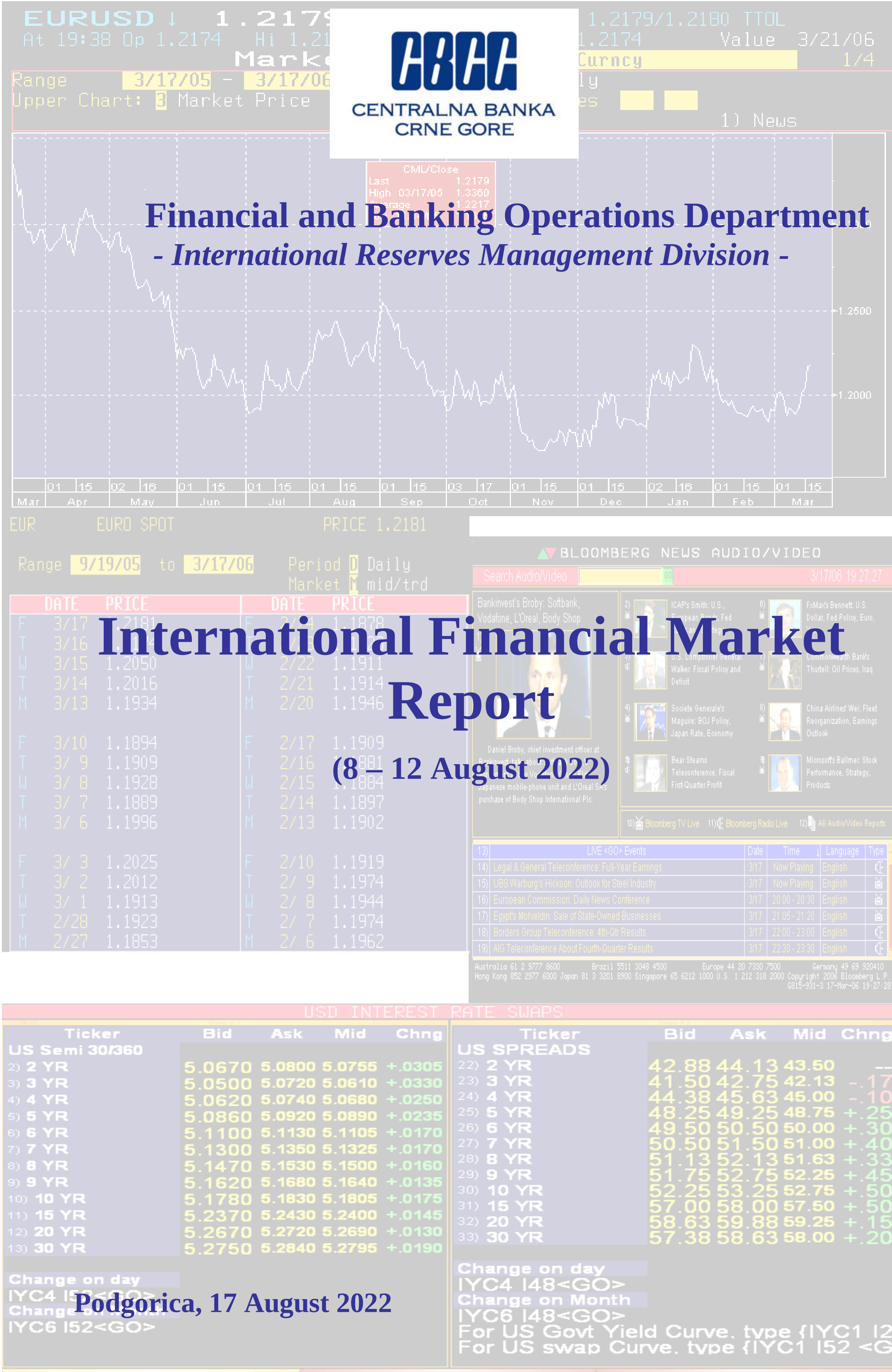
CENTRALNA BANKA CRNE GORE

## Financial and Banking Operations Department

*- International Reserves Management Division -*



# International Financial Market Report

**(8 – 12 August 2022)**

**Podgorica, 17 August 2022**

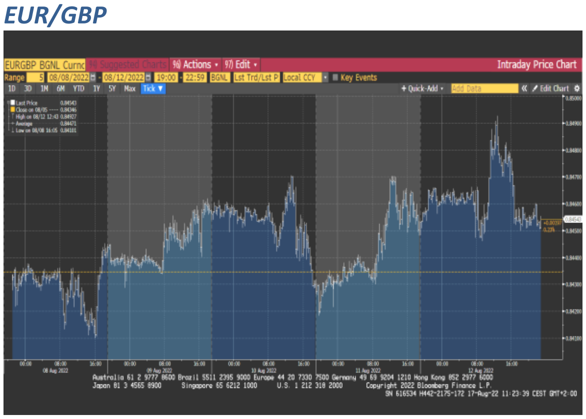
# FX NEWS

## EUR/USD

Source: *Bloomberg LP*

The **EUR/USD exchange rate** was stable during the first two days of this reporting week. This exchange rate recorded a significant appreciation on Wednesday after releasing US inflation data. Namely, the data said that June's inflation slowed from 9.1% in July to 8.5%. On Thursday, this exchange rate was stable to depreciate on Friday due to the German Minister of Economy's statement. The statement said the country was facing weak prospects in H2 of this year due to reduced gas deliveries, increased energy prices, problems in distribution channels and, in general, high market uncertainty.

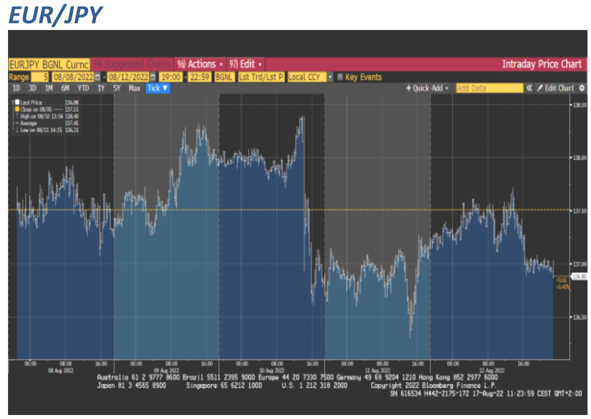
## EUR/GBP



Source: *Bloomberg LP*

During the first two days of this week, the **EUR/GBP exchange rate** had a slight upward appreciation expecting the UK GDP data. It depreciated on Wednesday as the BoE Deputy Governor stated the BoE would have to continue raising interest rates to reduce inflation pressures. Until the end of the year, the BoE interest rate increase is expected at every meeting, as inflation in that country is forecast to reach 13% by the end of the year. During the last two days, the EUR/GBP exchange rate recovered after announcing that Great Britain's GDP in June decreased by 0.6% monthly, while the quarterly decline in Q2 compared to Q1 amounted to 0.1%.

## EUR/JPY



Source: *Bloomberg LP*

The **EUR/JPY exchange rate** had a slight appreciation until the middle of the week, when it recorded sharp depreciation. The exchange rate's depreciation on Wednesday was due to the news about the US inflation trend. During the rest of the week, this exchange rate was relatively stable. Japan's Prime Minister announced he would order the Government to introduce additional measures that would help households and retailers cope with the rising cost of living, primarily the prices of energy and food products.

**Table 1 - Exchange rates of the most important currencies**

| | 08.08.2022[1] | 12.08.2022[2] | % Change |
|---|---|---|---|
| EUR/USD | 1.0183 | 1.0259 | 0.75 |
| EUR/GBP | 0.84346 | 0.84543 | 0.23 |
| EUR/JPY | 137.51 | 136.88 | -0.46 |
| EUR/AUD | 1.47338 | 1.44075 | -2.21 |
| EUR/CHF | 0.97953 | 0.96609 | -1.37 |
| USD/JPY | 135.01 | 133.42 | -1.18 |
| GBP/USD | 1.2073 | 1.2138 | 0.54 |

**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 | 0.50% | 8 September 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% | 15 September 2022 |
| Swiss National Bank | Libor Target Rate | -0.25% | 22 September 2022 |
| Bank of Canada | Target Overnight Rate | 2.50% | 7 September 2022 |
| Reserve Bank of Australia | Cash Rate Target | 1.85% | 6 September 2022 |

**Table 3 – ESTR and Euribor**

| | 08.08.2022[1] | 12.08.2022[2] | Change in basis points |
|---|---|---|---|
| ESTR | -0.085 | -0.088 | -0.3 |
| Euribor 1W | -0.070 | -0.068 | 0.2 |
| Euribor 1M | -0.041 | -0.035 | 0.6 |
| Euribor 3M | 0.277 | 0.333 | 5.6% |
| Euribor 6M | 0.678 | 0.766 | 8.8 |
| Euribor 12M | 1.023 | 1.163 | 14 |

[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 in this reporting period ranged between 0.82% and 1.024%. The return on 10-year German government bonds trended down at the beginning of the week in response to the 2-year German bonds issue and the new issue of 10- and 20-year Austrian bonds. Investors' attention also focused on US inflation data. At the end of Tuesday, the return fell due to the increased demand for safe assets due to the weakening stock exchange prices and the increased market participants' expectations regarding the ECB's interest rate increase. The next day, the return on 10-year German government bonds trended down after releasing the US inflation data. At the end of the week, the return on 10-year German government bonds rose as traders raised expectations of an ECB interest rate hike. The return was volatile on Friday as the market gauged how many basis points the ECB could raise interest rates at its next meeting and through the end of 2023.

## US GOVERNMENT BONDS MARKET


Source: *Bloomberg LP*

The return on 10-year US Treasury bonds fell on Monday as investors remained cautious, awaiting the release of US inflation data. The following day, the return on US bonds depreciated due to the expectation that inflation would slow down, easing price pressures that caused the tightening of the aggressive Fed's monetary policy. After the inflation data release, the return on US bonds fell by almost 20 basis points but quickly returned to the level before the fall. The return on 10-year US government bonds trended up the next day, despite the release of weaker-than-expected data on US manufacturing prices. The return rise was partly caused by the weak auction of 30-year bonds and the fact that Fed officials did not attach much importance to the US consumer and producer prices weakening data but confirmed continued monetary policy tightening. The return on 10-year US government bonds trended down on Friday. At one point, it increased as the data showed that US consumer confidence in August increased monthly (the index increased from 51.5 to 55.1).

## GOLD


*Source: Bloomberg LP*

The gold price rose at the beginning of the week as the return on US bonds fell. During the rest of the week, the gold price did not register significant changes in its trend and averaged 1,791.43 USD/oz. t. On Wednesday, the daily gold price dropped slightly as data on inflation reduced the pressure on the Fed to increase the interest rate aggressively. The next day, the price rose to weaken after releasing weaker than expected data on US production prices as traders assessed the US interest rates trajectory trend.

## OIL


*Source: Bloomberg LP*

The oil price fluctuated in this reporting period - the minimum value of the oil price was 96.42 USD/bbl, while the maximum value was 102.29 USD/bbl. The oil price weakened on Monday until the middle of the day due to concerns about the decreasing demand for this energy product in the coming period resulting from worsened global economic outlook. However, in the second half of the day, oil price returned to its previous level as investors followed the nuclear negotiations between the US and Iran. The next day, the oil price jumped after the news that Russian oil flow through the pipeline to Hungary, the Czech Republic and Slovakia had been interrupted since 4 August due to problems in transit tax payments. The oil price fell the same afternoon. The downward trend continued on Wednesday after announcing that US oil stocks increased by 2.16 million barrels in the previous week (data from the American Petroleum Institute). The published data on US inflation was weaker than expected, resulting in the US depreciation compared to most currencies on Wednesday and the growing demand for this energy product. On Thursday, the price rose again as the International Energy Agency increased its forecast for growth in global oil demand this year, which eased concerns about this fuel's consumption. The price declined on Friday as the market assessed the prospects of increased demand for this energy product in the winter against potential supplies from Iran. There was also concern about demand from China.

### Table 4 - Economic indicators (8 – 12 August 2022)

| Current value | Indicator | Euro area | Expected value | Current value | Previous value |
|---|---|---|---|---|---|
| **Germany** | **Consumer price index (CPI)**<br>It estimates the cost of living changes by measuring changes in the price level of market basket of consumer goods and services purchased by an average household. Therefore, it is the key inflation measure in the euro area. | July<br>MoM%<br>YoY% | 0.90%<br>7.50% | 0.90%<br>7.50% | 0.90%<br>7.50% |
| **Great Britain** | **Gross domestic product (GDP)**<br>One of the basic macroeconomic indicators, which represents the calculated value in the market prices of goods and services produced within the country, but excludes the income of citizens and corporations working abroad. The GDP calculation uses the following four components: consumption, investments, government expenditure, and net exports. | Q2<br>QoQ%<br>YoY% | -0.20%<br>2.80% | --0.10%<br>2.90% | 0.80%<br>8.70% |
| **France** | **Unemployment Rate** It shows the number of unemployed persons as a percentage of the total labour force. | Q2 | 7.30% | 7.40% | 7.30% |
| **USA** | **Consumer price index (CPI)**<br>It estimates the cost of living changes by measuring changes in the price level of market basket of consumer goods and services purchased by an average household. Therefore, it is the key inflation measure in the euro area. | July<br>YoY% | 8.70% | 8.50 | 9.10% |
| | **Initial Jobless Claims**<br>This indicator measures the number of people receiving unemployment allowances. | 6 August<br>K=1.000 | 262 K | 262 K | 248 K |

*Source: Bloomberg*