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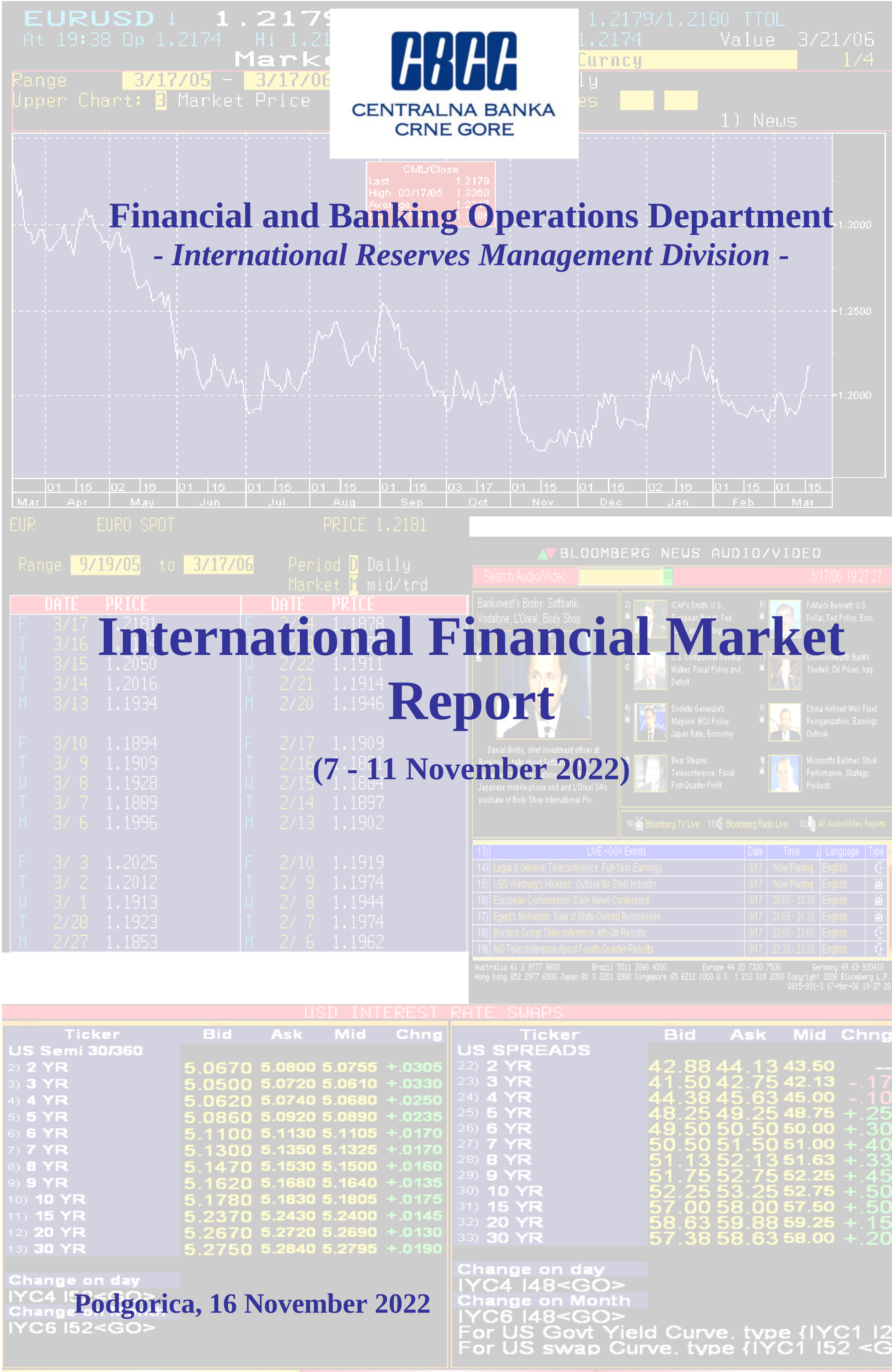


Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(7 - 11 November 2022)

Podgorica, 16 November 2022

FX NEWS

EUR/USD

Source: *Bloomberg LP*

This reporting week, the **EUR/USD exchange rate** appreciated from around 0.9920 to 1.0364, which is its highest level since mid-August. The exchange rate appreciation in the first two days of the week resulted from the USD appreciation in response to the mid-term US election results and expected US inflation data. In the middle of the week, the exchange rate showed depreciation, as dwindling hopes for China's imminent opening caused an increased demand for safe assets, so the USD appreciated. On the other hand, the news that Russian troops were ordered to withdraw from the Ukrainian city of Kherson supported the European currency. However, this exchange rate recorded a sharp increase after publishing the inflation data. The consumer price index in the US fell more than expected, fuelling speculation that the Fed would increase the interest rate at the next meetings by less than 75 basis points, so the US currency depreciated. The exchange rate appreciation continued on Friday, as the European Commission's announcement led to the euro's appreciation. The European Commission announced that the euro area economy would grow more this year than previous expectations to 3.2% compared to 2.7%. However, economic growth forecasts for the coming year have been reduced from 1.4% to just 0.3%. Still, the European Commission expects this slowdown to slightly impact employment and public finances in the euro area.

EUR/GBP

Source: Bloomberg LP

The **EUR/GBP exchange rate** depreciated on Monday as the sterling appreciated. The UK media reported that Britain's Chancellor of the Exchequer would replace the 57 billion euros public finance deficit with some 30 billion USD in spending cuts and some 20 billion USD in tax increases. The fiscal plan is expected to be presented on 17 November in Parliament. During the rest of the week, the exchange rate fluctuated, only to appreciate sharply on Wednesday to 0.88286 (1-month high), as the growing investor risk aversion caused sterling to depreciate. The next day, the exchange rate fell even more after releasing encouraging data on the UK economy. (GDP fell less than expected in the third quarter; imports decreased more than expected in the same period; exports increased more than expected; industrial production and construction output rose in September, while a decrease was expected). However, at the end of the week, EUR/GBP appreciated as the BoE Governor stated that efforts to bring inflation under control were likely to take between 18 months and two years and that inflation was "significantly above the preferred level", which led to the sterling's depreciation.

EUR/JPY

Source: *Bloomberg LP*

During most of this reporting period, the **EUR/JPY exchange rate** was limited from around 145.50 to 147.10, with the first significant change occurring on Thursday. On that day, China had eased the measures for incoming passengers, as the market previously rumoured, and the Japanese currency appreciated. The exchange rate continued to depreciate on Friday amid expectations that Japan's inflation rate would hit a 40-year high. It could prompt the BoJ to revise its stance on maintaining an expansionary monetary policy. The yen also appreciated as the US inflation rate was lower than expected, narrowing the spread between Japanese and US returns and reducing expectations that the Japanese authorities would have to intervene in the market again.

Table 1 - Exchange rates of the most important currencies

	07.11.2022[1]	11.11.2022[2]	% Change
EUR/USD	0.9957	1.0347	3.92
EUR/GBP	0.87566	0.87462	-0.12
EUR/JPY	145.99	143.61	-1.63
EUR/AUD	1.53901	1.54397	0.32
EUR/CHF	0.99002	0.97441	-1.58
USD/JPY	146.62	138.81	-5.33
GBP/USD	1.1379	1.1830	3.96

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

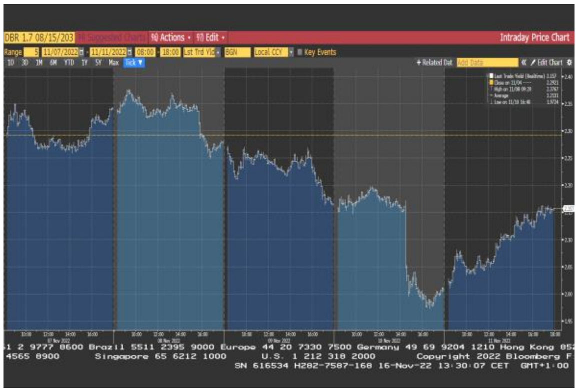
Central Bank	Reference interest rate	Reference interest rate level	Next meeting
European Central Bank	ECB main refinancing rate	2.00%	15 December 2022
Federal Reserves	Federal Funds Target Rate	4.00%	14 December 2022
Bank of Japan	Overnight Call Rate	-0.10%	20 December 2022
Bank of England	Official Bank Rate	3.00%	15 December 2022
Swiss National Bank	Libor Target Rate	0.50%	15 December 2022
Bank of Canada	Target Overnight Rate	3.75%	7 December 2022
Reserve Bank of Australia	Cash Rate Target	2.85%	6 December 2022

Table 3 – ESTR and Euribor

	07.11.2022[1]	11.11.2022[2]	Change in basis points
ESTR	0.6560	1.0410	38.50
Euribor 1W	0.951	1.385	43.40
Euribor 1M	1.208	1.398	19.00
Euribor 3M	1.641	1.734	9.30
Euribor 6M	2.034	2.278	24.40
Euribor 12M	2.567	2.794	22.70

[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 was stable at the start of the week. From Tuesday, the trend of the falling return on these bonds began, which lasted until the very end of the reporting period. The drop in the return came after news that Germany planned to double its debt in 2023. Moreover, the return drop resulted from the decreased expectations regarding the speed with which the ECB would increase the interest rate in the coming period. On Friday, the return on 10-year bonds recorded a slight recovery.

US GOVERNMENT BONDS MARKET

Source: *Bloomberg LP*

The return on 10-year US Treasuries eased slightly over the first three days of the week before plunging sharply by nearly 30 basis points on Thursday. Traders scaled back expectations of how quickly the Fed would raise interest rates following data that the US inflation was below the expected level in October. On Friday, the bond market was closed for the holiday.

GOLD

Source: Bloomberg LP

The gold price increased during this reporting week. The increased gold price in the first half of the week occurred as the USD depreciated against a basket of currencies, stimulating the demand for this precious metal among investors. In the middle of the week, the gold price did not register a significant change to start rising again from Thursday. The gold price rose during that period as data showed that US inflation "cooled" more than expected, leaving room for the Fed to slow down with aggressive interest rate hikes.

OIL

Source: Bloomberg LP

On Monday, the oil price rose as the USD depreciated against a basket of currencies, which increased oil demand. Over the next two days, the oil price dropped as China re-imposed certain restrictions regarding Covid-19, raising concerns about the fuel demand. At the same time, the news that oil stocks in the USA increased by 3.9 million barrels during the previous week also influenced the oil price drop. During the last two days of the reporting period, the oil price increased as China announced that it would relax some valid measures within the framework of the Covid-19 rules. It will allow greater freedom of movement and travel, which will lead to increased demand for energy products.

Table 4 - Economic indicators (7 – 11 November 2022)

Country	Indicator	Period	Expected value	Current value	Previous value
Japan	**Household Spending** This indicator monitors all consumers' expenditures on products and services, and is adjusted with inflation.	September YoY%	2.6%	2.3%	5.1%
	Producer Price Index (PPI) This indicator measures the change in the price received by domestic producers for their output. The indicator rise is an early inflation indicator.	October MoM% YoY%	0.7% 8.8%	0.6% 9.1%	1.0% 10.2%
Euro area	**Retail Sales** This indicator measures the volume of sales of personal and household goods.	September MoM% YoY%	0.4% -1.1%	0.4% -0.6%	0.0% -1.4%
Germany	**Industrial output** It measures the output change in mining and quarrying, manufacturing and utilities (electricity, gas and water supply).	September MoM% YoY%	0.1% 2.0%	0.6% 2.6%	-1.2% 1.6%
Great Britain	**Gross domestic product (GDP)** It measures the value of products and services produced inside the country. GDP is the most comprehensive measure of economic output and provides a key insight into the main drivers of an economy.	Q3 QoQ% YoY%	-0.5% 2.1%	-0.2% 2.4%	0.2% 4.4%
	Exports Products and services made in the UK sold or awaiting sale abroad.	Q3 QoQ%	4.4%	-8.0%	3.6%
	Imports Japan's demand for foreign products.	Q3 QoQ%	-1.3%	-3.2%	-1.5%
	Industrial output It measures the output change in mining and quarrying, manufacturing and utilities (electricity, gas and water supply).	September MoM% YoY%	-0.3% -4.4%	0.2% -3.1%	-1.4% -4.3%
	Construction Output It monitors the changes in output or sales in construction sector.	September MoM% YoY%	-0.6% 4.5%	0.4% 5.7%	0.6% 6.4%
USA	**Consumer price index (CPI)** It measures changes in the prices that consumers pay for a basket of products and services.	October MoM% YoY%	0.6% 7.9%	0.4% 7.7%	0.4% 8.2%

Source: Bloomberg