CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(21 – 25 March 2022)

Podgorica, 30 March 2022

FX NEWS

EUR/USD

Source: *Bloomberg LP*

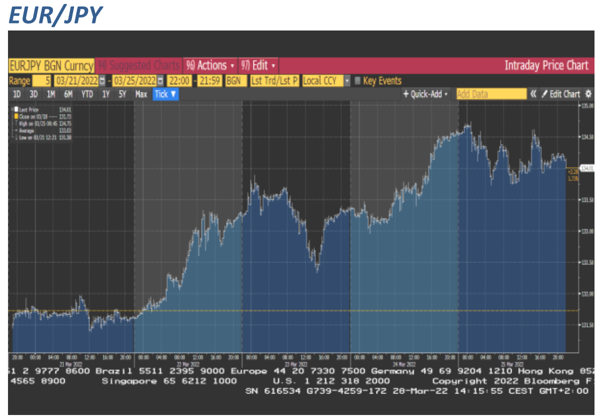
This reporting week, the **EUR/USD exchange rate** depreciated from 1.1051 to 1.0982. At the beginning of the week, the USD appreciated against the euro due to the Fed Chair's comments that the Fed was ready to increase the interest rate by 50 basis points at the next meeting, if necessary. On Tuesday afternoon, the exchange rate recovered from 1.0960 to 1.1045. ECB Council member Villeroy de Galhau said that the ECB should normalise its policy to keep inflation expectations at the target level. The ECB should not "overreact" to short-term energy prices volatility but focus on the medium term. The exchange rate fluctuated in the middle of the week, but a downward trend prevailed. According to the projections of the IFO Institute, Germany's economic growth will be between 2.2% and 3.1% this year (3.7% forecast in December) due to the effects of the Russian invasion on Ukraine stimulating inflation. The Institute expected inflation to range between 5.1% and 6.1% (3.3% forecast in December). St. Louis Fed Chair James Bullard called for a more aggressive interest rates increase, and other regional chairs shared the same view. Although the exchange rate recovered on Thursday, the Fed officials' statements continued to support the USD, so the exchange rate depreciated again at the end of the reporting week. IFO Institute data released on Friday showed that the index measuring the expectations of German companies for the next six months hit its nadir since the first months of the pandemic.

EUR/GBP

Source: *Bloomberg LP*

In the first two days of the reporting week, the **EUR/GBP exchange rate** depreciated. The market focused on the UK inflation data and the Chancellor of the Exchequer's budget presentation. On Wednesday, the euro compensated for some losses after announcing that UK annual inflation reached a 30-year high. Namely, the consumer price index rose by 6.2% in February, 6.0% more than expected, and 5.5% compared to the previous month. Britain currently has the highest inflation rate in the G7 countries, as energy prices have boosted. Last week, the BoE raised its annual inflation forecast for April-June to above 8% (4 times higher than the target). Meanwhile, the British Minister of Finance Sunak reduced taxes for workers, and customs duties on fuel, attempting to alleviate the severe pressure on the cost of living due to rising inflation and slowing economic growth. Sunak also announced an income tax reduction. The exchange rate fluctuated on Thursday. Still, the euro appreciated daily due to the release of better than expected data on euro area production indices and after releasing data on an unexpected decline in retail (February) and consumer confidence (March) in the UK. On Friday, the EUR/GBP exchange rate averaged around 0.83442.

EUR/JPY



Source: *Bloomberg LP*

The **EUR/JPY exchange rate** appreciated this reporting week. The main reason for the exchange rate appreciation was the yen's depreciation caused by growing interest rates differences in Japan and other leading economies. Namely, unlike the Fed, expected to raise interest rates seven times this year, and the ECB, expected to start raising interest rates this year, the Bank of Japan runs an ultra-expansive monetary policy. Governor Kuroda stated that the BoJ must continue this policy to support the economy. The yen also depreciated due to the rising return on US government bonds, stock prices on US stock exchanges, and commodity prices. The yen slightly appreciated on Friday as the growing return on the benchmark 10-year Japanese government bonds to the highest level since January 2016 raised speculation that the BoJ would intervene in the market, but the BoJ refrained from taking measures. On Friday, credit agency Fitch revised Japan's credit rating outlook from negative to stable and kept the rating at A.

Table 1 - Exchange rates of the most important currencies

	21.03.2022[1]	25.03.2022[2]	% Change
EUR/USD	1.1051	1.0983	-0.62
EUR/GBP	0.83861	0.83312	-0.65
EUR/JPY	131.73	134.04	1.75
EUR/AUD	1.49031	1.46139	-1.94
EUR/CHF	1.02981	1.02202	-0.76
USD/JPY	119.17	122.05	2.42
GBP/USD	1.3178	1.3182	0.03

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%	14 April 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%	16.06.2022
Bank of Canada	Target Overnight Rate	0.50%	13 April 2022
Reserve Bank of Australia	Cash Rate Target	0.10%	5 April 2022

The Swiss National Bank (SNB) held a meeting this reporting week, at which, as expected, it kept the interest rate unchanged. Due to high energy costs, production bottlenecks and the war in Ukraine, the SNB increased its inflation rate forecasts for this year from 1% to 2.1%. Although lower than in other countries, the projected inflation exceeds the targeted 0-2%. The SNB President stated that the SNB would take necessary measures to maintain price stability in the medium to long term.

Table 3 – ESTR and Euribor

	21.03.2022[1]	25.03.2022[2]	Change in basis points
ESTR	-0.578	-0.581	-0.30
Euribor 1W	-0.566	-0.561	0.50
Euribor 1M	-0.557	-0.546	1.10
Euribor 3M	-0.487	-0.477	1.00
Euribor 6M	-0.393	-0.392	0.10
Euribor 12M	-0.207	-0.142	6.50

[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 grew this week, mainly at the beginning of the week and at the very end, remaining relatively stable during the other days. The return growth was driven primarily by rising expectations that the ECB would raise interest rates this year due to rising inflation pressures. The Bundesbank Governor said that an interest rate increase was possible this year. In addition, better-than-expected data on production, service and composite indices in Europe impacted return growth. At the very end of the week, the return on these bonds made a slightly more significant jump, following the growth of the return on American bonds due to speculations of a faster interest rates rate increase in the USA. The return on 10-year bonds rose from 0.37% at the week's opening to 0.58% at the very end.

US GOVERNMENT BONDS MARKET

Source: *Bloomberg LP*

The return on 10-year US government bonds had an almost similar trend as the return on 10-year German bonds. At the very beginning of the week, the return on US bonds was growing, as the Fed Chair stated that it was possible to increase the interest rate by 50 basis points in May. The return did not change much during the rest of the week. It only jumped by some 15 basis points on Friday. The return growth in the mentioned period came after growing expectations that the Fed would increase the interest rate by even four times by 50 basis points this year. The return on 10-year bonds increased from an initial 2.15% to 2.48% at market close on Friday.

GOLD

Source: Bloomberg LP

At the beginning of the week, the gold price first rose due to the current Russia-Ukraine situation. Later, the growing returns on American government bonds caused a decreased demand for gold as a safe investment. On Wednesday, the gold price regained its value due to Fed Chair's comments that the Fed could increase the interest rate by 50 basis points at the next meeting. As the week continued, the demand for gold continued as the war in Ukraine stimulated inflation growth. Investors also assessed the impact of the new US sanctions on Russia and the economic growth outlook. In cooperation with NATO, the USA was preparing for Russia's possible use of biological, chemical or nuclear weapons, said the US Security Adviser. The gold price did not change significantly on Friday and averaged around 1,956.80 USD/oz. tr.

OIL

Source: Bloomberg LP

Oil prices rose on Monday as the war in Ukraine highlighted supply concerns over the Russian oil loss. Rising oil prices prompted importing countries to pressure other producers to increase supply, including OPEC members. Saudi Arabia said it could not be responsible for the decline unless it received additional help to stop the attack from Yemen, as Houthis attacked at least six plants over the weekend. Leading Japanese refineries have not signed new contracts for oil import from Russia. The oil price fell and averaged around 116.97 USD/bbl. the next day. On Wednesday, the oil price rose throughout the day after a government report showed the US crude oil inventories fell. On the other hand, a storm in the Black Sea, where a vital oil exports terminal, increased supply risks. Energy prices also rose because Russian President Vladimir Putin has said he would demand payment in RUR from natural gas buyers he considers "hostile". At the end of the week, the oil price fell after announcing that the White House and the EU were close to reaching an agreement aimed at reducing dependence on Russian energy. At the same time, Austria stated it would not agree to the imposition of an embargo on Russian oil and gas. On Friday, the chart showed price recovery signs, as Europe would not give up on Russian oil for now. However, the US President could announce a plan to increase natural gas supplies to Europe so that Europe relies at least less on Russia. On the same day, rebels also attacked oil plants in Saudi Arabia, contributing to rising prices.

Table 4 - Economic indicators (21 – 25 March 2022)

Current value	Indicator	Euro area	Expected value	Current value	Previous value
Euro area	**Consumer Confidence** This figure is the result of a survey of consumers in terms of their finances, labour market, willingness to save, and expectations regarding the economy.	March	-12.9	-18.7	-8.8
	S&P Global Eurozone Manufacturing, Services, Composite PMI PMI surveys tracks opinion among procurement managers at manufacturing, construction and/or services firms. The index is obtained from a questionnaire related to production, orders, stocks, employment, prices, etc.	March Preliminary data	56.0 54.3 53.8	57.0 54.8 54.5	58.2 55.5 55.5
Germany	**IFO Expectations** It is a monthly survey of German (production, construction, wholesale and retail) companies' expectations for the next 6 months.	March	92.0	85.1	99.2
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.	February MoM%	1.1%	-2.0%	-4.5%
	Durable Goods Orders This indicator monitors the value of new orders domestic producers receive in the reporting period. This indicator monitors the value of new orders domestic producers receive in the reporting period.	February Preliminary data	-0.6%	-2.2%	1.6%
	S&P Global Eurozone Manufacturing, Services, Composite PMI PMI surveys tracks opinion among procurement managers at manufacturing, construction and/or services firms. The index is obtained from a questionnaire related to production, orders, stocks, employment, prices, etc.	March Preliminary data	56.6 56.0 54.7	58.5 58.9 58.5	57.3 56.5 55.9
Great Britain	**Consumer price index (CPI)** 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 households.	February MoM% YoY%	0.6% 6.0%	0.8% 6.2%	-0.1% 5.5%
	S&P Global Eurozone Manufacturing, Services, Composite PMI PMI surveys tracks opinion among procurement managers at manufacturing, construction and/or services firms. The index is obtained from a questionnaire related to production, orders, stocks, employment, prices, etc.	March Preliminary data	57.0 58.0 57.5	55.5 61.0 59.7	58.0 60.5 59.9
	GfK Consumer Confidence This index measures the level of households' confidence in terms of economic performance.	March	-30	-31	-26

Source: Bloomberg