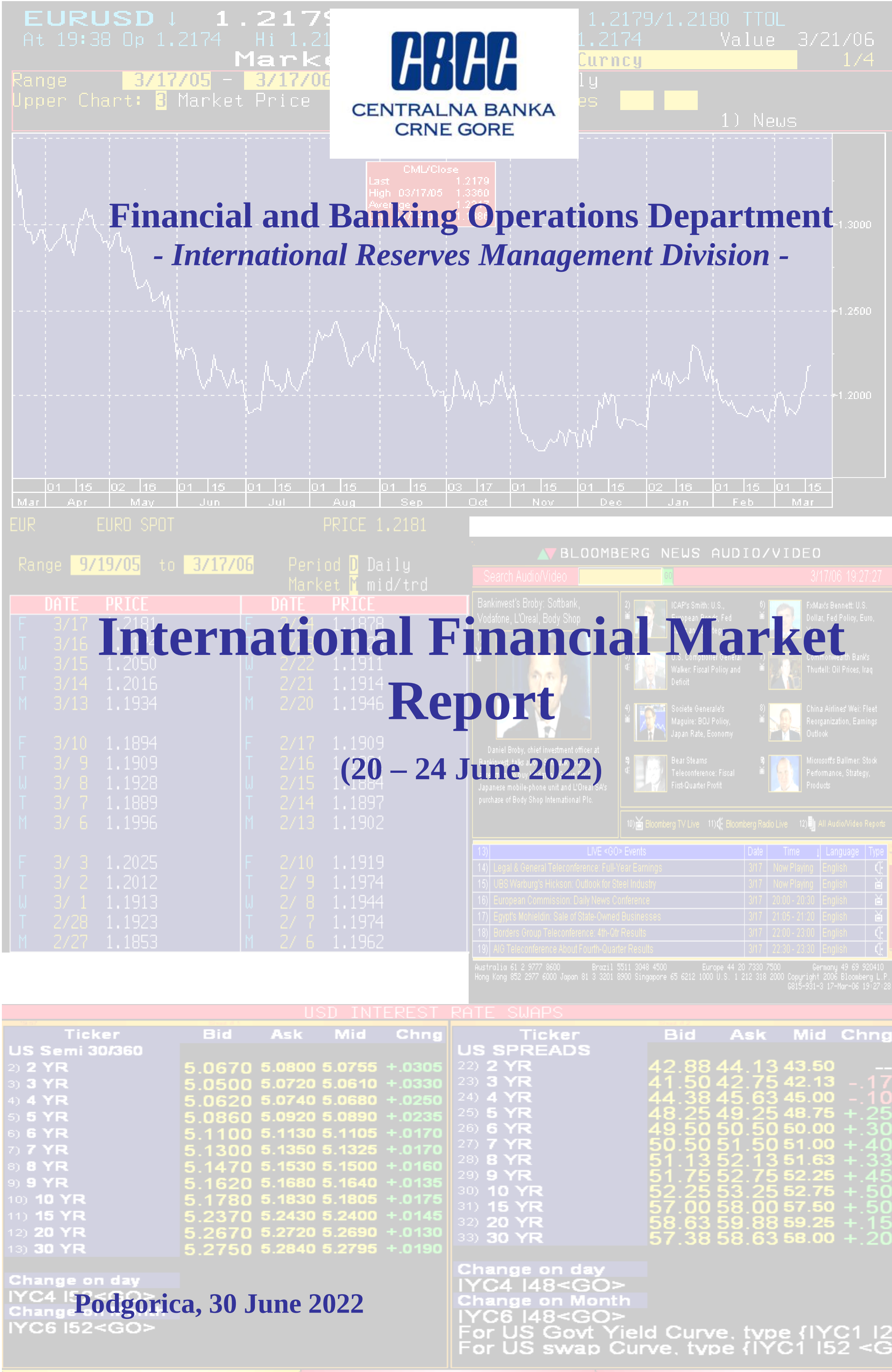


CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

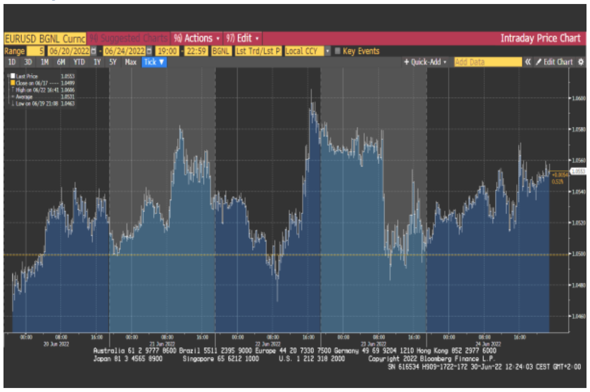
International Financial Market Report

(20 – 24 June 2022)

Podgorica, 30 June 2022

FX NEWS

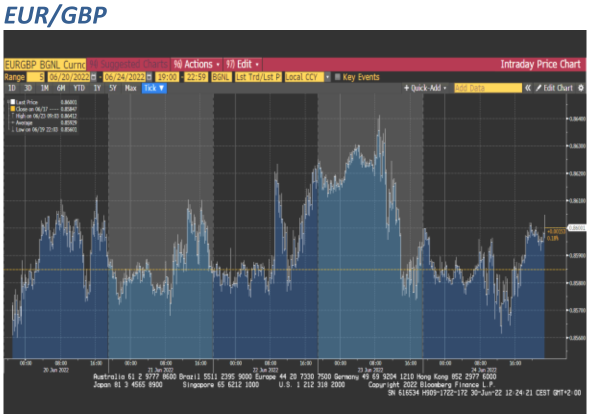
EUR/USD



Source: *Bloomberg LP*

The **EUR/USD exchange rate** appreciated during the first two days of the reporting week. The euro's appreciation to the USD occurred when the ECB President repeated that it would increase the interest rate by 25 basis points in July. In the middle of the week until the middle of the day, this exchange rate weakened, to record a sharp increase in the middle of the day, as market participants were convinced that the FED's efforts to limit inflation would lead to a recession in the US economy. On Thursday, this exchange rate depreciated due to unfavourable economic data from the euro area (the index that measures the activity of the euro area's service sector fell from 56.1 in May to 52.5 in June, and the drop exceeded the expected 55.5). During the last day, the EUR/USD exchange rate recorded an increase as expectations slightly reduced regarding the speed at which the FED would increase the interest rate due to the fear of the interest rate increase impact on the US economic activity.

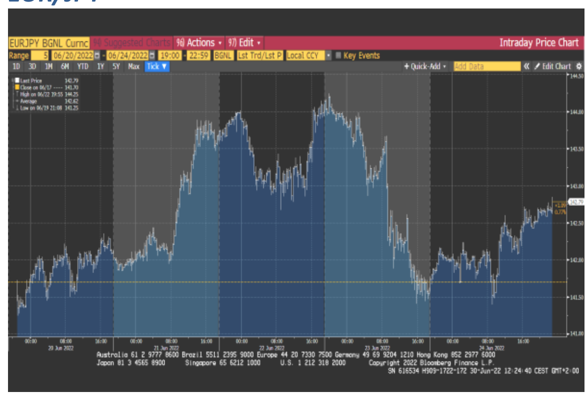
EUR/GBP



Source: *Bloomberg LP*

The **EUR/GBP exchange rate**, with fluctuations, appreciated during the first three days of this week. The euro was supported by the ECB President's statement indicating that the ECB would increase the interest rate by 25 basis points in July. The EUR/GBP exchange rate growth in this period was limited by the fact that inflation in Great Britain rose in May to the highest level in the last 40 years (a 9.1% annual growth). It will significantly affect the BoE to continue with the policy of increasing interest rates, favouring the sterling's appreciation. On Thursday, the exchange rate recorded a sharp drop after unfavourable economic data arrived from the euro area, while the exchange rate was relatively stable on Friday.

EUR/JPY



Source: *Bloomberg LP*

The **EUR/JPY exchange rate** appreciated on Monday and Tuesday. The exchange rate appreciation occurred because the BoJ insisted on continuing the ultra-loose monetary policy, which harmed the yen. In the middle of the week, this exchange rate did not change significantly, to experience a sharp drop on Thursday as the market speculated more and more that the USA could fall into recession. At the very end of this period, the EUR/JPY exchange rate recovered slightly.

Table 1 - Exchange rates of the most important currencies

	20.06.2022[1]	24.06.2022[2]	% Change
EUR/USD	1.0499	1.0553	0.51
EUR/GBP	0.85847	0.86001	0.18
EUR/JPY	141.70	142.79	0.77
EUR/AUD	1.51507	1.51921	0.27
EUR/CHF	1.01830	1.01115	-0.70
USD/JPY	135.02	135.23	0.16
GBP/USD	1.2241	1.2268	0.22

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%	21 July 2022
Federal Reserves	Federal Funds Target Rate	1.75%	27 July 2022
Bank of Japan	Overnight Call Rate	-0.10%	21 July 2022
Bank of England	Official Bank Rate	1.25%	4 August 2022
Swiss National Bank	Libor Target Rate	-0.25%	22 September 2022
Bank of Canada	Target Overnight Rate	1.50%	13 July 2022
Reserve Bank of Australia	Cash Rate Target	0.85%	5 July 2022

Table 3 – ESTR and Euribor

	20.06.2022[1]	24.06.2022[2]	Change in basis points
ESTR	-0.5820	-0.5800	0.2
Euribor 1W	-0.568	-0.572	-0.4
Euribor 1M	-0.487	-0.553	-6.6
Euribor 3M	-0.169	-0.218	-4.9
Euribor 6M	0.291	0.223	-6.8
Euribor 12M	1.124	0.975	-14.9

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

EUROPEAN GOVERNMENT BONDS MARKET

Source: *Bloomberg LP*

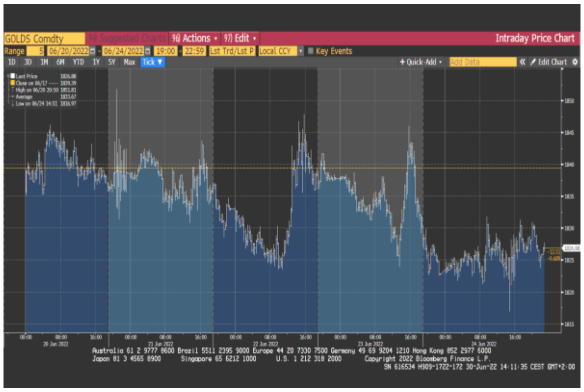
The return on German 10-year government bonds trended up slightly during the first two days of this week. The return increase occurred as the ECB reiterated its readiness to deal with unjustified jumps in the trend of rates by which certain vulnerable economies of the euro area borrow. The trend of falling return on these bonds lasted from the middle of the week until its end. The decline came as demand for safe-haven assets increased amid fears that the US economy was headed for recession. At the same time, the unfavourable data from the euro area affected the increasing expectations, and the region could face a recession. Namely, the index measuring the service sector of the euro area fell from 56.1 in May to 52.5 in June, with the expected 55.5. At the same time, the index measuring the production sector's activity indicated a slowdown, falling from 54.6 in May to 52 in June, with the expected 54.6.

US GOVERNMENT BONDS MARKET

Source: *Bloomberg LP*

The markets were closed on Monday due to the holiday. The period of falling return on US bonds began on Tuesday. The return fall was caused by growing concerns that the US was heading for a recession, which turned investors towards safe-haven assets, and this was reflected in the rising demand for US bonds consistently this week.

GOLD



Source: Bloomberg LP

The gold price trended down until the middle of the week. The drop in the price of gold was caused by the comments of the FED Chair that the central bank's willingness to curb inflation was “unconditional”. At the end of Wednesday, the gold price recorded a sharp jump as the USD fell against a basket of currencies increased demand for gold. During the last two days, this precious metal's price dipped again. The dip occurred as the St. Louis Fed Chair said that the central bank must act “honestly and aggressively” to curb inflation.

OIL

Source: Bloomberg LP

The oil price was stable during the first two days of this reporting period. On Wednesday, there was a slightly more significant oil price drop as concerns emerged that there could be a recession in the US economy. Over the next two days, the oil price increased due to the limited amount of oil in the market. However, the oil price growth was limited, expecting that the leading central banks' policy of increasing interest rates would lead to a recession globally.

Table 4 - Economic indicators (20 – 24 June 2022)

Current value	Indicator	Euro area	Expected value	Current value	Previous value
Germany	**Producer Price Index (PPI)** This index measures changes in sale prices of goods and services used by producers. Producers transfer higher costs to consumers through retail prices, thus PPI is important as an early inflation indicator.	May MoM% YoY%	1.5% 33.80%	1.60% 33.60%	2.8% 33.50%
EC	**Consumer Confidence** This index measures the level of households' confidence in terms of economic performance.	June	-20.5	-23.6	-21.1
USA	**New Home Sales** The indicator shows the sale of newly built properties in the United States. The figure is a temporary indicator of the housing market calculating the sale of houses when housing contracts have been signed.	May MoM%	-0.20%	10.70%	-16.60%
	(Initial Jobless Claims) This indicator measures the number of people receiving unemployment allowances. The growing number of jobs accompanies an economic expansion that could influence inflationary pressures.	18 June K=1.000	226K	229K	229K
Italy	**Consumer Confidence** This index measures the level of households' confidence in terms of economic performance.	June	103	98.3	102.7

Source: Bloomberg