CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(5 -9 December 2022)

Podgorica, 14 December 2022

FX NEWS

EUR/USD

Source: *Bloomberg LP*

At the beginning of this reporting period, the **EUR/USD exchange rate** depreciated after the signal that the US economy was still resistant to the crisis (the index measuring service activities rose in November to 56.5 from October's 54.4). It supported the expectations that the Fed would continue aggressively tightening monetary policy. The following day, this exchange rate continued to depreciate as the Governor of the Central Bank of Cyprus and a member of the ECB Governing Council stated that the interest rate in the euro area was very close to the neutral level. The exchange rate's appreciation trend began in the middle of the week and lasted until Friday. In the mentioned period, the exchange rate appreciated after the Central Bank of Slovakia's Governor supported another interest rate increase of 75 basis points by the ECB. On Friday, the exchange rate depreciated after releasing that producer prices in the US rose more than expected.

EUR/GBP

Source: *Bloomberg LP*

The **EUR/GBP exchange rate** recorded a slight weekly appreciation, with an uneven trend during the week. On Monday, the exchange rate appreciated after the announced value of the composite PMI index, which includes activity in the service, manufacturing and construction sectors of the UK, decreased in November due to the rising costs of living and uncertainty about the economic outlook, which led to the sterling's depreciation. In the week's continuation, except Friday, the exchange rate fluctuated constantly but appreciated. Data showing that Germany's industrial production fell less than expected caused the euro to appreciate. Mid-week, the exchange rate depreciated due to Putin's warning of a nuclear attack. Still, it continued to appreciate as sterling came under pressure due to the release of weaker UK economic data (an industry report showed UK employment and wage growth slowed in November due to companies' concerns about the economy entering a recession). The Bureau of Statistics data from later this week showed that personal consumption increased in early December despite the rising cost of living, which was in line with the usual seasonal trends (holidays). However, the exchange rate depreciated on Friday due to the delay in the UK inflation data publication, a day ahead of the Bank of England meeting.

EUR/JPY

Source: *Bloomberg LP*

The **EUR/JPY exchange rate** had a slightly larger change in its trend only at the beginning of this week when it recorded growth. The exchange rate's appreciated when the BoJ Governor reiterated that he would stick to the current monetary policy and that it would take time to achieve the inflation target. During the rest of the week, the exchange rate fluctuated around 143.65, and there was no significant deviation from that level.

Table 1 - Exchange rates of the most important currencies

	05.12.2022[1]	09.12.2022[2]	% Change
EUR/USD	1.05350	1.0540	0.05
EUR/GBP	0.85730	0.85922	0.22
EUR/JPY	141.480	143.85	1.68
EUR/AUD	1.55220	1.55086	-0.09
EUR/CHF	0.98733	0.98733	0.00
USD/JPY	134.310	134.31	0.00
GBP/USD	1.22800	1.2259	-0.17

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

Central Bank	Reference interest rate	Reference interest rate level	Next meeting
European Central Bank	ECB main refinancing rate	2.00%	15 December 2022
Federal Reserves	Federal Funds Target Rate	4.00%	14 December 2022
Bank of Japan	Overnight Call Rate	-0.10%	20 December 2022
Bank of England	Official Bank Rate	3.00%	15 December 2022
Swiss National Bank	Libor Target Rate	0.50%	15 December 2022
Bank of Canada	Target Overnight Rate	4.25%	25 January 2023
Reserve Bank of Australia	Cash Rate Target	3.10%	3 January 2023

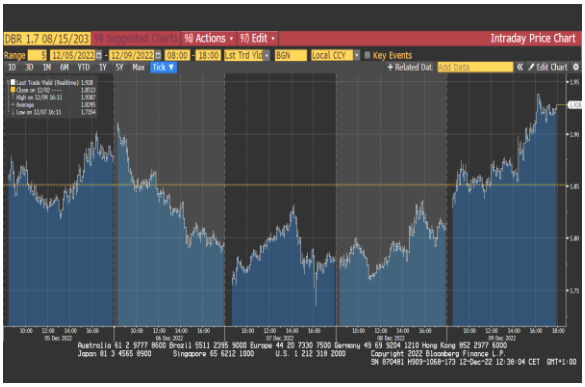
This week, the Central Bank of Australia held a regular meeting, at which it increased the interest rate by 25 basis points, which now stands at 3.1%, as expected. The Governor signalled that interest rates would also rise in the coming period. This week, the Bank of Canada also increased the interest rate by 50 basis points to 4.25% at its regular meeting.

Table 3 – ESTR and Euribor

	05.12.2022[1]	09.12.2022[2]	Change in basis points
ESTR	1.400	1.400	0.00
Euribor 1W	1.398	1.416	0.02
Euribor 1M	1.514	1.605	0.09
Euribor 3M	1.975	2.005	0.03
Euribor 6M	2.406	2.466	0.06
Euribor 12M	2.811	2.861	0.05

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

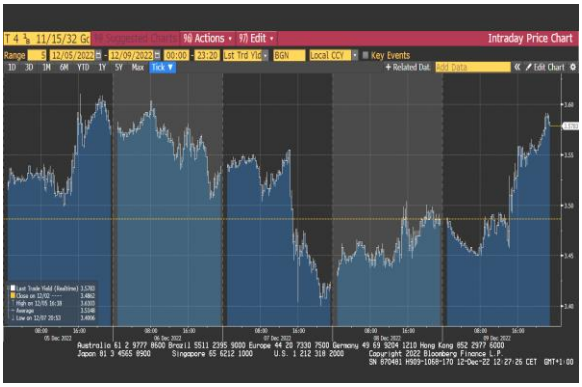
EUROPEAN GOVERNMENT BONDS MARKET



Source: *Bloomberg LP*

The return on 10-year German government bonds first dropped on Monday to rise after releasing that an index measuring activity in the US service sector rose unexpectedly in November. The following day, the return declined after the ECB's chief economist stated that price growth in the euro area was close to its peak, but it was still not certain whether it had reached the maximum level or would reached it in early 2023. In the middle of the week, the return on 10-year German government bonds fell after the Russian President's warning of nuclear war due to the growing demand for safe assets. A few hours after Putin's warning and the potential defence of Russia "by all possible means", the EU began considering a new package of sanctions against Russia, which includes a ban on access to drones, chemicals and technologies that Russia typically uses for military purposes. On Thursday, the return on 10-year German government bonds trended up, although trading volume dropped due to holidays in Austria, Italy, Spain and Portugal. The market was looking forward to the ECB meeting next week. The return on 10-year German government bonds rose on Friday following the recovery of the return on US bonds.

US GOVERNMENT BONDS MARKET



Source: *Bloomberg LP*

The return on 10-year US government bonds rose at the start of the week due to stronger-than-expected US economic data, which triggered speculation about how many basis points the US interest rate could go up at the upcoming meeting. During the rest of the week, the demand for safe means increased due to the Russian President's warning of nuclear war. On Friday, the return on 10-year US bonds rose as US producer prices data rose more than expected.

GOLD

Source: Bloomberg LP

On Monday morning, the gold price was at a 5-month high of almost 1810 USD/oz. tr., but it recorded a sharp drop to 1765 USD/oz. tr. on the same day. The price drop was caused by the USD appreciation and the rising return on US government bonds, which caused a decreased demand for precious metals. On Tuesday, the gold price was volatile as the easing of measures in China reinforced expectations that the Chinese economy's revival could support global economic growth. The price trended upward for the rest of the week and stood at 1797 USD/oz. tr. at the end of the week. The price recovery resulted from the USD depreciation and the decreased return on US government bonds following the demand for safe funds growing due to the fear of recession and the threat of a nuclear attack by the Russian President. Namely, at the Human Rights Council meeting held on Wednesday, Putin warned of the growing risk of nuclear war. He added that Russian nuclear weapons were a "deterrent factor" and not a provocation of conflict and that Russia would defend itself and its allies "by all available means" if necessary. The price rise until the end resulted from the publication of weaker-than-expected US labour market data and signals regarding the Fed's monetary policy "softening", although traders expected US inflation data for more indications on the Fed's further actions.

OIL

Source: Bloomberg LP

The oil price fell by about 10% in this reporting week. Earlier this week, strong data on the US services sector fuelled expectations of the Fed's continued aggressive interest rate hikes. The USD appreciated causing the most significant daily drop in oil prices in two weeks. Despite the data that showed later in the week that oil stocks in the US fell in the week preceding this reporting period, although less than expected, fuel stocks increased, so the price continued to fall. It was announced in the middle of the week that a key pipeline carrying oil from Canada to the USA was closed due to a leak. The problem was expected to be resolved quickly, so the price continued to fall. The main reason for the downward price trend until the end of the week was the uncertainty about the global economic slowdown, the weak demand for fuel and the expectation of a further Fed interest rate increase.

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

Country	Indicator	Period	Expected value	Current value	Previous value
Germany	**Industrial output** It measures the output volume in the mining and industrial sectors. Industrial output responds significantly to business cycle changes and can often predict trends in employment rates, earnings, and personal income.	October MoM% YoY%	 -0.6% -0.7%	 -0.1% 0.0%	 0.6% 2.6%
Euro area	**Retail Sales** This indicator shows changes in sales. The statistics covers universal shops and supermarkets. It shows the level of consumer shocks and consumer demand. **Gross domestic product (GDP)** It is a basic macroeconomic indicator that represents the market value of products and services produced within the country. The GDP calculation uses the following four components: consumption, investments, government expenditure, and net exports.	October MoM% YoY% Q3 QoQ% YoY%	 -1.7% -2.6% 0.2% 2.1%	 -1.8% -2.7% 0.3% 2.3%	 0.4% -0.6% 0.2% 2.1%
USA	**Initial Jobless Claims** This indicator measures the number of people receiving unemployment allowances. **Producer Price Index (PPI)** This index measures changes in sale prices of goods and services used by producers. Producers transfer higher costs to consumers through retail prices, thus PPI is important as an early inflation indicator.	3 December K=1,000 November MoM% YoY%	 230 K 0.2% 7.2%	 225 K 0.3% 7.4%	 226 K 0.2% -8.0%
Italy	**Retail Sales** This indicator shows changes in sales. The statistics covers universal shops and supermarkets. It shows the level of consumer shocks and consumer demand.	October MoM%	 -0.5%	 -0.4%	 0.5%

Source: *Bloomberg LP*