

CONFIDENTIAL
MEMORANDUM

14 February 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
JANUARY 2011

A. OVERVIEW

The **US dollar** was generally strong against most of the major currencies in January 2011 as economic data out of the U.S were reportedly better than expected. Concerns about the flood in Australia also helped support the greenback. The Fed held its funds rate unchanged at 0.25 percent.

The **Yen** weakened over the month on the back of a generally strong U.S dollar. The BOJ held its official interest rate at 0 – 0.10 percent.

The **Euro** strengthened considerably over the month on strong economic data out of Europe. The ECB held its official interest rate unchanged at 1.00 percent.

The **Australian dollar** was generally weak against the greenback during the month of January 2011. The fall in stock markets, better than expected economic data out of the U.S and concerns about the floods in Queensland weighed on the currency. The RBA held its policy interest rate at 4.75 percent.

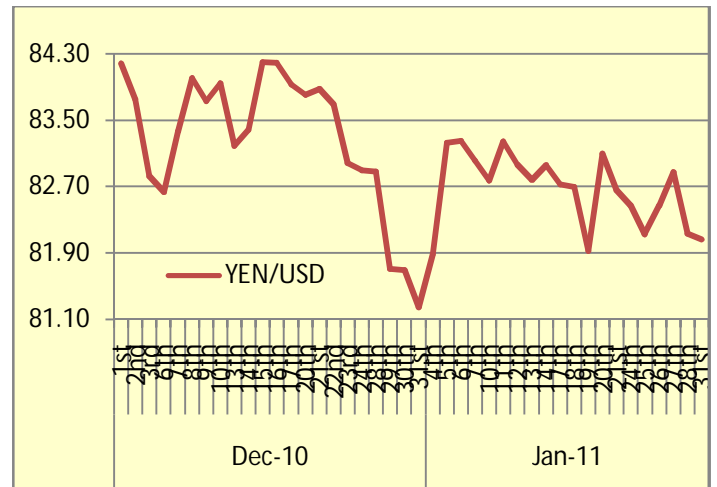
The **New Zealand dollar** likewise weakened on risk aversion and strong economic data out of the U.S. The RBNZ held its official cash rate unchanged at 3.00 percent.

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

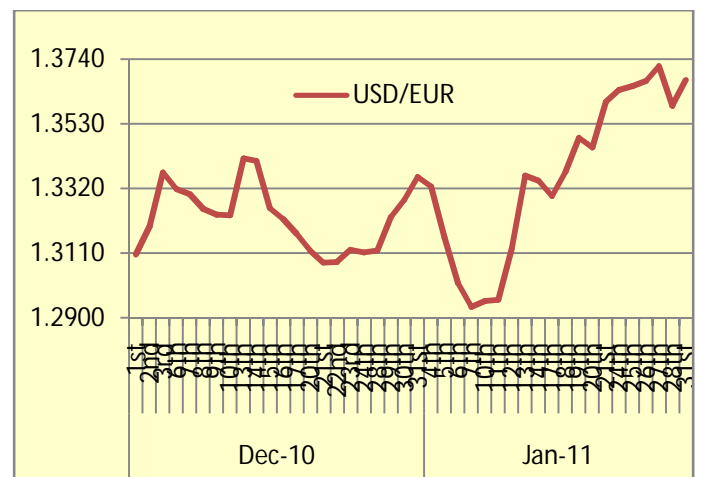
B. CURRENCY 'WATCH'

The **US dollar** opened the month firm as a drop in stocks and crude oil from two-year highs encouraged demand for the greenback's safety. It continued to strengthen as reports showed U.S. companies almost tripled the forecast of jobs added in December and services industries grew at the fastest pace since May 2006. The rise in stocks and commodities saw the U.S. dollar weaken against other major counterparts. However, it later strengthened as investors opted for safe-haven currencies instead of higher-yielding currencies on ongoing worries about the debt crisis in Europe and floods in Australia. The U.S. dollar then fell as investors opted for higher-yielding currencies instead of safe-haven assets on positive news out of Europe coupled with the rise in stock and equity prices. The U.S. dollar fell against other major currencies as consumer confidence unexpectedly fell and retail sales rose less than economists forecast coupled with a government report which showed U.S. jobless claims rose. It continued to fall as stock markets picked up again coupled with strong economic data out of New Zealand, Australia and Europe. Signs the U.S. economic recovery will remain sluggish and speculation European officials are addressing the region's debt crisis also weighed on the U.S. dollar. It later gained after jobless claims fell more than forecast and existing home sales increased more than projected in December. It continued to fall against other major currencies as investors opted for higher-yielding currencies on better than expected economic data out of Europe. The U.S. dollar declined against other major currencies on expectations that the Federal Reserve will reiterate the need to buy \$600 billion in Treasuries to support the economy.

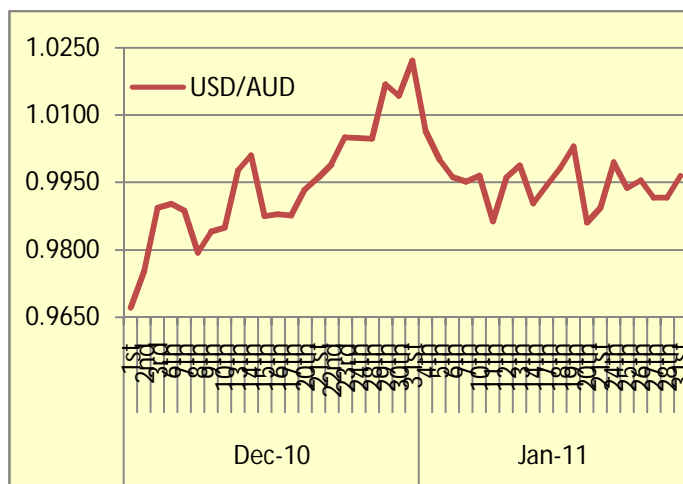
The **Japanese Yen** opened the month firm at Yen81.89 on U.S. dollar weakness following the rise in stock and equity prices. It later fell to trade around Yen83 as the U.S. dollar strengthened on ongoing worries about the debt crisis in Europe coupled with strong labour data out of the U.S. The Yen continued to strengthen to trade around Yen82 against the U.S. dollar on better than expected economic data out of Europe. It continued to trade around Yen82 until it finally closed of the month at Yen82.06.



The **Euro** opened the month weak at US\$1.3327 and then continued to fall to US\$1.2937 on reports which showed stock markets dropped coupled with positive labour data out of the U.S. It then rose to US\$1.3126 as Japan planned to buy bonds issued by Europe's financial-aid funds and after the European Central Bank provided some support to Greece, Portugal and Ireland. It continued to strengthen to US\$1.3362 on speculation European Union leaders will step up efforts to contain the region's debt crisis and as demand rose at Spain's debt sale. The common currency then slipped to US\$1.3345 as Fitch Ratings cut Greece's default rating from BBB- to BB+ coupled with ongoing worries about the region's debt crisis. It later strengthened to US\$1.3485 on speculation efforts by the region's policy makers to prevent the sovereign-debt crisis from deepening may succeed coupled with strong economic data out of Germany. Strong economic data out of the U.S. and the fall in stock equity markets saw the Euro weaken to US\$1.3454. However, it later strengthened to US\$1.3653 as stock markets rallied coupled with expectations of further quantitative easing by the Federal Reserve. The Euro continued to trade around US\$1.36 until it finally closed off the month firm at US\$1.3673.



The **Australian dollar** opened the month slightly weak at US\$1.0063 as commodity prices fell coupled with concerns the flood in the state of Queensland will slow economic growth. It continued to fall to US\$0.9952 as investors opted for safe-haven assets instead of higher-yielding currencies coupled with strong economic data out of the U.S. The Aussie then strengthened to US\$0.9965 as stocks rallied coupled with strong New Zealand data. It later weakened to US\$0.9863 as flooding disrupted coal mine and rail operations, increasing concern natural-resource exports that have driven economic growth in Australia will be impaired. It continued to fall to US\$0.9904 as China said it will raise the reserve requirement ratio for banks to control inflation. However, the Australian dollar later strengthened to US\$1.0030 as stock and equity prices rallied coupled with better than expected New Zealand and Australia economic data. Speculation that China will take more measures to cool economic growth saw the Australian dollar weaken to US\$0.9861. It later rose to US\$0.9994 as stock markets rallied on strong confidence data out of Europe. The Australian dollar then weakened to US\$0.9937 against the Greenback after data showed annual core inflation rose 2.2 percent in the December quarter, less than the 2.6 percent expected and near the bottom of the Reserve Bank of Australia's 2-3 per cent target band. It continued to trade around US\$0.99 until it finally closed off the month at US\$0.9965.



The **New Zealand dollar** opened the month weak at US\$0.7678 as strong commodity prices fell coupled with flood concerns in Australia. Strong economic data out of the U.S also weighed down the kiwi unit to US\$0.7606. It later strengthened to US\$0.7643 as stock markets rallied coupled with reports which showed New Zealand's trade deficit narrowed in November, as demand from China increased prices of dairy and lumber exports. It continued to strengthen to US\$0.7697 as the European Central Bank said it will still raise interest rates to rein in inflation, while record prices for locally produced commodities renewed

appetite for the kiwi. It continued to strengthen to US\$0.7727 as stock and equity prices rallied coupled with better than expected economic data out of New Zealand and Australia. The New Zealand dollar then weakened to US\$0.7561 as speculation increased that China will take more measures to cool economic growth, curbing appetite for raw materials. It later rose to US\$0.7639 as stock markets rallied on strong confidence data out of Europe. The New Zealand dollar gained to US\$0.7677 as the Greenback weakened on expectations of further quantitative easing by the Federal Reserve coupled with reports which showed stock and equity prices rallied. It continued to trade around US\$0.77 until it finally closed off the month at US\$0.7720.

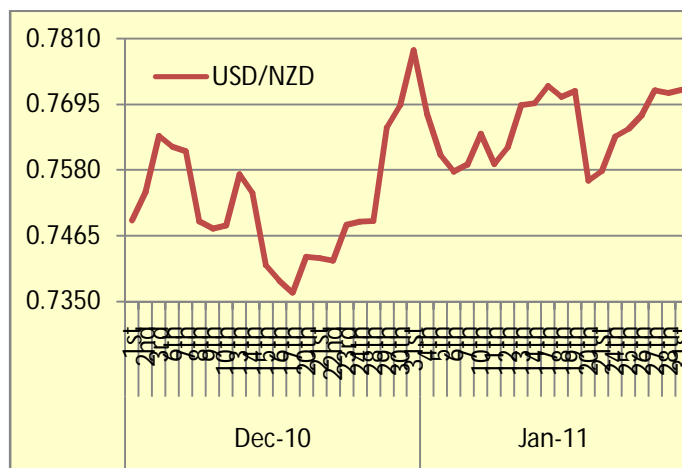


Table 1 shows the movements of the currencies in our currency basket together with the FJD and the Yen against the US dollar at end January 2011, compared to the previous month and December 2009.

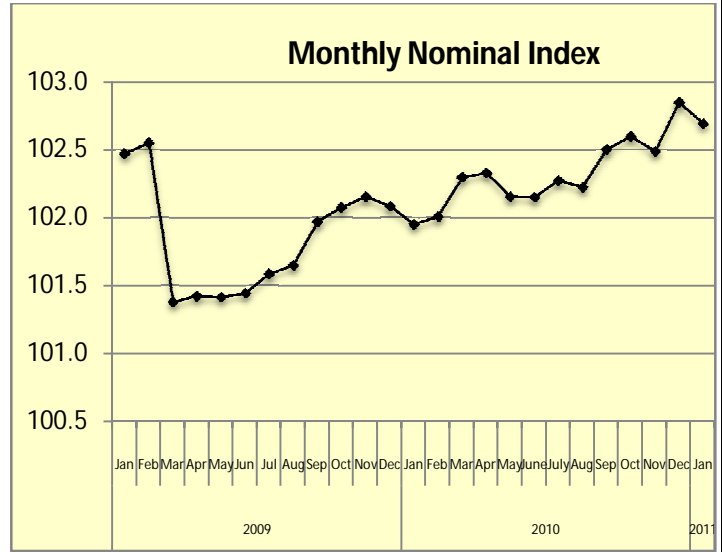
Table 1					
USD per other currencies (end period)					
				Movement of other currencies against the USD	
				(+ appreciation / (-) depreciation	
	Dec-09	Dec-10	Jan-11	Dec-09 (%)	Dec-10 (%)
USD/NZD	0.7262	0.7790	0.7720	6.31	-0.90
USD/AUD	0.8981	1.0221	0.9965	10.96	-2.50
YEN/USD	93.05	81.24	82.06	11.81	-1.01
USD/EUR	1.4327	1.3359	1.3673	-4.56	2.35
USD/FJD	0.5144	0.5513	0.5455	6.05	-1.05

At end January 2011, the Greenback weakened against the **EURO** when compared to the previous month. The US dollar strengthened against the **NZD**, the **AUD**, the **YEN** and the **FJD** from the previous month.

C. EFFECT ON THE TALA

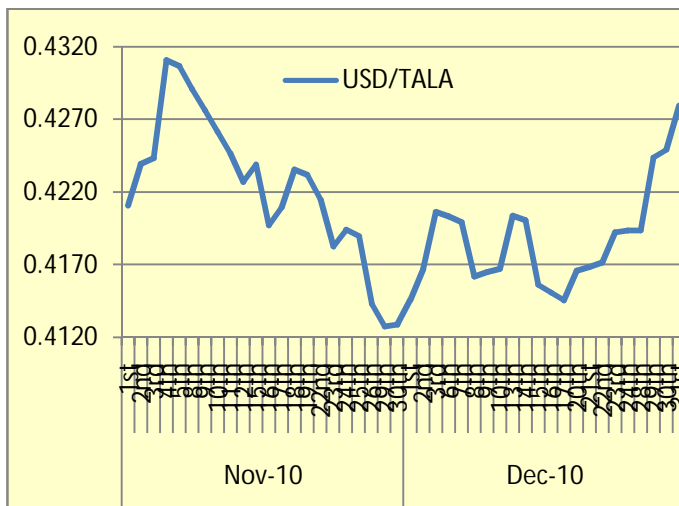
Compared to end December 2009 and end December 2010, Table 2 shows the movement of the Tala at end January 2011 against the currencies in our currency basket as well as against the FJD and the YEN.

Table 2					
Tala per foreign currencies (end period)					
				Movement of the Tala	
				(+ appreciation / (-) depreciation	
	Dec-09	Dec-10	Jan-11	Dec-09	Dec-10
				(%)	(%)
TALA/USD	2.4936	2.3367	2.3618	5.29	-1.08
TALA/NZD	1.8108	1.8203	1.8232	-0.68	-0.16
TALA/AUD	2.2395	2.3883	2.3535	-5.09	1.46
TALA/EUR	3.5724	3.1214	3.2291	9.61	-3.45
TALA/FJD	1.2827	1.2882	1.2884	-0.44	-0.01
YEN/TALA	37.3160	34.7677	34.7451	-6.89	-0.06
Nominal Index	102.08	102.85	102.69	0.60	-0.15



In terms of the **Nominal Index**, the Tala depreciated by 0.15 percent at end January 2011 from the previous month. (See Table 2)

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

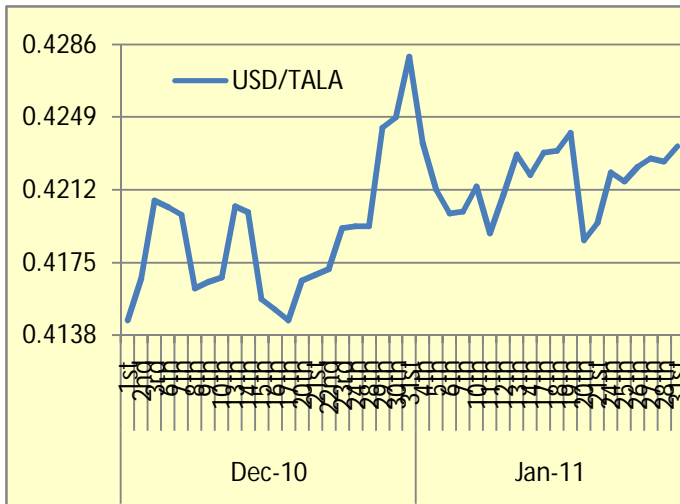


The **Tala** opened the month weak at US\$0.4236 as the U.S dollar strengthened on strong economic data out of the U.S. It continued to trade around the US\$0.41 region as the Australian and New Zealand currencies fell against the U.S dollar following reports of weak economic data releases from around the globe and concerns about the flood in Australia. The Tala continued to trade around US\$0.41 and US\$0.42 until it finally closed the month slightly firm at US\$0.4234.

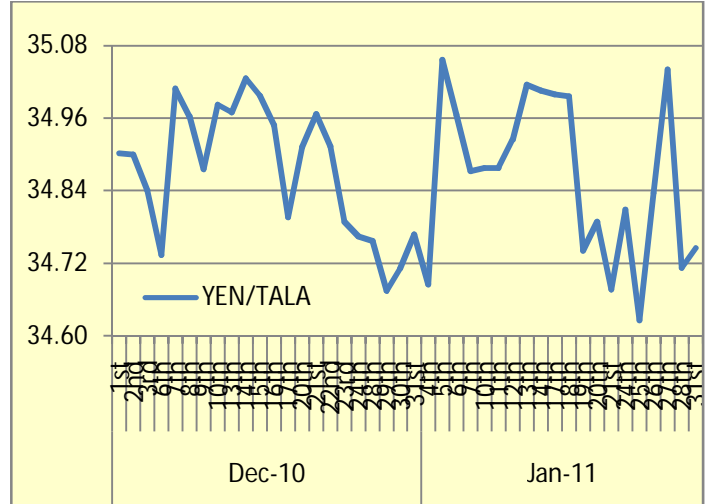
Leasi P T Scanlan
Governor

TALA GRAPHS

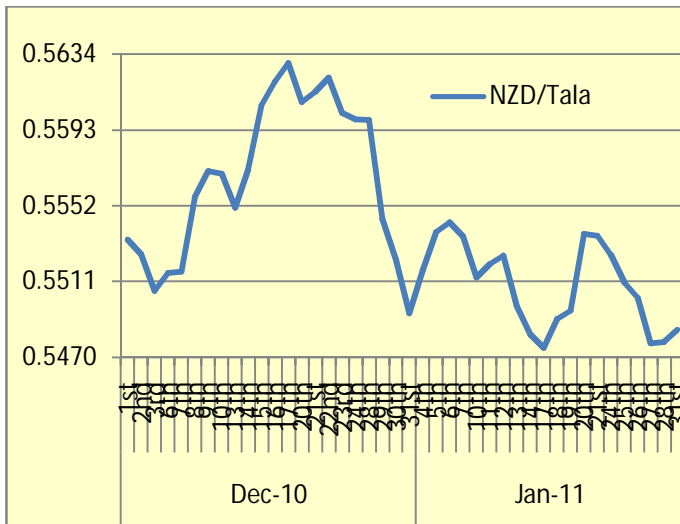
USD/TALA



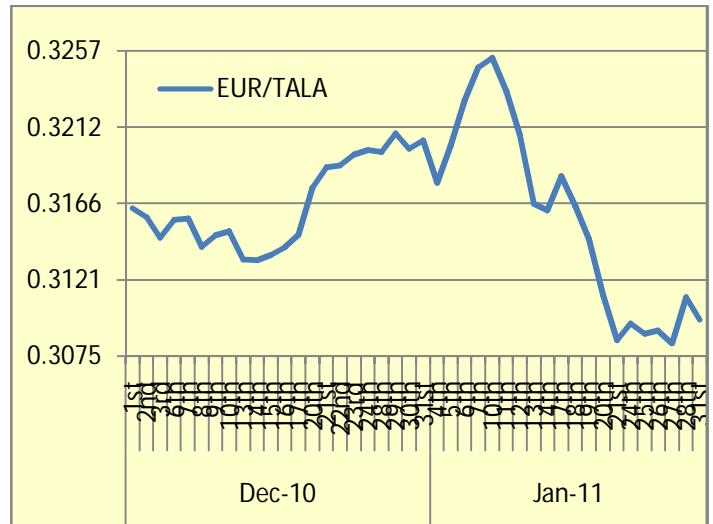
YEN/TALA



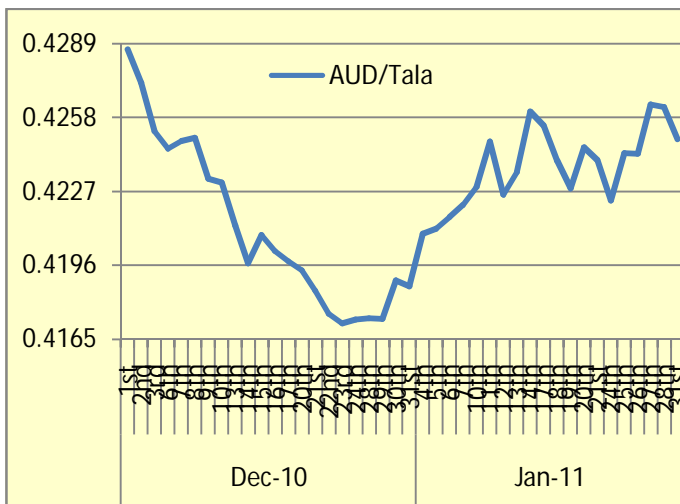
NZD/TALA



EUR/TALA



AUD/TALA



FJD/TALA

