

**CONFIDENTIAL**  
**MEMORANDUM**

04 November 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**  
**OCTOBER 2011**

**A. OVERVIEW**

The **US dollar** weakened against most of its major currencies throughout the month of October as investors opted for higher-yielding currencies amid eased concern about the debt crisis in Europe and speculations for additional quantitative easing from the Fed, coupled with the rise in equities and commodities.

The **Yen** took the opportunity to strengthen as the Greenback weakened over the month on surging risk appetite. However the Yen later weakened as Japan intervened in the foreign-exchange markets to protect its exporters. The BOJ held its official interest rate at 0 – 0.10 percent.

The **Euro** strengthened throughout the month on soaring investor demand for higher-yielding currencies as concerns about the debt crisis in Europe eased and markets began to speculate on a third round of quantitative easing from the Fed. The ECB left its official interest rate unchanged at 1.50 percent.

The **Australian dollar** was considerably stronger against the US dollar in October as stock markets rallied on better than expected economic data out of China and, after the Euro-region's leaders agreed to expand a bailout fund to halt the sovereign debt crisis. The RBA held its policy interest rate at 4.75 percent.

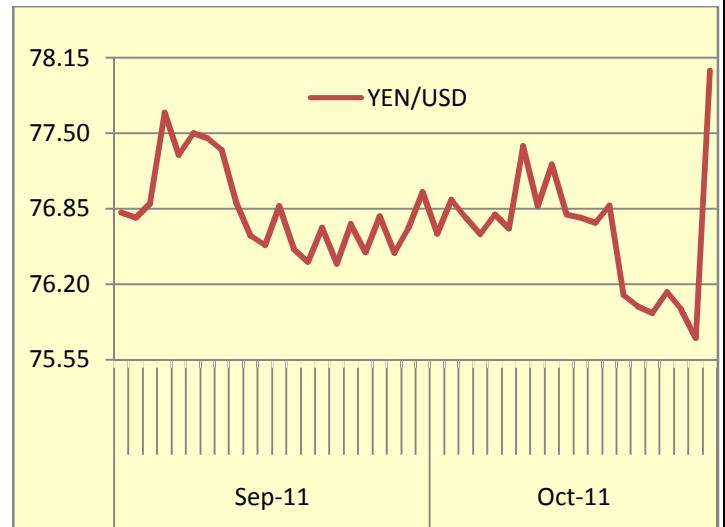
The **New Zealand dollar** likewise strengthened in the month on better than expected economic data from around the globe coupled with news out of Europe that decisions had been made about tackling the euro zone debt crisis. The RBNZ held its official cash rate at 2.50 percent.

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

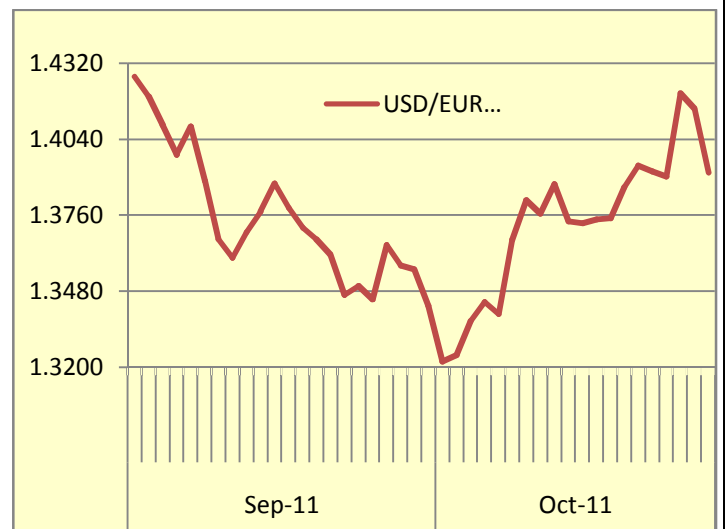
## B. CURRENCY 'WATCH'

The **US dollar** opened the month strong versus other major currencies as global stocks dropped amid concerns about a global slowdown. It then dropped as U.S. stocks rose, commodities gained and treasuries retreated amid optimism that European officials were making progress in taming the sovereign debt crisis. The U.S. dollar later recovered against its major counterparts as demand increased for a refuge from the fallout of Europe's debt crisis. However it weakened again as stock markets rallied amid eased concern about Europe's debt crisis. Reports which showed U.S. retail sales beat estimates also weighed down the currency. The Greenback continued to weaken against most of its major counterparts after another report showed manufacturing in the Philadelphia area unexpectedly expanded in October at the fastest pace in six months, signalling that factories are helping support a U.S. economy weighed down by weakness in the housing and labour markets. The U.S. dollar dropped to a post-World War II low against the yen and fell versus most major currencies on speculation Europe is moving closer to resolving its debt crisis and the Federal Reserve may seek further monetary easing. The Greenback continued to weaken up till the end of the month as equities rallied on better than expected corporate earnings data while commodities advanced, subsequently boosting investors' risk appetite while reducing demand for a haven currency.

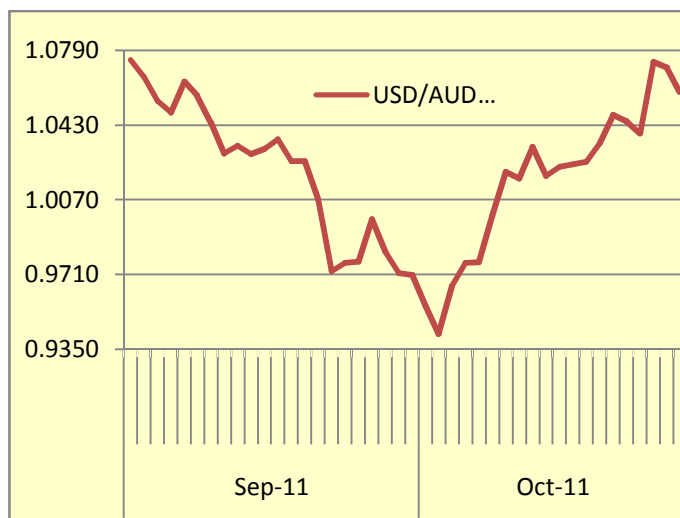
The **Japanese Yen** opened the month weak at Yen76.64 as the dollar strengthened on concerns about a global slowdown coupled with the fall in equity and commodity prices. The Yen then strengthened to trade at Yen76.01 as investors opted for safe-haven currencies on worse than expected economic data from around the globe coupled. It continued to strengthen and eventually traded at Yen75.74 as the U.S. dollar weakened on speculation the Federal Reserve will signal more monetary easing coupled with eased concerns about the debt crisis in Europe. The Yen finally closed off the month down at Yen78.04 as Japan stepped in to foreign-exchange markets to weaken the currency for the third time this year after its gain to a post-war record threatened exporters.



The **Euro** opened the month weak at US\$1.3220 on speculation that the Fed may implement a third round of quantitative easing. It then strengthened to US\$1.3369 as stock markets rallied after reports showed U.S. service industries expanded in September by more than forecast and speculations were abound that policy makers are looking at measures to shield banks from the region's sovereign-debt crisis. The common currency continued to strengthen to US\$1.3440 on speculation a reintroduction of loans to banks by the European Central Bank will buoy crisis-ridden markets. However, it later fell to US\$1.3394 after Fitch Ratings cut its rating on Spain and Italy. The Euro later rose to US\$1.3815 on speculation Europe's sovereign debt crisis will be contained as Group of 20 finance ministers met to confront the region's turmoil. It continued to strengthen to US\$1.3875 as European governments considered deploying \$1.3 trillion in funds to tame the sovereign debt crisis. The Euro rallied to US\$1.4211 after European leaders agreed to expand a rescue fund for indebted nations and reached an accord with lenders on write downs for Greek debt. The Euro closed off the month at US\$1.3917.

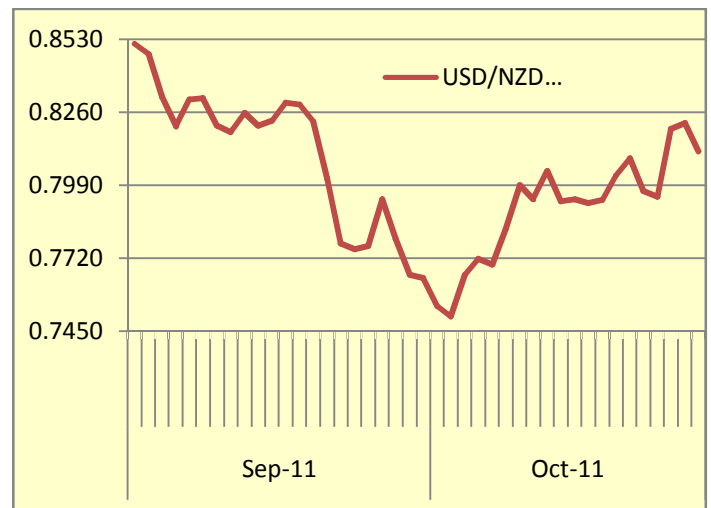


The **Australian dollar** opened the month weak at US\$0.9554 after a private report indicated a contraction of Chinese manufacturing. It then fell to US\$0.9422 as a statement by the Reserve Bank of Australia suggested an easing of inflation pressures may pave the way for an interest-rate cut by November. The currency later strengthened to US\$0.9653 as global equity markets rallied and after a government report showed American employers added more jobs in September than forecast. It continued to strengthen to US\$1.0204 as global stocks gained after data showed that home-loan approvals rose for a fifth month. The Aussie unit slumped to US\$1.0173 as China's exports rose less than forecast. However, it later rose to US\$1.0228 after a report showed economic growth in China, Australia's biggest trading partner, exceeded 9 percent for a ninth quarter. It rose to US\$1.0479 after a report showed China's manufacturing may expand for the first time in four months. The Australian dollar declined to US\$1.0390 after a report showing slower growth in consumer prices fuelled speculation that the Reserve Bank will cut interest rates. It later rose to US\$1.0733 as stocks rallied to the highest in 12 weeks after the Euro-region's leaders agreed to expand a bailout fund to halt the sovereign debt crisis. The Australian dollar closed the month at US\$1.0590 on speculation the Reserve Bank of Australia Governor Glenn Stevens will cut interest rates at its policy meeting in November.



The **New Zealand dollar** opened the month weak at US\$0.7544 following the sovereign credit rating cut by Fitch and Standard & Poor's and after reports showed business confidence fell in September. It then strengthened to US\$0.7830 amid speculation that euro zone officials were prepared to step in to support banks in the event of a credit crunch. The kiwi unit continued to strengthen to US\$0.8042 as the Group of 20 finance ministers met to prevent Europe's debt crisis from slowing global growth. It later slid to US\$0.7939 after a report

showed the nation's services industry slowed in September. The New Zealand dollar slipped to US\$0.7924 after comments from German officials that any plans for the euro zone debt crisis would not be a quick fix. It gained to US\$0.7936 as global stocks extended a rally, boosting demand for riskier assets. It declined to US\$0.7968 after a report showed inflation slowed by more than economists forecast. The New Zealand dollar fell to US\$0.7947 after a private report showed business confidence declined in October. It strengthened to US\$0.8199 as news out of Europe that decisions had been made about tackling the euro zone debt crisis. The New Zealand dollar closed off the month at US\$0.8115.



**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 October 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	Sep-11	Oct-11	Dec-10	Sep-11
				(%)	(%)
USD/NZD	0.7790	0.7641	0.8115	4.17	6.20
USD/AUD	1.0221	0.9709	1.0590	3.61	9.07
YEN/USD	81.24	77.00	78.04	3.94	-1.36
USD/EUR	1.3359	1.3425	1.3917	4.18	3.66
USD/FJD	0.5513	0.5454	0.5720	3.75	4.88

At end October 2011, the Greenback weakened against the **NZD**, the **AUD**, the **EURO** and the **FJD** when compared

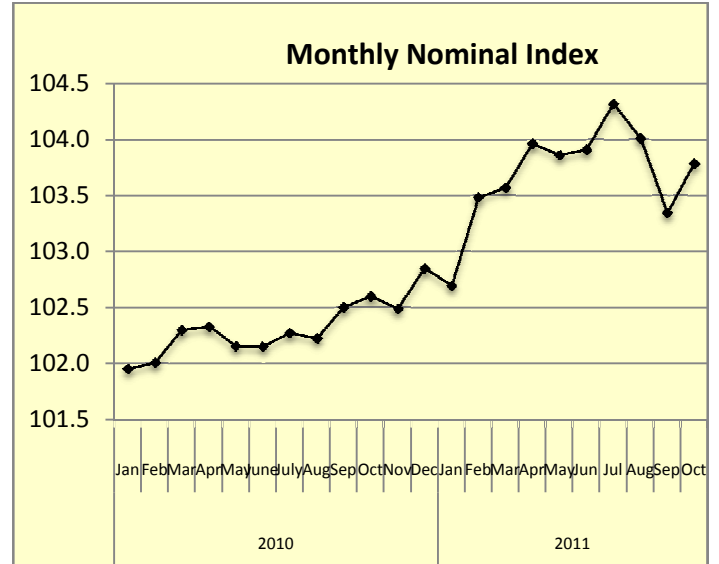
to the previous month. The US dollar strengthened against the **YEN** from the previous month.

**C. EFFECT ON THE TALA**

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

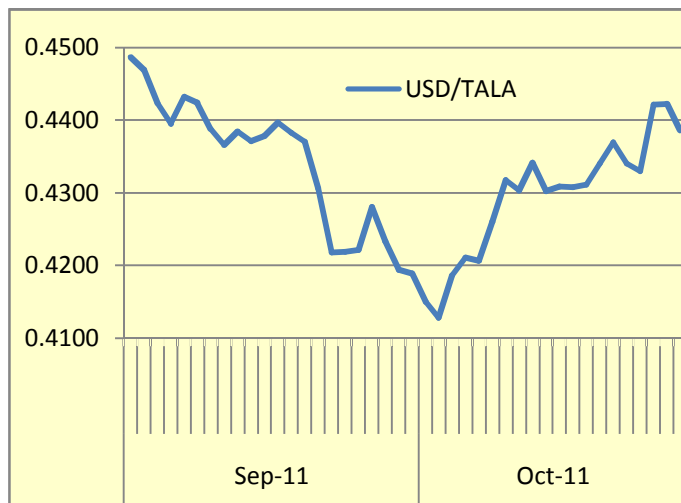
Table 2					
Tala per foreign currencies (end period)					
	Dec-10	Sep-11	Oct-11	Movement of the Tala	
				(+ appreciation / (-) depreciation	
				Dec-10 (%)	Sep-11 (%)
TALA/USD	2.3367	2.3871	2.2796	2.44	4.50
TALA/NZD	1.8203	1.8239	1.8499	-1.63	-1.43
TALA/AUD	2.3883	2.3176	2.4140	-1.08	-4.16
TALA/EUR	3.1214	3.2047	3.1725	-1.64	1.00
TALA/FJD	1.2882	1.3019	1.3039	-1.22	-0.15
YEN/TALA	34.7677	32.2545	34.2339	-1.54	6.14
Nominal Index	102.85	103.34	103.78	0.91	0.43

continued to strengthen until it finally closed the month at US\$0.4387.



In terms of the **Nominal Index**, the Tala appreciated by 0.43 percent at end October 2011 from the previous month. (See Table 2)

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

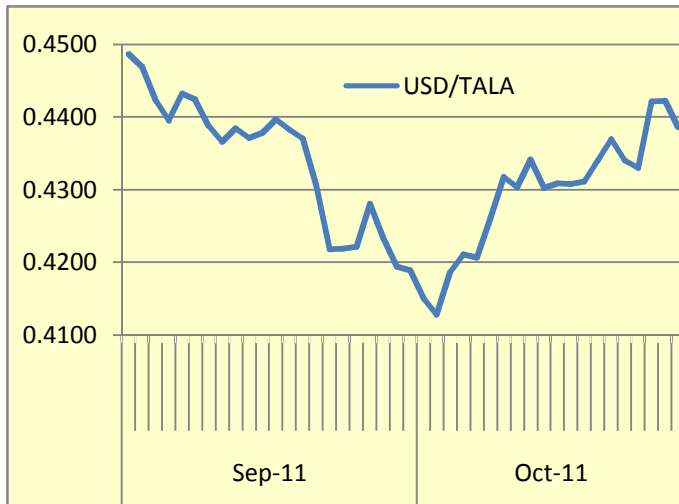


The **Tala** opened the month weak at US\$0.4151 as stock markets dropped. It then strengthened to US\$0.4261 as the U.S dollar weakened on eased concern about Europe’s debt crisis. The Tala continued to strengthen to trade around the US\$0.43 region as the Australian and New Zealand currencies rose against the U.S dollar following reports of strong economic data releases from around the globe coupled with the rise in stock markets. The Tala

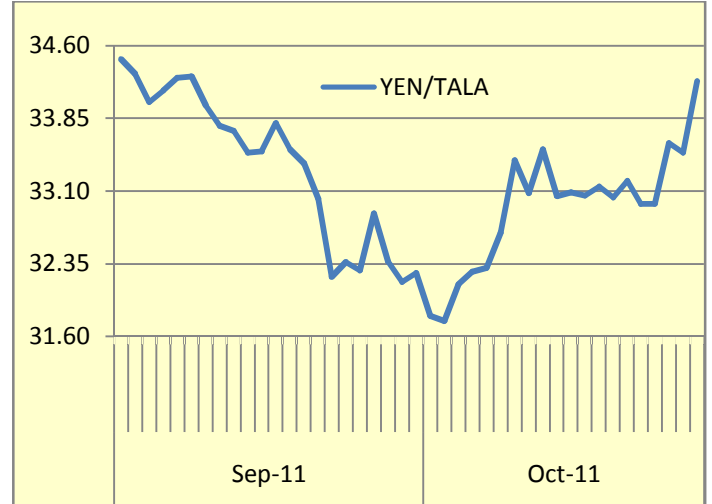
**Atalina Ainuu-Enari**  
Governor

# TALA GRAPHS

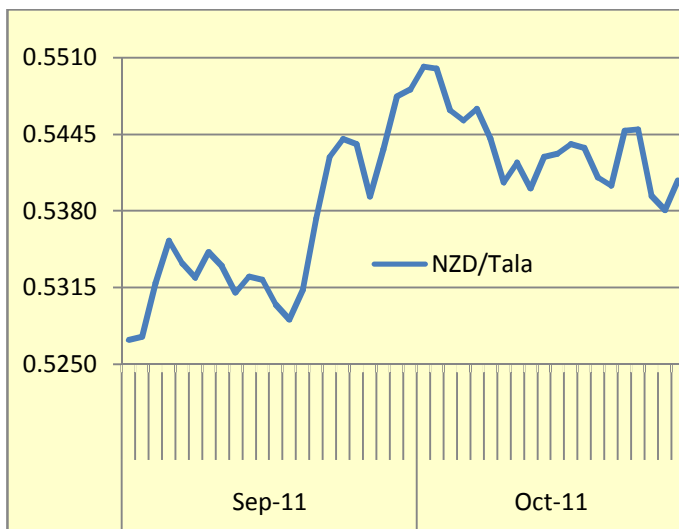
## USD/TALA



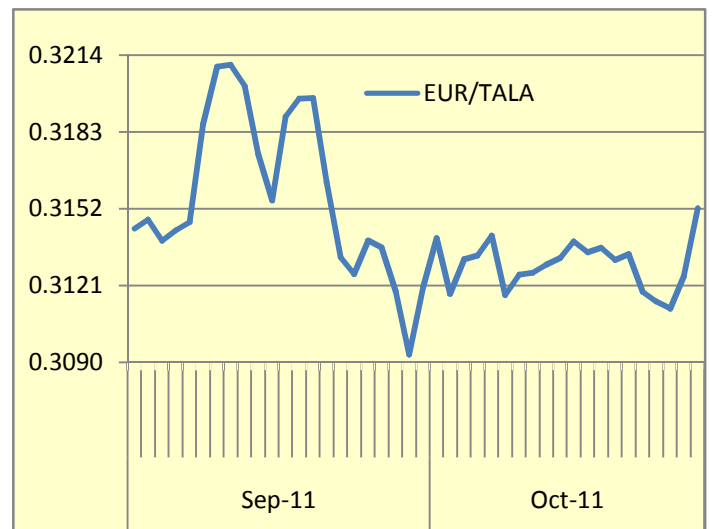
## YEN/TALA



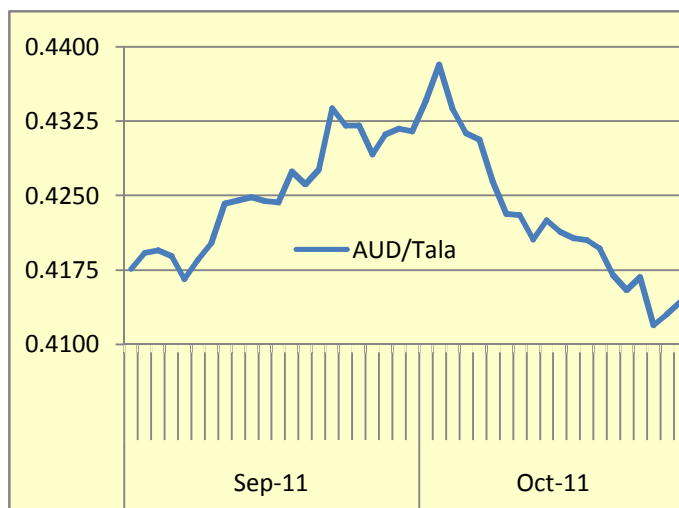
## NZD/TALA



## EUR/TALA



## AUD/TALA



## FJD/TALA

