CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

10 – 14 October 2022

Podgorica, 19 October 2022

FX NEWS

EUR/USD

Source: *Bloomberg LP*

The **EUR/USD exchange rate** did not change significantly during this reporting week. At the beginning of the week, the exchange rate showed depreciation signs as the euro came under pressure due to geopolitical tensions that caused the demand for USD to rise. On Tuesday, after the IMF released downbeat global economic growth forecasts for the coming year, the exchange rate appreciated briefly. In the middle of the week, the slightly downward exchange rate trend continued due to the announced stronger-than-expected data on production prices in the USA and also expecting US inflation data. Although forecasts pointed to its easing, markets feared releasing stronger data. On Thursday morning, the euro appreciated due to announcements that Russia was in the mood for a new dialogue with Ukraine, reducing market tensions. However, after publishing the US consumer price index September data that exceeded expectations, the USD appreciated, and the EUR/USD exchange rate recorded a sharp depreciation. Very quickly, this exchange rate appreciated even more due to the share prices rise on the US stock exchanges. On Friday, the exchange rate mostly depreciated and ended the week at 0.9722. Its depreciation resulted from publishing a University of Michigan survey results showing that 1-year inflation expectations rose from the previous 4.7% in October to 5.1%. The minutes of the last Fed meeting published on Wednesday did not significantly impact the EUR/USD exchange rate trend.

EUR/GBP

Source: *Bloomberg LP*

The **EUR/GBP exchange rate** was stable during the first day of this reporting week. On Tuesday, this exchange rate rose as the BoE Governor announced that he would end interventions in the bond market after the British bond return significantly increased by the end of this week. During the next two days, the EUR/GBP exchange rate depreciated as the media began writing that the UK's Prime Minister was ready to abandon the tax reduction agenda. The euro was also supported by the statement of an ECB Governing Council member, Joachim Nagel, that he supported a significant interest rate increase at the central bank's next meeting. On Friday, this exchange rate appreciated slightly as investors awaited details regarding the newly revised tax plan of the UK's Prime Minister after that country's Chancellor of the Exchequer was removed from his position.

EUR/JPY

Source: *Bloomberg LP*

The **EUR/JPY exchange rate** rose from 141.36 to 144.60 this week. On Monday, the markets in Japan were closed due to a holiday, causing the exchange rate not to change significantly on that day and the following day. In the middle of the week, this exchange rate starts to appreciate. Although Japan's producer price index was reported to grow stronger than expected, the BoJ Governor said the BoJ would continue monetary easing to support the Japanese economy still recovering from the pandemic and has yet to reach a steady inflation pace, which caused the yen to weaken. It maintained such a trend until the end of the week, as the BoJ Governor's statement further highlighted the differences in the return between Japan and the rest of the world. At the end of the week, Japan's Finance Minister again reiterated that the Government was ready to take appropriate measures against excessive currency volatility.

Table 1 - Exchange rates of the most important currencies

	10.10.2022[1]	14.10.2022[2]	% Change
EUR/USD	0.9744	0.9722	-0.23
EUR/GBP	0.87855	0.87021	-0.95
EUR/JPY	141.59	144.62	2.14
EUR/AUD	1.52872	1.56765	2.55
EUR/CHF	0.96862	0.97748	0.91
USD/JPY	145.250	148.67	2.35
GBP/USD	1.1086	1.1172	0.78

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	1.25%	27 October 2022
Federal Reserves	Federal Funds Target Rate	3.25%	2 November 2022
Bank of Japan	Overnight Call Rate	-0.10%	28 October 2022
Bank of England	Official Bank Rate	2.25%	3 November 2022
Swiss National Bank	Libor Target Rate	0.50%	15 December 2022
Bank of Canada	Target Overnight Rate	3.25%	26 October 2022
Reserve Bank of Australia	Cash Rate Target	2.60%	1 November 2022

Table 3 – ESTR and Euribor

	10.10.2022[1]	14.10.2022[2]	Change in basis points
ESTR	0.6560	0.6570	0.10
Euribor 1W	0.6560	0.646	-1.00
Euribor 1M	0.7830	0.892	10.90
Euribor 3M	1.2880	1.403	11.50
Euribor 6M	1.8970	2.027	13.00
Euribor 12M	2.5520	2.677	12.50

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

EUROPEAN GOVERNMENT BONDS MARKET

Source: *Bloomberg LP*

On Monday morning, the return on 10-year German bonds weakened as Russia raided Kyiv, sending investors into safe havens such as flagship government bonds. However, later in the day, the return recovered as the German Chancellor, Olaf Scholz, stated that he supported the joint issuance of EU bonds to soften the energy crisis impact. Germany was likely to take a significant share of the EU bonds' joint issuance burden. On the following day, the return fluctuated, still recording daily growth, expecting that the ECB would increase the interest rate by 75 basis points at the next meeting. Still, the growth was limited as the space for the subsequent higher interest rate increases was narrowing after increased speculation that a recession was possible and that borrowing costs for certain countries were already high enough. On Wednesday, the return hovered around 2.32%, as an ECB Governing Council member Holzmann stated there was no need to increase the interest rate by 100 basis points at the next meeting. He believed that respective increases of 75 and 50 basis points in October and December would bring the interest rate to a neutral level. At the very end of the week, the return on 10-year German government bonds rose after ECB's Governing Council member Peter Kazimir said that efforts to limit inflation would also mean keeping the interest rate at a level that would restrict economic growth expansion.

US GOVERNMENT BONDS MARKET

Source: *Bloomberg LP*

US markets were closed on Monday for the Columbus Day holiday. The return on 10-year US government bonds recorded a daily fall on Tuesday, as the IMF reduced the following year's growth forecast, warning that the worst was yet to come. The IMF lowered its forecast growth for the coming year from 2.9% to 2.7% due to growing pressures related to the war in Ukraine, rising energy and food prices, inflation, and rapidly increasing interest rates. The IMF stated that the economic situation could worsen significantly in the coming years and that the worst "is yet to come". The return on 10-year US bonds rose for most of Thursday on announcements that the Fed will raise interest rates this and next year (more significant hikes of 75 basis points each are expected at this year's meetings) after releasing US inflation data that exceeded expectations. The return on 10-year US Government bonds rose on Friday as the release of a US inflation trends survey fuelled expectations of further interest rate hikes by the Fed. Namely, investors now expect that the interest rate in the USA will increase further during the following year, as the inflationary expectations survey showed that the next year's inflation would be 5.1%, higher than the previous 4.7%.

GOLD

Source: Bloomberg LP

The gold price fell on Monday. The decline came as the USD appreciated against a basket of currencies as investors sought the safe haven in the USD amid concerns that leading central banks' aggressive monetary tightening would lead to a recession. The gold price did not change much during the next two days but fluctuated around 1,670 USD/oz.tr. The gold price trended down from Thursday until the end of this period. This precious metal's price drop occurred after publishing US inflation data that supported expectations that the Fed would continue tightening monetary policy for another period aggressively. In addition, the USD appreciation compared to other currencies resulted in reduced demand for gold, which also weakened the gold price.

OIL

Source: Bloomberg LP

During this reporting period, the oil price had an almost constant downward trend. The oil price drop mainly resulted from concerns about the global recession and the fear that the regrowth in the number of people infected with the coronavirus and China's "zero Covid" policy will affect the drop in demand for this energy product. In addition, the news that oil stocks in the USA increased by 7.05 million barrels last week also brought down the oil price. The price of this energy product did not fall only on Thursday. Still, it started to weaken again on Friday as the International Energy Agency reduced forecasts regarding the demand for oil for 2023 and 2024.

Table 4 - Economic indicators (10 - 14 October 2022)

Country	Indicator	Period	Expected value	Current value	Previous value
Euro area	**Industrial output** It measures the change in the output volume in the manufacturing and energy sectors. Industrial output represents around ¼ of the euro area's GDP.	August MoM% YoY%	 0.7% 1.5%	 1.5% 2.5%	 -2.3% -2.4%
	Trade Balance SA It shows the difference between exports and imports of euro area products and services. It is the most common component of Europe's Balance of Payments, and it provides valuable insight into the pressures to which the European currency is exposed.	August b=bill.	 -45.0 b	 -47.3 b	 -40.3 b
USA	**Producer Price Index (PPI Final Demand)** It measures the change in producer prices from the moment they leave the production place. Those are the prices the domestic producers received for their output either at local or foreign market.	September MoM% YoY%	 0.2% 8.4%	 0.4% 8.5%	 -0.1% 8.7%
	Consumer price index (CPI) Estimates changes in the cost of living by measuring changes in the prices of certain items for which the consumers allocates their money**.**	September MoM% YoY%	 0.2% 8.1%	 0.4% 8.2%	 0.1% 8.3%
Great Britain	**ILO Unemployment Rate** Unemployment, defined by the International Labour Organization (ILO), represents a situation where people are unemployed but actively looking for a job. Unemployment rate measures the size of unemployment and is obtained as a percentage when the number of unemployed individuals is shared with all individuals currently on the labour market.	August	3.5%	3.6%	3.5%
	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.	August	0.0%	- 0.3%	0.2%
	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. Growing industrial output points to increased production and economic expansion, which is "healthy" for the sterling.	August MoM% YoY%	 -0.1% 0.6%	 -1.8% -5.2%	 -0.3% 1.1%
Japan	**Producer Price Index (PPI)** This index measures changes in the prices of products offered by domestic producers.	September MoM% YoY%	 0.3% 8.9%	 0.7% 9.7%	 0.2% 9.0%

Source: Bloomberg