CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

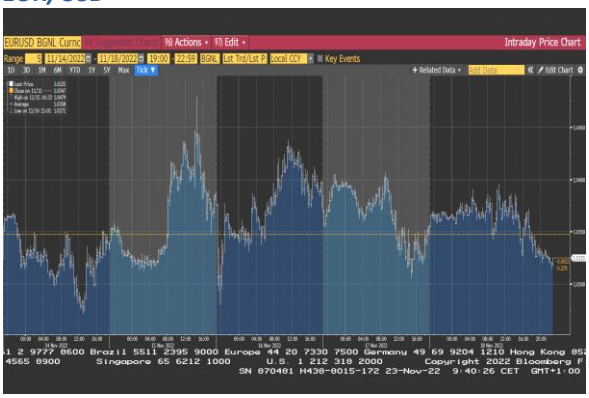
International Financial Market Report

(14 – 18 November 2022)

Podgorica, 23 November 2022

FX NEWS

EUR/USD



Source: *Bloomberg LP*

The **EUR/USD exchange rate** was stable on Monday to appreciate sharply the next day after signals that US inflation was slowing down in the USA. Still, towards the end of the day, this exchange rate returned to its previous level. On Wednesday, this exchange rate appreciated again after concerns about a potential escalation of the Russia-Ukraine conflict eased. From Thursday, the exchange rate began to appreciate after speculations that the ECB could increase the interest rate by 50 basis points at the December meeting, which was lower than the then-expected 75 basis points. The exchange rate depreciated on Friday as the Fed signalled it must continue to raise interest rates in the USA, so traders reduced expectations that the central bank would take a break in monetary policy tightening.

EUR/GBP

Source: *Bloomberg LP*

Early this week, the **EUR/GBP exchange rate** appreciated due to uncertainty concerning the tax reform package that was supposed to be announced towards the end of the week. On Tuesday, the exchange rate depreciated after announcing that wages in the UK rose by 5.7%, increasing pressure on the BoE to continue monetary policy tightening. In the middle of the week, the exchange rate was relatively stable to appreciate on Thursday after announcing the fiscal plan. The UK's Chancellor of the Exchequer presented a fiscal plan in Parliament, which aims to replace the funds lacking public finances. The plan includes both spending reductions and tax increases. Some measures announced include new tax rules that will see more people pay basic tax, the energy profit tax for oil and gas companies increase from 25% to 35% in effect until 2028, and introducing a temporary tax of 45% on the excess profit of electricity producers. The Chancellor of the Exchequer announced that the country would be in recession next year, but it is necessary to implement painful fiscal measures. On Friday, the exchange rate depreciated as upbeat data on retail sales and consumer confidence arrived from the UK.

EUR/JPY

Source: *Bloomberg LP*

The **EUR/JPY exchange rate** appreciated at the beginning of the week after announcing that Japan's economy unexpectedly depreciated in Q3 of this year by 1.2% compared to the expected growth. It gives the BoJ room to continue with the current way of conducting monetary policy, contrary to the policies of all other leading central banks worldwide. During the rest of the week, the exchange rate had one short-term depreciation, after which it quickly returned to its previous level until the end of the week (about 145 yen to the euro).

Table 1 - Exchange rates of the most important currencies

	14.11.2022[1]	18.11.2022[2]	% Change
EUR/USD	1.0347	1.0325	-0.21
EUR/GBP	0.87462	0.86842	-0.71
EUR/JPY	143.61	144.92	0.91
EUR/AUD	1.54397	1.544714	0.05
EUR/CHF	0.97441	0.98579	1.17
USD/JPY	138.81	140.37	1.12
GBP/USD	1.1830	1.1890	0.51

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	2.00%	15 December 2022
Federal Reserves	Federal Funds Target Rate	4.00%	14 December 2022
Bank of Japan	Overnight Call Rate	-0.10%	20 December 2022
Bank of England	Official Bank Rate	3.00%	15 December 2022
Swiss National Bank	Libor Target Rate	0.50%	15 December 2022
Bank of Canada	Target Overnight Rate	3.75%	7 December 2022
Reserve Bank of Australia	Cash Rate Target	2.85%	6 December 2022

Table 3 – ESTR and Euribor

	14.11.2022[1]	18.11.2022[2]	Change in basis points
ESTR	1.4040	1.403	-0.1
Euribor 1W	1.372	1.392	2.0
Euribor 1M	1.362	1.413	5.1
Euribor 3M	1.762	1.821	5.9
Euribor 6M	2.291	2.342	5.1
Euribor 12M	2.811	2.837	2.6

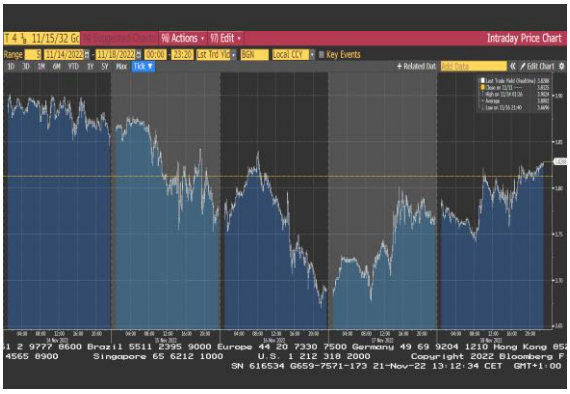
[1] Opening market value on Monday
[2] Closing market value on Friday

EUROPEAN GOVERNMENT BONDS MARKET

Source: *Bloomberg LP*

This reporting week, the return on 10-year German government bonds fell from 2.15% to 2.01%. The return weakened early this week after ECB Governing Council member Panetta's statement that an aggressive monetary policy tightening was not recommended. Bank of France Governor Villeroy stated that interest rate hikes would likely slow after the December increase. Later this week, the ECB President stated that jumbo interest rate hikes would not be a new habit of the ECB, reiterating that tightening above 2% was likely to be slower. Earlier, the Governor of the Central Bank of Estonia, Müller, said he favoured another significant increase of 50 or 75 basis points. After all these statements, traders reduced their expectations regarding the interest rate increase. On Thursday morning, the return was at the lowest level of 1.95% since the beginning of October. Although this return tended to rise towards the end of the week, the trend continued on Friday following the US government bond market trend and due to the ECB President's statement that rates might have to rise to levels limiting economic expansion to contain inflation. The return fall was caused by easing expectations for an ECB interest rate hike and increasing demand for safe-haven assets amid concerns that China could tighten its Covid restrictions.

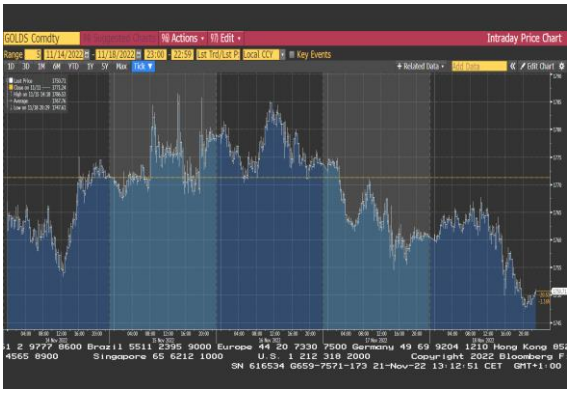
US GOVERNMENT BONDS MARKET



Source: *Bloomberg LP*

In the first three days of this reporting week, the return on 10-year US government bonds trended down, to recover in the last two days. The return fell from 3.90% to 3.83% at the week's level. Fed Vice Chair Brainard's statement that the Fed's right move in the near future would be to slow down the interest rate hikes cycle caused the return to weaken slightly early this week. After the news that a missile hit Poland, fears of escalating the conflict in Ukraine increased demand for safe assets, so the return on US government bonds continued to fall. On Wednesday morning, the downward trend was interrupted when the US President declared that the missile was probably not Russian, which reduced tensions and the demand for safe assets. On the same day, Waller, a Fed's Board of Governors member, said economic data released in recent weeks made him "more comfortable" about changing the rate hike in December. Together with better-than-expected US retail sales data, it caused the return downward trend continuation, which reached a 1-month minimum of 3.67% at the end of the day. However, the return rose in the last two days of the reporting week. Their recovery was triggered by the St. Louis Fed Chair's statement that the interest rate should increase further and be between 5% and 7% and additionally encouraged by the Boston Fed Chair's words. He believed that the US monetary policymakers could stop the inflation without much damage to employment and that the door was open for the December increase to 75 basis points, increasing market participants' expectations regarding their growth.

GOLD



Source: Bloomberg LP

The gold price fell in this reporting week. In the first part of the week, it trended up due to the USD depreciation and geopolitical tensions, which caused an increased demand for safe assets. Thus, the gold price reached a 3-month maximum (1,786.53 USD/oz. tr.) in the middle of the week. However, in the second part of the week, this precious metal's price went down. The price withdrawal from the mentioned level followed after US officials announced that the missile that fell on Poland was probably not Russian, reducing tensions. Hence, investors were less inclined towards safe investments. NATO also said that the missile was likely Ukrainian and a part of their anti-aircraft defence system. By the end of the week, the price decreased due to USD appreciation against a basket of currencies amid releasing the US jobless claims number fall. It suggested that the country's labour market was in good shape despite Fed's aggressive monetary policy tightening. At the very end of the week, the St. Louis Fed Chair hinted that the interest rate could even rise to 7% to act on inflation, causing further gold price fall.

OIL

Source: Bloomberg LP

The oil price fell in this reporting week. The USD appreciation and uncertainty over a sharp rise in the number of new coronavirus cases in China over the weekend drove Monday's price drop. It also occurred as the OPEC monthly report indicated an uncertain global supply outlook and reduced oil demand forecasts. The next day, the price showed slight recovery signs, due to concerns about the potential deterioration of relations between Russia and NATO, following the news that a Russian missile had landed in Poland. The price was also stimulated by the API (American Petroleum Institute) report on the drop in oil stocks in the week preceding this reporting period, as confirmed by the US Government report. However, towards the end of the day, the US President stated that the missiles that fell on Poland most likely did not come from Russia, which calmed the market, so the oil price drop continued. In the rest of the week, in addition to the market tensions easing, the oil prices drop resulted from releasing that the pipeline supplying Europe with Russian oil continued to operate and concerns about demand in China due to the increasing number of coronavirus infected. Thus, the price was at a 6-week minimum at the end of the week.

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

Country	Indicator	Period	Expected value	Current value	Previous value
USA	**Retail Sales** This indicator measures the volume of sales of personal and household goods.	October MoM%	 1.0%	 1.3%	 0.0%
Euro area	**Industrial output** It measures the output change in mining and quarrying, manufacturing and utilities (electricity, gas and water supply). **Consumer price index (CPI)** It measures changes in the prices that consumers pay for a basket of products and services.	September MoM% YoY% October YoY%	 0.5% 3.0% 10.7%	 0.9% 4.9% 10.6%	 1.5% 2.5% 9.9%
France	**Consumer price index (CPI)** It measures changes in the prices that consumers pay for a basket of products and services.	October MoM% YoY%	 1.0% 6.2%	 1.0% 6.2%	 1.0% 6.2%
Great Britain	**Consumer price index (CPI)** It measures changes in the prices that consumers pay for a basket of products and services.	Q3 QoQ% YoY%	 -0.5% 2.1%	 -0.2% 2.4%	 0.2% 4.4%
Japan	**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.	Q3 QoQ%	 0.20%	 -0.3%	 0.9%

Source: Bloomberg