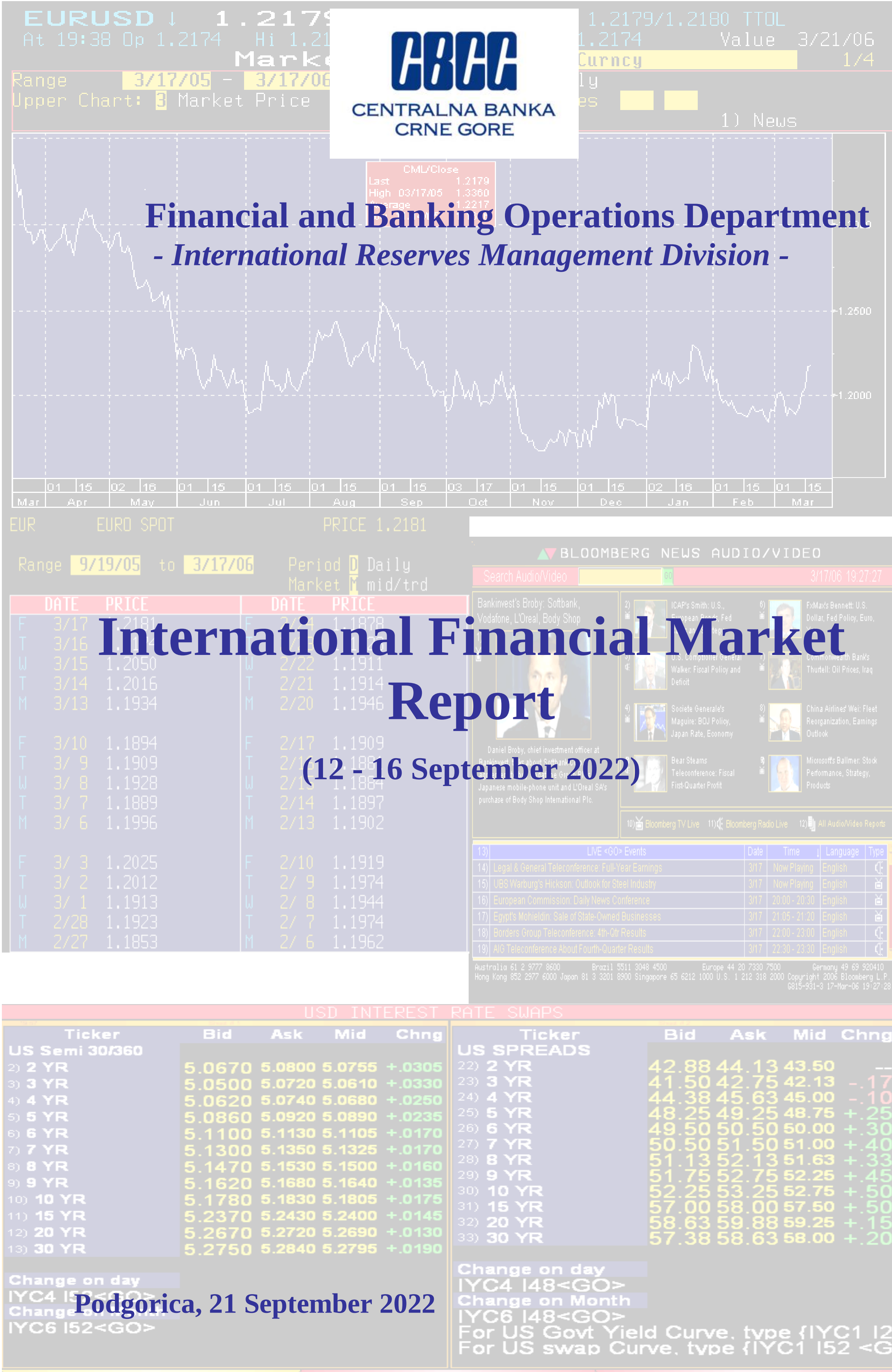


CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(12 - 16 September 2022)

Podgorica, 21 September 2022

FX NEWS

EUR/USD

Source: *Bloomberg LP*

The **EUR/USD exchange rate** appreciated on Monday as ECB officials stressed the need for further interest rate hikes and after expectations that the report would show that the US inflation rate has slowed, reducing demand for the USD. The following day, the exchange rate recorded a sharp drop after announcing that the consumer price index in the USA had increased. This data boosted expectations that the Fed would continue with more aggressive interest rate increases. On Thursday, the exchange rate recorded a daily depreciation. A Reuters report showed that ECB member Centeno said the monetary policy must be approached in small steps if possible and that the expected effects of unprecedented shocks to market inventories would moderate. Wholesale prices in Germany recorded a slight monthly rise in August. On Friday, the exchange rate appreciated in the second part of the day, as the USD depreciated after announcing that long-term inflation expectations in the US had fallen.

EUR/GBP

Source: *Bloomberg LP*

The **EUR/GBP exchange rate** fluctuated slightly for the first three days before recording a sharp appreciation in the last two days. The sterling appreciated due to the data that the 3-month unemployment rate in Great Britain declined to 3.6% (National Statistics Office). UK businesses have still not received details, figures or timetables of the government's proposed energy support package, prompting fears it would not be ready in time for implementation in October. Prime Minister Liz Truss promised that businesses would get "equivalent" support compared to households. She announced her plan for the winter energy crisis last week, raising hopes that assistance to enterprises will still be ready early next month. On Wednesday, the sterling appreciated after announcing that UK inflation had retreated from its highest level in four decades. After July's y-o-y price growth of 10.1%, prices rose by 9.9% in August compared to the expected growth of 10.2%. On Friday, the exchange rate appreciated. The BoE/Ipsos quarterly survey found that the British public's inflation expectations for the coming year have risen (now at 4.9% next year and 3.2% 12 months after). Chancellor of the Exchequer Kwarteng will deliver his emergency mini-budget to introduce tax cuts for millions of people and outline more details on energy support next Friday. Although the Queen's death has paralysed everyday politics, Kwarteng and his team are drawing up the final details of the budget, which they will announce when the country emerges from national mourning. The BoE Governor and Kwarteng will test their ability to manage the economy together next week, and the BoE will raise interest rates to fight inflation, while Kwarteng expects tax cuts that could boost prices. The EUR/GBP exchange rate appreciated on Friday and reached a 17-month high. The exchange rate appreciated as the sterling depreciated due to inflation, recession and UK Government borrowing concerns. The data on the retail sales decline has fuelled concerns that the economy is heading for a recession.

EUR/JPY

Source: *Bloomberg LP*

On Monday morning, the **EUR/JPY exchange rate** appreciated as expectations of a further increase in the ECB's interest rate supported the euro. However, in the second part of the day, the yen appreciated as a US report was expected to show a slowdown in the inflation rate, which could lead to a Fed's weaker monetary policy tightening. On Tuesday, the exchange rate did not register any significant changes. The Nikkei report showed that the BoJ implemented the so-called rate check on the currency market, considering it a move preceding the intervention itself. Finance Minister Shunichi Suzuki said Japan should not rule out a response if current currency market trends continued and that those options would include entering the market. The exchange rate check happens when the BoJ invites traders to see the yen's relationship with the dollar. It usually happens when market volatility increases and verbal intervention may not be enough. The Japanese currency has depreciated more than 20% against the USD this year due to widening policy differences between the two economies. Economists still believe that intervention is unlikely to happen. The EUR/JPY exchange rate depreciated on Wednesday and Thursday as the yen was supported by expectations that the BoJ would intervene in the currency market to limit the yen's losses. The EUR/JPY exchange rate fluctuated on Friday and recorded a slight daily depreciation.

Table 1 - Exchange rates of the most important currencies

	12.09.2022[1]	16.09.2022[2]	% Change
EUR/USD	1.0042	1.0016	-0.26
EUR/GBP	0.86666	0.87683	1.17
EUR/JPY	143.15	143.220	0.05
EUR/AUD	1.46833	1.49159	1.58
EUR/CHF	0.96461	0.96595	0.14
USD/JPY	142.470	142.920	0.32
GBP/USD	1.1589	1.1420	-1.46

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

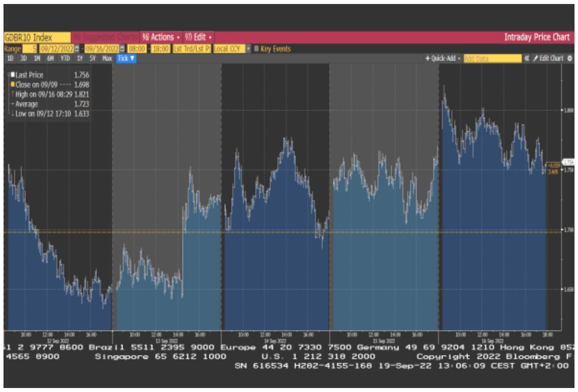
Central Bank	Reference interest rate name	Reference interest rate level	Next meeting
European Central Bank	ECB main refinancing rate	1.25%	27 October 2022
Federal Reserves	Federal Funds Target Rate	2.50%	21 September 2022
Bank of Japan	Overnight Call Rate	-0.10%	22 September 2022
Bank of England	Official Bank Rate	1.75%	22 September 2022
Swiss National Bank	Libor Target Rate	-0.25%	22 September 2022
Bank of Canada	Target Overnight Rate	3.25%	26 October 2022
Reserve Bank of Australia	Cash Rate Target	2.35%	4 October 2022

Table 3 – ESTR and Euribor

	12.09.2022[1]	16.09.2022[2]	Change in basis points
ESTR	-0.0850	0.6600	74.50
Euribor 1W	0.1730	0.6460	47.30
Euribor 1M	0.4800	0.6780	19.80
Euribor 3M	0.9340	1.0630	12.90
Euribor 6M	1.4420	1.6720	23.00
Euribor 12M	2.0150	2.2630	24.80

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

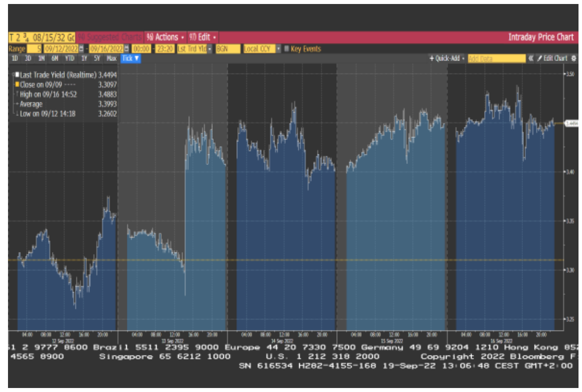
EUROPEAN GOVERNMENT BONDS MARKET



Source: *Bloomberg LP*

The return on 10-year German government bonds fluctuated in this reporting week. On Monday, this return fell from 1.755% to 1.633% (the minimum value in the reporting period) after weakened expectations of the next interest rate increase by the ECB and the Fed in response to US inflation data. After data showed that the inflation rate rose more than forecast, expectations of an aggressive monetary policy tightening by the Fed strengthened, spilling over to the ECB and the BoE and causing German government bond return to rise. In mid-week, following the announcement that industrial production in the euro area fell significantly in July, the return fell. Still, ECB officials' comments caused its upward trend to continue (Austrian Central Bank Governor Holzmann stated that there would be further inflation acceleration, while the Governor of the Central Bank of Latvia, Kazaks, said that interest rate increases might continue after February). At the end of the week, this return reached 1,821% (the maximum value in the period covered by the report). However, the return retreated from this level on Friday, ending the week at almost the same level it was at its beginning (1.756%).

US GOVERNMENT BONDS MARKET



Source: *Bloomberg LP*

In this reporting week, the return on 10-year US government bonds rose from 3.31% to 3.45%. The minimum value of the return was on Monday, 3.26%, as it dropped in response to the US inflation data in August. Namely, the data were expected to show an inflation slowdown. However, after Tuesday's report that inflation rose more than expected, the return started to rise after strengthened expectations that the Fed would continue aggressive rate hikes at its September meeting. With minor fluctuations, the return's rising trend continued until the end of the week, when the return ended at 3.45%, escaping the previous weekly maximum of 3.49%. The producer prices data that dropped in August compared to July but still remained high, and the reduction of long-term inflationary expectations in early September, caused the abovementioned return fluctuations.

GOLD

Source: Bloomberg LP

This reporting week, the gold price fell. Early this week, the price showed signs of growth as the USD depreciated but had an almost constant downward trend for the rest of the week. Namely, after publishing stronger-than-expected data on the US inflation rate in August on Tuesday, expectations regarding an aggressive increase in the Fed's interest rate increased. Hence, the USD appreciated and caused the gold price to fall. In the middle of the week, this precious metal's price was stable, as US production prices data dropped in August compared to July but were still high. Despite these data, expectations of a significant interest rates increase in the USA remained high until the end of the week. Hence, the gold price continued to weaken, finding itself on Friday at an almost 2-and-a-half-year low (1654.23 USD/oz.tr.). On the same day, the price slightly retreated from this level, as University of Michigan research showed that consumers' long-term inflationary expectations weakened in early September.

OIL

Source: Bloomberg LP

The oil price fluctuated in this reporting week. It recorded a slight weekly drop, the third consecutive weekly decline. Early this week, this fuel's price increased due to USD depreciation. It fell sharply on Tuesday afternoon as stronger-than-expected US inflation rate data hinted at another significant Fed monetary policy tightening, which could threaten demand for this energy product. The price recovered the very next day. Namely, the news that the Chinese city of Chengdu was preparing to start easing restrictions caused decreased concerns about the situation in China regarding the corona and the demand from this economy. The price also increased after announcing that US officials were expanding the filling of emergency oil reserves when the price fell below 80 USD/bbl. and because the European Commission adopted a package of measures to alleviate the energy crisis that did not include setting a limit for the wholesale gas price. However, the oil price fell after announcing that US oil inventories rose by 2.44 million barrels in the week preceding this reporting period. At the very end of the week, the price recovered slightly.

Table 4 – Economic indicators (12 – 16 September 2022)

Current value	Indicator	Euro area	Expected value	Current value	Previous value
Euro area	**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.	August MoM% YoY%	0.5% 9.1%	0.6% 9.1%	0.5% 9.1%
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.	August MoM% YoY%	0.3% 7.9%	0.3% 7.9%	0.3% 7.9%
Japan	**Exports** Products and services produced in Japan, sold or pending for sale outside of Japan.	August YoY%	24.1%	22.1%	19.0%
	Imports Japan's demand for foreign products. The value of exports and imports is an important input in the calculations of the trade balance, current account and GDP.	August YoY%	46.9%	49.9%	47.2%
	Producer Price Index (PPI) Assesses the average change in prices of certain manufacturers at all stages of production, but does not include imported goods, services and taxes. The index is seen as an indicator of future inflation.	August MoM% YoY%	0.3% 8.9%	0.2% 9.0%	0.4% 8.6%
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.	August MoM% YoY%	0.3% 8.1%	0.6% 8.3%	0.3% 8.5%
	Initial Jobless Claims It measures the number of people receiving unemployment allowances. It is similar to the applicant. The growing number of jobs accompanies the economic expansion, which could influence inflationary pressures.	10 September K=1.000	227 K	213 K	222 K
	Industrial output It measures the changes in output of production, service and mining sectors.	August MoM%	0.0%	-0.2%	0.6%
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.	July	3.8%	3.6%	3.8%
	Industrial output It measures the changes in output of production, service and mining sectors.	July MoM% YoY%	0.3% 1.9%	-0.3% 1.1%	-0.9% 2.4%
	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.	August MoM% YoY%	0.6% 10.0%	0.5% 9.9%	0.6% 10.1%

Source: Bloomberg