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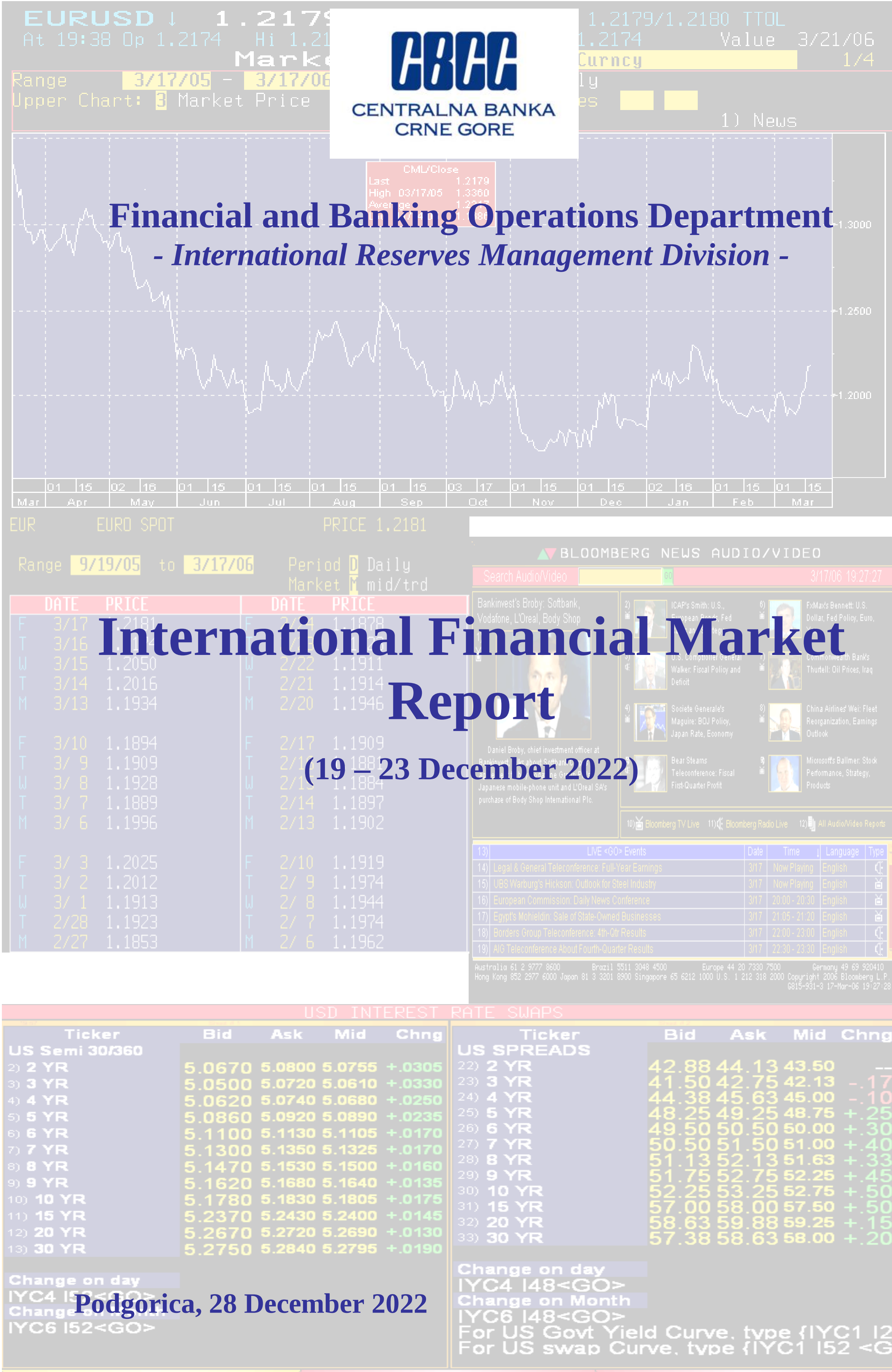


Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(19 – 23 December 2022)

Podgorica, 28 December 2022

FX NEWS

EUR/USD

Source: *Bloomberg LP*

The **EUR/USD exchange rate** recorded large fluctuations during this reporting week. At the week's opening, the exchange rate first achieved a sharp appreciation after receiving upbeat data on the business climate index in Germany. Still, the exchange rate soon depreciated as the rise in the return on US bonds directed investors towards investments in the USD. On Tuesday, the exchange rate appreciated as the Central Bank of Estonia's Governor stated the ECB could not slow down the interest rates growth in the next meetings. The exchange rate fluctuated in the middle of the week but remained almost unchanged daily. The exchange rate depreciated sharply on Thursday as upbeat data on the US economy supported the Fed's view that the country's economy was strong enough to deal with further monetary policy tightening. At the end of this period, the exchange rate appreciated as an ECB Governing Council member, Klaas Knot, stated that the central bank must be "there in the long game". He added that a "quite decent pace of tightening" monetary policy can be expected in the next five meetings until July 2023.

EUR/GBP

Source: *Bloomberg LP*

The **EUR/GBP exchange rate** appreciated this reporting week. At the beginning of the week, the euro was supported by data indicating increased investor confidence in this country. The euro was also supported by expectations that the ECB and the BoE would continue to raise interest rates in February but that the BoE would raise the rate at a slower pace than the ECB. The UK's Prime Minister stated the country was facing a recession and high inflation. The BoE will continue to increase the interest rate through 2023, and the peak is predicted in May, when the rate could reach 4.25%. At the beginning of 2024, interest rates are expected to fall. The EUR/GBP exchange rate appreciated on Wednesday after announcing that public borrowing unexpectedly increased by 22 billion pounds compared to 8.1 billion pounds in the same period last year. The following day, the exchange rate appreciation was caused by the sterling's depreciation following the announcement that the UK's GDP fell more than expected (0.3% vs 0.2%) and that household incomes were down for the fourth consecutive quarter. At the end of the week, the exchange rate did not fluctuate significantly, awaiting the holidays.

EUR/JPY

Source: *Bloomberg LP*

The **EUR/JPY exchange rate** registered a slight appreciation on Monday, which was interrupted on Tuesday morning after the BoJ surprised the market by deciding to allow the return on 10-year Japanese bonds to rise to around 0.50% (previously, the upper limit up to which the return was allowed to grow was 0.25%). This decision caused the exchange rate to depreciate sharply on Tuesday, and the exchange rate was stable and hovered around 141 during the rest of the week.

Table 1 - Exchange rates of the most important currencies

	19.12.2022[1]	23.12.2022[2]	% Change
EUR/USD	1.0586	1.0617	0.29
EUR/GBP	0.8715	0.8811	1.09
EUR/JPY	144.83	141.05	-2.61
EUR/AUD	1.5825	1.5797	-0.18
EUR/CHF	0.9885	0.9910	0.25
USD/JPY	136.60	132.91	-2.70
GBP/USD	1.2148	1.2053	-0.78

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	2.50%	2 February 2023
Federal Reserves	Federal Funds Target Rate	4.50%	1 February 2023
Bank of Japan	Overnight Call Rate	-0.10%	18 January 2023
Bank of England	Official Bank Rate	3.50%	2 February 2023
Swiss National Bank	Libor Target Rate	1.00%	23 March 2023
Bank of Canada	Target Overnight Rate	4.25%	25 January 2023
Reserve Bank of Australia	Cash Rate Target	3.10%	3 January 2023

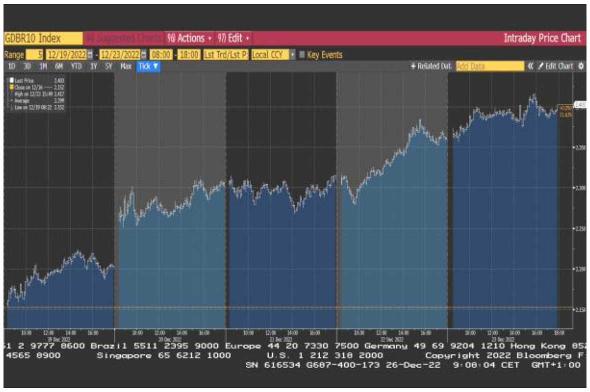
The BoJ did not change the interest rate during its regular meeting. However, it surprised the market by allowing the return on 10-year government bonds to fluctuate +/- 0.50% from the previous range of +/- 0.25%. The BoJ Governor Haruhiko Kuroda said the adjustment did not mean a monetary policy tightening. However, observers saw the move as a step away from the central bank's ultra-loose strategy.

Table 3 – ESTR and Euribor

	19.12.2022[1]	23.12.2022[2]	Change in basis points
ESTR	1.402	1.8887	48.67
Euribor 1W	1.542	1.885	34.30
Euribor 1M	1.748	1.910	16.20
Euribor 3M	2.047	2.141	9.40
Euribor 6M	2.569	2.701	13.20
Euribor 12M	2.993	3.238	24.50

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

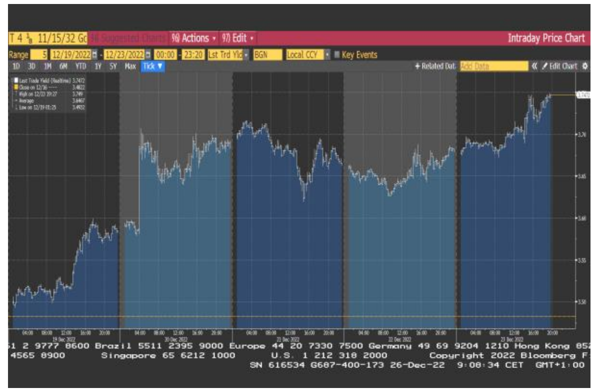
EUROPEAN GOVERNMENT BONDS MARKET



Source: *Bloomberg LP*

This reporting week, the return on 10-year German government bonds rose from 2.15% to 2.40%. On Monday, the return rose to 2.20% as expectations concerning future increases increased following the ECB officials (Gindos and Simkus) statements suggesting that the interest rate would increase again by 50 basis points in February. At the market opening on Tuesday, the return was even higher (2.26%), and the growing trend continued during the day to 2.30%, as another ECB Governing Council member, Nigel, reminded that the central bank was far from reaching its inflation target. The return rise partly resulted from the BoJ decision at the meeting on Monday to increase the limit up to which the return on 10-year could move from 0.25% to 0.50%. In the middle of the week, the return on 10-year German government bonds did not show any significant changes, only to continue growing in the last two days. The rise in the return was caused by increased expectations concerning an increase in the ECB's interest rate. Namely, the markets expected the ECB interest rate to reach a maximum of 3.5% by July after ECB official Sturnaras stated the deposit rate could reach 3% in March.

US GOVERNMENT BONDS MARKET



Source: *Bloomberg LP*

In this reporting week, the return on 10-year US government bonds rose from 3.50% to 3.75%. Already on Monday, the return trended up as investors' expectations that central banks will continue to raise rates increased after a series of interest rate increases around the world in the week preceding this one despite the impact on the economy. The BoJ's decision to increase the limit up to which the trend on 10-year bonds can move the next day further influenced the return growth, so the return on 10-year bonds was at 3.68% at the end. In the middle of the week, the return declined due to indications that US consumer confidence was improving, awaiting the release of fresh US inflation data. After announcing on Thursday that US GDP in Q3 was revised upwards, the return on 10-year US government bonds recovered. The next day, it was announced that the key PCE deflator (prices for personal consumption expenditures when food and energy are excluded) rose more than expected in November compared to the same period last year, 4.7% vs 4.6%, so the return rose. The return increase was also caused by the new real estate sale increase in November by 5.8% monthly, despite the expected 5.1% decrease.

GOLD

Source: Bloomberg LP

The gold price was stable on Monday, to achieve a sharp increase on Tuesday as the USD depreciated against a basket of currencies and after announcing that new real estate construction fell 0.5% in November in the USA. The gold price was stable in the middle of the week and hovered around 1815 USD/oz. tr. The USD appreciation relative to most currencies and the growing expectation that the Fed would continue to increase the interest rate caused the gold price to drop sharply on Thursday. The gold price was relatively stable on Friday.

OIL

Source: Bloomberg LP

The oil price declined slightly during the first two days of this week. The oil price trended up from the middle until the end of the week after announcing that this fuel’s stocks in the USA fell by 3.1 million barrels during the previous week. The increase in oil prices was additionally influenced by the Deputy Prime Minister of Russia’s statement that the country could reduce oil production by 5% to 7% in 2023 in response to the price restrictions introduced by the G7 countries.

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

Country	Indicator	Period	Expected value	Current value	Previous value
Euro area	**Consumer Confidence** An assessment of consumer confidence in terms of business conditions, employment and personal income. The Consumer Confidence Index is tied to personal consumption.	December	-22.0	-22.2	-23.9
Germany	**Consumer price index (CPI)** It estimates the changes in the cost of living, by measuring changes in the price level of market basket of consumer goods and services purchased by an average household in Germany.	November MoM% YoY%	-1.7% 31.1%	-3.9% 28.2%	-4.2% 34.5%
	IFO Business climate It refers to a survey of German companies on the current conditions (state) of business in Germany, and their expectations for the next six months.	December	87.5	88.6	86.3
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.	November MoM%	-1.8%	-0.5%	-4.2%
	Building Permits The indicator shows the number of permits for constructing new buildings. It is susceptible to interest rate changes since bank loans are needed for construction. These data are prone to seasonal fluctuations due to the real estate market's nature. The construction process directly relates to the population's income. Hence, the increased construction volume marks the improvement of its well-being and the healthy development of the economy.	November K=1.000	1480 K	1342 K	1526 K
	PCE Deflator The deflator of expenditures for personal consumption monitors on a monthly level the total price changes of goods and services purchased by consumers.	November MoM% YoY%	0.1% 5.5%	0.1% 5.5%	0.6% 6.0%
Great Britain	**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.	Q3 QoQ% YoY%	-0.2% 2.4%	-0.3% 1.9%	-0.2% 2.4%

Source: Bloomberg