CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(6 – 10 June 2022)

Podgorica, 15 June 2022

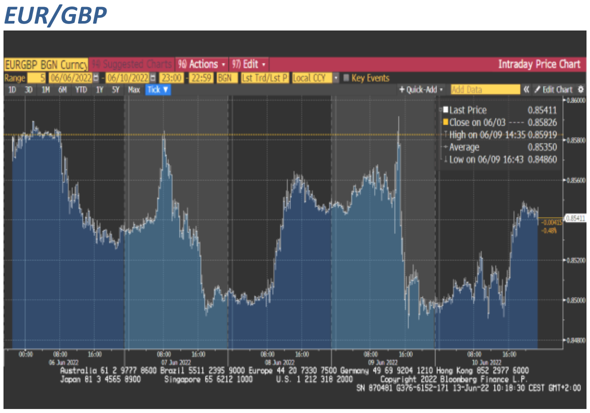
FX NEWS

EUR/USD

Source: *Bloomberg LP*

The **EUR/USD exchange rate** rose on Monday morning, as the euro appreciated mainly due to the growth of yields on 2-year European government bonds awaiting this week's ECB meeting. However, the USD depreciated due to covid restrictions easing in China. However, this exchange rate soon began to depreciate as the USD appreciated due to rising returns on US government bonds and the Fed's continued willingness to raise interest rates. Later this week, the EUR/USD exchange rate had a slight appreciation as the market expected the ECB to raise interest rates by 50 basis points at least once in the second half of this year. After the ECB meeting, the exchange rate fell. Namely, the announcement of a lower rate increase in July than market expectations, an increase in inflation rate projections and a decrease in economic growth caused the euro's depreciation. At the very end of the week, worse than expected data on US inflation directed investors towards the American currency.

EUR/GBP



Source: *Bloomberg LP*

During the first two days, the **EUR/GBP exchange rate** depreciated as the sterling appreciated after the Conservative Party voted no confidence in Boris Johnson, leaving him in the party's leadership position for at least another year. In the middle of the week, this exchange rate grew as the regular meeting of the ECB approached. On Thursday, after the meeting, the exchange rate fell as the ECB announced a lower interest rate increase than expected by the market. The exchange rate recovered on Friday.

EUR/JPY

Source: *Bloomberg LP*

Until Wednesday, the **EUR/JPY exchange rate** appreciated as the yen depreciated against both the euro and the USD due to widening gaps between yields in Japan on the one hand and those in the EU and US on the other, sparking speculation about potential intervention. The yen also depreciated due to Japan's position as an energy importer in a period of rising oil prices. Awaiting the ECB meeting, which outcome was likely to leave Japan alone in its monetary easing policy, has further weakened the yen. The EUR/JPY exchange rate started to depreciate after the meeting. Japanese officials have expressed concern about the currency's previous depreciation. After a meeting between the Ministry of Finance of Japan, the BoJ and the Financial Services Agency of Japan, officials said they would respond accordingly if necessary.

Table 1 - Exchange rates of the most important currencies

	06.06.2022[1]	10.06.2022[2]	% Change
EUR/USD	1.0719	1.0519	-1.87
EUR/GBP	0.85826	0.85414	-0.48
EUR/JPY	140.29	141.35	0.76
EUR/AUD	1.48737	1.49075	0.23
EUR/CHF	1.03173	1.03923	0.73
USD/JPY	130.88	134.41	2.70
GBP/USD	1.2488	1.2315	-1.39

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%	21.07.2022
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	1.50%	13 July 2022
Reserve Bank of Australia	Cash Rate Target	0.85%	5 July 2022

The ECB kept the interest rate current and decided to end the asset purchase programme. The Council decided to complete the net purchases of funds within the APP programme as of 1 July. It will continue to reinvest the principal of matured securities for a more extended period. President Lagarde announced its interest rate increase by 25 basis points at the July meeting and the possibility of a September increase in the amount determined depending on the inflation outlook. As things stand now, there may be an increase of as much as 50 basis points in September. According to new projections, the annual inflation rate in 2022-2024 will be 6.8%, 3.5%, and 2.1%, respectively - higher than in the March projections. Economic growth for 2022-2023 was revised downwards and will amount to 2.8% and 2.1%, respectively. The forecast for 2024 was revised upwards and will amount to 2.1%.
The Central Bank of Australia raised the interest rate by 50 basis points, which is now 0.85%, due to growing uncertainty about covid, especially in China. The market expects this central bank to increase the interest rate more aggressively (most likely around 40 basis points per meeting by the end of the year).

Table 3 – ESTR and Euribor

	06.06.2022[1]	10.06.2022.[2]	Change in basis points
ESTR	-0.587	-0.5810	0.60
Euribor 1W	-0.566	-0.568	-0.20
Euribor 1M	-0.538	-0.539	-0.10
Euribor 3M	-0.328	-0.298	3.00
Euribor 6M	-0.008	0.083	9.10
Euribor 12M	0.486	0.680	19.40

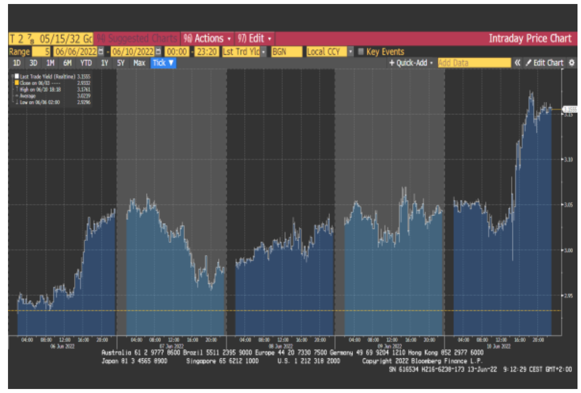
[1] Opening market value on Monday
[2] Closing market value on Friday

EUROPEAN GOVERNMENT BONDS MARKET

Source: *Bloomberg LP*

The return on German 10-year government bonds rose by 25 basis points this week, from 1.26% to 1.51% (the highest since April 2014). The return increase in the first part of the week was due to a decreased demand for safe funds after stock prices increased on the stock exchanges, so investors turned to these instruments. The return also grew, awaiting the long-awaited ECB meeting. After the ECB announced a 25 basis points increase in interest rates at its July meeting on Thursday and left the door open for a more significant increase in September, the return rose about 10 basis points that day. After the meeting, expectations of a faster ECB monetary policy tightening increased. The return also grew due to higher-than-expected US inflation growth in May. This week, the spread between 10-year Italian and German bonds increased to the highest level since May 2020 (around 225 basis points).

US GOVERNMENT BONDS MARKET



Source: *Bloomberg LP*

The return on US government bonds also rose this week, from 2.93% to 3.16%. On Monday, this return grew, in line with US inflation rate data (on Friday), but also as the Central Bank of Australia's interest rate increase by 50 basis points increased concerns about inflation. However, the return had a downward trend the next day due to investors' concerns about global economic growth, which caused a growing demand for safe funds. As the week continued, the return grew again due to the drop in stock prices and increased concerns about inflation caused by rising commodity prices. The return also rose due to the ECB meeting and the announcement that the US inflation rate rose higher than expected in May, so expectations that the Fed will continue to pursue more aggressive monetary policy have risen.

GOLD

Source: Bloomberg LP

The gold price did not change significantly for most of this week. It recorded a sharp jump on Friday after publishing the US inflation data. Namely, inflation increased by 8.6% in May compared to the same period last year, which was more than expected (8.3%).

OIL

Source: Bloomberg LP

Oil price trended up during this reporting week. During the first two days, the oil price was stable. It increased in the middle of the week as the Minister of Energy of the United Arab Emirates stated that the oil demand would rise since China was slowly coming out of the measures and that this indicated that the oil price was still “not near the top”. However, the oil price rise was stopped on Thursday, as the media reported that Shanghai was planning new measures to lock certain parts due to the coronavirus. The price of oil continued to grow on Friday.

Table 4 - Economic indicators (6 – 10 June 2022)

Current value	Indicator	Euro area	Expected value	Current value	Previous value
EU	**Publishing of ECB main refinancing rate** The ECB meets on every first Thursday in month.	9 June	0.0%	0.0%	0.0%
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.	April MoM%	0.4%	-2.7%	-4.7%
Italy	**Retail Sales** This indicator measures changes in retail sales in Japan.	April MoM%	0.1%	0.0%	-0.5%
USA	**Consumer price index (CPI)** This indicator estimates the changes in the cost of living, measuring changes in the price level of the basket of consumer goods and services purchased by an average household.	May MoM% (YoY%)	0.7% (8.3%)	1.0% (8.6%)	0.3% (8.3%)
	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.	4 June K=1.000	206 K	229 K	200 K

Source: Bloomberg