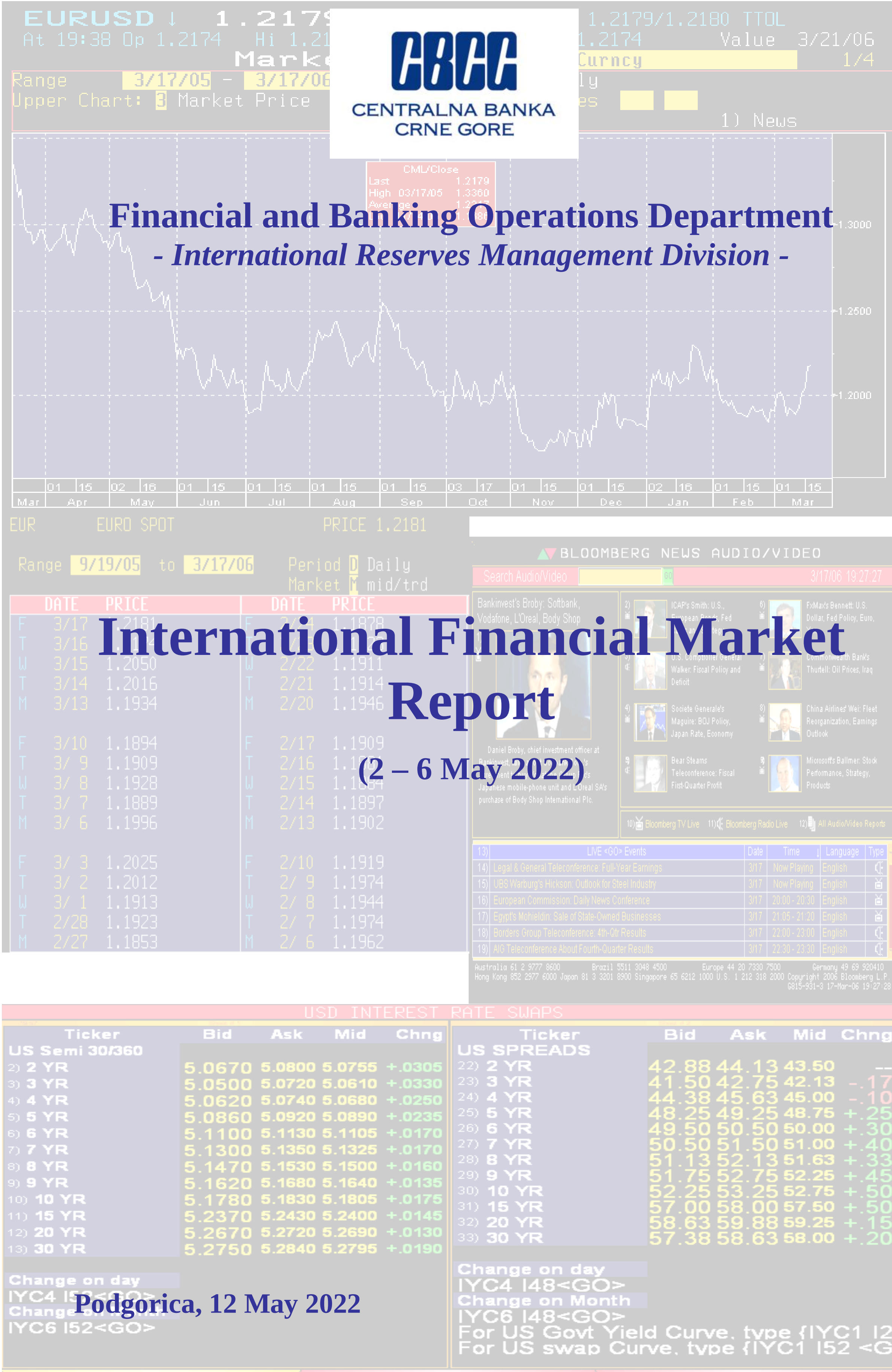


CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

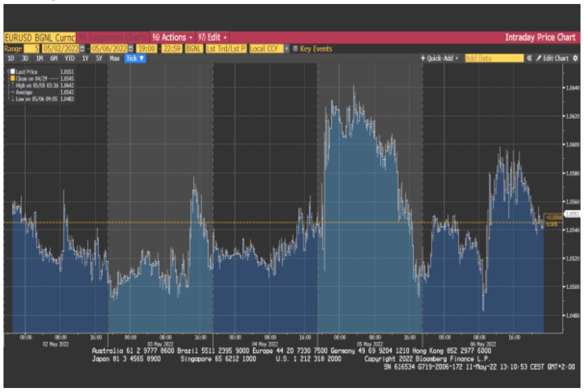
International Financial Market Report

(2 – 6 May 2022)

Podgorica, 12 May 2022

FX NEWS

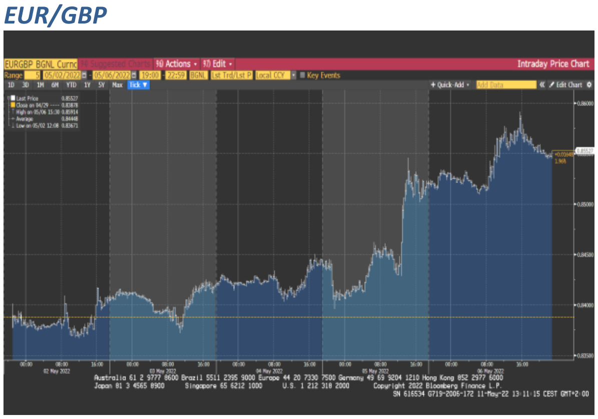
EUR/USD



Source: *Bloomberg LP*

The **EUR/USD exchange rate** was stable during the first half of the week. In the middle of the week, more precisely on Wednesday, the exchange rate recorded a sharp rise after the Fed meeting. The Fed ruled out increasing the interest rate by 75 basis points in the coming period. Over the next two days, the EUR/USD exchange rate depreciated as demand for safe funds rose due to accelerating inflation, China's economic closure, and deteriorating global economic growth prospects turned investors to secure investments.

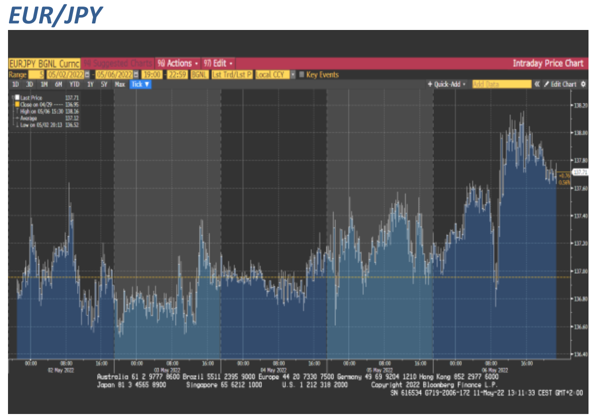
EUR/GBP



Source: *Bloomberg LP*

The **EUR/GBP exchange rate** recorded a weekly appreciation. At the beginning of the week, the sterling appreciated after releasing data that showed an annual real estate prices increase in the UK in April. The awaiting of the Fed and BoE meetings led investors to be cautious in investing. In the middle of the week, it was also announced that factory orders grew monthly in April, but producers remained careful about the future outlook as costs rose and demand weakened. On Thursday, the sterling depreciated against the euro after the BoE meeting and a 25-point increase in the reference interest rate. At the meeting, the bank warned that economic growth in the UK was likely to stall and that inflation would rise more than initially expected. The country's economic outlook deteriorated significantly due to the overall situation in the world (war in Ukraine, rising inflation, pandemic measures).

EUR/JPY



Source: *Bloomberg LP*

During the first three days of this week, the **EUR/JPY exchange rate** was stable as investors were wary of awaiting the regular Fed and the BoE meetings. During the last two days, this exchange rate appreciated due to different monetary policies' directions between the Bank of Japan and other leading banks in the world.

Table 1 - Exchange rates of the most important currencies

	02.05.2022[1]	06.05.2022[2]	% Change
EUR/USD	1.0545	1.0551	0.06
EUR/GBP	0.83878	0.85527	1.97
EUR/JPY	136.95	137.71	0.55
EUR/AUD	1.49276	1.49103	-0.12
EUR/CHF	1.02615	1.0425	1.59
USD/JPY	129.70	130.56	0.66
GBP/USD	1.2574	1.2348	-1.80

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	0.00%	9 June 2022
Federal Reserves	Federal Funds Target Rate	1.00%	15 June 2022
Bank of Japan	Overnight Call Rate	-0.10%	17 June 2022
Bank of England	Official Bank Rate	1.00%	16 June 2022
Swiss National Bank	Libor Target Rate	-0.75%	16 June 2022
Bank of Canada	Target Overnight Rate	1.00%	1 June 2022
Reserve Bank of Australia	Cash Rate Target	0.35%	7 June 2022

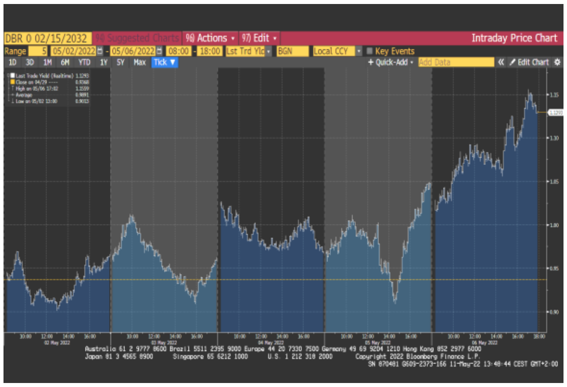
At this week's meeting, the Fed increased the interest rate by the expected 50 basis points. The Fed Chair gave an unexpected statement of a consensus on interest rate rise by 50 basis points in the next few meetings. Still, the central bank committee did not actively consider raising the interest rate by 75 basis points. The Fed announced it would cut its 9 trillion USD portfolio starting next month.
At this week's meeting, the BoE raised interest rates to the highest level since the financial crisis. Six monetary policymakers supported the reference interest rate increase by 25 basis points, from 0.75% to 1%, while three voted for a 50 basis points move, particularly expressing concern over wage growth.

Table 3 – ESTR and Euribor

	02.05.2022[1]	06.05.2022[2]	Change in basis points
ESTR	-0.586	-0.585	0.10
Euribor 1W	-0.566	-0.563	0.30
Euribor 1M	-0.538	-0.553	-1.50
Euribor 3M	-0.429	-0.426	0.30
Euribor 6M	-0.226	-0.206	2.00
Euribor 12M	0.166	0.244	7.80

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

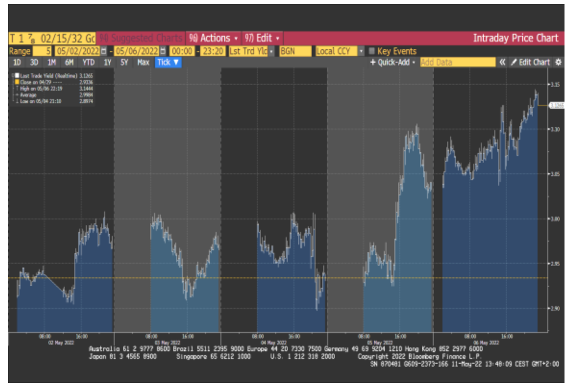
EUROPEAN GOVERNMENT BONDS MARKET



Source: *Bloomberg LP*

The return on 10-year US government bonds trended up during this reporting week. The return growth resulted from the market participants' expectation that the first increase in the ECB interest rate could happen in July this year, as confirmed by some monetary policymakers of this central bank. At the close of the market on Friday, the return on 10-year German bonds stood at 1.13%.

US GOVERNMENT BONDS MARKET



Source: *Bloomberg LP*

The return on 10-year US government bonds trended up during this reporting week. By the end of the week, the return was above the 3% level for the first time since 2018, as investors' concerns about inflation shook the market (inflation data will be published next week). In the middle of this week, Also, at its regular meeting, the Fed increased the reference interest rate by 50 basis points, the most significant increase since 2000. At the market close on Friday, the return on 10-year US government bonds stood at 3.13%.

GOLD

Source: Bloomberg LP

Early this week, the gold price fell due to the USD exchange rate appreciation. After that, this precious metal's price fluctuated (around 1963.82 USD/oz.tr.), awaiting the upcoming Fed meeting. However, the investors' mood toward this precious metal deteriorated, expecting the Fed to try to "tame" inflation by aggressively raising interest rates. The gold price made a sharp jump on Wednesday after the Fed meeting, causing the USD to depreciate against most currencies, thus increasing the demand for gold. The Fed Chair stated that the central bank was not actively considering raising the interest rate by 75 basis points in the near future. The next day, the gold price fell at the end of the day due to rising USD values and the return on US government bonds. On Friday, a volatile trend was present (the price was around 1879.62 USD/oz.tr.). Many analysts believe that the USD will continue to be the investors' focus. Still, the rising inflation, which affects all economies, is likely to continue to support the gold price.

OIL

Source: Bloomberg LP

Early this week, the oil price rose slightly due to concerns about stocks, as the EU was progressing in terms of imposing an embargo on Russia. On Tuesday, the oil price dropped as investors weighed the closure measures across China concerning the upcoming EU measures to limit the purchase of Russian fuel. From Wednesday until the end of the week, the oil price was growing trend, as the EU threatened to suspend oil imports from Russia by the end of this year to punish it for the war in Ukraine and after published news that oil stocks in the United States fell. The EU aims to conclude a package of sanctions against Russia by 9 May. The G7 reiterated last week's EU statement this weekend, citing a commitment to phasing out dependence on Russian energy, including phasing out or banning Russian oil imports in a timely and orderly manner. The United States and Great Britain have already announced a ban on oil imports from Russia. Hungary, the Czech Republic and Slovakia continue to block the agreement with the EU as they are heavily dependent on Russian oil but should reach an agreement on the oil imports phasing out soon.

Table 4 - Economic indicators (2 - 6 May 2022)

Current value	Indicator	Euro area	Expected value	Current value	Previous value
Euro area	**Economic Confidence** Monthly economic sentiment indicator reflects the general economic activity in the euro area. This indicator combines the assessments and expectations arising from surveying companies and consumers, whereas these surveys include different components of economy: industry, consumers, construction, and retail trade.	April	108	105	108.5
	Unemployment Rate It shows the number of unemployed persons as a percentage of the total labour force.	March	6.80%	6.80%	6.80%
Germany	**Retail Sales** This indicator measures changes in retail sales in Germany.	March MoM% (YoY%)	0.20% -0.50%	-0.10% -5.40%	0.30% 7.10%
USA	**Initial Jobless Claims** Measures the number of people receiving unemployment allowances.	30 April K=1000	180K	200K	180K
Italy	**Unemployment Rate** It shows the number of unemployed persons as a percentage of the total labour force.	March	8.40%	8.30%	8.10%

Source: Bloomberg