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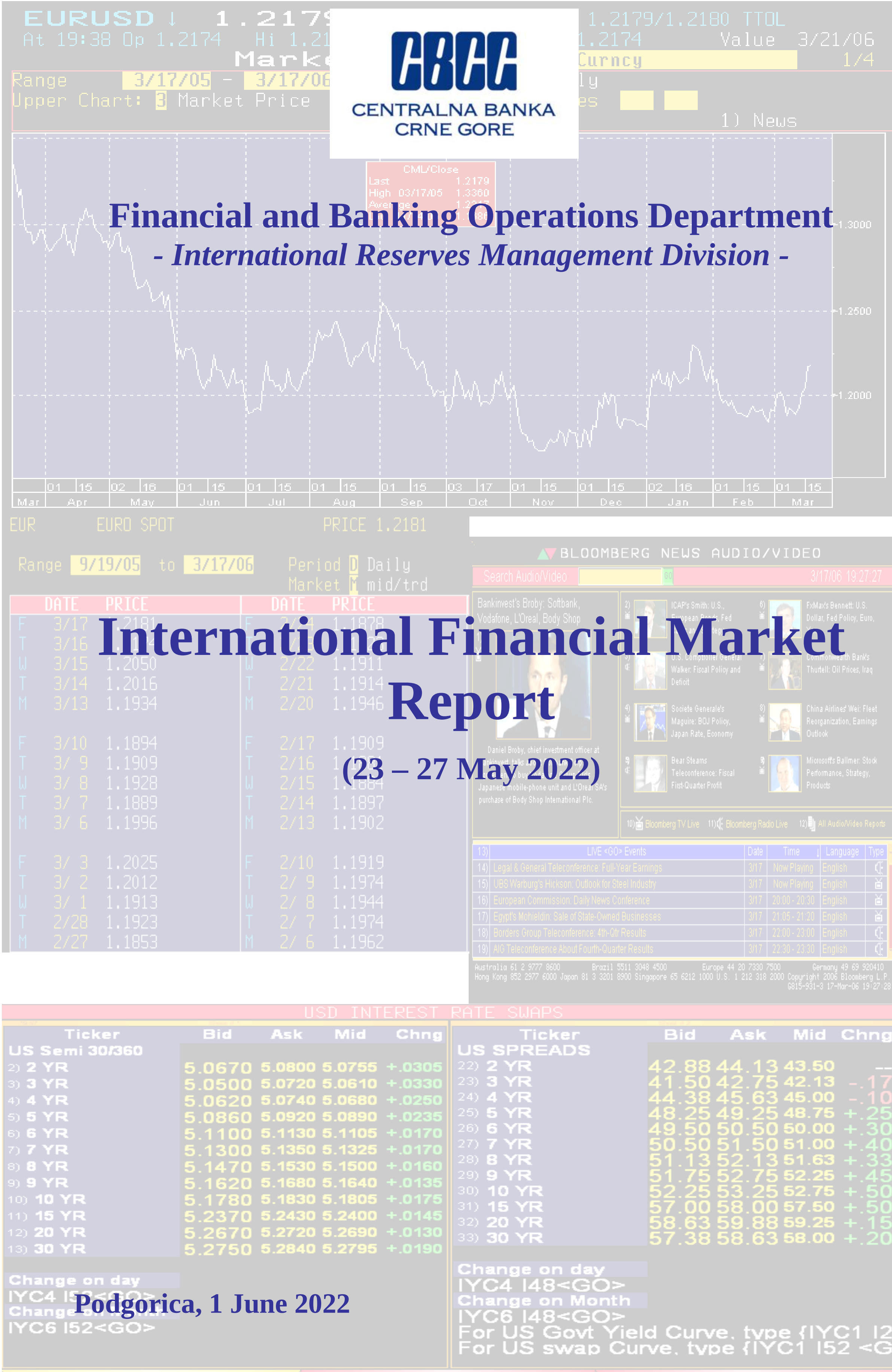


Financial and Banking Operations Department

- International Reserves Management Division -

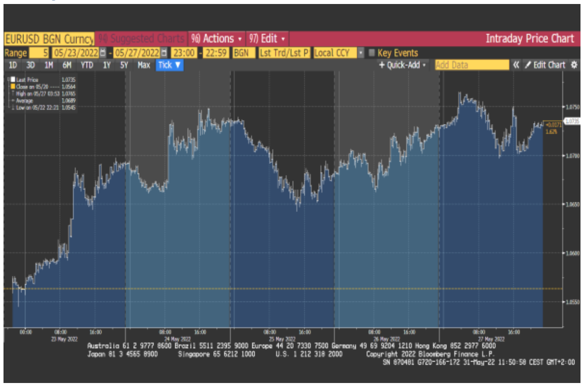
International Financial Market Report

(23 – 27 May 2022)

Podgorica, 1 June 2022

FX NEWS

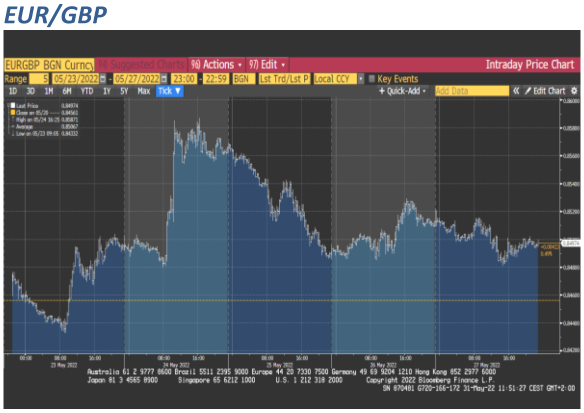
EUR/USD



Source: *Bloomberg LP*

During the first two days of this reporting week, the **EUR/USD exchange rate** appreciated due to the euro's appreciation after the ECB President's statement that the central bank was likely to exit negative interest rates by the end of the third quarter (deposit rate will be at zero or "slightly" above zero by the end of September). On Wednesday, the exchange rate depreciated briefly as the USD appreciated amid continuing concerns about locking in China. By the end of the reporting week, the EUR/USD exchange rate trended up slightly as the Fed's minutes from the last meeting showed that the central bank could pause the interest rate increase after two 50 basis points increases.

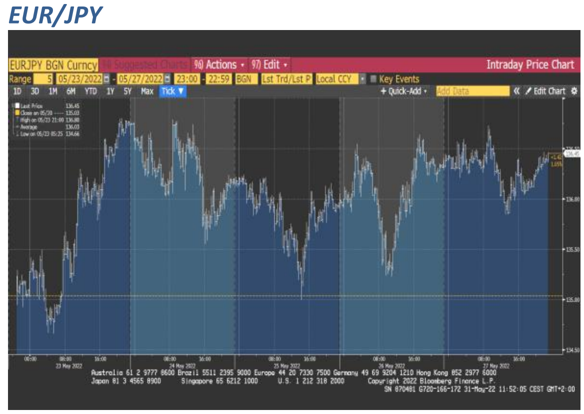
EUR/GBP



Source: *Bloomberg LP*

At the beginning of the week, the **EUR/GBP exchange rate** appreciated. The main reason was the comments of the ECB President Lagarde, who supported the European currency. Also, the release of preliminary data on the production index in the UK was below expectations and showed that this island country was facing the risk of recession. The euro was supported by ECB officials' statements suggesting interest rates rise in the euro area in July. In the middle of the week, the exchange rate depreciated slightly, to be stable later in the week. The BoE chief economist, Huw Pill, said the BoE should continue tightening monetary policy but be careful not to react hastily and risk pushing the UK economy into recession. The UK's Chancellor of the Exchequer stated that he would ask the country's government to get involved and help households solve the problem of explosive energy prices and retail prices growth with a financial aid package worth 15 billion pounds to millions of people.

EUR/JPY



Source: *Bloomberg LP*

The **EUR/JPY exchange rate** appreciated on Monday following President Lagarde's comments on the ECB's monetary policy normalisation and a possible interest rate increase in the third quarter of this year. The exchange rate did not record significant changes as the week continued and averaged around 136.03.

Table 1 - Exchange rates of the most important currencies

	23.05.2022[1]	27.05.2022[2]	% Change
EUR/USD	1.0564	1.0735	1.62
EUR/GBP	0.84561	0.8497	0.48
EUR/JPY	135.03	136.45	1.05
EUR/AUD	1.50105	1.49906	-0.13
EUR/CHF	1.02945	1.02767	-0.17
USD/JPY	127.88	127.11	-0.60
GBP/USD	1.2480	1.2631	1.21

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%	9 June 2022
Federal Reserves	Federal Funds Target Rate	1.00%	15 June 2022
Bank of Japan	Overnight Call Rate	-0.10%	17 June 2022
Bank of England	Official Bank Rate	1.00%	16 June 2022
Swiss National Bank	Libor Target Rate	-0.75%	16 June 2022
Bank of Canada	Target Overnight Rate	1.00%	1 June 2022
Reserve Bank of Australia	Cash Rate Target	0.35%	7 June 2022

Table 3 – ESTR and Euribor

	23.05.2022.[1]	27.05.2022.[2]	Change in basis points
ESTR	-0.585	-0.585	0.00
Euribor 1W	-0.566	-0.572	-0.60
Euribor 1M	-0.535	-0.545	-1.00
Euribor 3M	-0.348	-0.368	-2.00
Euribor 6M	-0.078	-0.076	0.20
Euribor 12M	0.353	0.358	0.50

[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 was rising at the start of this week. The ECB President said the ECB's deposit rate was likely to break out of the negative zone by the end of September and could rise beyond that if inflation does not stabilise at around 2%. The return on these bonds fell on Tuesday, following a sharp drop in the return on US bonds. The return did not change much in the middle of the week and made a more significant jump on Thursday, and it is expected that the ECB will start raising the interest rate during the summer. On Friday, the return on these bonds decreased slightly and ended the week at 0.96%.

US GOVERNMENT BONDS MARKET

Source: *Bloomberg LP*

The return on US 10-year bonds rose during the first day of this reporting week, as did investor demand for risky investments. The next day, this return recorded a sharp decline as worse than expected data on the US economy were published, which turned investors to safer investments (sales of new real estate fell by 16.6% in May). In the rest of the week, the return on these bonds stabilised at around 2.75% and did not fluctuate significantly.

GOLD

Source: Bloomberg LP

The oil price increased on Monday. The price increased due to the USD depreciation compared to other currencies. On Tuesday, the gold price continued to rise amid growing demand for safe funds, as the concern that the USA is moving towards recession increased. In the middle of the week, the gold price dropped severely after the minutes from the last Fed meeting showed that its officials were ready to support the interest rate increase by 50 basis points. The gold price did not change much on Thursday to rise on Friday as lower-than-expected US inflation data were released.

OIL

Source: Bloomberg LP

The oil price was relatively stable during the first three days of this week to increase sharply during the last two days. At the end of the week, the oil price rise came after announcing that the oil and gasoline stocks in the USA fell to the lowest level since 2014. At the same time, oil demand is expected to rise, awaiting the upcoming summer driving season in the USA.

Table 4 - Economic indicators (23 – 27 May 2022)

Current value	Indicator	Euro area	Expected value	Current value	Previous value
Germany	**IFO Business climate** Monthly survey of companies in Germany (in production, construction, wholesale and retail), in terms of the current business climate and expectations for the next 6 months. Given that Germany "accounts for" a quarter of the total GDP of the euro area, this is a significant indicator of the economic health of the euro area as a whole.	May	91.4	93.0	91.9
	GfK Consumer Confidence This index measures the level of households' confidence in terms of economic performance.	June	-25.5	-26.0	-26.6
	GDP s.a. One of the basic macroeconomic indicators, which represents the calculated value in the market prices of goods and services produced within the country, but excludes the income of citizens and corporations working abroad. The GDP calculation uses the following four components: consumption, investments, government expenditure, and net exports.	Q1 QoQ%	0.2%	0.2%	0.2%
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.	April K=1,000	748K	591K	709K
	Initial Jobless Claims Measures the number of people receiving unemployment allowances. Similar to the applicant, the growing number of jobs is accompanied by an economic expansion that could influence inflationary pressures.	May K=1,000	215K	210K	218K
France	**Consumer Confidence** It assesses consumer confidence in terms of business conditions, employment, and personal income. The Consumer Confidence Index is tied to personal consumption.	May	89	86	87

Source: Bloomberg