CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(16 – 20 May 2022)

Podgorica, 26 May 2022

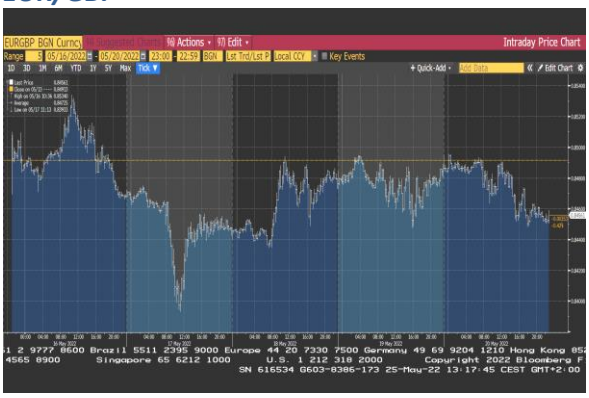
FX NEWS

EUR/USD

Source: *Bloomberg LP*

At the week's opening, the **EUR/USD exchange rate** was stable before appreciating sharply on Tuesday, as ECB member Klaas Knott was the first central bank official to suggest that interest rates could rise by 50 basis points if risks from inflation increase. In the middle of the week, the exchange rate fell as investors expressed concern that the monetary tightening could harm the euro area's economic growth. On Thursday, there was another sharp jump in the exchange rate's trend as concerns about the negative impact of inflation on the US economy arose. The exchange rate was stable on Friday.

EUR/GBP



Source: *Bloomberg LP*

The **EUR/GBP exchange rate** depreciates on Tuesday and Wednesday. The drop came after releasing data that the UK saw a 121 thousand increase in jobs in April, well above the 59 thousand increase in March, and the unemployment rate fell to 3.7%, giving the BoE room to continue raising interest rates. Since Tuesday noon, the exchange rate recovered slightly as the BoE predicted that further price increases would bring the UK economy close to a recession by the end of the year. For the rest of the week, the exchange rate was stable and ranged from 0.845 to 0.850.

EUR/JPY

Source: *Bloomberg LP*

The **EUR/JPY exchange rate** was stable on Monday. The next day, this exchange rate recorded a sharp appreciation. The exchange rate's appreciation was caused by the statement of an ECB leader that the central bank could increase the interest rate by 50 basis points if inflation risks increased. In the middle of the week, the exchange rate depreciated significantly as the demand for safe funds increased after the world's leading stock exchanges fell. On Thursday, the exchange rate appreciated slightly, as the inflation rate in Japan reached a record level since 2008, making it difficult for the BoJ to continue its monetary incentives policy. The exchange rate was stable on Friday.

Table 1 - Exchange rates of the most important currencies

	16.05.2022[1]	20.05.2022[2]	% Change
EUR/USD	1.0421	1.0564	1.37
EUR/GBP	0.84913	0.84561	-0.41
EUR/JPY	134.55	135.03	0.36
EUR/AUD	1.50037	1.50105	0.05
EUR/CHF	1.04334	1.02945	-1.33
USD/JPY	134.55	127.88	-4.96
GBP/USD	1.2262	1.2480	1.78

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%	9 June 2022
Federal Reserves	Federal Funds Target Rate	1.00%	15 June 2022
Bank of Japan	Overnight Call Rate	-0.10%	17 June 2022
Bank of England	Official Bank Rate	1.00%	16 June 2022
Swiss National Bank	Libor Target Rate	-0.75%	16 June 2022
Bank of Canada	Target Overnight Rate	1.00%	1 June 2022
Reserve Bank of Australia	Cash Rate Target	0.35%	7 June 2022

Table 3 – ESTR and Euribor

	16.05.2022[1]	20.05.2022[2]	Change in basis points
ESTR	-0.586	-0.585	0.1
Euribor 1W	-0.564	-0.566	-0.2
Euribor 1M	-0.546	-0.535	1.1
Euribor 3M	-0.403	-0.348	5.5
Euribor 6M	-0.209	-0.078	13.1
Euribor 12M	0.182	0.353	17.1

[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 was almost unchanged this reporting week, amounting to 0.944% at the end of the week, which is approximately the same level since its beginning. The return recorded a significant change on Tuesday and Wednesday. It grew due to growing expectations that the ECB would increase the interest rate in July, reaching its maximum for this week of 1.093% on Wednesday. Its growth was also because one of the ECB officials, Klaas Knot, suggested that the interest rate could increase by 50 basis points if the inflation risks worsen, despite favouring a minor increase for now. However, in the last two days of this week, the return had a downward trend. Namely, stock prices in the EU fell due to economic growth concerns, so the demand for safe funds grew, which caused a drop in the returns.

US GOVERNMENT BONDS MARKET

Source: *Bloomberg LP*

The return on 10-year US government bonds fell from 2.95% to 2.88% on Monday, as weak data on US manufacturing and retail sales in China sparked concerns about a slowdown in global economic growth. However, the return rose over the next two days. The Fed Chair's comments suggested the Fed could raise interest rates above neutral levels to curb high inflation. In April, solid US retail data suggested demand could “endure” an aggressive increase in interest rates. On Wednesday afternoon, the return began to retreat from the previously reached level of 3.01%, and the downward trend remained current until the end of the week. The return drop was due to falling stock prices on the stock exchanges and solid demand at the auction of 20-year US bonds. Another reason for the return decline was data on higher-than-expected growth in the number of initial jobless claims in the USA, which raised concerns about the economic growth slowdown. At the very end of the week, the return was 2.78%.

GOLD

Source: Bloomberg LP

The gold price rose this week. Early this week, the growth was caused by the weakening of the returns on US government bonds and data on the decline in factory activity in the USA. On Tuesday, following the Fed Chair's comments that the central bank would raise interest rates until “clear and convincing” evidence that inflation was declining, the precious metal’s price weakened. In the middle of the week, the price did not show significant changes, only to have a growing trend again from Thursday. The main reason for the growth was the decline in the returns on US government bonds and the USD depreciation, which caused a rise in demand for safe funds and data on rising unemployment claims in the US that intensified concerns about the economic slowdown.

OIL

Source: Bloomberg LP

The oil price rose slightly in this reporting week. The growing trend was already present at the beginning of the week, and the price reached a 7-week maximum on Tuesday. Although the current introduction of a ban on Russian oil imports by the EU has been delayed as Hungary continues to oppose the move, the EU continues to seek to ban imports, which has caused prices to rise. In addition, German government officials have stated that they plan to stop importing oil from Russia by the end of the year, regardless of the EU's decision. However, in the middle of the week, the price dropped because the US President's administration allowed the oil company Chevron to negotiate with the state oil company of Venezuela over the oil license, which is part of easing economic sanctions on this country. The price also fell after new 7-day locks in some Chinese cities due to the growing number of people infected with coronavirus, which puts a lot of pressure on this economy. In the last two days of this week, the price grew again. The US Energy Agency announced that oil stocks fell last week, and it was also announced that Chinese officials plan to relax measures in Shanghai in early June, which could lead to an increased demand for this fuel. In addition, the rise in prices was caused by the rising demand for fuel despite concerns about the recession.

Table 4 - Economic indicators (16 – 20 May 2022)

Current value	Indicator	Euro area	Expected value	Current value	Previous value
Euro area	**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. **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.	Q1 QoQ% YoY% April MoM% YoY%	0.20% 5.00% 0.60% 7.50%	0.30% 5.10% 0.60% 7.40%	0.20% 5.00% 0.60% 7.40%
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.	Q1 QoQ% YoY%	-0.40% -1.00%	-0.20% -0.40%	1.10% -1.30%
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.	April MoM% YoY%	2.60% 9.10%	2.50% 9.00%	1.10% 7.00%
USA	**Industrial output** It measures the output of the energy sector, factories and mines. Growing industrial production points to increased production and economic expansion. **Initial Jobless Claims** Measures the number of people receiving unemployment allowances.	April MoM% 14 May K=1,000	0.50% 200 K	1.10% 218 K	0.90% 197 K

Source: Bloomberg