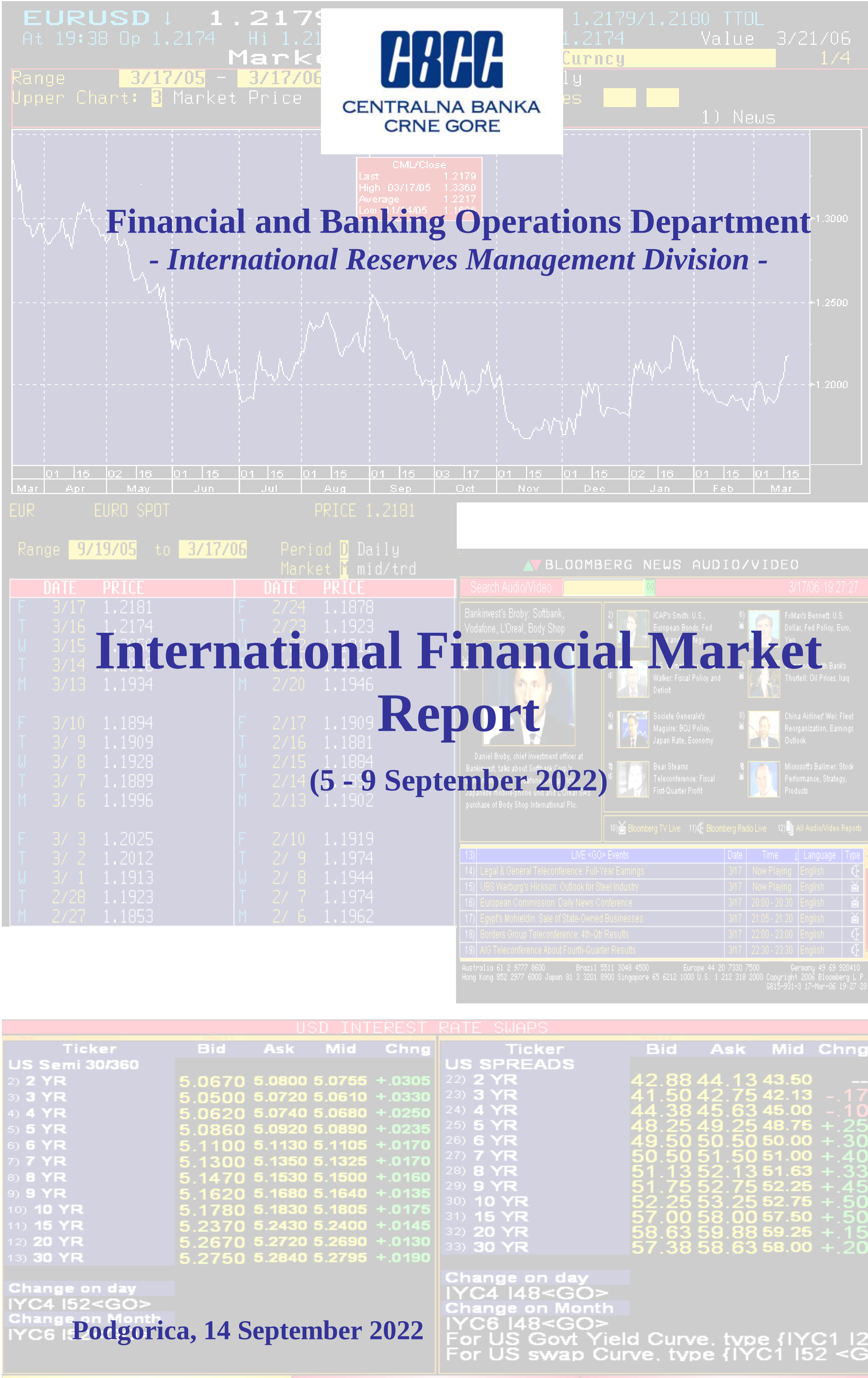
CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(5 - 9 September 2022)



Podgorica, 14 September 2022

FX NEWS

EUR/USD

Source: *Bloomberg LP*

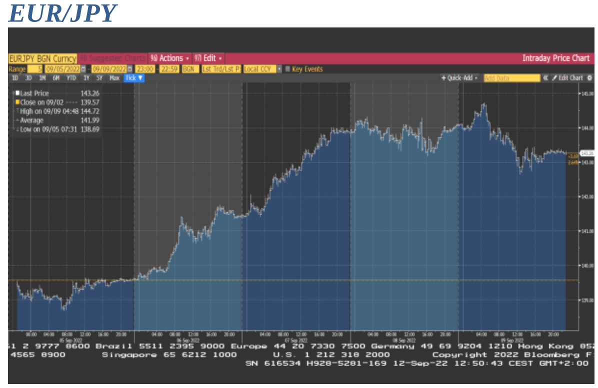
This reporting week, the **EUR/USD exchange rate** appreciated from 0.9954 to 1.0043. Although it showed appreciation signs at the beginning of the week, the exchange rate depreciated to the lowest level in the last two decades on Tuesday (0.9864). The leading cause of the exchange rate depreciation was the euro's depreciation due to the energy situation in Europe. The Russian company Gazprom announced that it had found a crack in the main gas pipeline Nord Stream 1, which delayed its planned opening. The exchange rate depreciated as the USD appreciated, as data on the US service sector came in better than forecast, supporting expectations for the Fed's aggressive monetary policy tightening. However, as the ECB meeting approached, the EUR/USD exchange rate appreciated on Wednesday afternoon. After the ECB increased the interest rate by 75 basis points, the exchange rate first depreciated to continue the appreciation trend soon, as expectations of a further ECB interest rate increase caused the demand for USD to decrease.

EUR/GBP

Source: *Bloomberg LP*

This reporting week, the **EUR/GBP exchange rate** appreciated from 0.86490 to 0.86688. At the beginning of the week, the exchange rate depreciated due to the euro's depreciation amid the energy crisis worsening in Europe and the sterling's appreciation that followed the appointment of the new Prime Minister, Liz Truss. Truss presented fiscal plans on energy bills, which would prevent Britain's economic outlook from being threatened (the plans refer to fixing annual electricity and gas bills for a typical British household at or below their current levels). From Tuesday afternoon, the exchange rate started to appreciate. The growth was caused by the euro's appreciation as the ECB meeting was approaching and due to its outcome. On the other hand, the sterling depreciated due to concerns about the impact of the new prime minister's plan on Britain's leverage. On Friday, the exchange rate depreciated with occasional fluctuations.

EUR/JPY



Source: *Bloomberg LP*

The **EUR/JPY exchange rate** rose from 139.57 to 143.26 this week. The yen's depreciation mainly caused the exchange rate's appreciation at the beginning of the week due to releasing weaker Japanese consumption and wages data. The yen also depreciated due to its sensitivity to the movement of long-term interest rates in the USA. In anticipation of the ECB meeting and after the decision to increase the interest rate, the exchange rate continued to grow, and it reached its highest level in the last seven years (144.72) on Friday. Nevertheless, for the rest of the day, the yen showed signs of appreciation after the BoJ Governor warned of a rapid yen depreciation, which may have negative consequences for companies and increase economic uncertainty.

Table 1 - Exchange rates of the most important currencies

	05.09.2022[1]	09.09.2022[2]	% Change
EUR/USD	0.9954	1.0042	0.88
EUR/GBP	0.8649	0.86666	0.20
EUR/JPY	139.57	143.15	2.57
EUR/AUD	1.4615	1.46833	0.47
EUR/CHF	0.97663	0.96461	-1.23
USD/JPY	140.20	142.47	1.62
GBP/USD	1.1509	1.1589	0.70

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	1.25%	27 October 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%	22 September 2022
Swiss National Bank	Libor Target Rate	-0.25%	22 September 2022
Bank of Canada	Target Overnight Rate	3.25%	26 October 2022
Reserve Bank of Australia	Cash Rate Target	2.35%	4 October 2022

The ECB held a meeting last week. In line with expectations, it increased the interest rate by 75 basis points, so the reference interest rate now stands at 1.25%. President Lagarde said that the ECB would continue to raise rates at "the next few meetings" due to the still too high inflation rate that would remain above the ECB's target for a more extended period. The ECB assumes that economic output will not fall immediately but will stagnate later this year and at the beginning of next. Lagarde added that in 2022-2023 a recession could only occur within the scenario in which Russia would completely cut off natural gas, alternative sources of supply were unavailable, and countries resorted to rationalising energy spending. In addition, the ECB has also decided to immediately remove the 0% interest rate ceiling for government deposits, which will now be the lower rate of the two rates -DFR and ESTR, which will be valid until 30 April 2023. It will preserve the effectiveness of monetary policy transmission and the orderly market functioning and prevent the sudden outflow of deposits to the market.

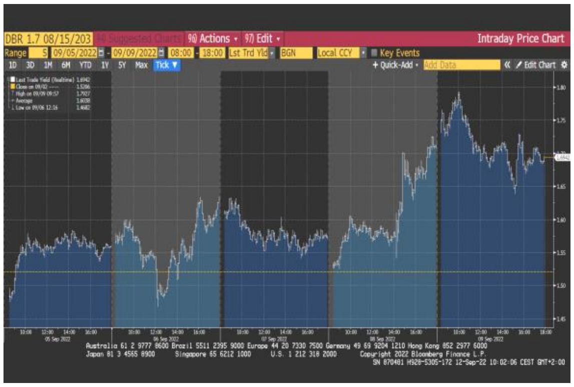
In addition, the Central Bank of Australia and the Bank of Canada held their meetings. They increased interest rates by 50 and 75 basis points, respectively, and both announced further increases to curb inflation.

Table 3 – ESTR and Euribor

	05.09.2022[1]	09.09.2022[2]	Change in basis points
ESTR	-0.083	-0.0850	-0.20
Euribor 1W	-0.071	0.173	24.4
Euribor 1M	0.314	0.480	16.6
Euribor 3M	0.763	0.934	17.1
Euribor 6M	1.290	1.442	15.2
Euribor 12M	1.896	2.015	11.9

[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 fluctuated slightly in the first three days of the reporting week and averaged 1.56%. The market expected the ECB to raise interest rates by 75 basis points, increasing the return. The BoE also called to continue stronger interest rate hikes to curb rising inflation. On Thursday, after the ECB meeting, the return on 10-year German government bonds trended up as expectations related to further ECB interest rate increases continued after the meeting. The ECB also decided to start paying interest on government deposits to prevent that cash from flooding the bond market. The return on 10-year German government bonds recorded a slight decline at the end of the week.

US GOVERNMENT BONDS MARKET

Source: *Bloomberg LP*

Markets were closed on Monday for the Labour Day holiday in the USA. After a long weekend in the USA, the return on 10-year US bonds fell amid mixed economic data and expectations that inflation is slowing, putting the Fed in a more favourable position for further monetary policy tightening. The next day, the return on 10-year US government bonds rose due to the ECB's interest rate increase and the Fed Chair's comments (the central bank will continue to tighten monetary policy to "knock down" inflation). The return on 10-year US government bonds rose at the very end of the week due to Ukraine's confrontation with Russia, and the Fed began a quiet period ahead of its regular meeting.

GOLD

Source: Bloomberg LP

At the beginning of the week, the gold price fluctuated slightly and averaged 1,713.38 USD/oz tr. There is great concern in the market about the energy crisis in Europe and the war in Ukraine, which end is still not visible and directs investors toward gold. On Tuesday, the gold price fell due to the USD appreciation and the expectation of the Fed's aggressive interest rate increase. The next day, the price increased due to the USD exchange rate appreciation. The fear of economic slowdown has fuelled the demand for this precious metal. On Thursday, this precious metal's price dropped after the ECB meeting. The gold price rose on Friday morning as the USD depreciated but fell in the afternoon expecting US inflation data and after the ECB and the Fed announcements of upcoming new interest rates increase.

OIL

Source: Bloomberg LP

The oil price rose on Monday morning as OPEC+ unexpectedly decided to cut production output in October. The organisation and its allies plan to cut production by 100,000 barrels per day next month. Over the next two days, the oil price weakened due to concerns that the lockdown due to Covid and the interest rates increase worldwide will cause the demand for the fuel to be cut. The oil price rose briefly in the morning hours on Wednesday as the Russian President said his country would stop supplying oil and gas to countries that impose price caps. Very quickly, the price fell below the technical level of 90 USD/bbl. for the first time since February. China has extended the economic lockdown of some parts of Chengdu beyond 8 September to deal with Covid. The oil price trended up on Friday due to the unexpected increase in stocks in the USA (by 8.8 million barrels) and the USD exchange rate depreciation.

Table 4 – Economic indicators (5 – 9 September 2022)

Current value	Indicator	Euro area	Expected value	Current value	Previous value
Euro area	**S&P Global Eurozone Composite PMI** PMI surveys tracks opinion among procurement managers at manufacturing, construction and/or services firms. The index was obtained from the results of questionnaires related to production, orders, stocks, employment, prices, etc.	August	49.2	48.9	49.2
	Retail Sales This indicator measures the volume of sales of personal and household goods.	July MoM% YoY%	0.4% -0.8%	0.3% -0.9%	-1.2% -3.7%
	GDP S.A. It measures the final market value of all products and services produced within the country. GDP is the most comprehensive measure of economic output and provides a key insight into the main drivers of an economy.	Q2 QoQ% YoY%	0.6% 3.9%	0.8% 4.1%	0.6% 3.9%
Germany	**Factory Orders** It shows 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 an economy, which affects economic growth.	July MoM% YoY%	-0.7% -13.4%	-1.1% -13.6%	-0.4% -9.0%
Japan	**Household Spending** This indicator monitors all consumers' expenditures on products and services, and is adjusted with inflation.	July YoY%	4.6%	3.4%	3.5%
	Labour Cash Earnings This indicator shows total payments to employees in exchange for performed work.	July YoY%	1.9%	1.8%	2.2%
	GDP S.A. It measures the final market value of all products and services produced within the country.	Q2 QoQ% YoY%	0.7% 2.9%	0.9% 3.5%	0.5% 2.2%
USA	**ISM Services Index** PMI surveys tracks opinion among procurement managers at manufacturing, construction and/or services firms. The index was obtained from the results of questionnaires related to production, orders, stocks, employment, prices, etc.	August	55.3	56.9	56.7
	Trade balance It shows the difference between exports and imports of US products and services.	July b=bill.	-$ 70.2 b	-$ 70.6 b	-$ 80.9 b
	Wholesale inventories This concept monitors the level of goods stocks in wholesale.	July MoM%	0.8%	0.6%	0.8%
Great Britain	**S&P Global/CIPS UK Composite PMI** PMI surveys tracks opinion among procurement managers at manufacturing, construction and/or services firms. The index was obtained from the results of questionnaires related to production, orders, stocks, employment, prices, etc.	August	50.9	49.6	50.9

Source: Bloomberg