CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(14 – 18 March 2022)

Podgorica, 23 March 2022

FX NEWS

EUR/USD

Source: *Bloomberg LP*

The **EUR/USD exchange rate** had a growing trend until Thursday. The USD depreciated on Monday, as investors were wary awaiting the Fed and expecting the Fed to begin an interest rate raising cycle. On Wednesday, the euro appreciated against the USD as negotiations between Russian and Ukrainian representatives gave hope of reaching an agreement. The USD managed to recoup some losses the same day after the Fed's meeting ended. (The Fed decided to raise interest rates by 25 basis points to ease inflation pressures, as the market expected). Resumed negotiations of talks between Moscow and Kyiv continued to strengthen the euro on Thursday. The EUR/USD exchange rate recorded a daily depreciation on Friday. St. Louis Fed Chair James Bullard called for a dramatic increase in the Fed's interest rate by more than 3 percent this year. He thought it was a step needed to "catch up" with inflation, which is a "particularly heavy" burden for families. He added that the Fed would have to deal with this situation quickly or risk losing its inflation target's credibility, highlighting his disagreement over the current rate increase by only 25 basis points.

EUR/GBP

Source: *Bloomberg LP*

Earlier this week, the **EUR/GBP exchange rate** appreciated after the euro strengthened due to optimism regarding Russia-Ukraine negotiations and stood at a 5-week maximum on Tuesday. However, the exchange rate depreciated the same day, as British solid labour market data raised expectations concerning the BoE's interest rate increase. The unemployment rate dropped to 3.9% in the three months ending in January. It was the lowest level since the beginning of 2020, while average wages excluding bonuses increased by 3.8% y-o-y during the same period. Moreover, 275 thousand new jobs were created in February, twice as expected. The exchange rate's downward trend continued until Thursday due to the expectation that the BoE would increase the interest rate by 25 basis points, which happened at the meeting that day. However, against market expectations, the BoE expressed some caution regarding the further increase. Therefore, the EUR/GBP exchange rate appreciated sharply to its highest level since 8 February after the meeting. Towards the end of the day, the exchange rate's downward trend continued and was also present on Friday.

EUR/JPY

Source: *Bloomberg LP*

The **EUR/JPY exchange rate** trended up during this reporting week. The euro appreciated against the yen earlier this week, awaiting the BoJ meeting as the market did not expect changes in monetary policy, which differs from the Fed's policy. In the middle of the week, the EUR/JPY exchange rate appreciated as the return on US bonds rose after the Fed's announcement, and the BoJ Governor said he would continue with incentive measures. In February, Japan reported a larger-than-expected trade deficit as rising import costs, especially of energy, caused huge supply constraints and contributed to the economy's vulnerability. Exports rose slightly less than expected despite renewed shipments to China, showing a worrying sign for the economy facing growing uncertainty due to supply challenges and Russia's invasion of Ukraine. The exchange rate was stable on Friday.

Table 1 - Exchange rates of the most important currencies

	14.03.2022[1]	18.03.2022[2]	% Change
EUR/USD	1.0912	1.1051	1.27
EUR/GBP	0.83703	0.83861	0.19
EUR/JPY	127.96	131.73	2.95
EUR/AUD	1.49664	1.49031	-0.42
EUR/CHF	1.01945	1.02981	1.02
USD/JPY	117.290	119.170	1.60
GBP/USD	1.30370	1.31780	1.08

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%	14 April 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%	24 March 2022
Bank of Canada	Target Overnight Rate	0.50%	13 April 2022
Reserve Bank of Australia	Cash Rate Target	0.10%	5 April 2022

For the first time since 2018, the Fed increased the interest rate by 25 basis points to 0.50%. At the press conference, Fed Chair Jerome Powell said that inflation was too high, the labour market was overheating, and price stability was necessary. He believed the central bank could control inflation without causing a recession or severe damage to the labour market. Powell pointed out that the committee was aware of the need to restore the economy's price stability and that its members were determined to use the tools for that. Policymakers voted 8-1 to raise the key rate they kept close to zero for almost two years due to the pandemic. The monetary policy creators projected six more increases this year and four more next year, which is more aggressive than expected.
Yesterday, the BoE raised interest rates by 25 basis points to 0.75%, the pre-pandemic rate. The BoE warned that the war in Ukraine could cause inflation to rise above 8% later this year. The difference between this and the previous meetings was the changed communication of further interest rate increases. Namely, in prior meetings, the BoE announced that additional monetary tightening in the coming months was "likely", while it used the term "possible" now.
As expected, the BoJ maintained its ultra-loose monetary policy at its regular meeting. It kept the interest rate unchanged. The BoJ reduced the forecasted growth due to the coronavirus consequences and emphasised the need to monitor the situation with the oil prices and other raw materials development to the Russian invasion of Ukraine.

Table 3 – ESTR and Euribor

	14.03.2022[1]	18.03.2022[2]	Change in basis points
ESTR	-0.577	-0.578	-0.10
Euribor 1W	-0.565	-0.566	-0.10
Euribor 1M	-0.548	-0.557	-0.90
Euribor 3M	-0.502	-0.487	1.50
Euribor 6M	-0.414	-0.393	2.10
Euribor 12M	-0.268	-0.207	6.10

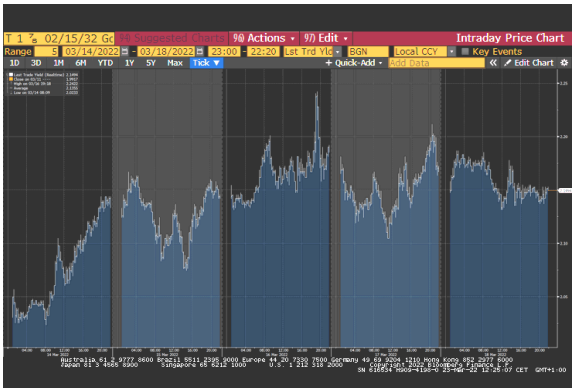
[1] Opening market value on Monday
[2] Closing market value on Friday

EUROPEAN GOVERNMENT BONDS MARKET

Source: *Bloomberg LP*

The return on 10-year German government bonds rose on Monday. The growth came as market participants perceived the impact of inflation further raised by the war in Ukraine. The next day, the return was stable to jump to the highest level since 2018 in the middle of the week after announcing the progress in Russia-Ukraine negotiations. The return on these bonds did not change much in the rest of the week. It stood at 0.37% at the end of the reporting period.

US GOVERNMENT BONDS MARKET



Source: *Bloomberg LP*

At the beginning of this reporting week, the return on 10-year US government bonds rose after growing expectations that the Fed would continue to raise interest rates despite the Russia-Ukraine conflict. In the rest of the week, the return on these bonds rose slightly, awaiting the Fed's regular meeting. After the meeting, the Fed increased the interest rate by 25 basis points and announced several more interest rate increases this year. However, the return on these bonds did not grow further by the end of the week as the demand for safe funds grew due to the continued conflict in Ukraine was a counter factor to the Fed's interest rates increase. At the end of the reporting week, the 10-year return stood at 2.14%.

GOLD

Source: Bloomberg LP

This week, the gold price recorded the most significant drop since last June. For the first three days, the price was constantly falling as the return on US government bonds rose awaiting the Fed meeting, resulting in lower demand for this precious metal. After the interest rate increase by 25 basis points at the meeting, the gold price's downward trend continued and reached a 2-week low - 1895 USD/oz. tr. on Wednesday. However, as the USD depreciated against a basket of currencies on Thursday, investing in gold was more attractive to investors, and the price recovered to 1950 USD/oz. tr. The downward price trend continued on Friday as investors assessed the Fed's decision to tighten monetary policy. Fed Governor Christopher Waller said they should consider raising interest rates by 50 basis points in upcoming meetings and reducing the balance sheet by July to curb rising inflation. St. Louis Chair James Bullard supported interest rates rise above 3% this year. At the market close on Friday, the gold price stood slightly above 1920 USD/oz. tr., compared to almost 1990 USD/oz. tr. at the beginning of the week.

OIL

Source: Bloomberg LP

The oil price trended down on the first three days of this reporting week. Negotiations between Ukraine and Russia showed signs of progress, and China locked Shenzhen province to stop the Covid spread. It increased the risk of reduced global demand, given that China was the world's largest oil importer. US government data released on Wednesday showed oil inventories rose last week, affecting the oil price fall. The prices fall was supported by the news that Libya urged OPEC+ to accelerate the supplies increase and the OPEC's warning that Russia's invasion of Ukraine could intensify inflation globally and hit oil demand and investment. On Thursday, the oil price rose and recorded the most significant daily increase over the last 16 months. The International Energy Agency stated that about 3 million barrels of Russian oil could be lost from the market daily from April. On Friday, the price did not show significant changes.

Table 4 - Economic indicators (14 – 18 March 2022)

Current value	Indicator	Euro area	Expected value	Current value	Previous value
Euro area	**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. Therefore, it is a key measure of euro area inflation.	February MoM% (YoY%)	5.8% (0.9%)	5.9% (0.9%)	5.8% (0.9%)
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.	March	5.0	-39.3	54.3
USA	**Publishing of the FED interest rate** Regular Fed Meeting **Existing Home Sales** The indicator shows records of sales in the US real estate sector and is revised monthly. This report provides a rather accurate assessment of housing market conditions. Due to its sensitivity to the business cycle, it can be an important indicator of overall housing conditions at a time when this is particularly important for the economy.	March 16 February MoM%	0.50% -6.2%	0.50% -7.2%	0.25% 6.7%
Great Britain	**Publishing of the BoE interest rate** Regular meeting of Bank of England	March 17	0.750%	0.750%	0.750%
Japan	**Exports** Products and services produced in Japan, sold or pending for sale outside of Japan. **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.	February YoY% February YoY%	20.6% 26.4%	19.1% 34.0%	9.6% 39.6%

Source: Bloomberg