815 against the U.S dollar as it weakened on better than expected economic reports out of the U.S. Better than expected labour data out of the U.S saw the Euro strengthen to US\$1.2897 as stock markets rallied. However, it later weakened to US\$1.2696 as financial shares declined on concerns the debt crisis will hold back the global recovery. The Euro then strengthened to US\$1.2713 and eventually to US\$1.3245 as reports showed successful bond auctions in Spain and Ireland, reducing concern the region's debt crisis will worsen. However, it later weakened to US\$1.3320 as reports showed Europe's services and manufacturing industries slowed more than forecast. Reports which showed German business confidence unexpectedly rose to the highest level in more than three years coupled with the fall in U.S durable goods orders in August saw the Euro strengthen to US\$1.3487. It continued to strengthen to US\$1.3647 after reports showed the rise in stock markets coupled with the Federal Reserve's willingness to ease monetary policy. The Euro closed off the month firm at US\$1.3637.

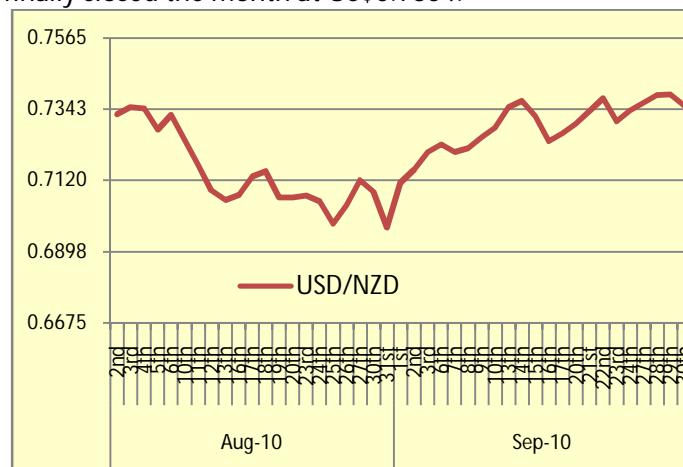


The **Australian dollar** opened the month firm at US\$0.9086 as stock markets gained coupled with reports which showed stronger than expected Australian growth data and Chinese manufacturing data. It continued to rise and traded at US\$0.9170 as reports showed signs of global recovery. The Australian dollar later weakened to US\$0.9121 as stocks tumbled on concern the European debt crisis may worsen coupled with the Reserve Bank of Australia's decision to keep its key interest rate unchanged at 4.50 percent. Successful bond auctions in Europe and better than expected labour data out of Australia helped support the currency to trade at US\$0.9238. It continued to strengthen to US\$0.9434 as signs of sustained economic growth in China and the U.S boosted demand for higher-yielding assets. Reports which showed a fall in stock markets and Australian business consumer confidence in September for the first time in three months weighed down the Aussie to US\$0.9393. It later strengthened to US\$0.9474 and eventually to US\$0.9555 as stock markets gained coupled with reports which showed the Reserve Bank of Australia Governor Glenn Stevens the need to resume raising interest rates as the economy strengthens. Strong confidence data out of Europe coupled with investors' appetite for riskier assets also helped support the Australian dollar to US\$0.9592. It continued to strengthen to US\$0.9636 on speculation the Federal Reserve will expand stimulus measures coupled with speculation the Reserve Bank of Australia will increase its key interest rates in its October meeting. Strong manufacturing data out of China and the rise in stock markets saw the Aussie strengthen to US\$0.9714. The Aussie unit closed the month firm at US\$0.9670.



The **New Zealand dollar** opened the month firm at US\$0.7113 as equity markets rallied on better than expected economic data from around the globe. It continued to strengthen to US\$0.7154 on better than expected economic data out of the U.S and strong Fonterra online auction. Better than expected reports out of the U.S also helped support the kiwi to trade at US\$0.7232 as the

greenback weakened. It later weakened to US\$0.7208 as reports showed signs of slowed U.S economic recovery. Reports that showed U.S. jobless claims fell more than economists expected, Australia's unemployment rate fell to 5.1 percent and China's imports grew more than expected helped support the currency to trade at US\$0.7368. It later weakened to US\$0.7320 and further down to US\$0.7242 after the Reserve Bank of New Zealand left its key interest rates unchanged at 3 percent coupled with reports which showed New Zealand's economy grew at less than a third of the pace analysts estimated. However, strong economic report out of Europe and the U.S saw the kiwi unit strengthen to US\$0.7339. It continued to strengthen to US\$0.7363 and eventually to US\$0.7388 as speculation the Federal Reserve will expand stimulus measures coupled with the rise in stocks and commodities. The New Zealand dollar finally closed the month at US\$0.7354.



**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 2010, compared to the previous month and December 2009.

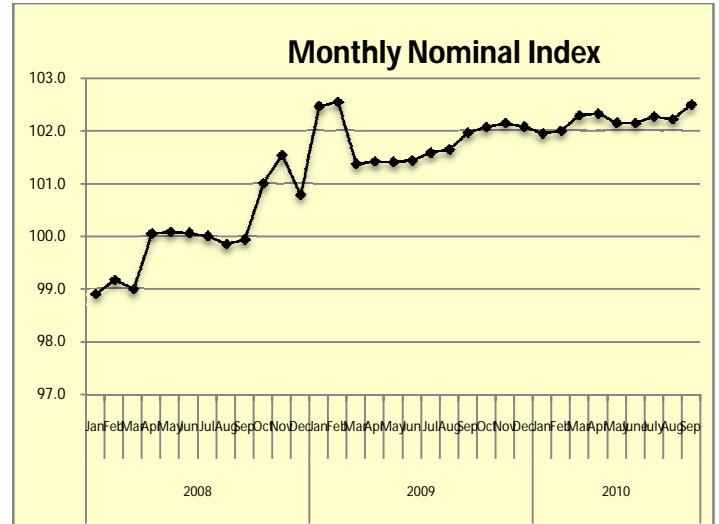
Table 1					
USD per other currencies (end period)					
Movement of other currencies against the USD					
(+) appreciation / (-) depreciation					
	Dec-09	Aug-10	Sep-10	Dec-09 (%)	Aug-10 (%)
USD/NZD	0.7262	0.6973	0.7354	1.27	5.46
USD/AUD	0.8981	0.8900	0.9670	7.67	8.65
YEN/USD	93.05	83.93	83.39	10.38	0.64
USD/EUR	1.4327	1.2682	1.3637	-4.82	7.53
USD/FJD	0.5144	0.5149	0.5350	4.00	3.90

At end September 2010, the Greenback weakened against the **NZD**, the **AUD**, the **YEN**, the **EURO** and the **FJD** when compared to the previous month.

### C. EFFECT ON THE TALA

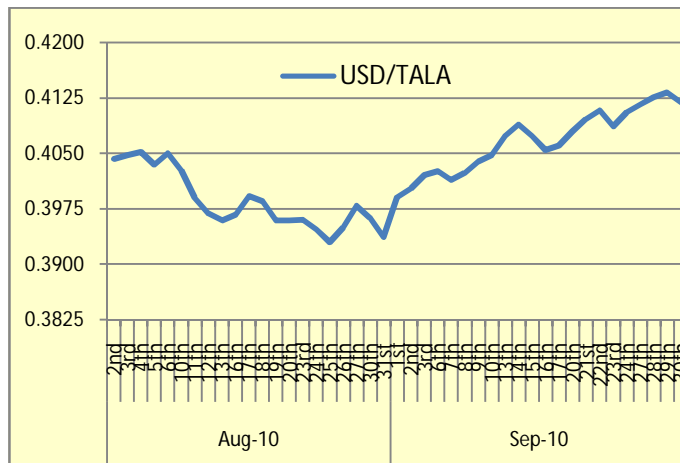
Compared to end December 2009 and end August 2010, Table 2 shows the movement of the Tala at end September 2010 against the currencies in our currency basket as well as its movement against the FJD and the YEN.

Table 2					
Tala per foreign currencies (end period)					
	Dec-09	Aug-10	Sep-10	Movement of the Tala	
				(+ appreciation / (-) depreciation	
				Dec-09 (%)	Aug-10 (%)
TALA/USD	2.4936	2.5404	2.4273	2.66	4.45
TALA/NZD	1.8108	1.7714	1.7850	1.43	-0.77
TALA/AUD	2.2395	2.2608	2.3470	-4.80	-3.82
TALA/EUR	3.5724	3.2217	3.3101	7.34	-2.74
TALA/FJD	1.2827	1.3080	1.2986	-1.24	0.72
YEN/TALA	37.3160	33.0387	34.3557	-7.93	3.99
Nominal Index	102.08	102.22	102.50	0.41	0.27



In terms of the **Nominal Index**, the Tala appreciated by 0.27 percent at end September 2010 from the previous month. (See Table 2)

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

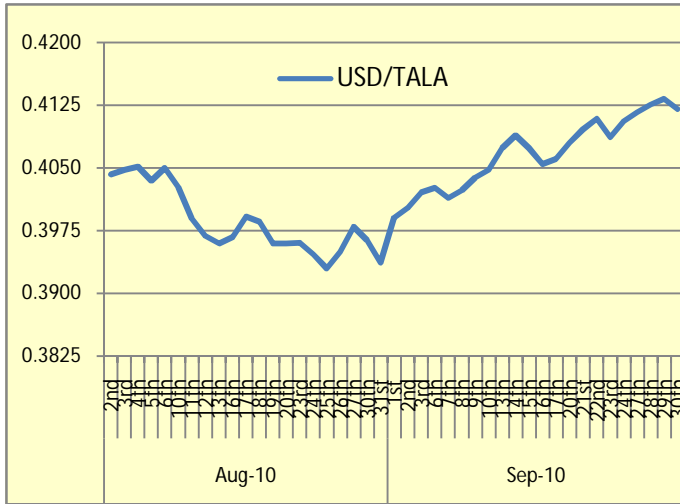


The **Tala** opened the month firm at US\$0.3990 and it continued to strengthen to around US\$0.40 as the Australian and New Zealand currencies rose against the U.S dollar. Report on strong economic data from around the globe also helped support the Tala to trade around US\$0.40 and eventually to US\$0.41 as the Greenback weakened. The Tala traded at the end of the month at US\$0.4120.

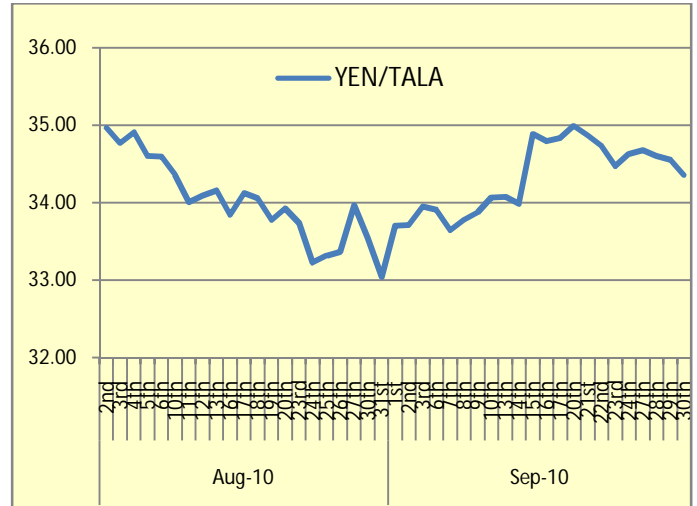
**Magele Filipo II**  
Acting Governor

# TALA GRAPHS

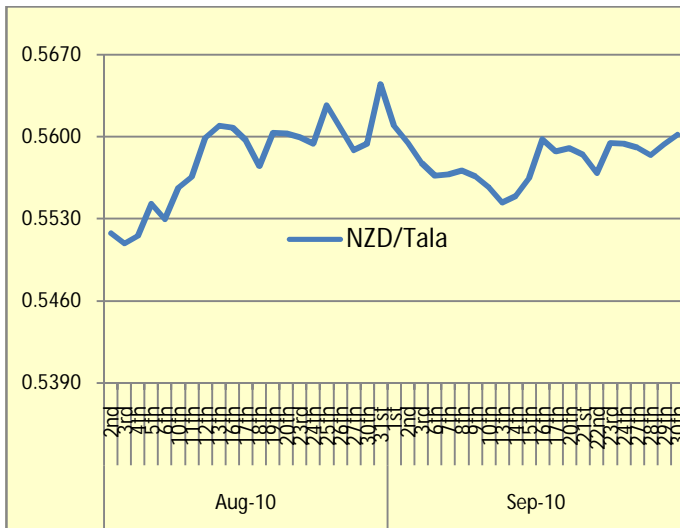
## USD/TALA



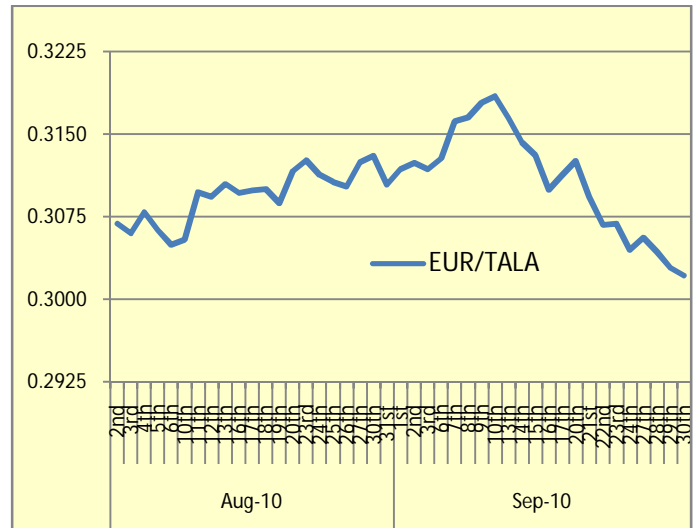
## YEN/TALA



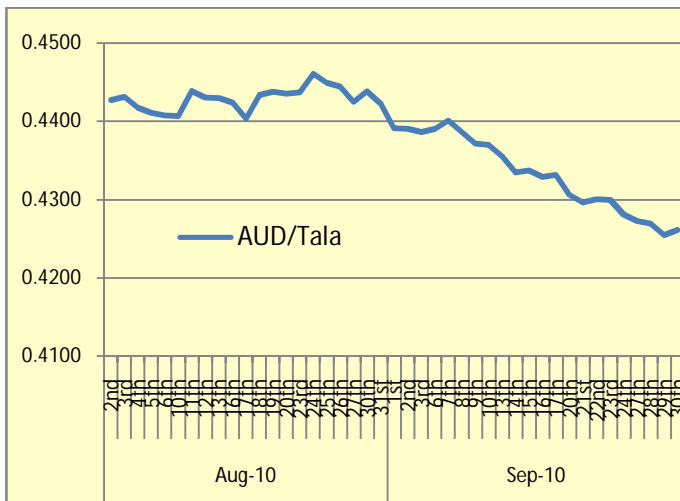
## NZD/TALA



## EUR/TALA



## AUD/TALA



## FJD/TALA

