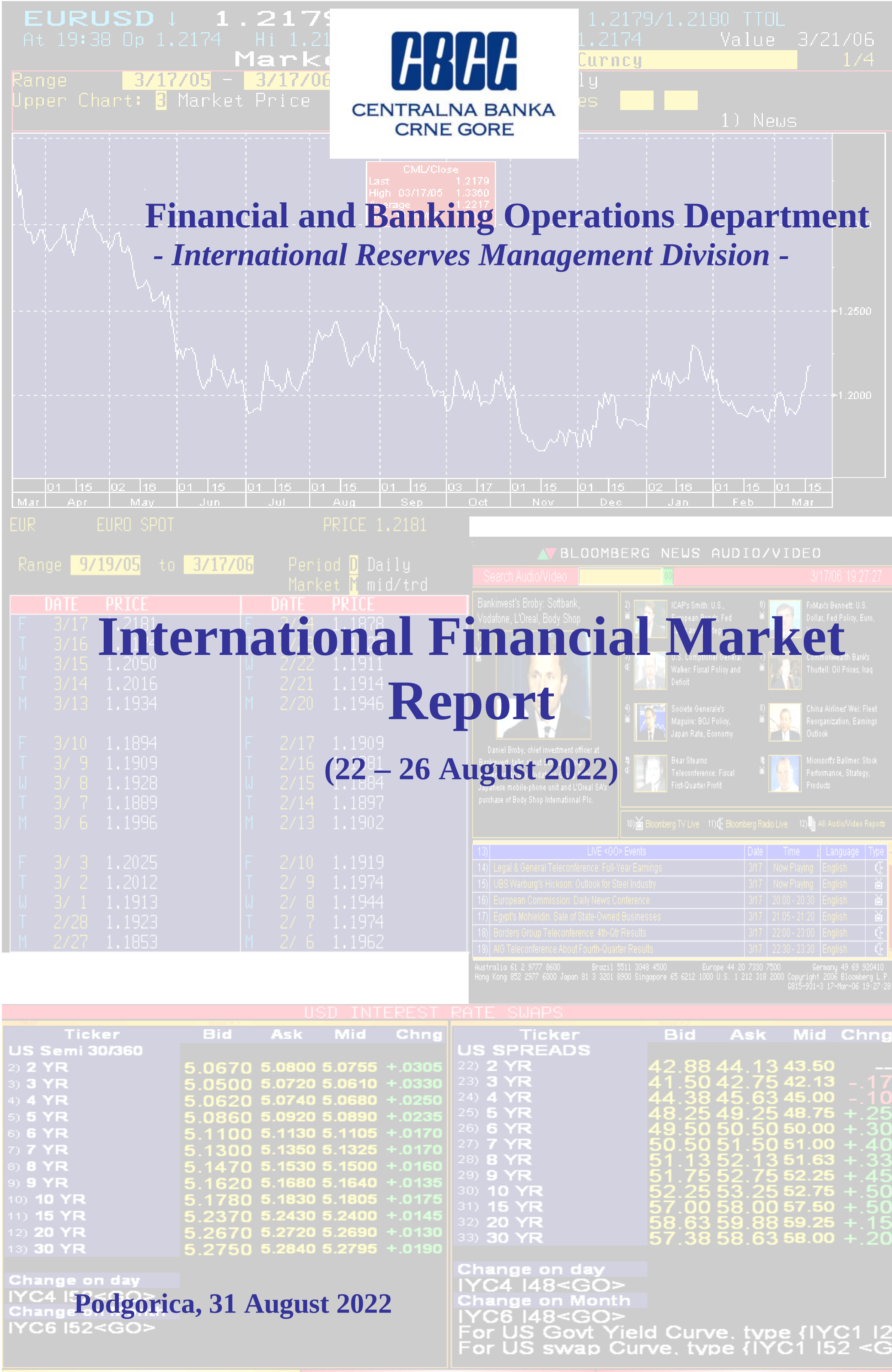
CENTRALNA BANKA
CRNE GORE



Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(22 – 26 August 2022)

Podgorica, 31 August 2022

FX NEWS

EUR/USD

Source: *Bloomberg LP*

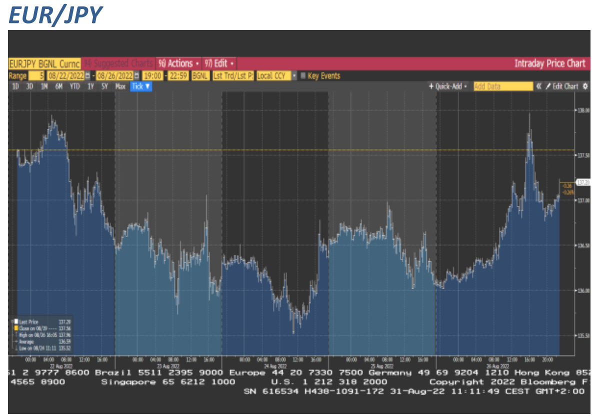
At the beginning of this week, the **EUR/USD exchange rate** depreciated as the USD appreciated awaiting the annual symposium in Jackson Hole. At the same time, the euro depreciated as the gas prices rise in the EU adversely affected the currency. The next day, the EUR/USD exchange rate fell below the 1 level. Still, it quickly recovered as announcing that the business activity index in the USA was below expectations, reducing the pressure on the Fed to raise the interest rate more aggressively. For the rest of the week, this exchange rate appreciated with oscillations. The exchange rate appreciated as one of the ECB Governing Council members, Martins Kazaks, said that the ECB should act strongly and increase the interest rate by 50 basis points at the next meeting. Another ECB Governing Council member, Isabel Schnabel, added that the central bank's officials must adhere to their task, i.e. coping with inflation even in recession conditions. On the other hand, the EUR/USD exchange rate did not appreciate significantly as the Fed Chair pointed out in Jackson Hole that the bank should continue increasing interest rates until inflation is "contained".

EUR/GBP

Source: *Bloomberg LP*

The **EUR/GBP exchange rate** depreciated at the beginning of the week as Europe's joint currency came under pressure due to rising natural gas prices. The following day, the euro continued to depreciate against the GBP after announcing that the euro area's economic activity had fallen for the second consecutive month. As the week continued, the exchange rate recovered. The exchange rate recovery came after announcing that British spending via credit and debit cards fell by 4% during the previous week, which clearly signals to the BoE that high inflation is affecting British households. On Friday, the EUR/GBP exchange rate appreciated sharply as the British regulator raised the price limit, which will increase inflationary pressures in the country and ultimately harm households in that country.

EUR/JPY



Source: *Bloomberg LP*

The **EUR/JPY exchange rate** depreciated during the first half of the week as the growing demand for safe assets supported the yen. During the last two days, the EUR/JPY exchange rate appreciated due to the increasing difference in the direction in which the BoJ and the ECB will lead their monetary policy. The BoJ plans to continue massive monetary stimulus until wages show a clear upward trend.

Table 1 - Exchange rates of the most important currencies

	22.08.2022[1]	26.08.2022[2]	% Change
EUR/USD	1.0037	0.9966	-0.71
EUR/GBP	0.84848	0.84851	0.00
EUR/JPY	137.560	137.20	-0.26
EUR/AUD	1.46016	1.44252	-1.21
EUR/CHF	0.96325	0.96279	-0.05
USD/JPY	136.970	137.64	0.49
GBP/USD	1.18290	1.1744	-0.72

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	0.50%	8 September 2022
Federal Reserves	Federal Funds Target Rate	2.50%	21 September 2022
Bank of Japan	Overnight Call Rate	-0.10%	22 September 2022
Bank of England	Official Bank Rate	1.75%	15 September 2022
Swiss National Bank	Libor Target Rate	-0.25%	22 September 2022
Bank of Canada	Target Overnight Rate	2.50%	7 September 2022
Reserve Bank of Australia	Cash Rate Target	1.85%	6 September 2022

Table 3 – ESTR and Euribor

	22.08.2022.[1]	26.08.2022.[2]	Change in basis points
ESTR	-0.08400	-0.080	0.4
Euribor 1W	-0.08750	-0.067	2.1
Euribor 1M	0.11000	0.094	-1.6
Euribor 3M	0.41680	0.542	12.5
Euribor 6M	0.77460	0.983	20.8
Euribor 12M	1.17600	1.482	30.6

[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 trended up this week. The return on 10-year German government bonds rose as gas and electricity prices in Europe rose on panic over Russian supplies. Traders raised their expectations for an ECB interest rate hike (expected to increase by 200 basis points by September 2023 instead of the previously forecast 150 basis points as annual inflation in the euro area reached 8.9%). Inflationary fears continue to pressure investors to keep their focus on the ECB's monetary policy tightening. Better-than-expected German production data contributed to the return increase this week. At the end of the week, the return on 10-year German government bonds fluctuated slightly and averaged 1.35%. The market increased expectations for a more aggressive ECB interest rate (about a 50% chance of a 75 basis points rate hike). One of the ECB officials said that additional policy tightening is needed in Europe, even if the European economy's state points to a recession.

US GOVERNMENT BONDS MARKET

Source: *Bloomberg LP*

The return on 10-year US government bonds had a trended up with minor fluctuations until Wednesday, to fall after that. Investors waited patiently for more information from Fed Chair Jerome Powell until the end of the week when he was scheduled to deliver a speech at a symposium in Jackson Hole. In this period, the market held a 50% chance that the Fed would increase the interest rate to 4% or even more by March 2023. On Tuesday, the return decreased briefly after announcing that business activity in the USA had declined for the second consecutive month. During this week, the market was divided regarding the interest rate increase, i.e. by how many basis points the Fed will increase the interest rate in September (by 50 or 75 basis points). The Fed continued to believe that inflation was too high and should continue to act aggressively. The return on 10-year US bonds was stable on Friday morning to rise at the end of the day as the Fed Chair said in Jackson Hole that he would maintain the current way of conducting monetary policy "for some time".

GOLD

Source: Bloomberg LP

The gold price trended down throughout the whole Monday as the return on US bonds rose, and the USD appreciated, as traders awaited more details from the annual symposium in Jackson Hole. The following day, the gold price trended up after releasing unfavourable data on US business activity that could influence the Fed to be less aggressive in conducting monetary policy. In the middle of the week, a volatile trend in this precious metal's price was evident as investors assessed how aggressive the Fed's monetary policy would be, and mixed US economic data were published. At the end of the week, the gold price trended down, as there was no current idea of monetary policy easing soon. Fed Chairman Powell said the Fed would continue fighting inflation until it is under control and that the problem will be "painful" for households and businesses.

OIL

Source: Bloomberg LP

The oil price trended up during most of the week. At the beginning of the week, the price was volatile and averaged around 95.78 USD/bbl. Namely, the oil price dropped early in the morning due to concerns about the demand for this energy product as China struggles with economic problems. On the other hand, negotiations that could return the Iranian oil export to the global market continued. Later in the day, the oil price rose as Saudi Arabia's Minister of Energy, Pinz Abdulaziz bin Salman, said that OPEC+ could cut production at its next meeting to stabilise the volatility in the market. On Wednesday, the oil price rose as the US government report (EIA) showed that this fuel's stocks fell by 3.3 million barrels (expecting a 3.2 million barrels drop) last week due to record fuel exports. At the very end of the week, the oil price fluctuated and averaged 100.21 USD/bbl.

Table 4 - Economic indicators (22 – 26 August 2022)

Current value	Indicator	Euro area	Expected value	Current value	Previous value
Euro area	**(Consumer Confident)** This index measures the level of households' confidence in terms of economic performance.	August	-28	-24.9	-27
France	**Business Confidence** This index tracks confidence among managers in manufacturing companies. It is obtained as a result of surveys on production, orders, inventories, employment, prices, etc.	August	-32	-36.2	-30.5
	(Consumer Confident) This index measures the level of households' confidence in terms of economic performance.	August	79	82	80
Germany	**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.	Q2 QoQ%	0.00%	0.10%	0.00%
USA	**Initial Jobless Claims** This indicator measures the number of people receiving unemployment allowances.	20 August K=1.000	252 K	243 K	250 K
	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.	Q2 QoQ%	-0.70%	-0.60%	-0.90%
Italy	**Business Confidence** This index tracks confidence among managers in manufacturing companies. It is obtained as a result of surveys on production, orders, inventories, employment, prices, etc.	August	104.2	104.3	106.7

Source: Bloomberg