

CONFIDENTIAL
MEMORANDUM

13 May 2011

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
APRIL 2011

A. OVERVIEW

The **US dollar** was generally weak against most of the major currencies throughout the month as economic data from around the globe were reportedly better than expected. The rise in equity and commodity prices and speculation the Federal Reserve will keep its funds rate at a record low until next year also undermined the greenback. The Fed held its funds rate unchanged at 0.25 percent.

The **Yen** strengthened in April 2011 on the back of a generally weak U.S dollar as stock markets rallied coupled with stronger than expected economic data from around the globe. The BOJ held its official interest rate at 0 – 0.10 percent.

The **Euro** was generally strong over the month as stock markets rallied on better than expected economic data from around the globe. The ECB raised its official interest rate by 25 basis points from 1.00 percent to 1.25 percent.

The **Australian dollar** strengthened considerably against the greenback over the month as stock markets rallied on better than expected economic data out of Australia. The RBA held its policy interest rate at 4.75 percent.

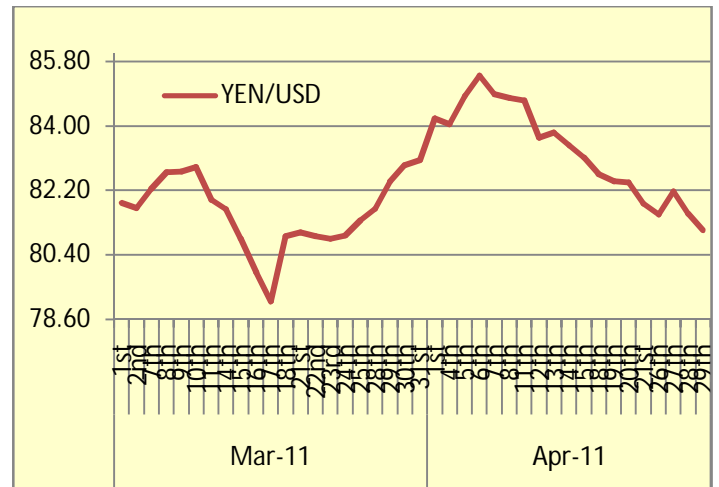
The **New Zealand dollar** likewise strengthened as equity and commodity prices rose on better than expected economic data from around the globe. The kiwi dollar also strengthened on speculation the Fed will continue to hold its funds rate at a record low. The RBNZ held its official cash rate at 2.50 percent.

In April 2011, the **Tala** weakened against the **NZD**, the **AUD**, the **EURO** and the **FJD**. The Tala strengthened against the **USD** and the **YEN**.

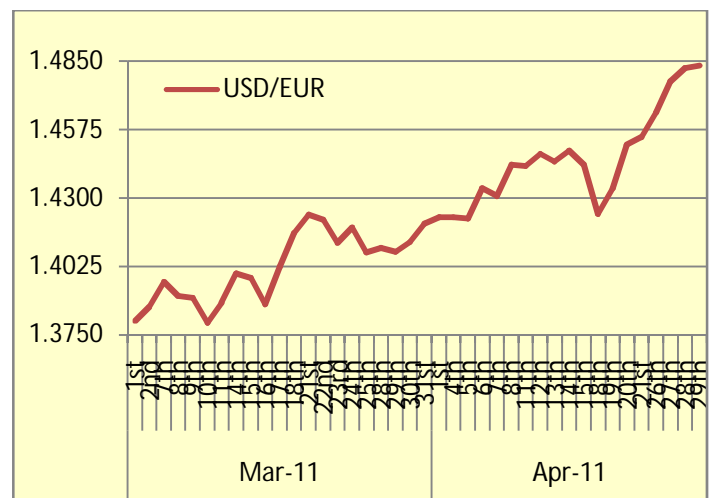
B. CURRENCY 'WATCH'

The **US dollar** opened the month weak against other major currencies as equity and commodity prices rallied on better than expected economic data from around the globe. It continued to fall as investors opted for higher-yielding currencies on bets Fed Chairman Ben S. Bernanke won't raise borrowing costs until 2012. The currency later strengthened as economic releases from around the globe were reportedly worse than expected. It then slid against most of its major counterparts over the outlook of global growth and speculation that the Federal Reserve will maintain its stimulus measures through June 2011. More U.S. dollar weakness continued as U.S. initial jobless claims unexpectedly rose and producer prices advanced at a slower pace, adding to speculation the Federal Reserve will keep borrowing costs low coupled with reports which showed stronger than expected economic data out of China. However, it later gained against most of its major counterparts as stock markets dropped on concerns about the debt crisis in Europe and a cut to U.S. debt outlook by S & P. The U.S. dollar then dropped as stock markets rallied on better than expected economic data from around the globe coupled with speculations that the ECB will hike rates in the near future. Its low-yield interest rate when compared to other currencies also undermined the currency. The greenback continued to fall as the U.S. economy expanded in the first quarter at a slower rate than forecast, encouraging the Federal Reserve to keep borrowing costs low. It closed off the month weak as reports showed that a slowing U.S. recovery will encourage the Federal Reserve to maintain stimulus.

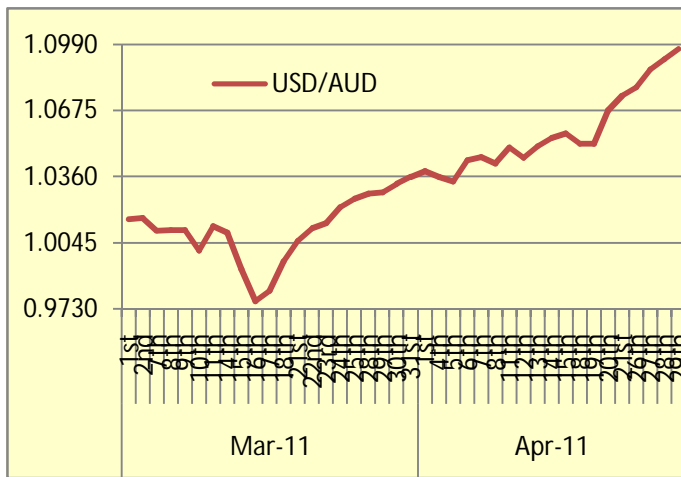
The **Japanese Yen** opened the month weak at Yen84.20 as investors opted for higher yielding currencies on better than expected economic data from around the globe. It then rose to trade around Yen83 and eventually to Yen82 on U.S. dollar weakness following the rise in stock and equity prices. The currency continued to strengthen to trade around Yen81 as the U.S. dollar weakened after economic reports from around the globe were reportedly better than expected coupled with speculation the Federal Reserve will continue to keep its funds rate at 0 to 0.25 until next year. It continued to trade around Yen81 until it finally closed off the month firm at Yen81.08.



The **Euro** opened the month firm at US\$1.4222 as investors bet the Fed will fully carry out the \$600 billion asset buying program through June 2011. It then fell to US\$1.4219 after Moody's Agency downgraded Portugal credit rating. The common currency later rose to US\$1.4338 after European Central Bank President Jean-Claude Trichet raised its key interest-rate by 25 basis points to 1.25 percent and speculation the Federal Reserve will maintain stimulus measures. It continued to strengthen to US\$1.4490 after China pledged to support troubled Spanish banks, on bets the sovereign-debt crisis in nations including Portugal and Greece will be contained and speculation the European Central Bank will raise interest rates further. The Euro then dropped to US\$1.4236 on increased talk of a possible Greek debt restructuring, uncertainty over Portugal's bailout and after a further downgrading of Ireland by Moody's ratings agency. Speculation the European Central Bank will raise interest rates further, successful bond auctions in Spain and statements from the Federal Open Market Committee which erased all interest rate hike expectations in the near future saw the Euro strengthen to US\$1.4823. The Euro closed off the month firm at US\$1.4832.



The **Australian dollar** opened the month firm at US\$1.0384 as investors bought higher-yielding currencies on speculation economic growth is improving. It then fell to US\$1.0335 as the central bank left its key interest rates unchanged at 4.75 percent and after reports showed the nation posted an unexpected trade deficit. The Aussie unit then strengthened to US\$1.0453 and eventually to US\$1.0544 as data showed the unemployment rate unexpectedly dropped to 4.9 percent and after reports showed Australian consumer confidence rebounded in April. It continued to rise to US\$1.0565 as investors opted for higher-yielding currencies on strong growth data out of China. However, the currency later dropped to US\$1.0517 as equity and commodity prices fell after China decided to increase banks' reserve requirements for the fourth time this year to control rising inflation risks. Reports which showed producer and consumer prices rose more than economists estimated saw the Australian dollar gain to US\$1.0870. It continued to strengthen to US\$1.0920 on speculation the central bank will raise interest rates earlier than the Federal Reserve to contain inflation and after Fed Chairman Ben S. Bernanke signalled that he will maintain record monetary stimulus to spur growth. The Aussie unit continued to trade around US\$1.09 until it finally closed off at US\$1.0969; its highest recorded level for the month.



The **New Zealand dollar** opened the month firm at US\$0.7675 as stock markets rallied. It continued to strengthen to US\$0.7796 as traders added to bets the Reserve Bank will increase interest rates over the next year and after Finance Minister Bill English said business confidence was likely to "bounce back" and the nation probably doesn't need any more interest rate cuts. Signs of global growth coupled with reports which showed New Zealand house prices increased in March saw the kiwi unit strengthen to US\$0.7890. It rallied to US\$0.7990 after demand rose at a NZ\$700 million auction of government bonds and reports of strong growth data out of China. However, the currency later fell to US\$0.7874 as reports

showed weaker than expected Consumer Price Index data and concern in Europe and the U.S. about debt levels damped demand for higher-yielding assets. The New Zealand dollar then rose to US\$0.8069 as stocks and commodities rallied and on speculation the nation will benefit from global growth that drives demand for its commodity exports. It continued to strengthen to US\$0.8075 as an industry survey showed business confidence climbed in April and on speculation the Federal Reserve will keep borrowing costs near zero. The kiwi unit later fell to US\$0.8015 after Reserve Bank Governor Alan Bollard called the currency's recent advance "unwelcome" and policy makers left the official cash rate unchanged at 2.5 percent. The New Zealand dollar continued to trade around US\$0.80 until it closed off the month firm at US\$0.8099 as exports rose to a record.

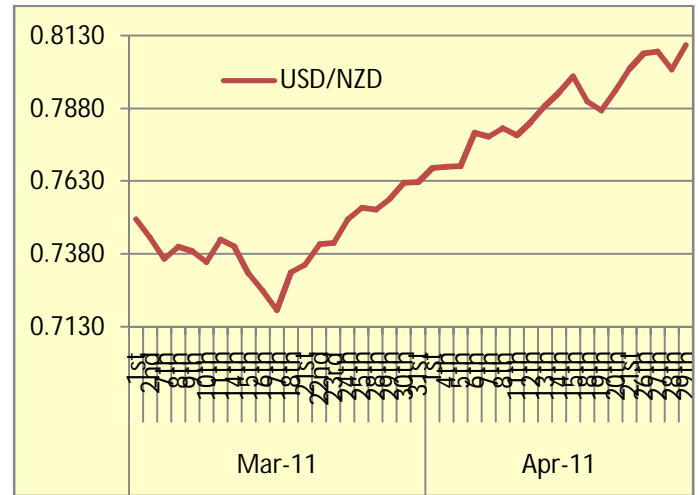


Table 1 shows the movements of the currencies in our currency basket together with the FJD and the Yen against the US dollar at end April 2011, compared to the previous month and December 2010.

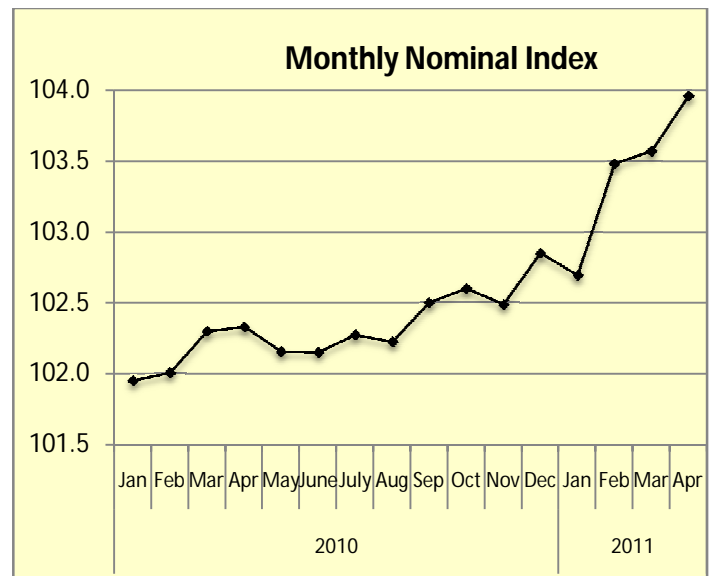
	USD per other currencies (end period)			Movement of other currencies against the USD	
	Dec-10	Mar-11	Apr-11	(+ appreciation / (-) depreciation	
				Dec-10 (%)	Mar-11 (%)
USD/NZD	0.7790	0.7628	0.8099	3.97	6.17
USD/AUD	1.0221	1.0357	1.0969	7.32	5.91
YEN/USD	81.24	83.04	81.08	0.20	2.36
USD/EUR	1.3359	1.4197	1.4832	11.03	4.47
USD/FJD	0.5513	0.5500	0.5743	4.17	4.42

At end April 2011, 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

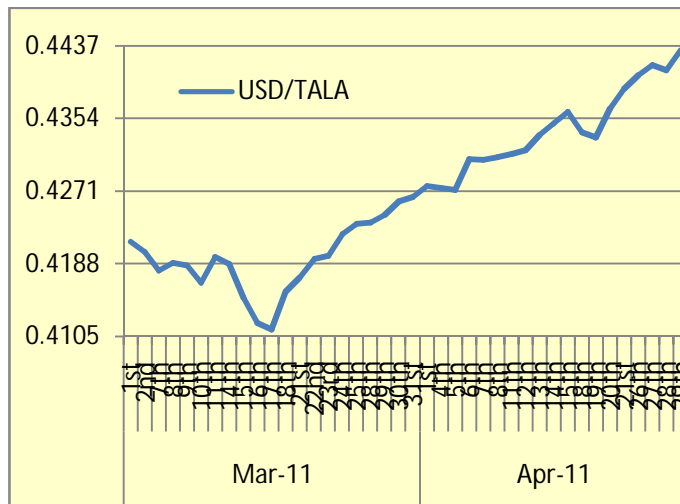
Compared to end December 2010 and end March 2011, Table 2 shows the movement of the Tala at end April 2011 against the currencies in our currency basket as well as against the FJD and the YEN.

Table 2					
Tala per foreign currencies (end period)					
	Dec-10	Mar-11	Apr-11	Movement of the Tala	
				(+ appreciation / (-) depreciation	
				Dec-10 (%)	Mar-11 (%)
TALA/USD	2.3367	2.3453	2.2566	3.43	3.78
TALA/NZD	1.8203	1.7889	1.8276	-0.40	-2.16
TALA/AUD	2.3883	2.4290	2.4751	-3.63	-1.90
TALA/EUR	3.1214	3.3296	3.3469	-7.22	-0.52
TALA/FJD	1.2882	1.2899	1.2959	-0.60	-0.47
YEN/TALA	34.7677	35.4051	35.9288	3.34	1.48
Nominal Index	102.85	103.57	103.96	1.08	0.38



In terms of the **Nominal Index**, the Tala appreciated by 0.09 percent at end March 2011 from the previous month. (See Table 2)

At end April 2011, the Tala weakened against the **NZD**, the **AUD**, the **EURO**, and the **FJD**. The Tala strengthened against the **USD** and the **YEN** from the previous month.

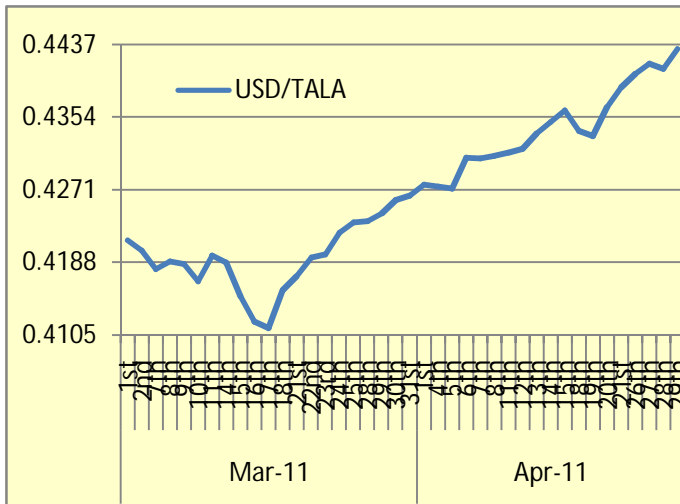


The **Tala** opened the month firm at US\$0.4277 as the U.S dollar weakened on strong economic data from around the globe coupled with the rise in commodity prices. It then strengthened to trade around the US\$0.43 region as the Australian and New Zealand currencies rose against the U.S dollar on speculation the Fed will keep borrowing costs near zero. The Tala continued to trade around US\$0.43 and US\$0.44 until it finally closed the month slightly firmer at US\$0.4432.

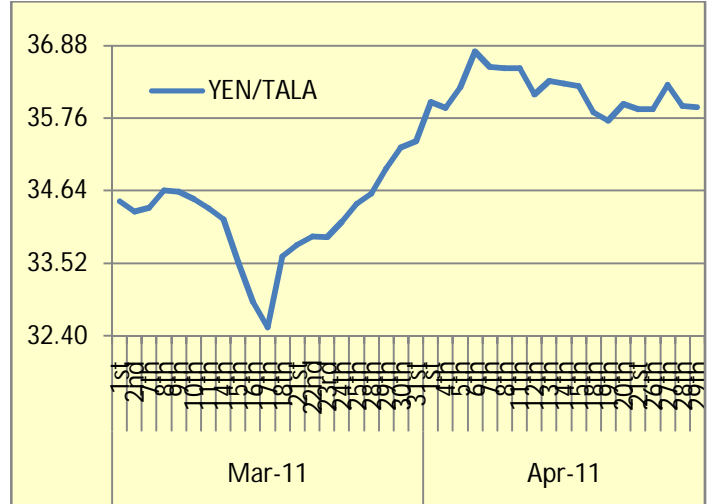
Leisi P T Scanlan
ACTING GOVERNOR

TALA GRAPHS

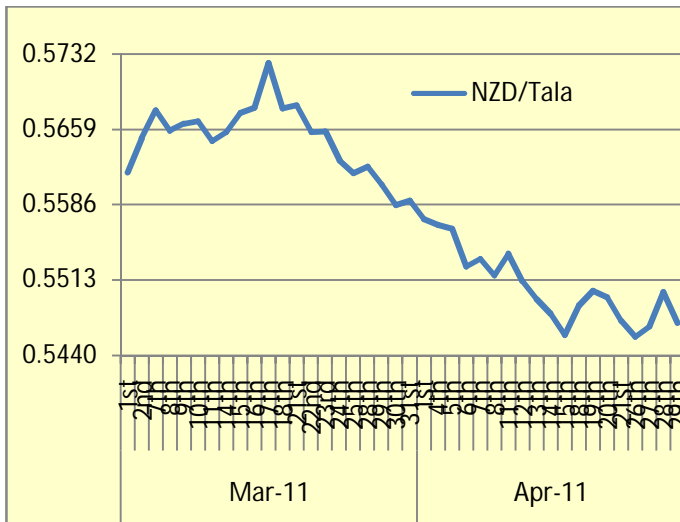
USD/TALA



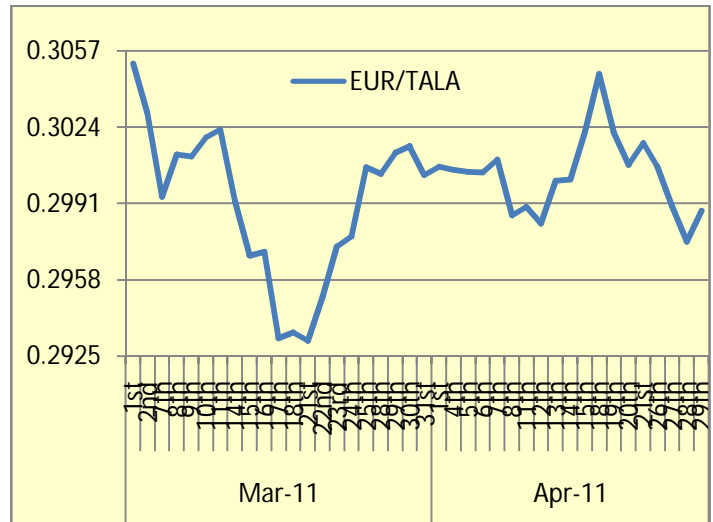
YEN/TALA



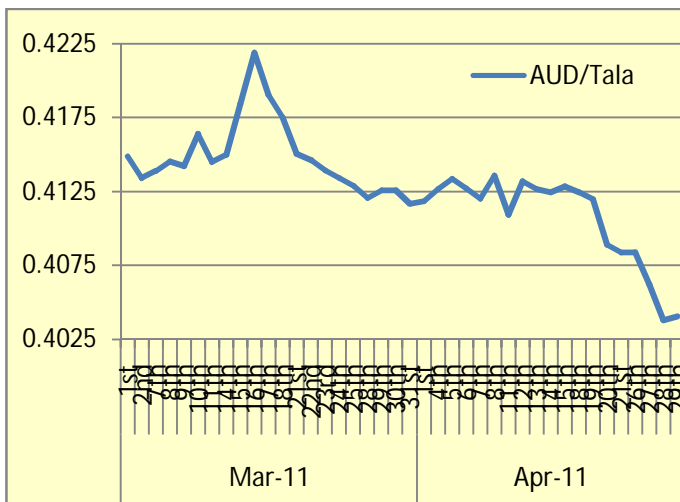
NZD/TALA



EUR/TALA



AUD/TALA



FJD/TALA

