CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

24 – 28 October 2022

Podgorica, 2 November 2022

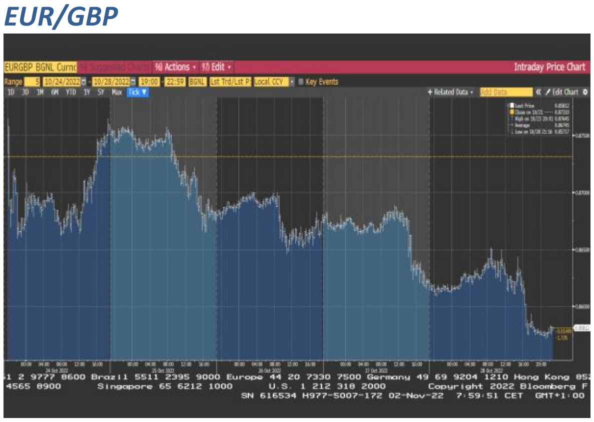
FX NEWS

EUR/USD

Source: *Bloomberg LP*

The **EUR/USD exchange rate** appreciated during the first three days of this reporting period. The exchange rate's appreciation occurred after announcing that the business climate in Germany in October remained the same as in the previous month (expecting a fall). It was a positive signal awaiting the regular ECB meeting and supported the expectation that the central bank would increase the interest rate by 75 basis points. From Thursday, after the ECB meeting, the EUR/USD exchange rate began to depreciate due to speculation that an interest rate hike by the ECB would push the euro area economies into recession. At the same time, it was announced that the US GDP grew by 2.6% in the third quarter, indicating that the country's economy is returning to growth. This exchange rate was stable on Friday.

EUR/GBP



Source: *Bloomberg LP*

The **EUR/GBP exchange rate** trended higher on Monday as the UK economy faced significant challenges. This exchange rate recorded a constant depreciation for the rest of the week. The exchange rate depreciated after expecting that the BoE would increase the interest rate by 75 basis points at its meeting in November. The new UK Prime Minister announced he would postpone the adoption of the new economic strategy until 17 November to get more time to make the right decision regarding the UK economy's management, which caused the EUR/GBP exchange rate to depreciate further. After the ECB raised the interest rate by 75 basis points on Thursday, the EUR/GBP exchange rate depreciated due to concerns that further interest rate hikes would push the euro area economies into recession.

EUR/JPY

Source: *Bloomberg LP*

The **EUR/JPY exchange rate** was stable until the regular ECB meeting, after which it depreciated due to concerns that interest rate hikes could push the euro area economies into recession. On Friday, this exchange rate recovered as the BoJ kept the interest rate unchanged and did not change the way it conducted monetary policy, which was in contrast to all the leading banks worldwide.

Table 1 - Exchange rates of the most important currencies

	24.10.2022[1]	28.10.2022[2]	% Change
EUR/USD	0.9862	0.9965	1.04
EUR/GBP	0.87316	0.8581	-1.72
EUR/JPY	145.68	147.00	0.91
EUR/AUD	1.54411	1.55428	0.66
EUR/CHF	0.98385	0.99241	0.87
USD/JPY	147.65	147.60	-0.03
GBP/USD	1.1303	1.1615	2.76

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	2.00%	15 December 2022
Federal Reserves	Federal Funds Target Rate	3.25%	2 November 2022
Bank of Japan	Overnight Call Rate	-0.10%	16 December 2022
Bank of England	Official Bank Rate	2.25%	3 November 2022
Swiss National Bank	Libor Target Rate	0.50%	15 December 2022
Bank of Canada	Target Overnight Rate	3.75%	7 December 2022
Reserve Bank of Australia	Cash Rate Target	2.60%	1 November 2022

At this week's meeting, the Bank of Canada increased the interest rate by 50 basis points, compared to the expected increase of 75 basis points.

During this week's meeting, the ECB raised interest rates by 75 basis points, which was in line with expectations. The ECB stated that inflation was still high but would return to the target level in the medium term. It showed concern about a possible euro area recession, which investors interpreted as a possibility of the subsequent lower interest rate increase.

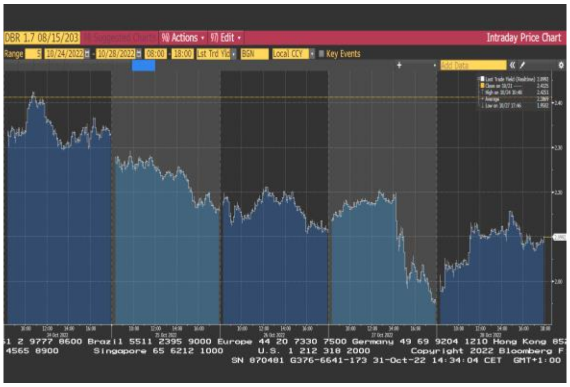
The BoJ did not change its monetary policy at this week's meeting. The central bank Governor stated he did not expect an interest rate increase shortly and that the price situation completely differed from the EU and the USA.

Table 3 – ESTR and Euribor

	24.10.2022[1]	28.10.2022[2]	Change in basis points
ESTR	0.6570	0.6560	-0.1
Euribor 1W	0.659	0.951	29.2
Euribor 1M	0.983	1.208	22.5
Euribor 3M	1.543	1.641	9.8
Euribor 6M	2.107	2.034	-7.3
Euribor 12M	2.778	2.567	-21.1

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

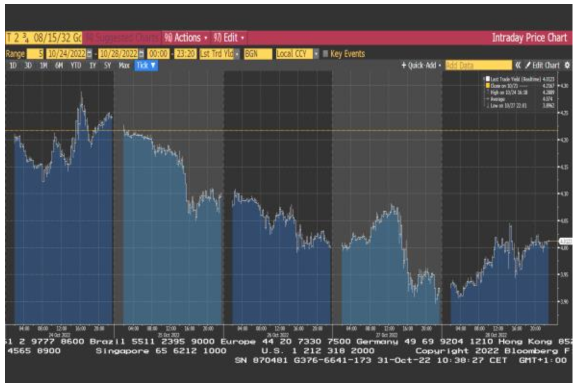
EUROPEAN GOVERNMENT BONDS MARKET



Source: *Bloomberg LP*

For most of this reporting week, the return on 10-year German government bonds has been trending down, awaiting this week's ECB meeting. The return continued to weaken after Thursday's meeting and after the ECB raised interest rates by 75 basis points, which was in line with expectations and also amid some signs that the pace of further increases pace could slow. The return on 10-year German government bonds rose on Friday as ECB Governing Council member Klaas Knot said he supported an interest rate hike of 50 or 75 basis points in December. At the same time, another member of the ECB Governing Council, Gediminas Simkus, stated the ECB should "significantly" increase the interest rate at the December meeting. These statements caused the return on German bonds to rise on Friday and stand at 2.0992% at the market close.

US GOVERNMENT BONDS MARKET



Source: *Bloomberg LP*

The return on 10-year US T-bills trended up until end-Monday, reversing an initial morning return retreat resulting from the UK's attempt to overcome recent bond market turmoil (the BoE had to intervene in the bond market due to their large sale after the resignation of Prime Minister Liz Truss). Market participants later focused on the Fed's attempts to curb inflation. The interest rate is expected to increase by 75 basis points at the November FED meeting. On Tuesday, the return of these bonds trended down after announcing that US real estate prices fell for the second consecutive month in August due to rising mortgage prices that reduced the demand for real estate. The return also fell after the announcement that consumer confidence in the US in October fell more than expected due to inflation and increased concerns about the economic outlook that burdened Americans. Over the next two days, the return continued the downward trend as share prices on the US stock exchanges weakened, especially Amazon shares, which fell by 18%. The return also declined due to the first US GDP estimate, including inflation, which fell to 4.1% in the third quarter (compared to the expected 5.3%). On Friday, the return on US 10-year government bonds recovered slightly and stood at 4.0123% at the market close. The return increase occurred as data on inflation in the euro area countries indicated that it was not slowing down, which would lead to further key interest rate increases by the leading central banks, including the FED.

GOLD

Source: Bloomberg LP

On Monday, the gold price weakened slightly as the drop in Chinese stocks appreciated the USD. The next day, this precious metal's price recovered as the USD depreciated. Market participants waited for the Fed's next meeting to see the monetary policy direction. Investors now increasingly expected the Fed to slow down interest rate hikes in December. The upward trend continued in the middle of the week, and the gold price fell on Friday due to the USD appreciation that made investing in gold more expensive.

OIL

Source: Bloomberg LP

The oil price was stable during the first two days of this reporting week. OPEC and its allies agreed to cut supplies from November. The executive director of the IEA (International Energy Agency) believed that this move by OPEC was risky, especially when many economies were on the verge of recession. Since the middle of the week, the oil price rose after announcing that the oil export from the USA reached 11.4 million barrels during the previous week, pointing to the recovery of demand for this energy product. On Friday, the oil price fluctuated between 95.50 and 94.50 USD/bbl. as two opposing forces acted on this fuel's price. On the one hand, the news that China has tightened the Covid-19 rules adversely affected the oil price trend. On the other hand, OPEC expected increased demand for oil in the coming period and the positive economic data published on Friday positively affected the oil price.

Table 4 – Economic indicators (24 – 28 October 2022)

Country	Indicator	Period	Expected value	Current value	Previous value
Japan	**Initial Jobless Rate** The percentage of unemployed individuals actively looking for a job.	September	2.50%	2.60%	2.50%
Italy	**Consumer Confidence** This index measures the level of households' confidence in terms of economic performance.	October	93.5	90.1	94.8
USA	**Gross domestic product (GDP)** 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.	Q3 QoQ%	2.40%	2.60%	-0.60%
	Initial Jobless Claims This indicator measures the number of people receiving unemployment allowances.	22 October K=1.000	220 K	217 K	214 K
France	**Consumer Confidence** This index measures the level of households' confidence in terms of economic performance.	October	77	82	79

Source: Bloomberg