CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

17 – 21 October 2022

Podgorica, 26 October 2022

FX NEWS

EUR/USD

Source: *Bloomberg LP*

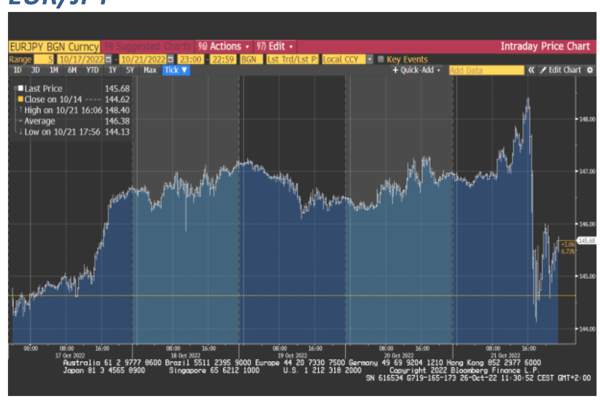
At the very beginning of this week, the **EUR/USD exchange rate** appreciated as the Deutsche Bundesbank President stated the ECB must continue with the accelerated monetary support withdrawal and not stop raising the interest rate early, all to curb "alarmingly high" inflation. On Tuesday, this exchange rate did change significantly but trended around 0.9848 throughout the day. In the middle of the week, this exchange rate fell after announcing that inflation in the euro area in September was lower than earlier estimates (inflation was 9.9% versus the expected 10%). On Thursday, this exchange rate again did not achieve a significant daily change. At the same time, it recorded a sharp appreciation on Friday due to the San Francisco Fed Chair's comments. Namely, he stated that it was time to start thinking about slowing down the pace of interest rate increases in the USA to prevent the sharp interest rate increase in the previous period could cause a sharp deterioration in the economy.

EUR/GBP

Source: *Bloomberg LP*

The **EUR/GBP exchange rate** appreciated at the very beginning of this week. The exchange rate appreciated at the beginning of the week despite the appointment of a new Exchequer Chancellor in Great Britain. Namely, investors believed Great Britain would need an additional 41 billion USD to ensure the sustainability of public finances, which is reflected in the sterling's depreciation. This exchange rate recorded a constant appreciation trend for the rest of the week. The exchange rate appreciation occurred as the political crisis in the UK deepened after the country's Secretary of State for the Home Department resigned. The exchange rate appreciated further on Thursday as the UK Prime Minister resigned. On the last day, due to political uncertainty, the exchange rate continued to appreciate until noon, after which the exchange rate recorded a slight depreciation as news spread that Boris Johnson had dropped out of the race to be the new UK Prime Minister.

EUR/JPY



Source: *Bloomberg LP*

The **EUR/JPY exchange rate** appreciated at the very beginning of this week due to the expectation that the ECB would continue with a sharp interest rate increase. In the rest of the week, this exchange rate did not change significantly until Friday, when it rose in the morning and experienced a sharp depreciation in the afternoon as the Japanese authorities intervened to limit the further depreciation of the yen.

Table 1 - Exchange rates of the most important currencies

	17.10.2022[1]	21.10.2022[2]	% Change
EUR/USD	0.9722	0.9862	1.44
EUR/GBP	0.87021	0.87316	0.34
EUR/JPY	144.62	145.68	0.73
EUR/AUD	1.56765	1.54411	-1.50
EUR/CHF	0.97748	0.98385	0.65
USD/JPY	148.67	147.65	-0.69
GBP/USD	1.1172	1.1303	1.17

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	1.25%	27 October 2022
Federal Reserves	Federal Funds Target Rate	3.25%	2 November 2022
Bank of Japan	Overnight Call Rate	-0.10%	28 October 2022
Bank of England	Official Bank Rate	2.25%	3 November 2022
Swiss National Bank	Libor Target Rate	0.50%	15 December 2022
Bank of Canada	Target Overnight Rate	3.25%	26 October 2022
Reserve Bank of Australia	Cash Rate Target	2.60%	1 November 2022

Table 3 – ESTR and Euribor

	17.10.2022.[1]	21.10.2022.[2]	Change in basis points
ESTR	0.6570	0.6570	0.0
Euribor 1W	0.646	0.659	1.3
Euribor 1M	0.892	0.983	9.1
Euribor 3M	1.403	1.543	14.0
Euribor 6M	2.027	2.107	8.0
Euribor 12M	2.677	2.778	10.1

[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 bonds appreciated this week. The return fluctuated at the beginning of the week and averaged 2.27%. In this period, auctions were held in Germany, Finland and Great Britain for 7-year, 10-year and 30-year government bonds, so the market needed time to absorb the new changes. On Wednesday, the return rose after the German financial agency increased the amount of bonds in its portfolio by 54 billion euros for repo transactions, which will provide the state with additional flexibility in covering short-term needs, all to better respond to the energy crisis. According to some ING Bank strategists, this is the fastest way to raise the necessary funds, and at the same time represents an excellent relief for market participants. Expectations that the ECB will continue aggressively raising interest rates by 75 basis points at the next meeting further supported the return rise on Thursday. On Friday, the return on 10-year German bonds first rose to fall as the Wall Street Journal reported that the Fed would raise interest rates by 75 basis points at its next meeting but that officials were ready to lead the debate on turning to smaller rate increases in December.

US GOVERNMENT BONDS MARKET

Source: *Bloomberg LP*

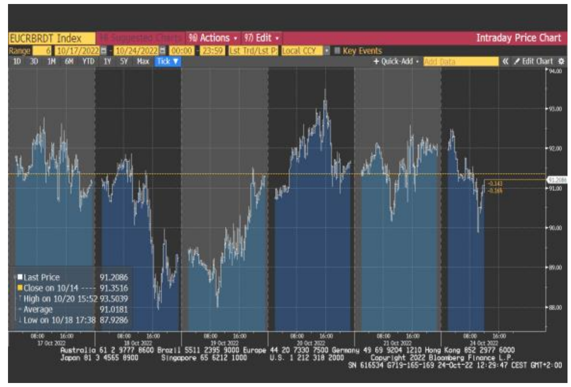
The return on 10-year US bonds followed a similar trend this week as the return on 10-year German bonds. The return rise was caused by global growth concerns, inflation, and a weaker auction of 20-year US government bonds in this country. Investors expected the Fed to continue tightening monetary policy in 2023, contributing to the rise in US bond return on Thursday. On Friday, the return started with growth, to drop during the day as the San Francisco Fed Chair stated the bank would need to start thinking about smaller interest rate increases, by 50 or 25 basis points, without specifying when that would begin to apply.

GOLD

Source: Bloomberg LP

The gold price rose on Monday due to the USD depreciation, the drop in the return on US government bonds, and the growing demand for gold as a safe haven due to constant concerns about the global economic slowdown. Towards the end of the day, this precious metal's price fell. The gold price fell to a 3-week low on Wednesday as investors worried about aggressive Fed rate hikes and a potential recession. The following day, it rose until the middle of the day to fall as the comment of the Philadelphia Fed Chair indicated the continuation of the aggressive interest rate increase in the USA to reduce inflation. On Friday, the gold price rose as the Japanese authorities intervened in the market to limit the yen's fall. During the week, the market assessed a risk increase of recession at the global level relative to the Fed's monetary policy tightening.

OIL



Source: Bloomberg LP

The oil price fluctuated on Monday and recorded a slightly daily decline. Concerns about the global economic slowdown caused this oil price trend. On the other hand, investors assessed the state of the market in terms of stocks. On Tuesday morning, the price first rose due to the USD depreciation and supply problems. However, it fell by the end of the day as the US headed to release more crude oil from strategic reserves to reduce this fuel's price. Oil pared some of the day's losses on news that Mexico ended its 2023 hedging programme - a programme helping to protect revenue if oil prices fell below 68.70 USD. The next day, the oil price rose due to concerns that the latest EU sanctions on Russian fuel could worsen the market situation, and it was announced that oil stocks in the US had fallen. At the end of the week, the oil price rose because China was considering easing the Covid rules for tourists, which could lead to an increased demand for this fuel globally. Investors were also looking at the market as some economic data on China were late and which were mixed in the third quarter. At the very end of the week, the price of natural gas in Europe fell as the EU agreed on measures to limit the gas price during the winter.

Table 4 – Economic indicators (17 – 21 October 2022)

Country	Indicator	Period	Expected value	Current value	Previous value
Euro area	**Consumer price index (CPI)** It estimates changes in the cost of living by measuring changes in the prices of certain items for which the consumers allocates their money.	September MoM% YoY%	1.20% 10.00%	1.20% 9.90%	1.20% 9.10%
	Consumer Confidence This index measures the level of households' confidence in terms of economic performance.	October	-30	-27.6	-28.8
Germany	**Producer Price Index (PPI)** It measures the change in producer prices from the moment they leave the production place. Those are the prices the domestic producers received for their output either at local or foreign market.	September MoM% YoY%	1.50% 45.40%	2.30% 48.80%	7.90% 48.80%
USA	**Initial Jobless Claims** This indicator measures the number of people receiving unemployment allowances.	15 October K=1.000	223K	228K	226K
	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.	September MoM%	-2.10%	-1.50%	-0.40%
Japan	**Consumer price index (CPI)** It estimates changes in the cost of living by measuring changes in the prices of certain items for which the consumers allocates their money.	September YoY%	2.90%	3.00%	3.00%

Source: Bloomberg