CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

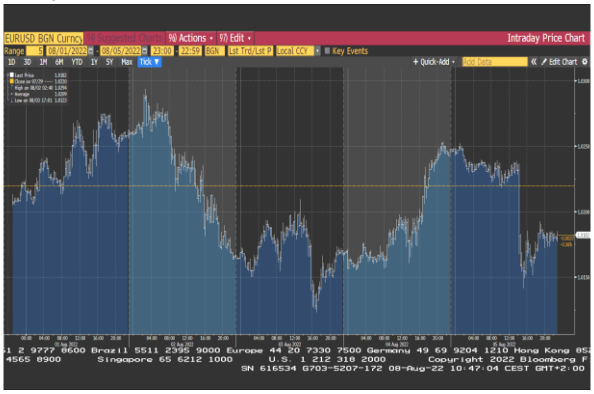
International Financial Market Report

(1 – 5 August 2022)

Podgorica, 11 August 2022

FX NEWS

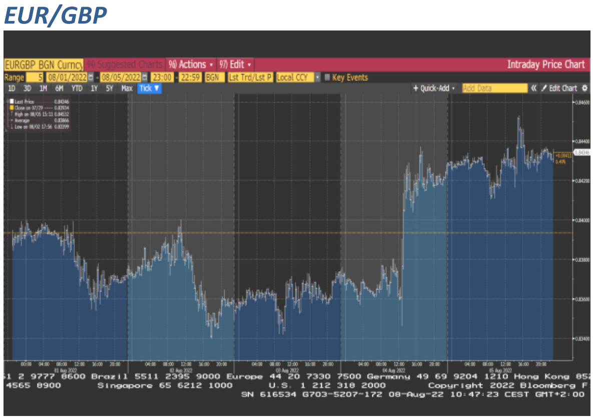
EUR/USD



Source: *Bloomberg LP*

The **EUR/USD exchange rate** depreciated slightly in this reporting week, from 1.0213 to 1.0813. At the beginning of the week, the exchange rate appreciated after the USD depreciation resulting from investors' positioning for a less aggressive increase in interest rates worldwide. The USD was somewhat affected because US manufacturing activity continued to depreciate in July. However, on Tuesday, the exchange rate began to retreat from the previously reached level of 1.0294 (this week's high) and reached 1.0123 (this week's low) on Wednesday. Namely, geopolitical tensions grew due to the visit of the US delegation led by Nancy Pelosi to Taiwan, resulting in the growing demand for safe assets. The demand for these assets grew as the San Francisco Fed Chair said that inflation is not nearly stopped and that the FED is determined to achieve price stability fully. Better-than-expected data from the USA (service index in July; factory orders in June) also contributed to the exchange rate depreciation. Investors took a more cautious approach to the US employment data due to the expectation that these data could show that the US economy was heading towards a recession, resulting in the EUR/USD exchange rate appreciation throughout Thursday. However, after the data exceeded forecasts, expectations of a more aggressive monetary policy tightening by the Fed increased, and the exchange rate depreciated.

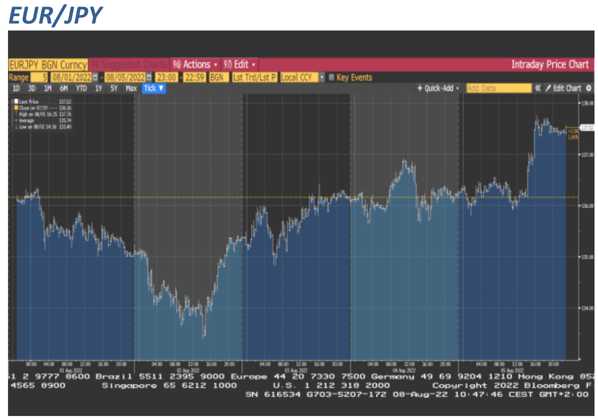
EUR/GBP



Source: *Bloomberg LP*

The **EUR/GBP exchange rate** moved within the interval from 0.83400 to 0.84000 for most of the week, and it experienced a sharp growth on Thursday, resulting in weekly appreciation. The exchange rate reached its maximum weekly value of 0.84532 on Friday. The exchange rate fluctuated, awaiting the BoE meeting. Due to the awaiting for the interest rate increase by 50 basis points and the announcement that retail sales in Germany fell more than expected in June, the exchange rate depreciated. On the other hand, the composite PMI index for Great Britain was weaker than expected (52.1 vs 52.8), which is why this exchange rate showed signs of appreciation. Despite this, until Thursday, the exchange rate remained close to the lowest level since the end of April (0.83400). However, after the BoE meeting changed the interest rate as expected and warned of a prolonged recession that the British economy would face, the sterling depreciated against the euro. The BoE chief economist called for patience on inflation, saying that eventually, the inflation rate will return to the target level of 2%, which is in some ways a response to the criticism the BoE faces that it has left inflation out of control.

EUR/JPY



Source: *Bloomberg LP*

The **EUR/JPY exchange rate** appreciated in this reporting week from 136.20 to 137.51, although it depreciated at the beginning of the week due to the yen's appreciation. Namely, Japan's Prime Minister stated that the Government would work with the BoJ and closely monitor the impact of exchange rate changes on the economy and the price trends in the country, which provided support for the Japanese currency. The yen appreciated as the demand for safe assets grew due to the US delegation visit to Taiwan, and China warned of the consequences of this visit. In addition, the yen appreciated due to the reduced spread between Japanese and American government bonds – Japanese return was stable due to the return curve control policy, while American returns were falling due to the growing demand for safe assets. However, the Japanese currency continued to weaken during the rest of the week, which increased the EUR/JPY exchange rate. The yen's weakening was mainly caused by the fact that the return on US government bonds started to rise, so the demand for the Japanese currency decreased.

Table 1 - Exchange rates of the most important currencies

	01.08.2022[1]	05.08.2022[2]	% Change
EUR/USD	1.0220	1.0183	-0.36
EUR/GBP	0.83934	0.84346	0.49
EUR/JPY	136.16	137.51	0.99
EUR/AUD	1.46331	1.47338	0.69
EUR/CHF	0.97313	0.97953	0.66
USD/JPY	133.27	135.01	1.31
GBP/USD	1.2171	1.2073	-0.81

Table 2 - Overview of the reference interest of the leading central banks

Central Bank	Reference interest rate name	Reference interest rate level	Next meeting
European Central Bank	ECB main refinancing rate	0.50%	8 September 2022
Federal Reserves	Federal Funds Target Rate	2.50%	21 September 2022
Bank of Japan	Overnight Call Rate	-0.10%	22 September 2022
Bank of England	Official Bank Rate	1.75%	15 September 2022
Swiss National Bank	Libor Target Rate	-0.25%	22 September 2022
Bank of Canada	Target Overnight Rate	2.50%	7 September 2022
Reserve Bank of Australia	Cash Rate Target	1.85%	6 September 2022

The Central Bank of Australia and the BoE held meetings this week. As expected, the RBA and the BoE increased interest rates by 50 basis points, amounting to 1.85% and 1.75%, respectively. The RBA Governor said that more increases will follow but that there is no “predetermined path” and everything will depend on economic data. As for the BoE, the monetary authorities are more pessimistic about the economic outlook and expect a recession from Q4, which will continue the following year. The BoE Governor also said “all options are open” for future meetings.

Table 3 – ESTR and Euribor

	01.08.2022[1]	05.08.2022[2]	Change in basis points
ESTR	-0.091	-0.085	0.60
Euribor 1W	-0.074	-0.070	0.40
Euribor 1M	-0.071	-0.041	3.00
Euribor 3M	0.232	0.277	4.50
Euribor 6M	0.653	0.678	2.50
Euribor 12M	0.921	1.023	10.20

[1] Opening market value on Monday
[2] Closing market value on Friday

EUROPEAN GOVERNMENT BONDS MARKET

Source: *Bloomberg LP*

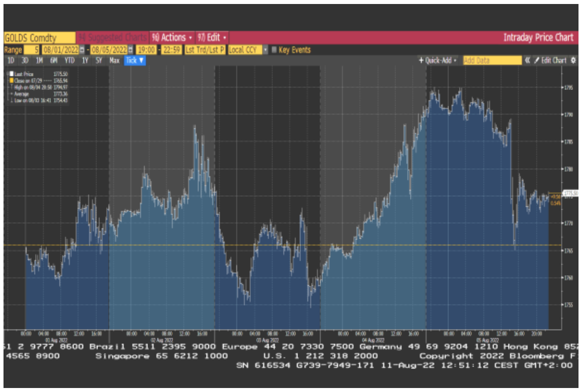
The return on 10-year German government bonds fell at the very beginning of the week due to the growing geopolitical tensions awaiting the US officials' visit to Taiwan. Over the next two days, the return on these bonds increased after the US bonds jump trend due to Fed officials' comments that they would continue to increase the interest rate in large amounts to limit inflation. On Thursday, the return on these bonds weakened slightly, to increase significantly on Friday after receiving positive data from the US labour market. The return on 10-year German bonds stood at 0.95% at the end of the week.

US GOVERNMENT BONDS MARKET

Source: *Bloomberg LP*

The return on the 10-year US Treasury bond trended down on Monday amid concerns about a slowing economy. The next day, the return recorded a sharp jump as several Fed officials (Chicago, Minneapolis and San Francisco Fed Chairs) indicated that it was neither considering the interest rate increase pace nor reducing the total number of increases presented during the bank's June meeting. On Wednesday and Thursday, the return on these bonds depreciated slightly to record a sharp rise on Friday after receiving data from the American labour market. The return at the end of the week stood at 2.82%.

GOLD



Source: Bloomberg LP

The gold price trended up during the first two days of the week. The gold price increase in the mentioned period resulted from the USD depreciation and data that the US economy recorded a contraction in Q2 of this year. At the very end of Tuesday and the first half of Wednesday, the gold price declined, and the USD depreciation against most currencies reduced the demand for gold. On Thursday, the price of this precious metal made a sharp jump, this time as the USD recorded a sharp depreciation compared to other currencies awaiting US economic data that could indicate that the country was heading towards a recession. Friday brought weaker gold prices as better-than-expected US employment data was released.

OIL

Source: Bloomberg LP

During this week, the oil price had a constant downward trend, interrupted at the very end of the week when the price stabilised around 97 USD/bbl. The oil price drop occurred as adverse economic data worldwide fuelled concerns of a global economic slowdown. In addition, the oil price drop resulted from the news that this energy product's stocks increased in the USA by more than 4 million barrels during the previous week.

Table 4 - Economic indicators (1 – 5 August 2022)

Current value	Indicator	Euro area	Expected value	Current value	Previous value
Euro area	**S&P Global Eurozone Composite PMI** This survey tracks opinion among procurement managers at manufacturing, construction and services firms. The index is obtained from a questionnaire related to production, orders, stocks, employment, prices, etc.	July	49.4	49.9	49.4
	Retail Sales This indicator measures the volume of sales of personal and household goods.	June MoM% YoY%	 0.0% -1.7%	 -1.2% -3.7%	 0.2% 0.2%
Germany	**Trade balance** It shows the difference between exports and imports of German products and services.	June b=bill.	0.2 b	6.4 b	-1.0 b
	Retail Sales This indicator measures the volume of sales of personal and household goods.	July MoM% YoY%	 0.3% -8.3%	 -1.6% -9.8%	 0.6% 0.4%
USA	**ISM Manufacturing** This indicator assesses the state of US industry by questioning executors about their expectations in terms of production, new orders, employment, raw materials deliveries and inventory.	July	52.0	52.8	53.0
	Factory Orders This indicator monitors the value of new orders in the reference period.	June	1.2%	2.0%	1.6%
	ISM Services Index This survey tracks opinion among procurement managers at manufacturing, construction and services firms. The index is obtained from a questionnaire related to production, orders, stocks, employment, prices, etc.	July	53.5	56.7	55.3
	Trade balance It shows the difference between exports and imports of euro area products and services.	June b=bill.	-80.0 b USD	-79.6 b USD	-85.5 b USD
	Change in non-farm payrolls This report shows the total number of newly employed workers on a monthly basis by economy industries. It does not include employees in government services, NGOs, and the agricultural sector. It serves as the basis for tailoring economic policy and forecasting future economic trends.	July k=1,000	250 k	528 k	372 k
	Unemployment Rate It shows the number of unemployed persons as a percentage of the total labour force.	July	3.6%	3.5%	3.6%
Japan	**Household Spending** It measures household expenditures for products and services.	June YoY%	1.5%	3.5%	-0.5%

Source: Bloomberg