CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

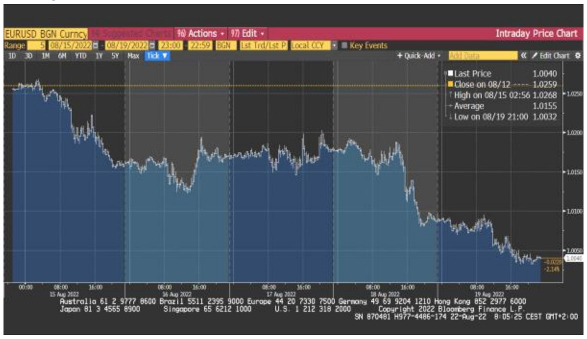
International Financial Market Report

(15 – 19 August 2022)

Podgorica, 24 August 2022

FX NEWS

EUR/USD



Source: *Bloomberg LP*

The **EUR/USD exchange rate** depreciated for the first two days as the data pointed to the economic weaknesses of the world's second-largest economy. China's central bank unexpectedly reduced the interest rate, reflecting the growth of demand for safe assets and thus the USD appreciation compared to the euro. Current business conditions deterioration and the worse-than-forecasted index measuring investor expectations in Germany resulted in the euro's depreciation. (The index measuring business costs fell from -45.8 in July to -47.6 in August; the index measuring investors' expectations fell from -53.8 in July to -55.3 in August). On Wednesday, the exchange rate did not register any significant changes to continue weakening again from Thursday. During this period, there was expected to be a "jumbo" interest rate increase again at the next Fed meeting as St. Louis Fed Chair James Bullard continued to call for another 75 basis points hike. The San Francisco Fed Chair Mary Daly supported an interest rate increase of 50-75 basis points. On Friday, it was announced that German producer prices rose in July at a record rate, pointing to a negative outlook for the largest EU economy. It is also in trouble due to weakening economic growth and high inflation.

EUR/GBP

Source: *Bloomberg LP*

The **EUR/GBP exchange rate** depreciated at the beginning of the week as investors expected the BoE to raise interest rates by 122 basis points by the end of the year. The announcement that the UK labour market was still "holding up well" boosted sterling demand. On Wednesday, the EUR/GBP exchange rate depreciated after announcing that the inflation rate in the UK rose to 10.1%, which was higher than expected at 9.8%. This data triggered speculation that the BoE would continue with aggressive interest rate increases this year. On Friday, the EUR/GBP exchange rate rose after announcing that consumer confidence in Britain had fallen to a record low (the consumer confidence index fell to -44 in August).

EUR/JPY

Source: *Bloomberg LP*

The **EUR/JPY exchange rate** depreciated at the very beginning of the week as the demand for safe assets increased. The Japanese Prime Minister would visit Qatar and the United Emirates at the end of the month to work on energy diplomacy and discuss the prices rise. Since Tuesday, the exchange rate has appreciated until the end of the week. The EUR/JPY exchange rate rose on Friday morning to fall in the afternoon due to the growing demand for safe assets.

Table 1 - Exchange rates of the most important currencies

	15.08.2022[1]	19.08.2022[2]	% Change
EUR/USD	1.0259	1.0037	-2.16
EUR/GBP	0.84543	0.84848	0.36
EUR/JPY	136.880	137.560	0.50
EUR/AUD	1.44075	1.46016	1.35
EUR/CHF	0.96609	0.96325	-0.29
USD/JPY	133.420	136.970	2.66
GBP/USD	1.2138	1.18290	-2.55

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	0.50%	8 September 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%	15 September 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	1.85%	6 September 2022

Table 3 – ESTR and Euribor

	15.08.2022[1]	19.08.2022[2]	Change in basis points
ESTR	-0.088	-0.0840	0.40
Euribor 1W	-0.068	-0.08750	-1.95
Euribor 1M	-0.035	0.11000	14.50
Euribor 3M	0.333	0.41680	8.38
Euribor 6M	0.766	0.77460	0.86
Euribor 12M	1.163	1.17600	1.30

[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 had a constant upward trend. The return recovery occurred as investors expected the ECB to continue with the policy of increasing the interest rate, with only the increase being uncertain. At the same time, the increased return on US bonds also influenced the German bonds' increase. At the end of the week, one of the ECB's Governing Board members, Isabel Schnabel, said that the outlook for euro area inflation had not improved, pointing to another big interest rate hike in September. The return on 10-year German bonds was 1.22% at the end of the period.

US GOVERNMENT BONDS MARKET

Source: *Bloomberg LP*

The return on the 10-year US Treasury bond rose steadily this week. The return increase occurred in the first half of the week, expecting the publication of the last FED meeting minutes. After the minutes were published on Thursday, the return growth stopped for a short time. As the minutes indicated, the FED is facing a delicate situation to reduce or slow down inflation on the one hand and on the other hand to avoid recession. Moreover, the minutes showed that the FED could, at some point, slow the interest rate increase pace. Until the end of the week, the return on these bonds continued to grow, and the expectation that the FED would continue to increase interest rates soon appeared again. The return on 10-year bonds was 2.97% at the end of the week.

GOLD

Source: Bloomberg LP

The gold price trended down throughout this reporting week. The gold price fell as the USD appreciated against a basket of currencies. At the same time, the released data on a drop in the number of claims for unemployment insurance in the USA pointed to a still "unsound" labour market in the country, thus giving the Fed room to continue with its aggressive interest rates policy tightening, which harms the gold price.

OIL

Source: Bloomberg LP

The oil price fell sharply on Monday after releasing harmful economic data on China that increased concerns about an oil demand reduction in that country. The following day, the falling oil prices trend continued as speculations increased that Iran and the EU could agree on delivering crude oil from that country to the EU. In the middle of the week, the oil price reached the lowest level for this reporting period, after which an upward trend began that lasted until the very end of the week. The oil price recovery in the mentioned period occurred after announcing that the stocks of this energy product fell in the USA during the previous week by 7.1 million barrels.

Table 4 - Economic indicators (15 – 19 August 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 in the euro area.	July MoM% (YoY%)	0.1% (8.9%)	0.1% (8.9%)	0.1% (8.6%)
Germany	**Producer Price Index (PPI)** This indicator measures the change in the price paid by domestic producers. The indicator rise is an early inflation indicator.	July MoM% (YoY%)	0.7% (31.8%)	5.3% (37.2%)	0.6% (32.7%)
Great Britain	**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 in the euro area.	July MoM% (YoY%)	0.4% (9.8%)	0.6% (10.1%)	0.8% (9.4%)
	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.	June	3.8%	3.8%	3.8%
USA	**Industrial output** Measures the changes in output of production, service and mining sectors.	July YoY%	0.3%	0.6%	-0.2%
	Initial Jobless Claims This indicator measures the number of people receiving unemployment allowances.	13 August K=1.000	264 K	250 K	252 K
	Housing Starts It shows a change in the number of new real estate built in the US (the increase in this indicator indicates investment growth and business optimism).	July MoM%	-2.1%	-9.6%	-2.0%
Japan	**Exports** Products and services produced in Japan, sold or pending for sale outside of Japan.	July YoY%	17.6%	19.0%	19.4%
	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.	July YoY%	45.5%	47.2%	46.1%

Source: Bloomberg