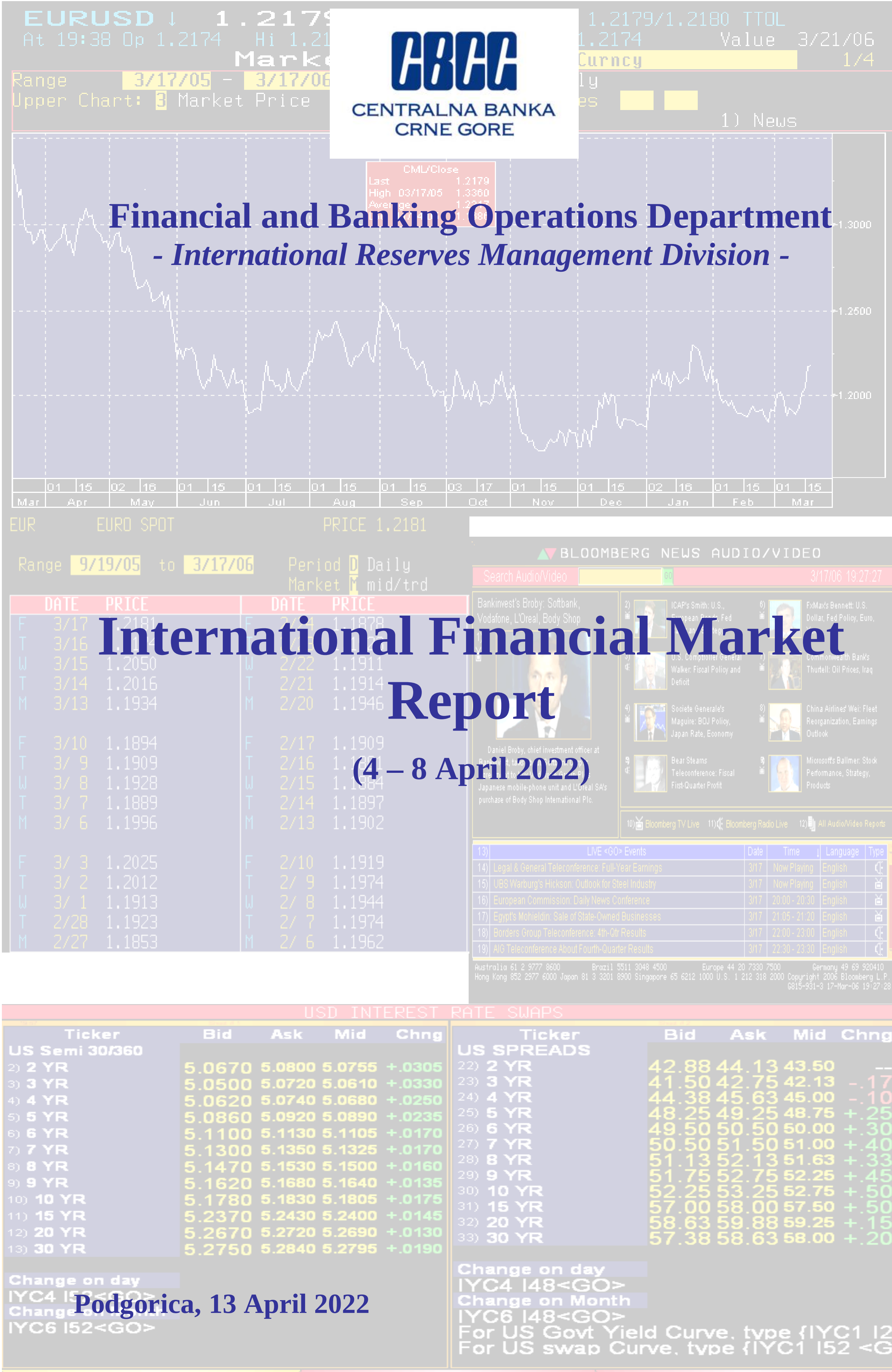


CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(4 – 8 April 2022)

Podgorica, 13 April 2022

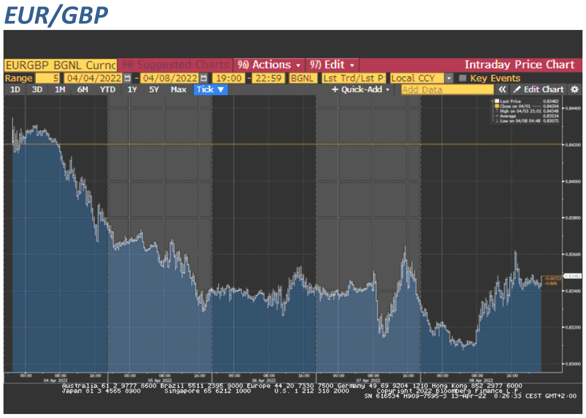
FX NEWS

EUR/USD

Source: *Bloomberg LP*

The **EUR/USD exchange rate** depreciated during this reporting period. The exchange rate depreciation came as the USD appreciated due to rising expectations that the Fed would continue raising interest rates. On the other hand, the euro was under pressure due to concerns about the adverse effects of new sanctions imposed on Russia and the continued Ukraine-Russia conflict. In the middle of this period, the minutes from the last Fed meeting were published. They showed that officials also considered the possibility of an interest rate increase by 50 basis points at the meeting. At the very end of the week, the exchange rate depreciation slowed down.

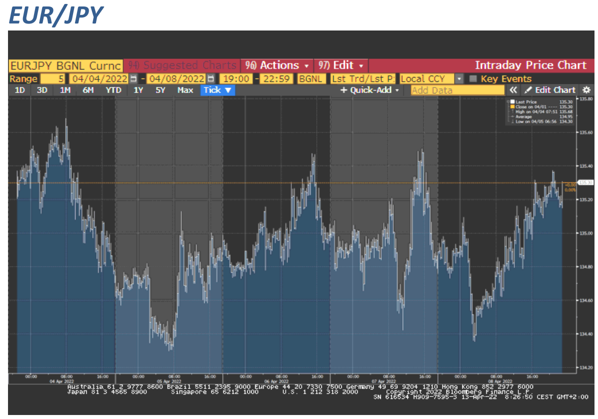
EUR/GBP



Source: *Bloomberg LP*

The **EUR/GBP exchange rate** depreciated this reporting week. Earlier this week, the euro depreciated, affected by talks on new sanctions against Russia for killing Ukraine's civilians, worsening confidence in the euro area. At the same time, British solid economic data supported the sterling (service and composite indices exceeded predictions). Concerning the US sanctions, Europe and the United Kingdom announced a new package of measures against Russia. The European Commission's head Ursula von der Leyen said the planned measures included a ban on coal imports and Russian ships. The euro was also under pressure from the upcoming presidential elections in France. In the middle of the week, the exchange rate was stable. Economic data released at the time showed that the UK's construction output continued to grow strongly in March. This exchange rate appreciated briefly on Thursday as the last ECB meeting's minutes indicated that the ECB could abandon quantitative easing faster than expected. On Friday, the exchange rate recovered slightly, as the war in Ukraine blurred the outlook regarding further BoE moves. At the same time, expectations concerning the monetary policy tightening in the euro area increased. The BoE raised interest rates in December but recently moderated comments about further monetary policy due to the significant uncertainty caused by the war in Ukraine.

EUR/JPY



Source: *Bloomberg LP*

At the opening of this reporting period, the **EUR/JPY exchange rate** depreciated as demand for safe funds increased due to the possibility that leading global powers may introduce new measures against Russia. Over the next two days, on Tuesday and Wednesday, the exchange rate appreciated. The focus shifted to whether the BoJ would buy bonds outside the planned schedule. The BoJ board member Asahi Noguchi said it was vital that the central bank continue pursuing a loose monetary policy. It would take some time before lifting incentives, and the yen's weakening was good for Japan's economy. It influenced the exchange rate's appreciation in the mentioned period. On Friday morning, the exchange rate fell first to recover in the afternoon following the growing return on US and European bonds.

Table 1 - Exchange rates of the most important currencies

	04.04.2022[1]	08.04.2022[2]	% Change
EUR/USD	1.1043	1.0877	-1.50
EUR/GBP	0.84204	0.83482	-0.86
EUR/JPY	135.30	135.31	0.01
EUR/AUD	1.47311	1.45827	-1.01
EUR/CHF	1.02284	1.01591	-0.68
USD/JPY	122.52	124.34	1.49
GBP/USD	1.3114	1.3025	-0.68

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%	14 April 2022
Federal Reserves	Federal Funds Target Rate	0.50%	4 May 2022
Bank of Japan	Overnight Call Rate	-0.10%	28 April 2022
Bank of England	Official Bank Rate	0.75%	5 May 2022
Swiss National Bank	Libor Target Rate	-0.75%	16 June 2022
Bank of Canada	Target Overnight Rate	0.50%	13 April 2022
Reserve Bank of Australia	Cash Rate Target	0.10%	3 May 2022

Table 3 – ESTR and Euribor

	04.04.2022[1]	08.04.2022[2]	Change in basis points
ESTR	-0.5949	-0.5820	1.29
Euribor 1W	-0.564	-0.565	-0.10
Euribor 1M	-0.541	-0.541	0.00
Euribor 3M	-0.461	-0.449	1.20
Euribor 6M	-0.362	-0.350	1.20
Euribor 12M	-0.086	-0.048	3.80

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

EUROPEAN GOVERNMENT BONDS MARKET

Source: *Bloomberg LP*

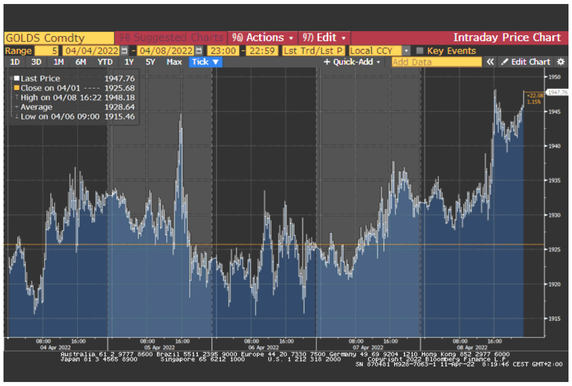
The return on 10-year German bonds grew this week (its minimum and maximum values were 0.47% and 0.70%, respectively). On Monday, the return on 10-year German government bonds first fell due to the rising demand for secure assets to recover just before the end of the day. A Board member Bostjan Vasle said ECB could lift a negative interest rate policy at the end of the year. He agreed with Klaas Knot's last week's proposal that the bonds purchases, planned to end in Q3, could stop as early as July. During the next two days, the return grew along with the return on American bonds after the Fed Board of Governors member Lael Brainard called for an accelerated bank's balance sheet reduction. During this period, the EU also sold some 6 billion euros of green bonds through banks maturing in 2043. The short-term weakening of returns in the middle of the week came after ECB member Knot stated there were no signs of a "profit-price" spiral at the moment, and the stock prices fall increased demand for safe funds. Return growth continued on Thursday after rising market expectations that the ECB would tighten monetary policy by suspending the purchase of new bonds over the summer while raising interest rates in December. At the very end of the week, the return on 10-year German government bonds rose by about 2 basis points. The return on French long-term bonds rose to await the first round of the French elections over the weekend, where polls showed President Macron's slight advantage over candidate Le Pen.

US GOVERNMENT BONDS MARKET

Source: *Bloomberg LP*

This week, the return on 10-year US bonds was similar to that of 10-year German bonds (the minimum and maximum returns were 2.36% and 0.70%, respectively). On Monday, the return on 10-year US bonds was stable to start growing the next day, expecting the Fed to continue with the accelerated interest rate increase. The Fed Governors Board member Lael Brainard comments that the monetary policy tightening would include a faster balance sheet reduction from the upcoming May meeting, additionally "pushed" the return upwards. On Wednesday, the return on 10-year US bonds rose to 2.66% in the morning (the highest level since March 2019), awaiting the last Fed meeting minutes. The minutes later showed that the Fed was planning a rapid interest rate increase and balance sheet reduction. The return fell to 0.60% in the afternoon. Investors discussed the last Fed meeting's conclusions and worried that an aggressive interest rates increase could harm economic growth. For that reason, they sold shorter maturities in favour of longer-term bonds. By the end of the week, there were current expectations regarding the US monetary policy tightening, which continued to strengthen the return.

GOLD



Source: Bloomberg LP

The gold price rose in this reporting period. The growing trend was already present on Monday due to growing concerns about inflation and the development of the situation in Ukraine. The US President stated that Vladimir Putin could face war crimes and additional sanctions accusations. The next day, the price approached 1,945 USD/oz.tr. as the demand for safe funds grew as Europe and the USA planned a new package of measures against Russia. The price of this precious metal declined on Thursday due to the USD appreciation. However, this precious metal's price soon fell due to the USD appreciation. In the middle of the week, the price fluctuated as the Fed March meeting minutes pointed to the monetary authorities' intention to reduce the balance by more than 1 trillion USD a year starting in May while raising interest rates to curb inflation. The minutes showed that the monetary policy creators wanted to increase the interest rate by 50 basis points in March but agreed to increase it by 25 basis points due to the war in Ukraine. In the last two days of this week, the gold price grew as investors focused more on the growth of geopolitical risks and risks of slowing economic growth than expectations of more aggressive monetary policy tightening by the Fed. Hence, the demand for gold as a safe investment grew.

OIL

Source: Bloomberg LP

The oil price showed growth signs on Monday, as the EU announced its work on a new package of sanctions against Russia. As the week continued, except on Wednesday morning and just before the end of the week, the price trended down, falling to its lowest level since mid-March. The price drop came after the American Petroleum Institute data showed that the US oil inventories rose by 1.08 million barrels in the week preceding this reporting period. After the International Energy Agency announced it would release 60 million barrels of oil from emergency stocks, the price dropped sharply on Wednesday due to reduced supply concerns. Another cause of the price fall was the decreased demand for oil in China due to the coronavirus spread. At the very end of the week, this energy's price fluctuated.

Table 4 - Economic indicators (4 – 8 April 2022)

Current value	Indicator	Euro area	Expected value	Current value	Previous value
Germany	**Imports** It represents German domestic demand for foreign goods. The value of exports is an important input for calculating trade balance, current account and GDP. It is very often compared with exports.	February MoM%	1.5%	6.4%	-2.8%
	Exports Products and services produced in Germany, sold or pending for sale outside of Germany.	February MoM%	1.0%	4.5%	-4.2%
France	**Industrial output** It measures the output of the energy sector, factories and mines. Growing industrial production points to increased production and economic expansion.	February MoM% (YoY%)	-0.3% (2.5%)	-0.9% (2.4%)	1.6% (-1.5%)
USA	**Trade balance** It represents the relationship between the amount of the price of goods exported outside the country and the price of goods imported into the territory of that country. i.e. the difference between exports and imports. If the amount of goods exported exceeds the amount of the imported goods, then the trade balance is active (positive balance), if the import exceeds the export - then it becomes passive (negative balance).	February B= Billion	-88.5 B	-89.2 B	-89.7 **B**
	Initial Jobless Claims Measures the number of people receiving unemployment allowances. Similar to the applicant, the growing number of jobs is accompanied by an economic expansion that could influence inflationary pressures.	April 2 K=1,000	200 K	166 K	202 K
Italy	**Retail Sales** This indicator measures changes in retail sales in Italy.	February MoM%	0.4%	0.7%	-0.5%

Source: Bloomberg