CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(4 – 8 July 2022)

Podgorica, 12 July 2022

FX NEWS

EUR/USD

Source: *Bloomberg LP*

On Monday, the **EUR/USD exchange rate** had a narrow range of 1.0417 and 1.0463 after reduced volume due to the US holiday (4 July). The next day, the EUR/USD exchange rate fell to 1.0235 (the lowest level in the last 20 years) as investors were concerned about a possible energy crisis risking pushing the European economy into recession. Namely, the euro was under pressure due to a threatening gas shortage that could disrupt industrial activity throughout the euro region if Russia cuts off supplies. During the rest of the week, the USD appreciated against the euro. The Fed's June meeting minutes showed that this institution's representatives were highly concerned about inflation and inflation expectations. The minutes also revealed that Fed officials "recognised the possibility that an even more restrictive stance may be appropriate if inflationary pressures increase". The St. Louis Fed Chair advocates that the interest rate reaches 3.5% by the end of the year. The market expects an interest rate hike of 50 to 75 basis points at the July meeting (a 75 basis points hike would be the most significant since 1994). On Friday, the euro continued depreciating against the USD due to the energy crisis deepening and spreading fears about the economy taking their toll. For the first time in almost two decades, the euro to USD exchange rate was close to 1:1 on Friday.

EUR/GBP

Source: *Bloomberg LP*

During this reporting week, the **EUR/GBP exchange rate** depreciated. The first significant change occurred on Tuesday when the exchange rate depreciated due to the euro's depreciation. That day, it was announced that Russia would cut off gas supplies to Germany, and the oil price rise increased worries about a recession. After the news that the British Chancellor of the Exchequer and Minister of State for Health submitted their resignations, the sterling depreciated the same day, and the exchange rate recovered. However, the exchange rate's depreciation continued due to the Bank of England Chief Economist Huw Pill's statement that he was willing to support a faster interest rate increase, thus increasing the probability of a rate increase by 50 basis points already in July. Later in the week, it was announced that the UK's Prime Minister resigned, resulting in rising expectations that political tensions would ease in the coming period and that there would be progress in the negotiations with Northern Ireland with the new leader. On Friday, the exchange rate appreciated slightly after releasing that the UK labour market grew at the slowest pace in 16 months, indicating that the employment boom that followed the pandemic is slowly ending. At the end of Friday, it was announced that the former Chancellor of the Exchequer would run for the post of Prime Minister.

EUR/JPY

Source: *Bloomberg LP*

Early this week, the **EUR/JPY exchange rate** appreciated slightly after an increased demand for riskier assets due to the possibility that the USA would lift part of the tariffs on products from China. On Tuesday, the exchange rate depreciated after the yen's depreciation due to increased demand for safe assets amid economic slowdown fears. Namely, investors worried that the global monetary policy tightening could encourage a recession. The coronavirus infections rise in Shanghai pointed to a possible re-lockdown, and highly infectious virus sub-strains began to spread across the country, further affecting the markets. The demand for safe funds increased during the week due to the assassination of the former Prime Minister of Japan, Shinzo Abe, who died a few hours after the unfortunate event.

Table 1 - Exchange rates of the most important currencies

	04.07.2022[1]	08.07.2022[2]	% Change
EUR/USD	1.0414	1.0185	-2.20
EUR/GBP	0.86165	0.84639	-1.77
EUR/JPY	140.99	138.65	-1.66
EUR/AUD	1.52858	1.48399	-2.92
EUR/CHF	1.00111	0.99460	-0.65
USD/JPY	135.21	136.10	0.66
GBP/USD	1.2095	1.2033	-0.51

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

Central Bank	Reference interest rate	Reference interest rate level	Next meeting
European Central Bank	ECB main refinancing rate	0.00%	21 July 2022
Federal Reserves	Federal Funds Target Rate	1.75%	27 July 2022
Bank of Japan	Overnight Call Rate	-0.10%	21 July 2022
Bank of England	Official Bank Rate	1.25%	4 August 2022
Swiss National Bank	Libor Target Rate	-0.25%	22 September 2022
Bank of Canada	Target Overnight Rate	1.50%	13 July 2022
Reserve Bank of Australia	Cash Rate Target	1.35%	2 August 2022

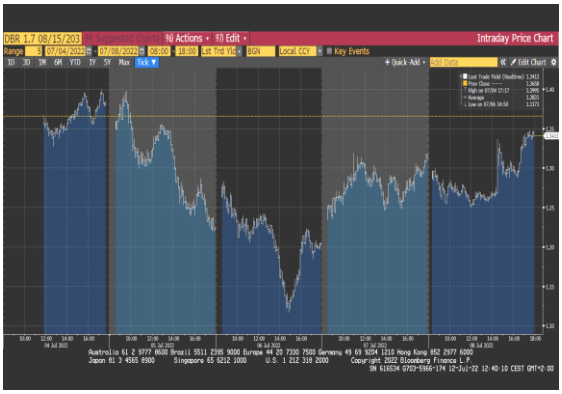
The Reserve Bank of Australia raised interest rates by 50 basis points on Tuesday.

Table 3 – ESTR and Euribor

	04.07.2022[1]	08.07.2022[2]	Change in basis points
ESTR	-0.5800	-0.579	0.10
Euribor 1W	-0.565	-0.563	0.20
Euribor 1M	-0.506	-0.427	7.90
Euribor 3M	-0.176	-0.087	8.90
Euribor 6M	0.228	0.322	9.40
Euribor 12M	0.961	0.972	1.10

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

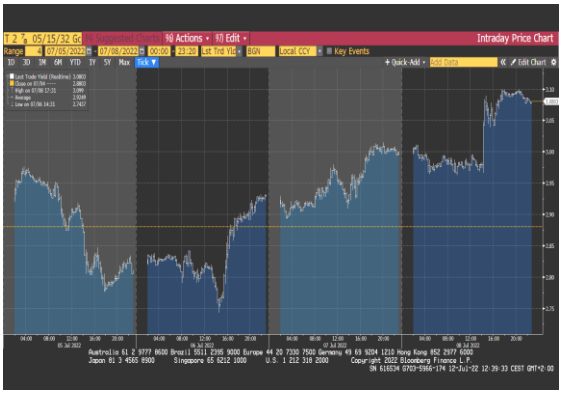
EUROPEAN GOVERNMENT BONDS MARKET



Source: *Bloomberg LP*

The return on Germany's 10-year government bond trended down during the first three days of the week. The return decline occurred after emerging uncertainty regarding the euro area's economic outlook. Data on France's service and manufacturing sectors fueled concerns that the euro area's economic growth will slow down (both indicators recorded a decline). On the other hand, the USD was supported as the last FED meeting minutes showed that its representatives were very concerned about inflation and inflation expectations. It supported the expectation that the FED would increase the interest rate from 50 to 75 basis points at the July meeting. Since the middle of the week, the return on 10-year German bonds has started to recover following the rise in the return on US bonds, which followed good economic data from the USA. Hence, the investors' focus turned again to inflation pressures. The return on 10-year German bonds stood at 1.34% at the end of the week.

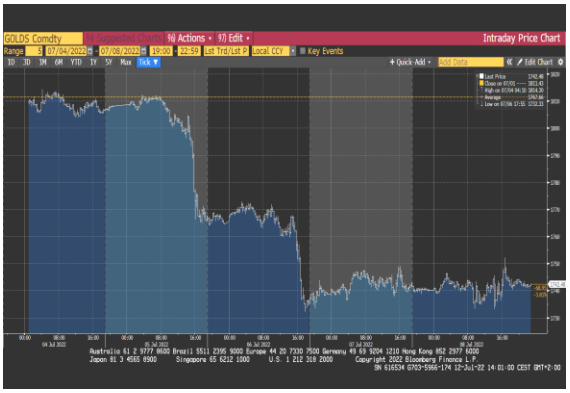
US GOVERNMENT BONDS MARKET



Source: *Bloomberg LP*

On Monday, bond markets were closed in the USA due to the 4 July holiday. The return on US bonds fell on Tuesday as demand for safe-haven assets rose. The return on these bonds constantly rose during the rest of the week. The return increase occurred as the last FED meeting minutes indicated that the central bank would focus on a more aggressive monetary policy tightening to keep inflation under control, so market participants expected an interest rate increase at the July meeting by 50 or 75 basis points. Moreover, at the very end of the week, positive US labour market data (employment growth by 372 thousand vs the expected 265 thousand) influenced the return to continue rising, so it stood at 3.08% at the very end of the week.

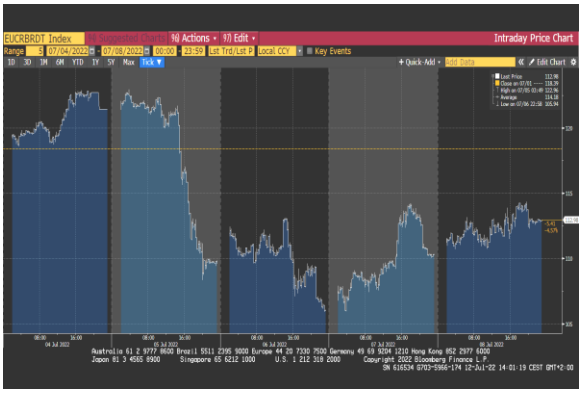
GOLD



Source: Bloomberg LP

The gold price fell during this reporting week. Early this week, the price was stable to record a sharp drop on Tuesday. Increasing concern about the global recession turned investors to invest in the USD, which caused the aforementioned price drop. In the middle of the week, the Fed's June meeting minutes were published and showed that this bank could have an even more restrictive stance, which would be appropriate if inflationary pressures increased, resulting in further gold price fall. On Wednesday-end, this precious metal's price stood at 1,732.33 USD/oz tr., the lowest level since the end of last September, while it stood at 1,810 USD/oz tr. at the beginning of the week. The gold price fluctuated between 1,732.33 and 1,752.34 USD/oz tr during the previous two days of this reporting week.

OIL



Source: Bloomberg LP

At the beginning of the week, the oil price rose due to investors' concerns about how the global slowdown will affect this energy product's supply. Moreover, unrest in Libya and sanctions against Russia increased possible oil production reduction concerns. However, the growing fear that the global economy's recession will threaten oil demand caused a sharp price drop on Tuesday, and the downward trend continued the following day. The oil price increased slightly during the last two days of this reporting week. Namely, despite reports that US oil inventories rose in the week before this reporting period, Russia's order to close one of its main export terminals increased concerns that the oil amount on the market would decrease. Moreover, China is potentially considering a 220 billion USD incentive to boost oil demand in that country. Another price recovery driver was the US payrolls report, which eased investors' concerns about the economy's "health" and the oil demand. The price recorded a weekly drop.

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

Country	Indicator	Period	Expected value	Current value	Previous value
Euro area	**Consumer price index (CPI)** It estimates the changes in the cost of living by measuring changes in the price level of the market basket of consumer goods and services purchased by an average household in Germany. **Retail Sales** This indicator measures changes in retail sales in Japan.	June MoM% (YoY%) May MoM% (YoY%)	0.9% (36.6%) 0.4% (-0.3%)	0.7% (36.3%) (0.2%) (0.2%)	1.2% (37.2%) -1.3% (3.9%)
Germany	**Factory Orders** It shows a change in the number of orders with domestic producers. The data shows the demand for German industrial products. Factory orders are an early indicator of the overall consumption in the economy, which affects economic growth.	May 0.6%	-0.5%	0.1%	-2.7%
Great Britain	**S&P Global/CIPS UK Services PMI** The index was compiled based on responses to questionnaires sent in the form of a panel to 650 companies from the service sector. Sectors covered include consumers (except retail), transportation, information, communications, finance, insurance, real estate and business services. Data collection began in July 1996. Answers are collected in the second half of each month and point to the trend of the monthly change. A score above 50 indicates that the services sector is generally expanding, while the one below 50 points to its general decrease.	June	53.4	54.3	53.4
USA	**Initial Jobless Claims** This indicator measures the number of people receiving unemployment allowances. The growing number of jobs accompanies an economic expansion that could influence inflationary pressures. **Factory Orders** Factory orders provide a rather comprehensive overview of the manufacturing sector. **Unemployment Rate** It shows the total percentage of those considered unemployed in the United States. Given that the Fed must keep unemployment under control, its high rate puts pressure on interest rates (in terms of their reduction), as the Fed will then seek ways to improve the situation in the labour market.	2 July K=1,000 May MoM% June MoM%	230 K 0.5% 3.6%	235 K 1.6% 3.6%	231 K 0.3% 3.6%

Source: Bloomberg