CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

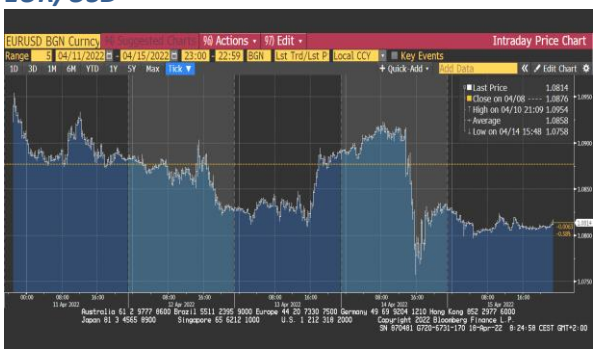
International Financial Market Report

(11 – 15 April 2022)

Podgorica, 21 April 2022

FX NEWS

EUR/USD



Source: *Bloomberg LP*

This week, the **EUR/USD exchange rate** depreciated. At the very beginning of the week, the euro suffered due to the development of events in Ukraine. The accumulation of Russian troops and weapons on eastern Ukraine's border under the leadership of General Alexander Dvornikov, known as the "Butcher of Syria", does not show any good signal in the invasion. In addition, there were rumours about chemical weapons attacks on the Ukrainian army and civilians in Mariupol and that the Russian drone released an unknown substance causing suffocation and headaches. Later this week, it was announced that investor confidence in April in Germany fell more than expected (the economic confidence index fell from -39.3 in March to -31.0 in April). The euro's depreciation additionally resulted from Putin's statement that the war in Ukraine continued. On Wednesday, the EUR/USD exchange rate recovered for a short time as US bond prices and US stock prices rose. Investors also estimated the upper limit of the Fed's interest rate hike. On Thursday, the exchange rate fell sharply. The USD appreciated due to the rising return on US government bonds during the extended Easter weekend run-up. On the other side, the euro depreciated following comments from the ECB President, who did not indicate that the ECB was in a hurry, i.e. Lagarde was vague about the interest rate increase. On Friday, the markets were closed due to the holidays.

EUR/GBP

Source: *Bloomberg LP*

The **EUR/GBP exchange rate** depreciated this reporting week. Better-than-expected data on Britain's economic growth for the three months ending in February were released on Monday, which appreciated the sterling against the euro. The next day, March inflation data were released, showing a year-on-year rise of 7% compared to the expected 6.7%, increasing pressure on the Bank of England to raise interest rates and on the Prime Minister and the Chancellor of the Exchequer to alleviate the pressures on the cost of living. The euro depreciated on Thursday after an ECB meeting. On Friday, the markets were closed due to the holidays.

EUR/JPY

Source: *Bloomberg LP*

This week, the **EUR/JPY exchange rate** had a volatile trend (135.28-137.13). At the beginning of the week, the exchange rate appreciated due to rising returns on US government bonds and concerns about Japan's economic growth. In the middle of the week, the exchange rate appreciated again as machine orders in Japan fell by 9.8% in February monthly. Imports in China also fell unexpectedly in March as COVID-19 restrictions in large parts of the country hampered the arrival of goods and weakened domestic demand. On the other hand, export growth slowed, prompting analysts to expect worsening trade in the second quarter. The EUR/JPY exchange rate fluctuated, awaiting the ECB meeting on Thursday, to fall after the meeting due to the euro's depreciation. However, this exchange rate recovered towards the end of the day. On Friday, the markets were closed due to the holidays.

Table 1 - Exchange rates of the most important currencies

	11.04.2022[1]	15.04.2022[2]	% Change
EUR/USD	1.0877	1.0810	-0.62
EUR/GBP	0.83482	0.82784	-0.84
EUR/JPY	135.31	136.73	1.05
EUR/AUD	1.45827	1.46161	0.23
EUR/CHF	1.01591	1.01961	0.36
USD/JPY	124.34	126.46	1.71
GBP/USD	1.3025	1.3060	0.27

Table 2 - Overview of the reference interest rates 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	0.50%	4 May 2022
Bank of Japan	Overnight Call Rate	-0.10%	28 April 2022
Bank of England	Official Bank Rate	0.75%	5 May 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	0.10%	3 May 2022

At its regular meeting, the ECB confirmed plans to end the asset purchase programme in the next quarter without specifying whether it would happen at the beginning or the end of the quarter. President Lagarde warned that the war in Ukraine increased the risk of further rise in the already record-high inflation. Still, she did not explain anything about the interest rate increase timing. Lagarde said that the bonds purchase exit is a precondition for interest rate raising, which could happen from one week to the following several months. She added that the ECB was ready to launch a new "flexible" instrument to cope with rising borrowing costs, resulting in tighter monetary policy. Markets expect the ECB to increase the interest rate twice this year, in September and December, by 25 basis points, which would bring the deposit rate to 0%.
Unlike the ECB, the Central Bank of Canada increased the interest rate by 50 basis points, which was in line with expectations and is now at 1%, due to concerns about rising inflation, which was intensified by Russia's invasion of Ukraine.

Table 3 – ESTR and Euribor

	11.04.2022[1]	14.04.2022[2]	Change in basis points
ESTR	-0.582	-0.5933	-1.13
Euribor 1W	-0.565	-0.560	0.50
Euribor 1M	-0.541	-0.547	-0.60
Euribor 3M	-0.449	-0.452	-0.30
Euribor 6M	-0.350	-0.317	3.30
Euribor 12M	-0.048	0.003	5.10

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

EUROPEAN GOVERNMENT BONDS MARKET

Source: *Bloomberg LP*

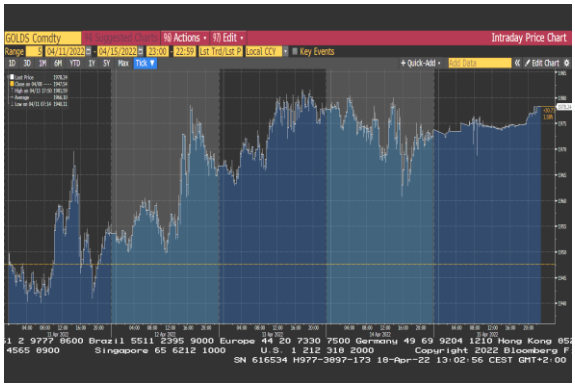
The return on 10-year German government bonds rose from 0.73% to 0.84% in the reporting week, reaching a maximum of 0.87% on Tuesday (the highest level since 2015). The beginning of the week's growth was caused by growing market expectations regarding the ECB interest rate increase. The return fell on Tuesday afternoon, following the US bond market developments. The downward trend was also relevant the next day as markets lowered expectations regarding the rate increase awaiting the ECB meeting (on Thursday). Returns rose on the meeting day, although the first reaction after it ended was a drop. President Lagarde's statement was interpreted as the ECB was in no hurry to raise interest rates. On Friday, the markets were closed due to Easter.

US GOVERNMENT BONDS MARKET

Source: *Bloomberg LP*

The return on 10-year US government bonds also rose from 2.71% to 2.83% this week and fluctuated during the week. The minimum and maximum return of 2.64% and 2.83% was recorded on Wednesday and Thursday. The markets were closed due to Easter on Friday. Early this week, returns rose due to data expected to show that the US inflation rate rose to its highest level in 15 years in March. After releasing these data on Tuesday, the return fell to 2.66%. The annual inflation rate rose more than expected, to 8.5% compared to 8.4%, while monthly data were in line with expectations, 1.2%. Excluding food and energy, consumer prices rose less than expected both monthly and y-o-y (0.3% compared to 0.5%; 6.5% compared to 6.6%). Although the return showed recovery later this week, a downward trend prevailed. On Thursday, a significant change occurred when the return rose sharply due to the announcement that the US import price index rose 12.5% compared to the expected 11.9%. The return also grew as comments by Fed official John Williams reinforced expectations that the Fed would raise interest rates exceeding 25 basis points at upcoming meetings. Thus, this return was at its highest level since December 2018.

GOLD



Source: Bloomberg LP

The gold price rose this week. Early this week, awaiting data on the March US inflation rate led to an increased demand for gold as a safe asset, causing a price rise. After these data were released, investors assessed the possibility of a further Fed interest rate increase, resulting in the gold price's continued rise. The price also rose due to concerns about the war after announcing that Ukraine was preparing for new Russian attacks in Donbas and that the USA was sending weapons worth 800 million USD to Ukraine. Although the price depreciated towards the end of the week due to the USD appreciation and rising returns on government bonds after the ECB meeting, this was its best week in the last three weeks. Investors sought safe funds due to rising inflation and the war in Ukraine.

OIL

Source: Bloomberg LP

The oil price declined slightly on Monday due to the International Energy Agency's plans to release oil stocks and additional lockdowns in China due to the coronavirus, to rise later this week. The news of easing some restrictive measures in Shanghai caused lower concerns about China's demand for oil and triggered a price rise. It also grew as OPEC warned of the impossibility of increasing output to the extent that it would compensate for supplies from Russia, and Putin said that the war with Ukraine was continuing. The International Energy Agency said OPEC+ members managed to secure only 10% of the promised stock increase in March and lowered forecasts for global oil demand this year as Beijing reintroduced measures to limit the COVID spread. On Thursday, the news was released about the possible European ban on Russian oil so far excluded from the sanctions imposed on Russia due to the significant dependence of certain EU members. Markets were closed on Friday.

Table 4 - Economic indicators (11 – 15 April 2022)

Current value	Indicator	Euro area	Expected value	Current value	Previous value
Germany	**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.	March MoM% (YoY%)	2.5% (7.3%)	2.5% (7.3%)	2.5% (7.3%)
France	**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.	March MoM% (YoY%)	1.4% (4.5%)	1.4% (4.5%)	1.4% (4.5%)
Great Britain	**Monthly GDP 3M/3M Change** It measures the value of goods and services produced in the UK. It estimates the economy's size and growth. Values higher than expected should be taken positively for GBP, while those lower than expected should be negative for GBP. Rotating quarterly data are calculated by comparing the growth in the quarter with the previous quarter's growth. **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.	February March MoM% (YoY%)	0.9% 0.8% (6.7%)	1.0% 1.1% (7.0%)	1.1% 0.8% (6.2%)
USA	**Industrial output** Measures the changes in output of production, service and mining sectors. **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. **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.	March MoM% April 9 K=1,000 March MoM% (YoY%)	0.4% 170 K 1.2% (8.4%)	0.9% 185 K 1.2% (8.5%)	0.5% 166 K 0.8% (7.9%)
Japan	**Machinery orders** The indicator reflects the investments of companies and business activities. It is compiled from 300 industrial manufacturers.	February	-1.5%	-9.8%	-2.0%

Source: Bloomberg