

CONFIDENTIAL
MEMORANDUM

27 October 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
SEPTEMBER 2011

A. OVERVIEW

The **US dollar** strengthened against most of its major currencies throughout the month of September as investors opted for safe-haven currencies amid concern the U.S. recovery is faltering and on fears the fiscal crisis in Europe will slow down the global economic growth. Poor economic data out of the U.S coupled with the fall in stock markets also helped support the currency. The Fed held its funds rate unchanged at 0.25 percent.

The **Yen** was little changed against the greenback during the month as stock markets fell coupled with poor economic data out of the U.S. The BOJ held its official interest rate at 0 – 0.10 percent.

The **Euro** weakened throughout the month as investors opted for safe-haven currencies on worries the debt crisis in Europe is worsening. Poor economic data out of Europe and around the globe also weighed on the currency. The ECB left its official interest rate unchanged at 1.50 percent.

The **Australian dollar** was considerably weak against the US dollar September as stock markets dropped on worse than expected economic data out of Australia coupled with ongoing worries that the Europe's sovereign debt crisis will slow down global economic growth. The RBA held its policy interest rate at 4.75 percent.

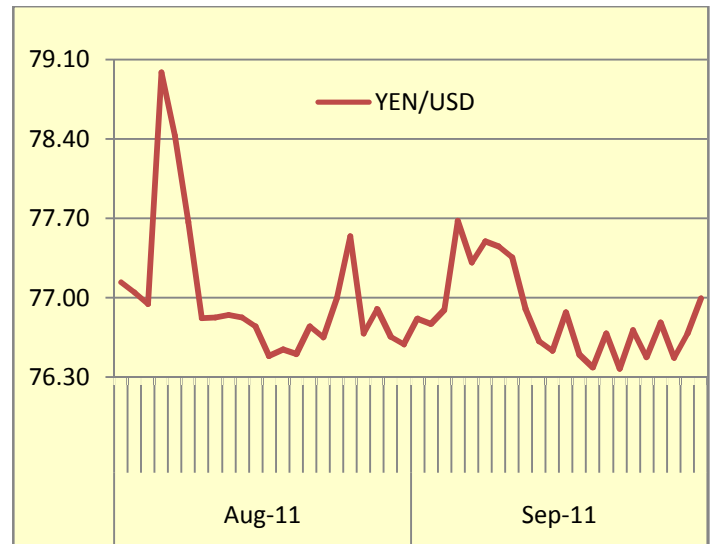
The **New Zealand dollar** likewise weakened in the month on worse than expected economic data from around the globe. Ongoing worries about the debt crisis in Europe and poor data out of New Zealand also weighed on the currency. The RBNZ held its official cash rate at 2.50 percent.

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

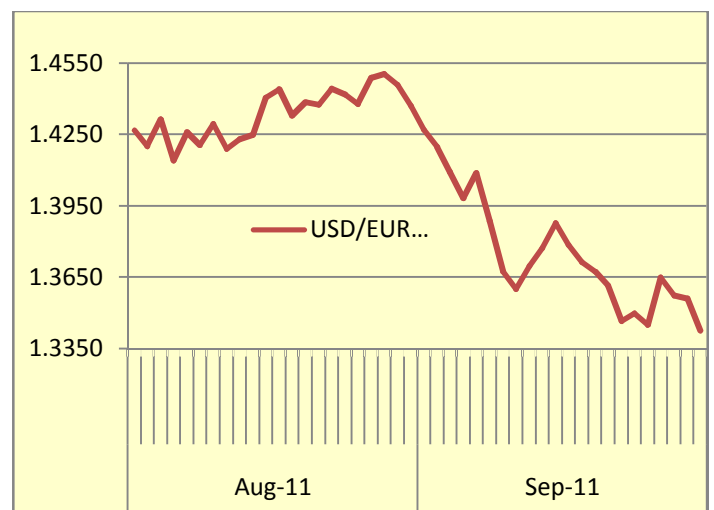
B. CURRENCY 'WATCH'

The **US dollar** opened the month strong versus the currencies of six major trade partners as stronger-than-forecast factory data dampened bets the Federal Reserve may take further steps to stimulate growth. It then rose against most of the major currencies as investors continued to trim their holdings in riskier assets amid fears the fiscal crises in Europe and the US are dragging the global economy into recession and after data showed U.S. employment unexpectedly stagnated in August. The U.S. dollar continued to strengthen as investors continued to buy safe-haven currencies on fears the fiscal crisis in Europe will slow down the global economic growth. Reports which showed the fall in stock markets and on fears that Greece is set to default on its debt payment also helped support the currency. The greenback then weakened as French banks dismissed concerns over their access to funds and investors watched for signs of progress in efforts to tame the euro region's debt crisis, on speculation Fed Chairman Ben S. Bernanke will signal more monetary easing and after weaker-than-forecast economic reports dampened confidence in the U.S. recovery. However it later strengthened against other major currencies on poor U.S. retail sales data in August, consumer confidence rose more than forecast and as risk aversion increased following a rise in European debt concerns. The U.S. currency also strengthened as stocks declined amid growing concern that European leaders are divided over how to handle Greece's debt crisis and on reports the global growth is stalling. The U.S. dollar closed off the month strong as growing evidence that the global economy is slowing boosted investor demand for currencies perceived as being the safest.

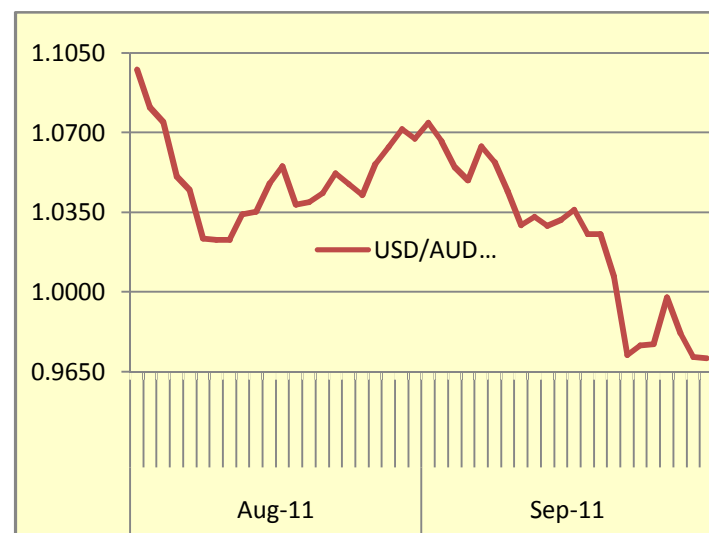
The **Japanese Yen** opened the month weak at Yen76.82 as the dollar strengthened on worse than expected U.S. data coupled with the fall in equity and commodity prices. The Yen then weakened to trade at Yen77.68 as investors opted to buy higher-yielding currencies on better than expected economic data from around the globe coupled with the rise in stock markets. However, it later strengthened and eventually traded at Yen76.38 as the U.S. dollar weakened on speculation the Federal Reserve will signal more monetary easing. The Yen continued to trade around Yen76 until it finally closed off the month firm at Yen76.99.



The **Euro** opened the month weak at US\$1.4271 as a European manufacturing gauge fell to 49 in August from 50.4 in July. It then fell to US\$1.4199 on concern Europe's debt crisis is worsening and after a survey showed factory orders in Germany likely decreased 1 percent in July from June. The Euro continued to slip to US\$1.3602 on worries the debt crisis will worsen and after European Central Bank President Jean-Claude Trichet said "downside risks" to the region's economy have intensified. It later rose to US\$1.3877 as optimism increased that leaders will work to avoid a default in Greece and contain the region's debt crisis. However, the Euro later declined to US\$1.3672 as European officials failed to offer a plan to halt the region's debt crisis and after Italy's credit rating was cut by Standard & Poor's. The common currency continued to weaken to US\$1.3449 as the region's worsening debt crisis added to concern that the economy could slide back into a recession and after data showed euro-area services and manufacturing output shrank in September and German retail sales fell by more than economists forecast. The Euro closed off the month weak at US\$1.3425.



The **Australian dollar** opened the month strong at US\$1.0743 after a report showed retail sales rose more than economists forecast. It then dropped to US\$1.0491 on speculation the Europe's sovereign debt crisis will slow down global economic growth. The Australian currency later climbed to US\$1.0640 after a report showed the economy expanded in the second quarter at a faster pace than analysts had forecast. However it later fell to US\$1.0444 as concern Greece is moving closer to defaulting and after a report showed employers unexpectedly cut positions in August and the jobless rate increased. Reports which showed the nation's trade surplus was narrower than economists forecast also weighed down the currency to US\$1.0293. The Australian currency dropped to US\$1.0290 as a revised method of calculating inflation made it less likely the central bank will raise interest rates. The Aussie unit slumped to US\$1.0070 as stocks dropped on concern the European economy is stalling and after European officials said they failed to produce a solution to the country's debt crisis. It continued to slide to US\$0.9724, falling below parity for the first time since August, after a survey indicated that manufacturing in China, the nation's biggest trading partner, may weaken. The Australian dollar continued to trade around US\$0.97 until it finally closed off the month at US\$0.9708.



The **New Zealand dollar** opened the month weak at US\$0.8512 as investors opted for safe-haven currencies on poor data from around the globe coupled with the fall in stocks and equities. It then fell to US\$0.8317 as Asian stocks dropped and after New Zealand's Treasury said weaker than anticipated global growth may weigh on exports and commodities. The New Zealand dollar continued to drop to US\$0.8013 as reports showed Germany was preparing for a Greek default and after Standard & Poor's cut Italy's credit rating. Reports which showed second-quarter growth trailed economists' estimates and after the nation posted a current-account

deficit that was wider than economists forecast also weighed on the currency to US\$0.7775. The Kiwi unit declined to US\$0.7754 as investors bet the central bank will refrain from raising interest rates coupled with fears that the economic crises in Europe and the US are snowballing beyond the control of policymakers. It continued to fall to US\$0.7658 after Standard & Poor's cut the country's credit rating from AA+ to AA. The New Zealand dollar closed off the month weak at US\$0.7647.

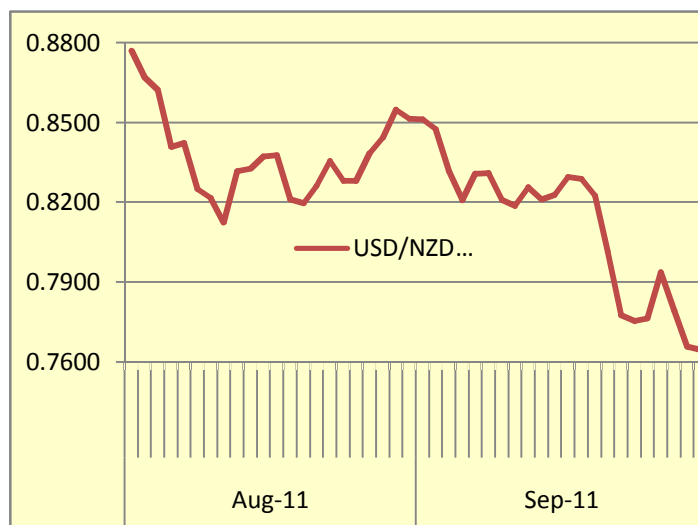


Table 1 shows the movements of the currencies in our currency basket together with the FJD and the Yen against the US dollar at end September 2011, compared to the previous month and December 2010.

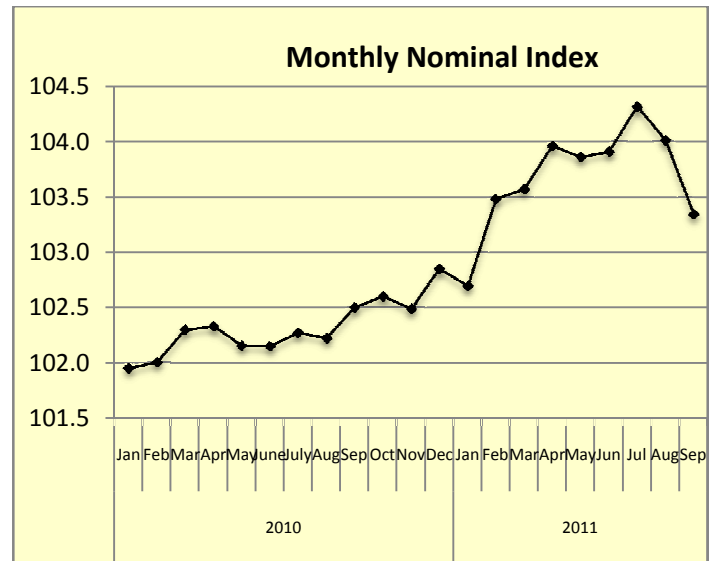
Table 1					
USD per other currencies (end period)					
				Movement of other currencies against the USD (+) appreciation / (-) depreciation	
	Dec-10	Aug-11	Sep-11	Dec-10 (%)	Aug-11 (%)
USD/NZD	0.7790	0.8514	0.7641	-1.91	-10.25
USD/AUD	1.0221	1.0674	0.9709	-5.01	-9.04
YEN/USD	81.24	76.59	77.00	5.23	-0.53
USD/EUR	1.3359	1.4370	1.3425	0.49	-6.58
USD/FJD	0.5513	0.5784	0.5454	-1.07	-5.71

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

C. EFFECT ON THE TALA

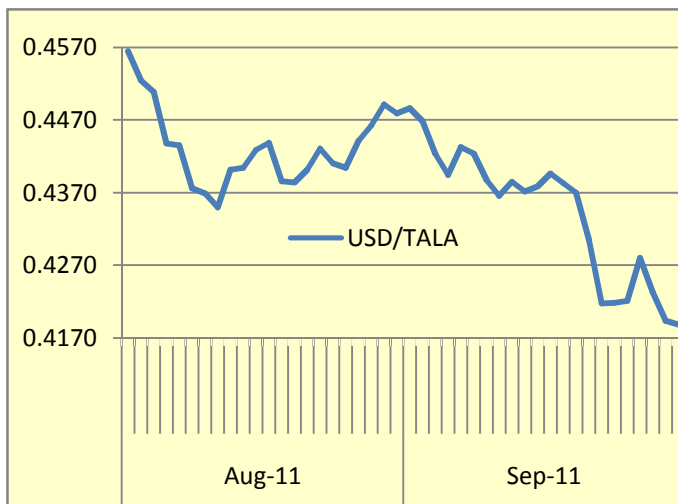
Compared to end December 2010 and end August 2011, Table 2 shows the movement of the Tala at end September 2011 against the currencies in our currency basket as well as against the FJD and the YEN.

Table 2					
Tala per foreign currencies (end period)					
				Movement of the Tala	
				(+ appreciation / (-) depreciation	
	Dec-10	Aug-11	Sep-11	Dec-10	Aug-11
				(%)	(%)
TALA/USD	2.3367	2.2324	2.3871	-2.16	-6.93
TALA/NZD	1.8203	1.9006	1.8239	-0.20	4.04
TALA/AUD	2.3883	2.3828	2.3176	2.96	2.74
TALA/EUR	3.1214	3.2078	3.2047	-2.67	0.10
TALA/FJD	1.2882	1.2911	1.3019	-1.07	-0.84
YEN/TALA	34.7677	34.3090	32.2545	-7.23	-5.99
Nominal Index	102.85	104.01	103.34	0.48	-0.64



In terms of the **Nominal Index**, the Tala depreciated by 0.64 percent at end September 2011 from the previous month. (See Table 2)

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

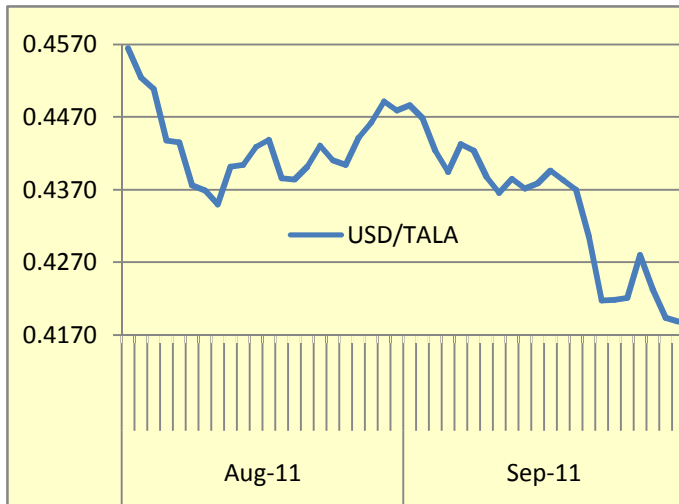


The **Tala** opened the month firm at US\$0.4486 as stock markets rallied. It then weakened to US\$0.4395 as the U.S dollar strengthened on concern about Europe's debt crisis. The Tala continued to fall to trade around the US\$0.42 region as the Australian and New Zealand currencies fell against the U.S dollar following reports of poor economic data releases from around the globe coupled with the fall in stock markets. The Tala continued to weaken until it finally closed the month weak at US\$0.4189.

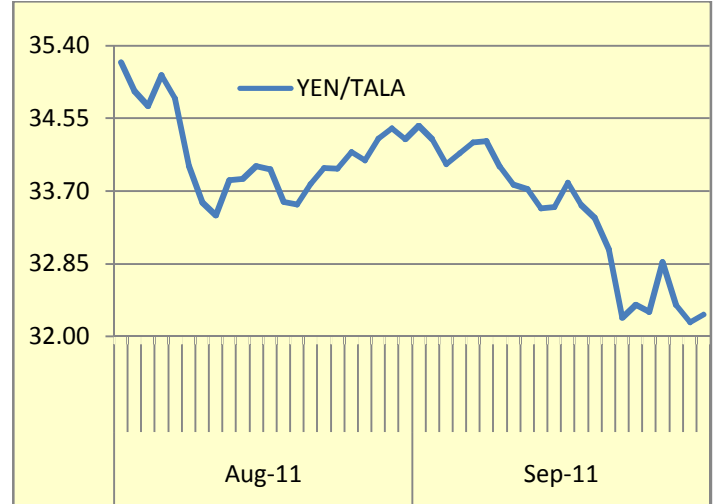
Atalina Ainuu-Enari
Governor

TALA GRAPHS

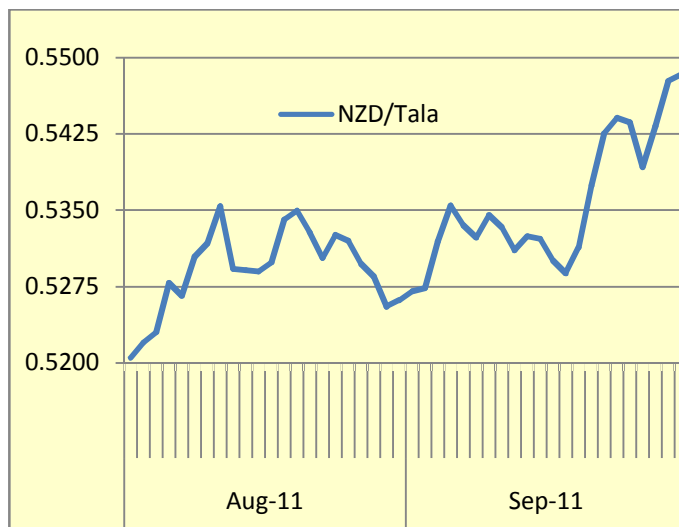
USD/TALA



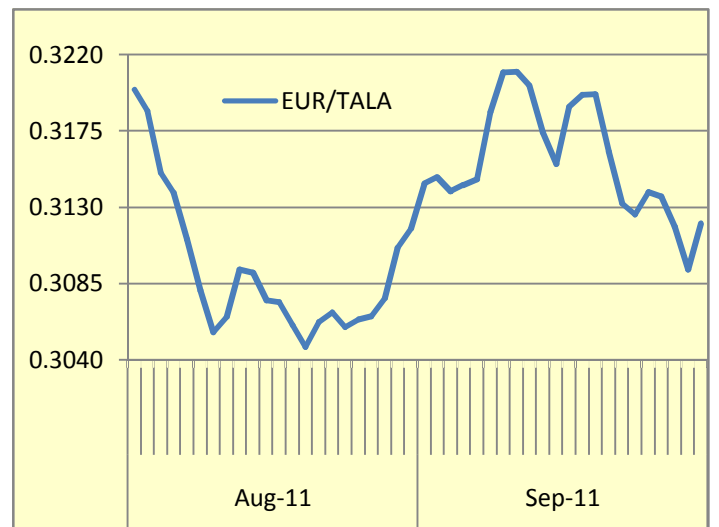
YEN/TALA



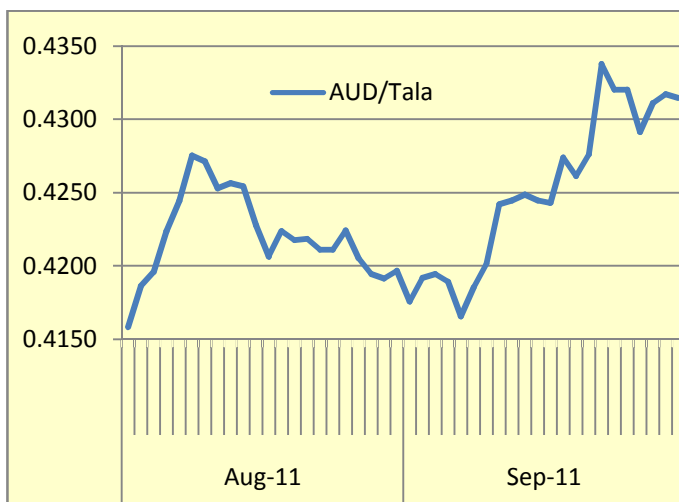
NZD/TALA



EUR/TALA



AUD/TALA



FJD/TALA

