CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(19 - 23 September 2022)

Podgorica, 28 September 2022

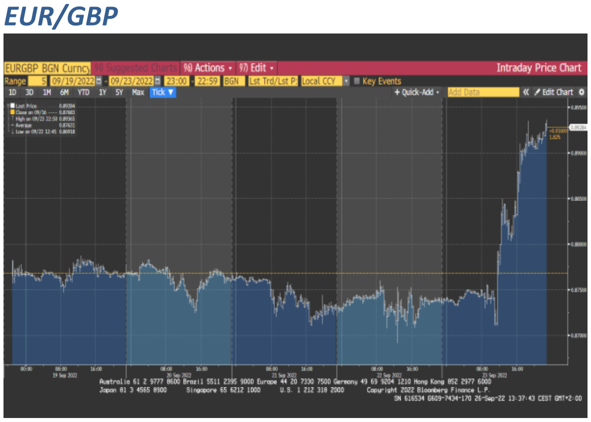
FX NEWS

EUR/USD

Source: Bloomberg LP

The **EUR/USD exchange rate** continued to depreciate in this reporting week. The exchange rate did not register any significant changes on Monday, but it started depreciating on Tuesday. The main reason for the trend was USD appreciation awaiting the Fed meeting. After the meeting, at which the interest rate was increased by 75 basis points as expected, the exchange rate continued to depreciate. The exchange rate depreciation also resulted due to the euro's depreciation. Namely, the euro depreciated as the ECB announced that the euro area had a current account deficit of 19.9 billion euros in July, after a 4.2 billion euros surplus in June, due to increased imports of expensive oil and gas. The euro was under pressure due to Putin's threats that the situation in Ukraine would escalate and the parliamentary elections in Italy. The exchange rate's depreciation remained until the end of the week. The exception was on Thursday, mainly due to the statement of an ECB Governing Board member, Isabel Schnabel, that the euro area's economy was facing a slowdown and still high inflation, so the interest rate increase trend must continue. At the very end of the week, the exchange rate stood at 0.9668.

EUR/GBP



Source: Bloomberg LP

The **EUR/GBP exchange rate** was stable during most of this reporting period and hovered around 0.8750 almost until Friday. Neither the BoE meeting on Thursday nor the interest rate increase by 50 basis points resulted in a significant exchange rate change. The EUR/GBP exchange rate appreciated significantly on Friday as the UK government introduced a fiscal stimuli package. The package will most likely further "fuel" inflation and increase indebtedness, resulting in the British currency's depreciation.

EUR/JPY

Source: Bloomberg LP

The **EUR/JPY exchange rate** depreciated this week. Early this week, the exchange rate did not change significantly. It even showed appreciation as the yen was under pressure due to the Fed and the BoJ meetings and potential Japan's intervention in the currency market. Moreover, the consumer price index in Japan rose at the fastest pace in eight years in August. It is expected that the BoJ will not change the monetary policy at the meeting, while the Fed is widely expected to increase the interest rate by 75 basis points. Since Tuesday afternoon, the exchange rate depreciated as the euro has been under pressure due to geopolitical events. The outcomes of the Fed and BoJ meetings were as expected. On Thursday, after the BoJ meeting, the EUR/JPY appreciated sharply to depreciate even more soon. Namely, after the meeting, Japan intervened in the currency market for the first time since 1998, which led to the yen's appreciation. The exchange rates' depreciation continued on Friday at a slightly slower pace amid reduced market activity due to Japan's Autumnal Equinox Day holiday.

Table 1 - Exchange rates of the most important currencies

	19.09.2022[1]	23.09.2022[2]	% Change
EUR/USD	1.0016	0.9687	-3.28
EUR/GBP	0.87683	0.89294	1.84
EUR/JPY	143.22	138.93	-3.00
EUR/AUD	1.49159	1.48477	-0.46
EUR/CHF	0.96595	0.95235	-1.41
USD/JPY	142.92	143.31	0.27
GBP/USD	1.1420	1.0859	-4.91

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%	22 September 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	2.35%	4 October 2022

The Fed, the BoJ, the BoE and the Central Bank of Switzerland held meetings last week.
Fed and SNB increased interest rates by 75 basis points each, in line with expectations. The Fed has signalled it will continue to tighten monetary policy even more aggressively than investors expect. President Powell and his colleagues are steadfast in their determination to bring the inflation rate to the 2% target level, and Powell added that there is no "painless" way to do so.
The BoE increased the interest rate by 50 basis points to deal with rising inflation, and committee members were divided on the increasing amount (five members voted for a 50 basis point increase, three voted for a 75 basis points increase, and one for a 25 basis points increase).
Unlike previous central banks, the BoJ kept interest rates at ultra-low levels.

Table 3 – ESTR and Euribor

	19.09.2022[1]	23.09.2022[2]	Change in basis points
ESTR	0.6600	0.6620	0.20
Euribor 1W	0.6460	0.6540	0.80
Euribor 1M	0.6780	0.6980	2.00
Euribor 3M	1.0630	1.1530	9.00
Euribor 6M	1.6720	1.8030	13.10
Euribor 12M	2.2630	2.5000	23.70

[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 rose this week, awaiting another big interest rate hike by the Fed and other central banks. The return on 10-year German government bonds rose as the producer price index rose more than expected annually in Germany (the index rose 45.8% in August versus the expected 36.8%). The return weakened after the news that Russia's President Vladimir Putin ordered a partial mobilisation to keep Ukraine's occupied territory. On Wednesday afternoon, the return rose again as traders increased their expectations regarding the ECB's interest rate increase, as the oil price rose due to Putin's announcement. On Friday, the return on 10-year German government bonds rose, to fall in the afternoon awaiting parliamentary elections in Italy.

US GOVERNMENT BONDS MARKET

Source: *Bloomberg LP*

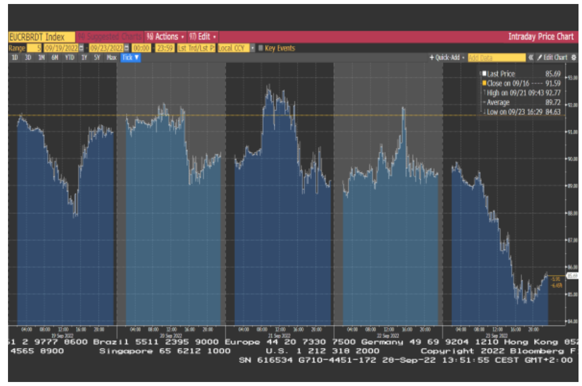
The return on 10-year US government bonds recorded a weekly rise. The return on 10-year US government bonds tumbled awaiting the Fed meeting on Monday and averaged 3.48%. After that, encouraging data from the US real estate market contributed to the return increase (US real estate construction unexpectedly rose 12.2% in August). On Wednesday, the return reached 3.62% after the interest rate increase. After the conference that pointed out the possible economic growth slowdown, it fell and stood at 3.53% at the end of the day. The next day, the return trended up again as several central banks (England, Switzerland, Sweden, Norway, Vietnam, Indonesia, Taiwan, Philippines, and Guatemala) raised their interest rates to limit inflation rise. The return on 10-year US bonds rose on Friday, as the Fed was still expected to continue interest rates rise. In his speech, the Fed's Chair pointed out that the US economy was entering a "new normal" after the disruption caused by the coronavirus pandemic and added that they continue to face a very unusual set of disruptions.

GOLD

Source: Bloomberg LP

The gold price was relatively stable during most of this reporting period and hovered around 1,667 USD/oz. tr. The Fed meeting in the middle of the week neither had a significant impact on this precious metal's price trend. The gold price made a more substantial change only on Friday when it fell due to a combination of several factors: the USD appreciation against most currencies and the growing expectation that the Fed will continue its interest rate increase policy.

OIL



Source: Bloomberg LP

The oil price had almost the same trend as the gold price. During the first four days, it recorded no pronounced trend. However, it experienced a more prominent drop on Friday. Namely, the decline in the mentioned period occurred as the USD appreciated to a 20-year high against a basket of currencies. The fear that the continued interest rate increase policy would push the world's leading economies into recession also had a negative effect on the oil price.

Table 4 – Economic indicators (19 – 23 September 2022)

Current value	Indicator	Period	Expected value	Current value	Previous value
Euro area	**ECB Current Account** The current account is part of the balance of payments and tracks all transactions, except financial ones, including economic values and occurring between residents of a country and non-residents. The main components include trade in goods and services, income and current transfers.	July b=bill.	-	-19.9 b	4.2 b
	S&P Global Eurozone Manufacturing, Services, Composite PMI PMI surveys tracks opinion among procurement managers at manufacturing, construction and/or services firms. The index was obtained from the results of questionnaires related to production, orders, stocks, employment, prices, etc.	September Preliminary data	48.8 49.1 48.2	48.5 48.9 48.2	49.6 49.8 48.9
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.	August MoM% YoY%	2.4% 36.8%	7.9% 45.8%	5.3% 37.2%
Great Britain	**GfK Consumer Confidence** This index measures the level of households' confidence in terms of economic performance.	September	-42.0	-49.0	-44.0
Japan	**Natl CPI** It measures changes in the prices that consumers pay for a basket of products and services.	August YoY%	2.9%	3.0%	2.6%
USA	**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).	August MoM%	0.3%	12.2%	-9.6%
	S&P Global Eurozone Manufacturing, Services, Composite PMI PMI surveys tracks opinion among procurement managers at manufacturing, construction and/or services firms. The index was obtained from the results of questionnaires related to production, orders, stocks, employment, prices, etc.	September Preliminary data	51.0 45.5 46.1	51.8 49.2 49.3	51.5 43.7 44.6
	Current Account Balance The current account is part of the balance of payments and tracks all transactions, except financial ones, including economic values and occurring between residents of a country and non-residents. The main components include trade in goods and services, income and current transfers.	Q2 b=bill.	-$260.0 b	-$251.1 b	-$291.4 b

Source: Bloomberg