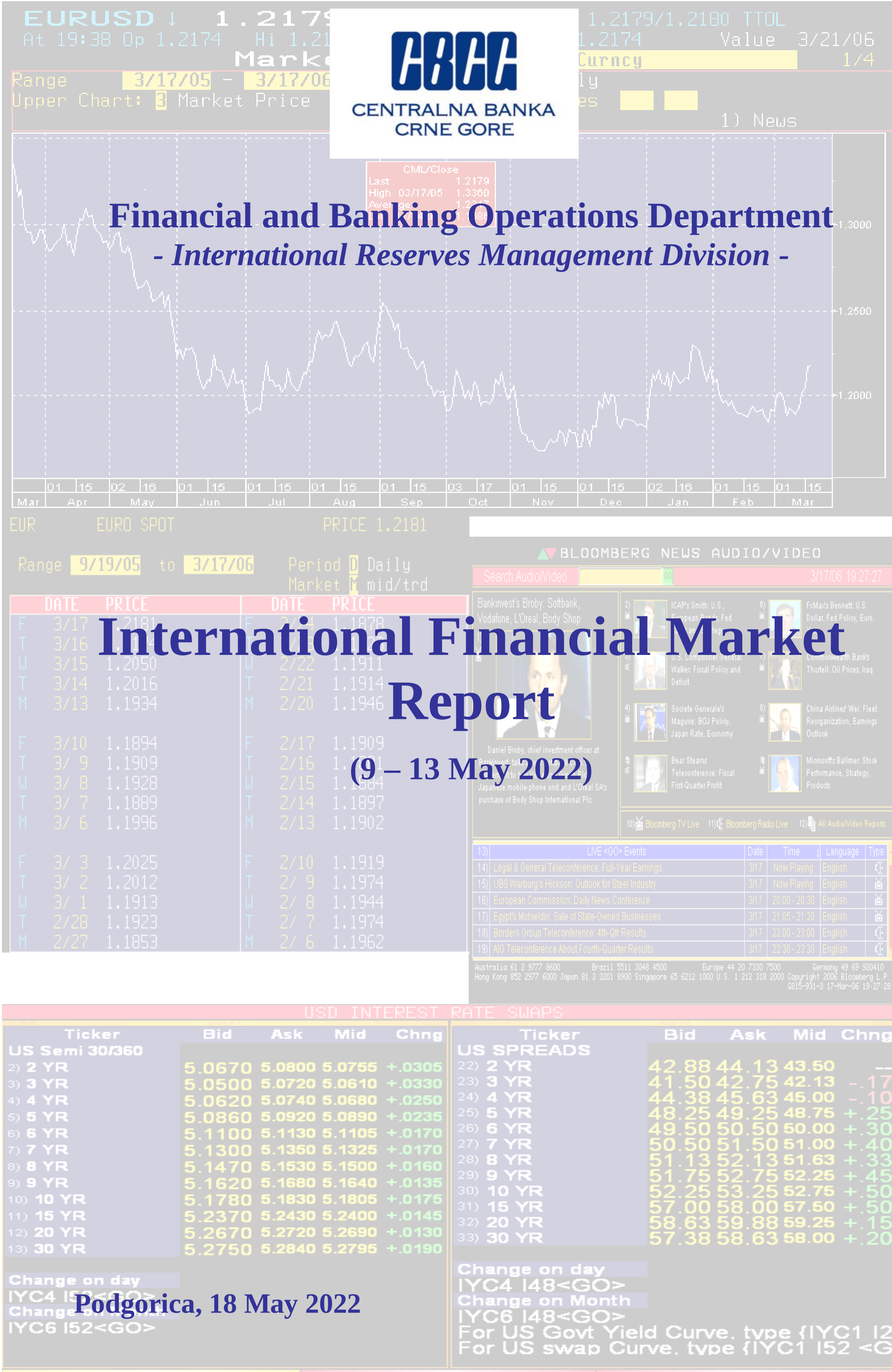


CENTRALNA BANKA
CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(9 – 13 May 2022)

Podgorica, 18 May 2022

FX NEWS

EUR/USD

Source: *Bloomberg LP*

The **EUR/USD exchange rate** was relatively stable for the first three days to fall sharply on Thursday. On Monday morning, the exchange rate depreciated due to concerns that China's lock-up due to the coronavirus and the war in Ukraine will negatively affect global economic growth. However, the exchange rate rose in the afternoon after speculations that the Fed would not have to raise interest rates at the rate expected so far. The USD continued to appreciate slightly later in the week, expecting US inflation data that could more clearly determine how aggressive the Fed's monetary policy will be. Following the release of inflation on Wednesday, the exchange rate fluctuated. Still, it depreciated at the end of the day as the Fed aggressively tightened monetary policy. Demand for safe funds increased due to investor concerns that central banks were late with interest rate rises as global economic growth already faces the risk of long-term locking measures in China. The EUR/USD exchange rate depreciated on Thursday due to increased demand for the USD. The war in Ukraine worsens the outlook for euro area economic growth and rising energy imports. Fed Chair Powell reiterated the bank's readiness to increase the interest rate by 50 basis points in the next two meetings and “opened the door” for more if needed. The Fed Chair in San Francisco, Daly, also supported this increase of 50 basis points in June and July, adding that it “was not primary thinking” of increase by 75 basis points. The USD depreciated on Friday as investors analysed new economic data.

EUR/GBP

Source: *Bloomberg LP*

The **EUR/GBP exchange rate** was stable during the first three days of this reporting week. On Thursday morning, the exchange rate appreciated after the publication of data that the UK economy fell by 0.1% in March. However, the exchange rate depreciated later that day, as rising gas prices threatened the euro area to enter a recession in late 2022, putting pressure on the euro. On Friday, the EUR/GBP exchange rate continued to depreciate.

EUR/JPY

Source: *Bloomberg LP*

The **EUR/JPY exchange rate** was stable for most of the week, with a tendency to fall slightly, to depreciate sharply on Thursday. The minutes from the last Bank of Japan meeting showed that the decision-makers in that central bank were determined to maintain massive monetary stimuli in the coming period, as, in their opinion, the economy has not yet recovered from the coronavirus pandemic. During this period, stock prices also fell on the stock exchanges, so the demand for safe funds increased. The Governor of the Central Bank of Japan stated that the bank would continue to adhere to the monetary easing programme. Kuroda said that as long as inflation was expected to hover around 2% in the short term, withdrawing stimuli from the economy was not adequate. Japan's economic situation “completely differs” from that in the USA and Europe, where economies have already returned to pre-pandemic levels, and inflation was growing faster than in Japan, the BoJ governor said. On Thursday, the EUR/JPY exchange rate depreciated as investors sought refuge in safe havens as the global economy's outlook worsened. Concerns were also growing for fear that the Fed would cause a recession by fighting inflation. The exchange rate recovered on Friday.

Table 1 - Exchange rates of the most important currencies

	09.05.2022[1]	13.05.2022[2]	% Change
EUR/USD	1.0551	1.0421	-1.23
EUR/GBP	0.85527	0.84913	-0.72
EUR/JPY	137.71	134.55	-2.29
EUR/AUD	1.49103	1.50037	0.63
EUR/CHF	1.0425	1.04334	0.08
USD/JPY	130.56	134.55	3.06
GBP/USD	1.2348	1.2262	-0.70

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

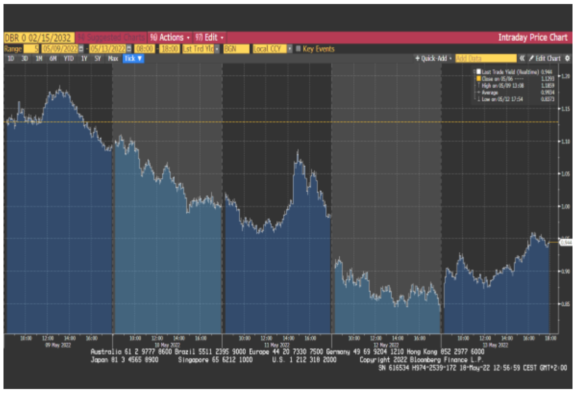
Central Bank	Reference interest rate name	Reference interest rate level	Next meeting
European Central Bank	ECB main refinancing rate	0.00%	9 June 2022
Federal Reserves	Federal Funds Target Rate	1.00%	15 June 2022
Bank of Japan	Overnight Call Rate	-0.10%	17 June 2022
Bank of England	Official Bank Rate	1.00%	16 June 2022
Swiss National Bank	Libor Target Rate	-0.75%	16 June 2022
Bank of Canada	Target Overnight Rate	1.00%	1 June 2022
Reserve Bank of Australia	Cash Rate Target	0.35%	7 June 2022

Table 3 – ESTR and Euribor

	09.05.2022[1]	13.05.2022[2]	Change in basis points
ESTR	-0.585	-0.586	-0.10
Euribor 1W	-0.563	-0.564	-0.10
Euribor 1M	-0.553	-0.546	0.70
Euribor 3M	-0.426	-0.403	2.30
Euribor 6M	-0.206	-0.209	-0.30
Euribor 12M	0.166	0.182	1.60

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

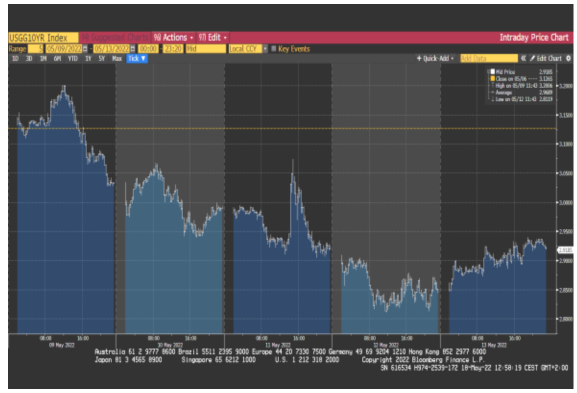
EUROPEAN GOVERNMENT BONDS MARKET



Source: *Bloomberg LP*

The return on German 10-year government bonds trended down during the first two days of this reporting week. The return declined as demand for safe funds rose due to concerns about the global economic outlook. In the middle of the week, the return trend recorded a short-term jump caused by the US inflation data. However, the return soon fell amid speculation that rising interest rates could fuel a recession. On Friday, the return on these bonds rose slightly after growing expectations that the ECB could raise interest rates as early as July. At the end of the period, the return on these bonds stood at 0.94%.

US GOVERNMENT BONDS MARKET



Source: *Bloomberg LP*

The return on 10-year US government bonds trended down for most of this week. The return fell earlier in the week as US stock prices fell amid concerns about a slowdown in economic growth. In the middle of the week, the return on US bonds recorded a short-term rise, with US inflation rising by 8.3% in April, more than expected by 8.1%, down from 8.5% in March. Shortly after publishing these data, the return began to fall again due to fear of stagflation. On the last day, the return on these bonds rose slightly as the Fed confirmed it would continue to raise interest rates at its next meeting. The return on 10-year bonds stood at 2.91% at the end of the reporting period.

GOLD

Source: Bloomberg LP

During this reporting week, the gold price trended down due to the USD appreciation against other currencies. Many analysts believe that the USD will continue to be the focus of investors. Still, the rising inflation affecting all economies is likely to continue supporting the gold price.

OIL

Source: Bloomberg LP

On Monday, the oil price fell as the USD appreciated against most currencies, causing the oil demand to decrease slightly. There were also concerns that the continuation of locking measures in China will affect the decline in oil demand in the coming period. The downward trend in oil prices continued the next day, as galloping inflation raised concerns about the risk of "pushing" the economy into recession. From the middle to the end of the week, oil prices rose. The fuel price recovery was influenced by the fear that the fuel supply will complicate further if the EU bans the import of oil from Russia. However, a factor limiting higher oil price growth includes concerns about the pandemic re-emergence and the negative impact it would have on oil demand.

Table 4 - Economic indicators (9 - 13 May 2022)

Current value	Indicator	Euro area	Expected value	Current value	Previous value
Euro area	**Industrial output** It measures the changes in output of production, service and mining sectors.	March MoM%	-2.0%	-1.8%	0.7%
Germany	**Consumer price index (CPI)** 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.	April MoM% (YoY%)	0.8% (7.4%)	0.8% (7.4%)	0.8% (7.4%)
France	**Consumer price index (CPI)** 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.	April MoM% (YoY%)	0.4% (4.8%)	0.4% (4.8%)	0.4% (4.8%)
USA	**Consumer price index (CPI)** 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.	April MoM% (YoY%)	0.2% (8.1%)	0.3% (8.3%)	1.2% (8.5%)
	Initial Jobless Claims Measures the number of people receiving unemployment allowances.	7 May K=1,000	193 K	203 K	200 K
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.	Q1 QoQ% (YoY%)	1.0% (8.9%)	0.8% (8.7%)	1.3% (6.6%)
	Industrial output It measures the output of the energy sector, factories and mines. This indicator is significant in the short term as it shows the UK industrial activity's strength. Rising industrial production points to output increase and economic expansion, which is "healthy" for sterling.	March MoM% (YoY%)	0.0% (0.6%)	-0.2% (0.7%)	-0.6% (1.6%)

Source: Bloomberg