CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(18 – 22 April 2022)

Podgorica, 27 April 2022

FX NEWS

EUR/USD

Source: *Bloomberg LP*

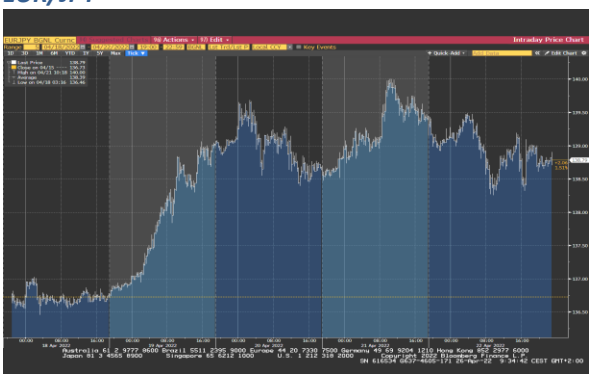
Earlier this week, the **EUR/USD exchange rate** depreciated due to the USD appreciation resulting from fears of a Russian offensive in Ukraine and concerns about stagflation due to COVID measures in China. The exchange rate started appreciating on Tuesday afternoon as rising return on the European bond market caused the euro to appreciate. There were expectations that data on euro area industrial production and the producer price index in Germany would be better than previous readings (as confirmed the next day). On Wednesday and Thursday, the exchange rate appreciated significantly. The released March data on the decline in existing real estate sales affected the USD, resulting in revising the February data downwards. On the other hand, the euro appreciated as some ECB officials' statements indicated that they opted for "earlier than later", starting the process of monetary policy normalisation in the euro area. Thus, market participants began to expect three interest rate hikes by the end of the year. Mārtiņš Kazāks, an ECB Governing Council member, said that interest rates could rise as early as July and that the ECB was on a "solid path of monetary policy normalisation". He added he would not question traders' expectations that this year's deposit rate will be increased to 0%. The ECB vice-president Luis de Guindos believed the ECB should end the incentive programme in July and that interest rates could rise even in the same month depending on the June projections. After this, the exchange rate depreciated, continuing the downward trend until Friday, as expectations of a more aggressive Fed monetary policy tightening supported the US currency. Namely, Fed President Jerome Powell said on Thursday that a 50 basis points interest rate increase was possible at the May meeting. He was not the only one supporting a higher rate increase, and markets expected the Fed to raise interest rates by 50 basis points each in May and June. On the other hand, the euro depreciated due to the uncertainty over the presidential elections in France. The exchange rate ended the reporting week at a slightly lower level than its beginning. The second round of French elections was on Sunday, and the current president Macron won.

EUR/GBP

Source: *Bloomberg LP*

The markets were closed on Monday due to the holidays. At the weekly level, the **EUR/GBP exchange rate** appreciated. Early this week, analysts said that the BoE was likely to withdraw further interest rate hikes, as recent data showed that the UK economy grew by only 0.1% in February due to rising inflation, high uncertainty over Ukraine's war and China's lockdown. Such a decision would greatly disappoint the market, which expects the interest rate to increase up to 130 basis points by the end of the year. The euro appreciated due to the prediction that Macron would win the elections in France on Sunday, and the latest research showed his lead. The IMF warned that the UK was facing the biggest inflationary shock compared to the leading economies for the next two years, and economic growth this and next year will be 1% lower than previous forecasts. On Wednesday, the exchange rate fluctuated. The UK said it would ban imports of Russian oil by the end of the year and that the EU would also almost certainly set a future date for a total ban. Market focused attention on potential BoE signals. Prime Minister Johnson announced a visit to the West Indian state of Gujarat and a meeting with Prime Minister Narendra Modi in New Delhi. Johnson hoped to conclude new economic agreements with the vast former colony and pull India away from Russia in response to Ukraine's invasion. On Friday, the sterling depreciated after releasing unfavourable data on consumer confidence and the UK economy.

EUR/JPY



Source: *Bloomberg LP*

This reporting week, the **EUR/JPY exchange rate** appreciated. On Tuesday, the exchange rate appreciated sharply as the yen depreciated due to growing prospects that the gap in monetary policies led by the Fed and the BoJ would increase even more. Later in the week, the exchange rate fluctuated, but the yen generally remained weak. The Minister of Finance of Japan warned of the rapid weakening of the Japanese currency and pointed out that such a movement could be harmful to the economy, related mainly to the growth of import costs. In addition, Japan recorded a trade deficit in March as exports to China slowed down, energy prices rose and increased import costs, and due to the economic challenges caused by the war in Ukraine. On Friday, the exchange rate depreciated after announcing that Japan's Minister of Finance discussed the idea of coordinated intervention in the currency market with his American colleague at the meeting of G7 leaders.

Table 1 - Exchange rates of the most important currencies

	18.04.2022.[1]	22.04.2022[2]	% Change
EUR/USD	1.0810	1.0790	-0.19
EUR/GBP	0.82784	0.84111	1.60
EUR/JPY	136.73	138.79	1.51
EUR/AUD	1.46161	1.49039	1.97
EUR/CHF	1.01961	1.03370	1.38
USD/JPY	126.46	128.50	1.61
GBP/USD	1.3060	1.2839	-1.69

Table 2 - Overview of the reference interest of the leading central banks

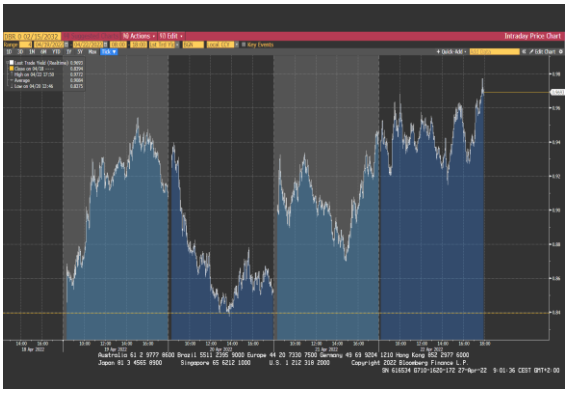
Central Bank	Reference interest rate name	Reference interest rate level	Next meeting
European Central Bank	ECB main refinancing rate	0.00%	9 June 2022
Federal Reserves	Federal Funds Target Rate	0.50%	4 May 2022
Bank of Japan	Overnight Call Rate	-0.10%	28 April 2022
Bank of England	Official Bank Rate	0.75%	5 May 2022
Swiss National Bank	Libor Target Rate	-0.75%	16 June 2022
Bank of Canada	Target Overnight Rate	1.00%	1 June 2022
Reserve Bank of Australia	Cash Rate Target	0.10%	3 May 2022

Table 3 – ESTR and Euribor

	18.04.2022[1]	22.04.2022[2]	Change in basis points
ESTR	-0.586	-0.583	0.30
Euribor 1W	-0.560	-0.570	-1.00
Euribor 1M	-0.547	-0.520	2.70
Euribor 3M	-0.452	-0.427	2.50
Euribor 6M	-0.317	-0.268	4.90
Euribor 12M	0.003	0.084	8.10

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

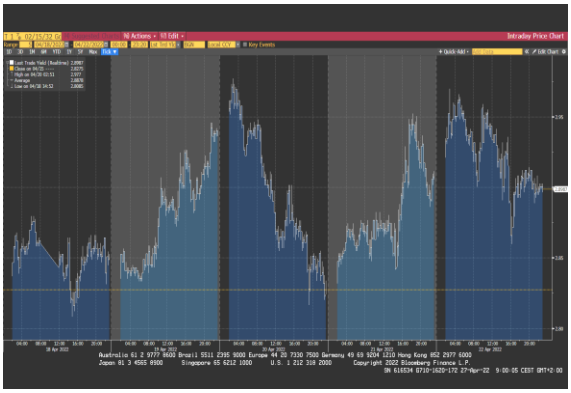
EUROPEAN GOVERNMENT BONDS MARKET



Source: *Bloomberg LP*

The German government bond market was closed on Monday due to the holidays. Return on German 10-year bonds rose on Tuesday after increasing expectations that the ECB would raise interest rates, after an ECB Governing Council member Mārtiņš Kazāks said interest rates could increase in July due to "significant" inflation risks. In the middle of the week, the return on these bonds fell sharply after the IMF announced that global economic growth for 2022 would be 3.6%, down 0.8% from previous forecasts. For the rest of the week, the return on 10-year bonds grew due to rising expectations that the ECB would tighten monetary policy more aggressively than previously expected. At the end of the period, the return on 10-year German bonds stood at 0.96%.

US GOVERNMENT BONDS MARKET



Source: *Bloomberg LP*

Due to the holidays, the bond market was closed in the United States on Monday. The return on these bonds rose on Tuesday as the St. Louis Fed Chair said that the central bank should start with a rapid interest rate increase of 50 basis points so that the reference interest rate reaches 3.5% at the end of the year. In the middle of the week, the return recorded a sharp drop as investors became concerned that the Fed's aggressive monetary policy tightening could cause an economic growth slowdown. The return on these bonds recovered on Thursday, expecting the Fed to tighten monetary policy more aggressively. Friday concerns over the coronavirus spread brought the return on 10-year US bonds down to 2.89% at the end of the week.

GOLD

Source: Bloomberg LP

The markets were closed on Monday due to the holidays. On Tuesday, the gold price fell sharply mainly due to the increased return on US government bonds, reducing the demand for safe assets. The next day, the price recovered slightly due to the USD depreciation. The recovery did not last long as St. Louis Fed Chair said the "door was open" for a 50 basis points interest rate hike, indicating a faster US monetary policy tightening. At the very end of the week, this precious metal's price dropped due to the USD appreciation and the forecast of a faster interest rate increase in the USA. Fed Chair Jerome Powel outlined his most aggressive approach to inflation, saying a 50 basis points increase was possible at a meeting in May. Traders are now assessing the possibility of increasing the rate by 50 basis points at each subsequent meeting.

OIL

Source: Bloomberg LP

The markets were closed on Monday due to the holidays. On Tuesday, oil prices fell as the IMF cut its global economic growth forecast, raising market concerns about economic slowdowns and declining demand. The next day, the oil price fluctuated. The US Department of Energy announced that crude oil stocks fell by 8 million barrels last week, contrary to expectations (a stock increase of 2.2 million barrels was expected). At the same time, Russian production fell, and on the other hand, there were protests in Libya, which disrupted the supply process. EU members are increasingly working to reduce dependence on Russian oil, and the German foreign minister said that the country plans to stop imports by the end of the year, as the end of the war in Ukraine is still not in sight. On Thursday, the oil price weakened as China faced a significant blow to consumption due to the introduction of Covid measures (China's oil imports are expected to fall 20% in April). Moreover, Fed signalled that it would tighten monetary policy aggressively to curb the rising inflation. On the last day, the price continued to weaken as Russia continued to produce and sell its oil to Europe and other countries despite the war with Ukraine.

Table 4 - Economic indicators (18 – 22 April 2022)

Current value	Indicator	Euro area	Expected value	Current value	Previous value
Euro area	**Industrial output** This indicator measures the production output in mining and exploitation, production and public utilities (electricity, gas and water).	February MoM% (YoY%)	0.7% (1.5%)	0.7% (2.0%)	-0.7% (-1.5%)
	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.	March – final data MoM% (YoY%)	2.5% (7.5%)	2.4% (7.4%)	2.5% (7.5%)
	(Euro area Consumer Confidence) This figure is the result of a survey of euro area consumers in terms of their labour market finances, willingness to save, and expectations regarding the economy.	April	-20.0	-16.9	-18.7
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.	March MoM% (YoY%)	2.7% (30.0%)	4.9% (30.9%)	1.4% (25.9%)
USA	**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 MoM%	-4.1%	-2.7%	-8.6%
Japan	**Trade balance** This indicator measures the difference between products and services leaving the country and those entering the country.	March B=bill.	-¥71.5b	-¥412.4b	-¥669.7b
	Exports Products and services produced in Japan, sold or pending for sale outside of Japan.	March YoY%	17.1%	14.7%	19.1%
	Imports Japan's demand for foreign products.	March YoY%	28.9%	31.2%	34.1%

Source: Bloomberg