

CONFIDENTIAL
MEMORANDUM

25 July 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
JUNE 2011

A. OVERVIEW

The **US dollar** generally strengthened against most of the major currencies in the beginning of the month, as it was supported by haven demand amid worse than expected economic reports out of the US and amid signals from the Federal Reserve Bank that it will not add further stimulus measures. However, the greenback later fell as waning concern about the European debt crisis revived risk appetite amid rebounding stocks and commodities.

The **Yen** showed little change against the greenback and it traded throughout the month around Yen80 despite ongoing worries about the debt crisis in Europe and worse than expected economic data out of the U.S. The BOJ held its official interest rate at 0 – 0.10 percent.

The **Euro** weakened in the beginning of the month on concern about the debt crisis coupled with the decline in stock markets. However, speculation that the ECB will increase its key interest rate in July and the rebound in risk appetite, helped boost the Euro. The ECB held its official interest rate unchanged at 1.25 percent.

The **Australian dollar** was weak against the US dollar as stock markets underperformed on poor economic data from around the globe coupled with worries about the debt-crisis in Europe. The currency later strengthened after Greece approval an austerity plan to help head off the euro region's first sovereign-debt default. The RBA held its policy interest rate at 4.75 percent.

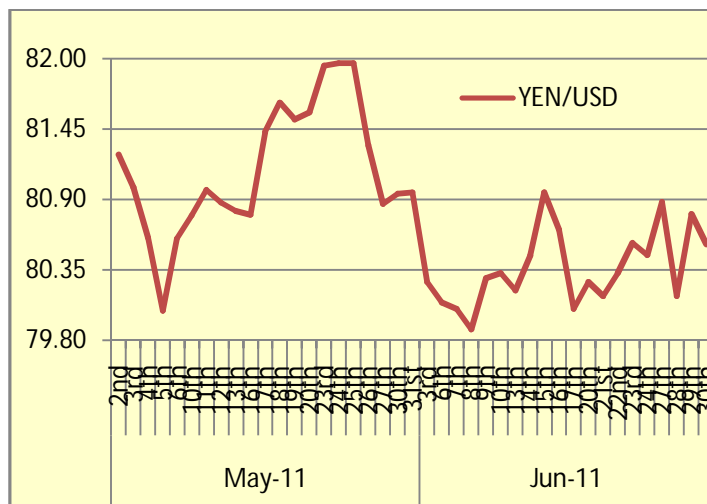
The **New Zealand dollar** likewise weakened over the month on worse than expected economic data out of the U.S and worries about the debt crisis in Europe. However, it later strengthened as stock markets rallied on optimism European officials will support further aid for Greece. The RBNZ held its official cash rate at 2.50 percent.

At end June 2011, the **Tala** weakened against the **NZD**, the **AUD**, the **EURO** and the **YEN** while it strengthened against the **USD** and the **FJD**.

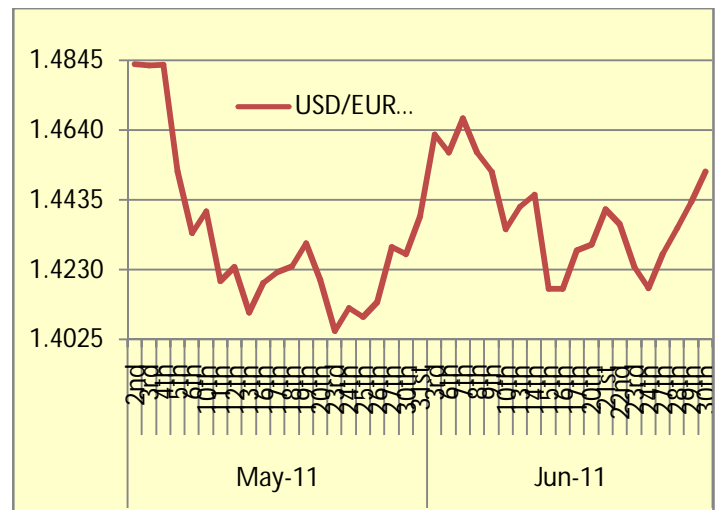
B. CURRENCY 'WATCH'

The **US dollar** opened the month weak against other major currencies after reports showed U.S. employers in May added the fewest jobs in eight months. It then strengthened as concern about slower U.S. growth and how European leaders will deal with the region's debt crises, boosted demand for the safe haven dollar. The Greenback weakened as better than expected economic data out of Europe and the U.S. helped fuel an ongoing stock market rally. However, the Greenback rebounded again on haven demand as reports showed manufacturing in the U.S. slowed. The dollar continued to strengthen as the Euro and other risk currencies weakened on the back of news that Euro zone finance ministers delayed a decision on extending 12 billion Euros to debt-stricken Greece. The U.S. currency strengthened further after Federal Reserve Chairman Ben S. Bernanke signalled that the central bank will not add to stimulus measures that may well erode the value of the currency. Still, the dollar weakened again as a rise in commodity prices spurred investor demand for higher-yielding assets and it eventually closed the month weak as stocks and commodities rebounded amid waning concern about the European debt crisis.

The **Japanese Yen** opened the month firm at Yen80.26 as the dollar weakened following worse than expected U.S. labour data coupled with the rise in stock and equity prices. The Yen then strengthened to trade at Yen79.89 as investors opted to buy safe-haven currencies amid qualms about the debt crisis in Europe. However, a rebound in investors' appetites for risk assets amid upbeat global economic data saw gains to the Yen reversed, and it traded back down to Yen80 against the U.S. dollar. The Yen continued to trade around Yen80 until it finally closed the month at Yen80.55.

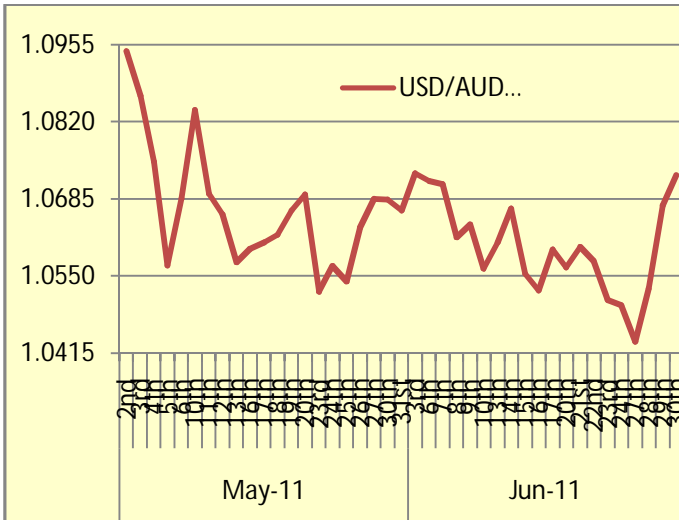


The **Euro** opened the month firm at US\$1.4628 after Greece was approved for more assistance to address its debt crisis. It then weakened to US\$1.4349 as stock markets fell and after the European Central Bank's President signalled that the pace of interest rate increases will slow this year. The common currency later strengthened to US\$1.4451 as equity and commodity prices advanced following better than expected economic data out of the U.S and China. The Euro weakened again to US\$1.4173 as stock markets fell and after ECB President Jean-Claude Trichet said that the debt crisis threatens to infect banks. However, after German Chancellor Angela Merkel agreed to compromise and work with the European Central Bank on a debt plan for Greece, the Euro recovered to US\$1.4407. It continued to advance to US\$1.4429 on speculation Greece's parliament will approve an austerity package needed to ensure additional financial aid, coupled with speculations the ECB will increase interest rates in July. The Euro closed the month slightly firmer at US\$1.4518.



The **Australian dollar** opened the month firm at US\$1.0729 as concern eased that the European sovereign-debt crisis will drag down demand for higher-yielding assets. It then weakened to US\$1.0618 after the Reserve Bank of Australia held its key interest rate unchanged at 4.75 percent. The Aussie unit continued to fall to US\$1.0524 on the back of falling stocks and commodities coupled with reports which showed employers added fewer jobs than forecast. The Aussie currency rose to US\$1.0596 as investors opted for higher-yielding currencies, amid strong economic data out of China and the rise in equity and commodity prices. The Australian dollar later weakened to US\$1.0565 as risk appetite waned following news of the delayed decision by Euro zone finance ministers to pay out the bailout funds to

Greece. The Australian dollar continued slipping to US\$1.0435 as traders began to speculate that the RBA will lower interest rates as Europe's sovereign-debt crisis drags on global growth. Even so, the Aussie unit later rose to US\$1.0674 as Greece approved an austerity plan to help head off the euro region's first sovereign-debt default, and it continued to trade around US\$1.07 until finally closing the month firm at US\$1.0726.



The **New Zealand dollar** opened the month weak at US\$0.8166 as equity markets in Asia weakened following disappointing data from the United States. It fell to US\$0.8148 on weak US economic data and continued its descent to US\$0.8144 on lingering concern about Europe's debt crisis. More weak data out of the U.S. eventually saw the NZ dollar weaken to US\$0.8013. The Kiwi currency received a boost to US\$0.8147 after data showed China's industrial production grew by more than economists had estimated. Speculations that the Federal Reserve will maintain monetary stimulus also added a boost to the NZ dollar's rally. The Kiwi dollar later fell to US\$0.8057 as commodity prices tumbled amid fears Greece will default on its debt payments, while a government report, which showed the NZ trade surplus narrowed more than economists expected in May, kept the Kiwi's gains further at bay. Fortunately, an optimistic turnaround in the stock markets, led by reports that the European officials will support further aid for Greece saw the New Zealand dollar rebound to close the month at a solid US\$0.8281.

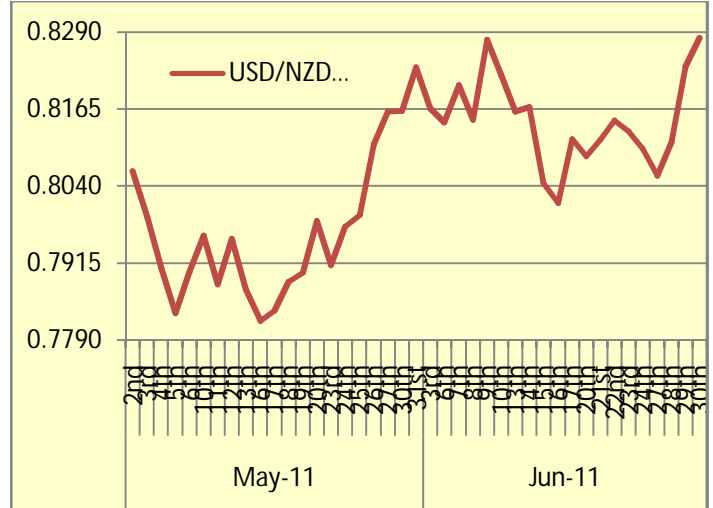


Table 1 shows the movements of the currencies in our currency basket together with the FJD and the Yen against the US dollar at end June 2011, compared to the previous month and December 2010.

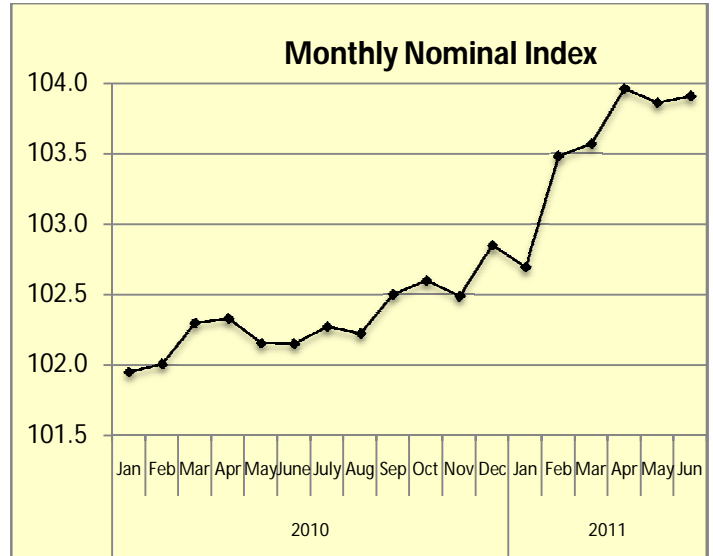
Table 1					
USD per other currencies (end period)					
				Movement of other currencies against the USD	
				(+ appreciation / (-) depreciation	
	Dec-10	May-11	Jun-11	Dec-10	May-11
				(%)	(%)
USD/NZD	0.7790	0.8233	0.8281	6.30	0.58
USD/AUD	1.0221	1.0665	1.0726	4.94	0.57
YEN/USD	81.24	82.96	80.55	0.85	2.90
USD/EUR	1.3359	1.4387	1.4518	8.68	0.91
USD/FJD	0.5513	0.5704	0.5725	3.85	0.37

At end June 2011, the Greenback weakened against the **NZD**, the **AUD**, the **EURO**, the **YEN** and the **FJD** when compared to the previous month.

C. EFFECT ON THE TALA

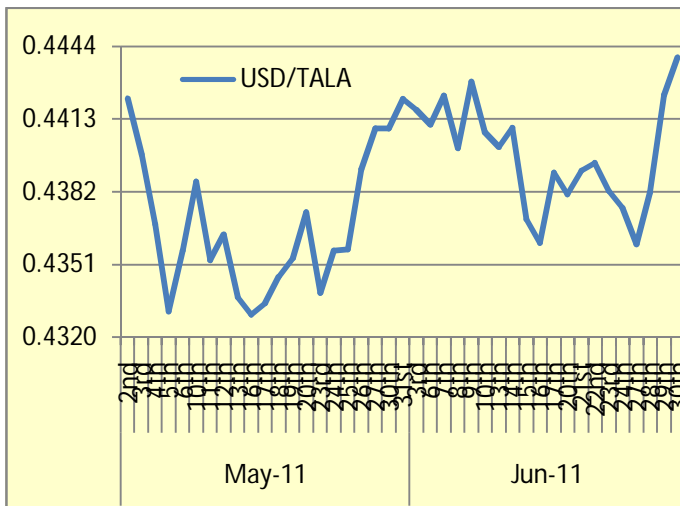
Compared to end December 2010 and end May 2011, Table 2 shows the movement of the Tala at end June 2011 against the currencies in our currency basket as well as against the FJD and the YEN.

Table 2					
Tala per foreign currencies (end period)					
	Dec-10	May-11	Jun-11	Movement of the Tala	
				(+ appreciation / (-) depreciation	
				Dec-10 (%)	May-11 (%)
TALA/USD	2.3367	2.2616	2.2526	3.60	0.39
TALA/NZD	1.8203	1.8618	1.8654	-2.48	-0.19
TALA/AUD	2.3883	2.4118	2.4162	-1.17	-0.18
TALA/EUR	3.1214	3.2537	3.2703	-4.77	-0.51
TALA/FJD	1.2882	1.2899	1.2896	-0.11	0.02
YEN/TALA	34.7677	36.6805	35.7580	2.85	-2.52
Nominal Index	102.85	103.86	103.91	1.03	0.05



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

In terms of the **Nominal Index**, the Tala depreciated by 0.05 percent at end June 2011 from the previous month. (See Table 2)

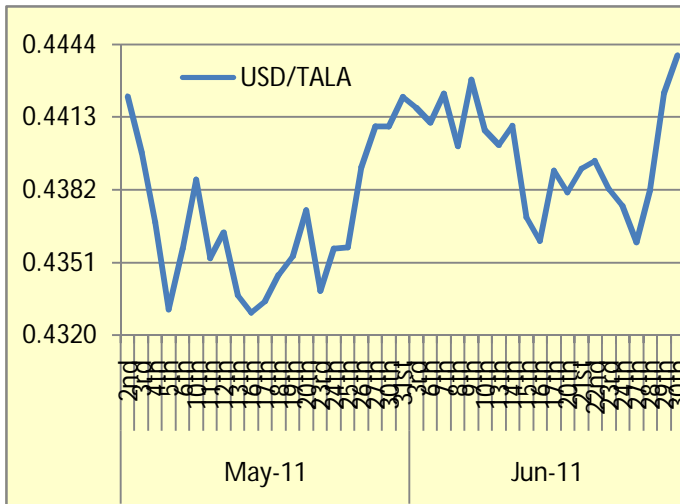


The **Tala** opened the month firm at US\$0.4417 as the U.S dollar weakened on poor economic data out of the U.S. It then weakened to trade around the US\$0.43 region as the Greenback rebounded on increased demand for safe haven currencies. Worries about the debt crisis in Europe continued to weaken the Euro and the Australasian currencies, which also saw the Tala weaken to US\$0.4360. The Tala recovered to levels above US\$0.4400 where it mostly traded in the beginning of the month until it closed the month firm at US\$0.4439.

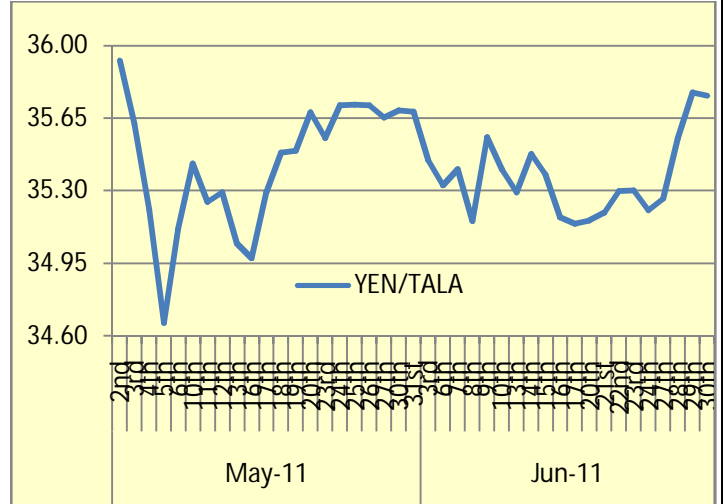
Leasi P T Scanlan
Governor

TALA GRAPHS

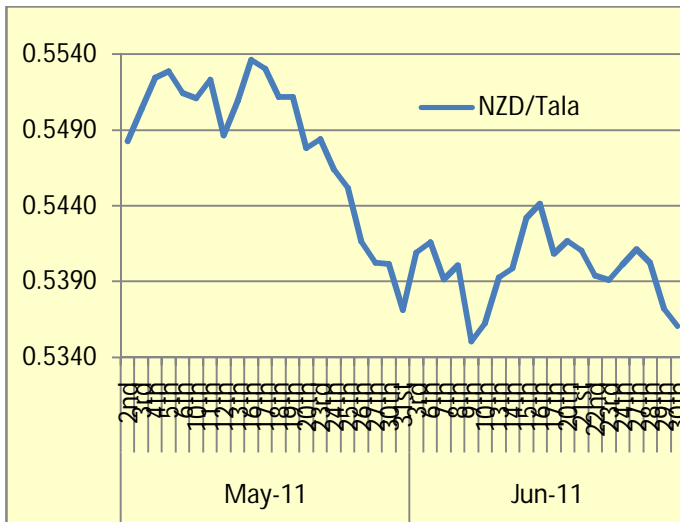
USD/TALA



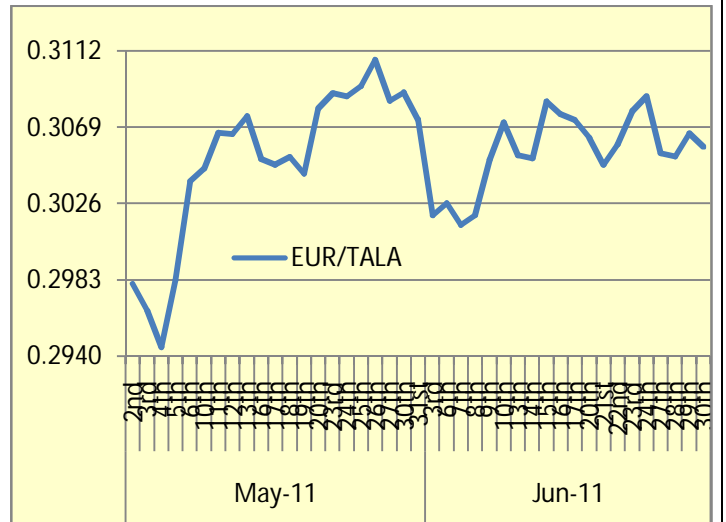
YEN/TALA



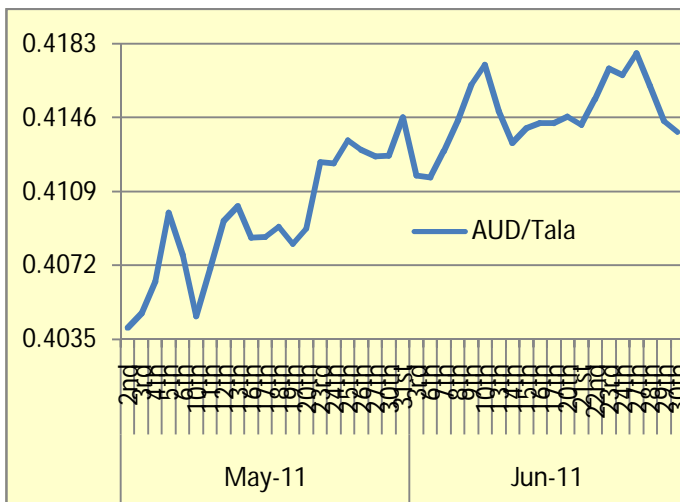
NZD/TALA



EUR/TALA



AUD/TALA



FJD/TALA

