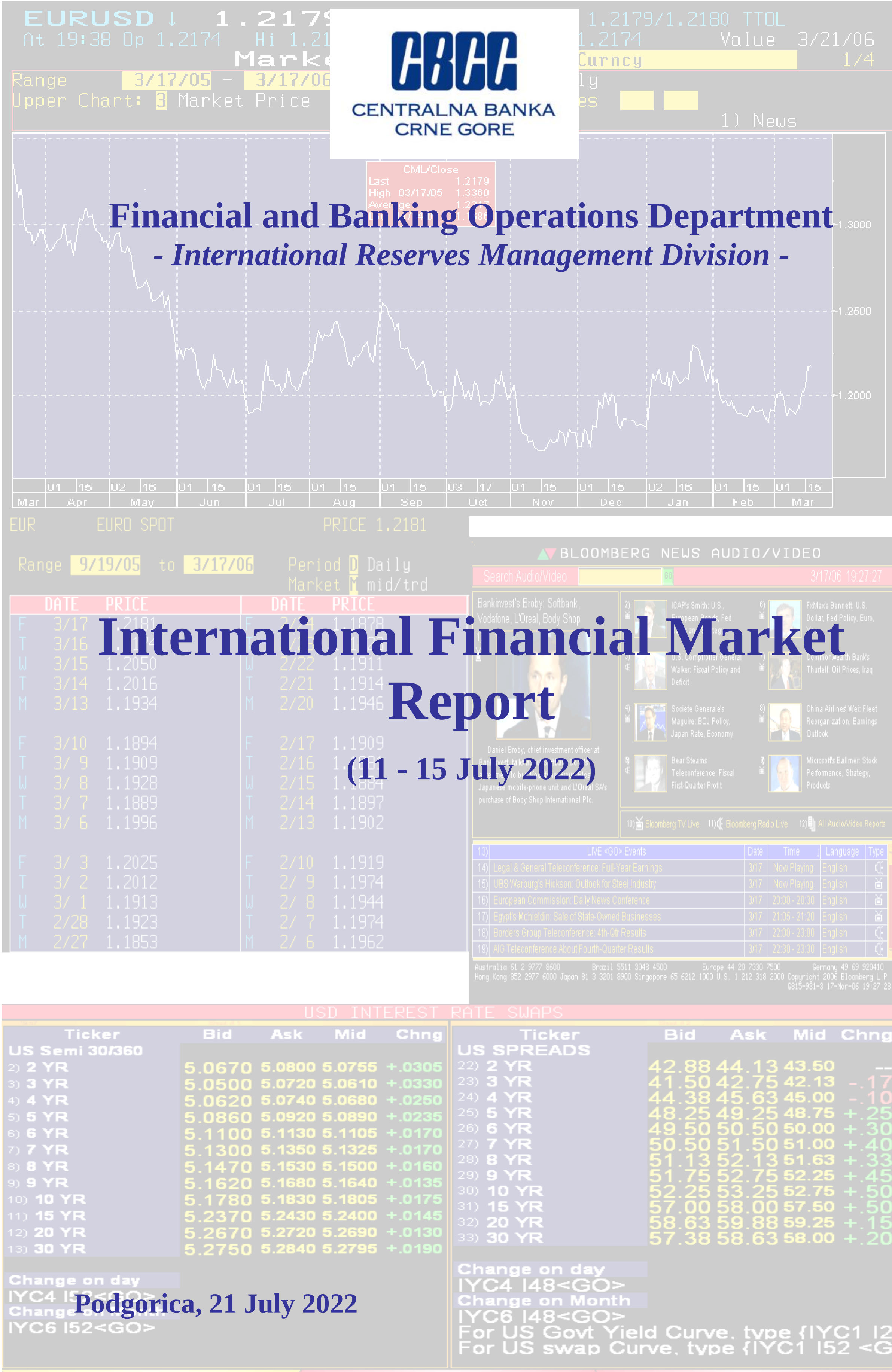
CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -



International Financial Market Report

(11 - 15 July 2022)

Podgorica, 21 July 2022

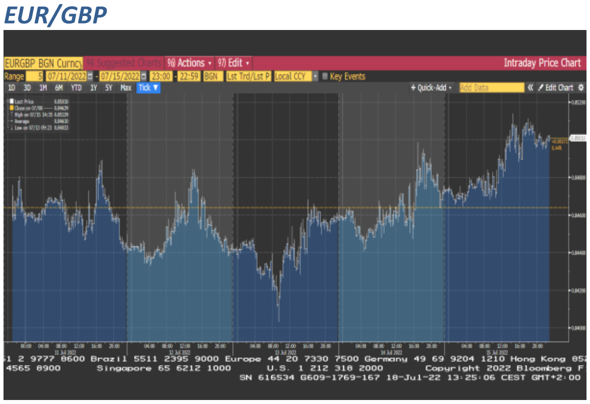
FX NEWS

EUR/USD

Source: *Bloomberg LP*

The **EUR/USD exchange rate** fell below parity in this reporting week for the first time in the last 20 years. At the beginning of the week, the USD appreciated as stronger-than-expected data from the US labour market (from the previous Friday) fuelled expectations of a faster Fed interest rate increase. At the same time, the European currency depreciated due to growing concerns about the gas crisis in the EU. During the rest of the week, the exchange rate fluctuated, approaching parity on Tuesday and Wednesday before falling to 0.9952 on Thursday. The events in Ukraine, Fed interest rate hikes, and the highest inflation rate in the USA in the last 4 decades caused the demand for safe assets to grow, resulting in USD appreciation, while weaker-than-expected data on investor expectations in Germany caused the euro's depreciation. On Thursday, the Prime Minister of Italy resigned due to the coalition collapse. Namely, the coalition partner, the Five Star Movement, refused to participate in the confidence vote. However, the Italian President refused to resign, telling him to find a majority in Parliament that would support him. The exchange rate retreated from this level at the very end of the week. Mixed US economic data and signals from the Fed about increasing the interest rate by 75 basis points against the 100 basis points expected by the market led to a slight US currency weakening. Hence, the exchange rate ended the week at 1.0084.

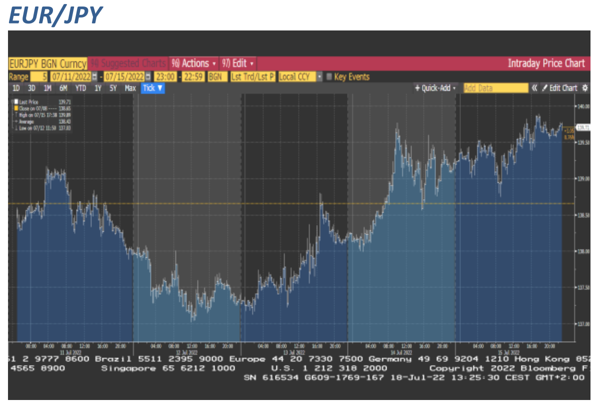
EUR/GBP



Source: *Bloomberg LP*

The **EUR/GBP exchange rate** mostly depreciated in the first half-week, to recover in the second, achieving a slight weekly appreciation. At the beginning of the week, the BoE Governor stated in his presentation to the Parliament that the risks facing the British economy are "mixed" but that he does not worry about the banking system. The Governor still believes that inflation will fall sharply in the coming year and will return to the targeted level of 2% in about 2 years. However, some factors could change this, namely the situation in Ukraine, due to which there may still be pressure on gas prices or more persistent domestic price pressures. Until the end of the week, events in the British Government, the resignations of ministers and Prime Minister Johnson and the race for the new Conservative Party's president, who, according to the British parliamentary system, will also be the Prime Minister without the need for general elections, put pressure on the British currency. At the end of the week, five candidates remained in the race for this position. Of the economic data published this week, it is significant to mention the stronger than expected GDP in May and industrial production.

EUR/JPY



Source: *Bloomberg LP*

At the beginning of the week, the **EUR/JPY exchange rate** depreciated, but it appreciated from Wednesday until the end of the week to record a weekly appreciation. The leading cause of its appreciation was the difference in the conduct of monetary policy in Japan and the euro area. Namely, at the elections for the Upper House in Japan on the weekend preceding this reporting period, the ruling coalition's victory ensured the pressure absence on the BoJ to abandon its current monetary policy while retaining all incentives in a situation when the world's leading central banks tighten their policies. In addition, the BoJ Governor stated that the central bank will not "hesitate to take additional steps to ease monetary policy if necessary". As for the monetary authorities, the ECB will start raising interest rates at its July meeting.

Table 1 - Exchange rates of the most important currencies

	11.07.2022[1]	15.07.2022[2]	% Change
EUR/USD	1.0185	1.0080	-1.03
EUR/GBP	0.84639	0.85015	0.44
EUR/JPY	138.65	139.63	0.71
EUR/AUD	1.48399	1.48364	-0.02
EUR/CHF	0.99460	0.98465	-1.00
USD/JPY	136.10	138.57	1.81
GBP/USD	1.2033	1.1855	-1.48

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%	21 July 2022
Federal Reserves	Federal Funds Target Rate	1.75%	27 July 2022
Bank of Japan	Overnight Call Rate	-0.10%	21 July 2022
Bank of England	Official Bank Rate	1.25%	4 August 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	1.35%	2 August 2022

On Wednesday, 13 July, the Bank of Canada surprised the markets with the most significant interest rate increase in more than 20 years. Although the interest rate was expected to increase by 75 basis points, there was an increase of 100 basis points, all to stop the inflation that was out of control.

Table 3 – ESTR and Euribor

	11.07.2022[1]	15.07.2022[2]	Change in basis points
ESTR	-0.579	-0.582	-0.30
Euribor 1W	-0.563	-0.565	-0.20
Euribor 1M	-0.427	-0.317	11.00
Euribor 3M	-0.087	0.072	15.90
Euribor 6M	0.322	0.532	21.00
Euribor 12M	0.972	1.057	8.50

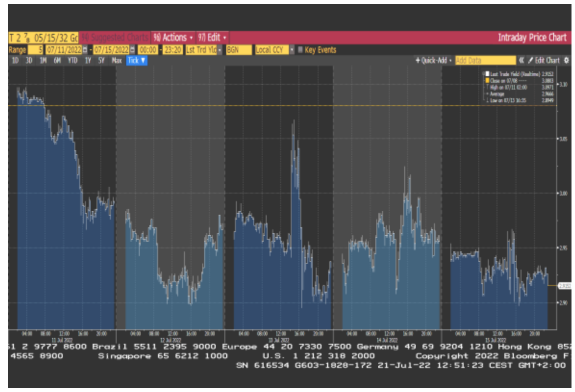
[1] Opening market value on Monday
[2] Closing market value on Friday

EUROPEAN GOVERNMENT BONDS MARKET

Source: *Bloomberg LP*

The return on Germany's 10-year government bond has trended lower over the first two days. The demand for safe-haven assets rose amid fears that the euro region will face a recession if Russia does not resume gas supplies after temporary suspension to Germany due to regular annual maintenance. There is a fear that the gas supply will not continue after the regular overhaul of the gas pipeline or that it will be on a smaller scale due to the events in Ukraine. In the rest of the week except Thursday, there was a slight jump in the movement of trend on 10-year bonds, but it was short-lived as concerns arose that the policy of increasing interest rates would limit economic growth in the coming period. At the end of the week, the return stood at 1.12%.

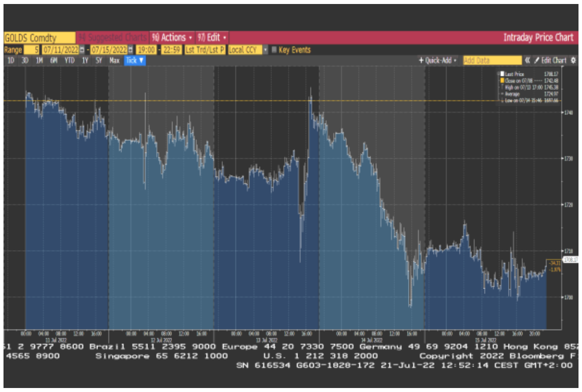
US GOVERNMENT BONDS MARKET



Source: *Bloomberg LP*

On the first day of this week, the return on 10-year US bonds fell due to increased demand for safe assets. The return on 10-year bonds was relatively stable for the rest of the week. Still, the return curve inverted as the return on shorter-maturity bonds rose due to expectations that the Fed would increase the interest rate more aggressively. On the other hand, the return on long-term bonds remained low due to the fear that an aggressive increase in the interest rate would lead to an economic recession. On Friday, the return on 10-year bonds weakened slightly and stood at 2.91% at the end of the week.

GOLD



Source: Bloomberg LP

In this reporting week, the gold price trended down, which was most pronounced in the second half of this week. At the beginning of the week, the gold price weakened as the USD appreciated against most currencies, negatively affecting gold demand.

OIL

Source: Bloomberg LP

At the very beginning of this week, the oil price was stable to fall on Tuesday due to speculation that the oil demand would decrease due to the coronavirus spread in China. The oil price was stable for the rest of the week until Friday. On Friday, the oil price rose as the USD depreciated against a basket of currencies. The fuel stocks decreased in the USA, which overcame concerns about a recession and a possible reduction in fuel demand due to the coronavirus's oil spread in China.

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

Current value	Indicator	Euro area	Expected value	Current value	Previous value
Euro area	**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.	May b=bill.	-35.0 b	-26.0 b	-31.7 b
Germany	**ZEW Survey Expectations** This survey measures expectations regarding the economic growth for the next 6 months. Experts are surveyed on whether they expect an improvement or deterioration, thus the difference between the number of positive and negative responses represents the indicator value.	July	-40.5	-53.8	-28.0
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.	May MoM%	0.1%	0.5%	-0.3%
	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.	May MoM% YoY%	0.0% -0.3%	0.9% 1.4%	-0.6% 0.7%
USA	**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.	June MoM% YoY%	1.1% 8.8%	1.3% 9.1%	1.0% 8.6%
	Empire Manufacturing This survey, conducted monthly by the New York Fed, tracks New York producers' confidence.	July	-2.0	11.1	-1.2
	Import Price Index This index tracks changes in the prices of products produced in the country and sold abroad.	June MoM% YoY%	0.7% 11.4%	0.2% 10.7%	0.6% 11.7%
	Export Price Index This index tracks changes in the prices of products produced in the country and sold abroad.	June MoM% YoY%	1.2% 19.9%	0.7% 18.2%	2.8% 18.9%
	Industrial output It measures the changes in output of production, service and mining sectors.	June MoM%	0.1%	-0.2%	0.2%

Source: Bloomberg