CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

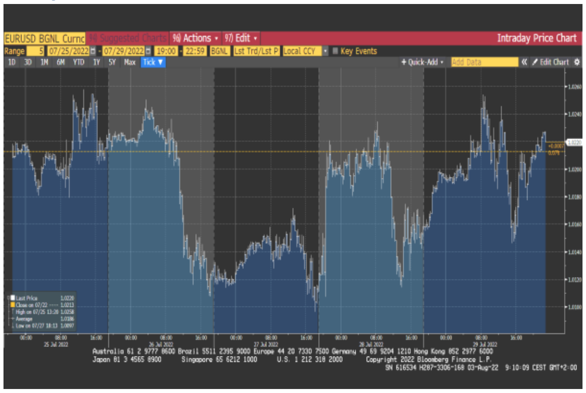
International Financial Market Report

(25 - 29 July 2022)

Podgorica, 4 August 2022

FX NEWS

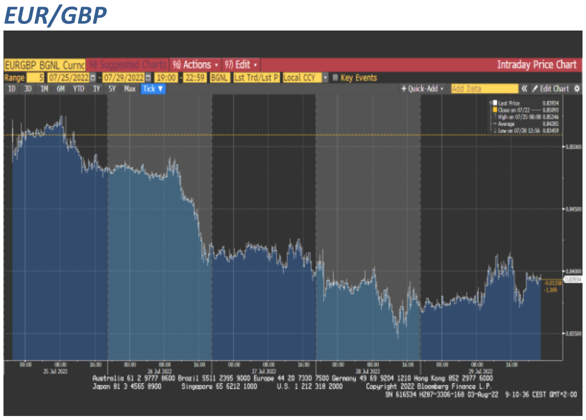
EUR/USD



Source: *Bloomberg LP*

The **EUR/USD exchange rate** was stable on Monday to depreciate sharply on Tuesday. The depreciation came amid concerns about Europe's gas supply after Russia said there were “some problems” with the Nord Stream turbine, which supplies gas to Germany. On Wednesday, at the very end of the day, the EUR/USD exchange rate appreciated sharply after the regular FED meeting and the statement of its Chair that the interest rate increase pace will have to slow down at some point. This exchange rate appreciated during the last two days, especially after announcing that the US GDP USA unexpectedly fell in Q2. It triggered fears about recession and complicated further FED decisions on an aggressive key interest rate increase.

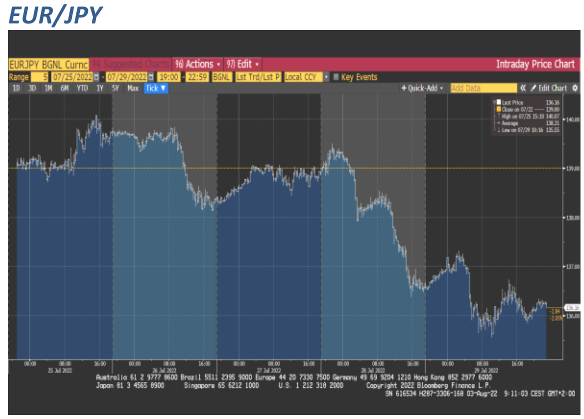
EUR/GBP



Source: *Bloomberg LP*

The **EUR/GBP exchange rate** depreciated in this reporting week, mainly in the first half of the week, and the decline stopped in the last two days. The depreciation occurred due to Europe’s deteriorating energy situation after announcing that the index measuring consumer confidence in Germany fell to -30.6 in August to the lowest level since 1991. On the other hand, the sterling was supported by expectations that the BoE would increase the interest rate by 50 basis points at the next meeting. During the last two days, the exchange rate trend stabilised at around 0.839.

EUR/JPY



Source: *Bloomberg LP*

The **EUR/JPY exchange rate** was stable during the first three days of this week. The EUR/JPY exchange rate has depreciated from Thursday until this week's end. The depreciation came as uncertainty about economic growth fuelled demand for safe-haven assets.

Table 1 - Exchange rates of the most important currencies

	25.07.2022[1]	29.07.2022[2]	% Change
EUR/USD	1.0213	1.0220	0.07
EUR/GBP	0.85093	0.83934	-1.36
EUR/JPY	139.00	136.16	-2.04
EUR/AUD	1.47427	1.46331	-0.74
EUR/CHF	0.98324	0.97313	-1.03
USD/JPY	136.12	133.27	-2.09
GBP/USD	1.19990	1.2171	1.43

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	1.25%	4 August 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	1.35%	2 August 2022

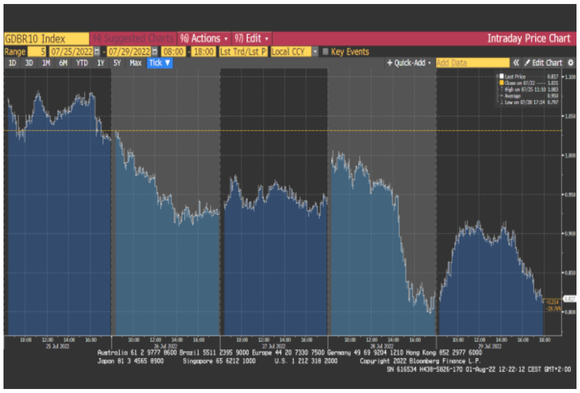
This week, the Fed increased the interest rate by 75 basis points, which was in line with market expectations. Powell said that a similar hike could happen again but that the rate hike pace would have to slow down at some point.

Table 3 – ESTR and Euribor

	25.07.2022[1]	29.07.2022[2]	Change in basis points
ESTR	-0.582	-0.091	49.1
Euribor 1W	-0.421	-0.074	34.7
Euribor 1M	-0.170	-0.071	9.9
Euribor 3M	0.200	0.232	3.2
Euribor 6M	0.706	0.653	-5.3
Euribor 12M	1.200	0.921	-27.9

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

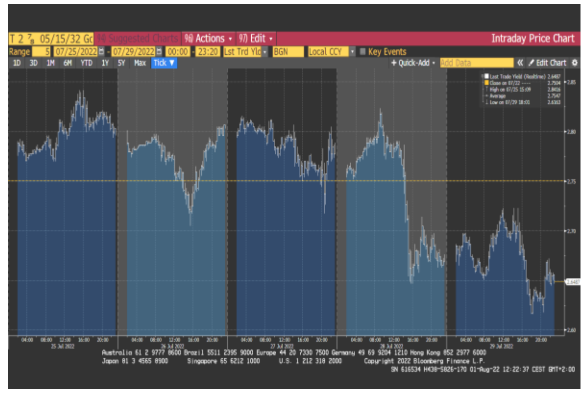
EUROPEAN GOVERNMENT BONDS MARKET



Source: *Bloomberg LP*

The return on 10-year German government bonds fell in this reporting week. The decline earlier in the week was caused by increased demand for safe-haven assets due to Europe's gas problems, as Russia announced a gas supply reduction. The return fell after reporting that the German IFO business climate index fell to the lowest level since the first months of the pandemic. The return was stable in the middle of the week, but the downward trend soon continued. Although it was reported that the inflation rate in Germany rose more than expected in July, concerns about a recession in Europe were growing, so the return declined by the end of the week. The return on 10-year German government bonds was 0.817% at the close of the market on Friday, the lowest level in the last 2 months, and 1.074% at the market's opening on Monday.

US GOVERNMENT BONDS MARKET



Source: *Bloomberg LP*

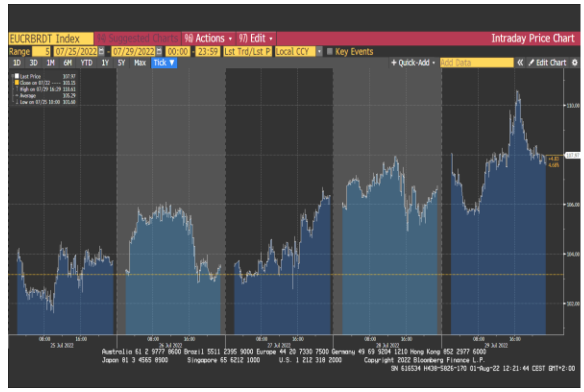
The return on the 10-year US Treasury bond fell this week. It fluctuated from 2.70% to 2.85% during most of the week. A series of auctions scheduled for this week caused the return to rising. In contrast, IMF warnings about a global economic slowdown and weaker-than-expected economic data from the US (consumer confidence, new real estate sales) caused them to fall. In addition, the return fluctuated close to the Fed meeting, which increased the interest rate by 75 basis points. President Powell suggested that future rates will be decided depending on the data published between meetings, and he hinted rate increases slowdown. This statement and the unexpectedly weak data on the US GDP in Q2 resulted in the return on 10-year US bonds falling from 2.825% to 2.65% on Thursday. The return fell on Friday due to the increased demand for safe assets amid the expectation that the weakening of economic growth would reduce the Fed's interest rate speed.

GOLD

Source: Bloomberg LP

The gold price fell this week. It trended down slightly in the first half of the week from 1711 to 1737 USD/oz t to rise to 1768 USD/oz t in the second half of the week. The weakening in the first half of the week primarily resulted from the Fed meeting's awaiting and investors' expectations that the interest rate would increase by 75 basis points. However, the gold price rose following Fed Chairman Jerome Powell's statement. According to Powell, the central bank should slow rate hikes at some point, and the officials would make policy decisions on a "meeting-by-meeting" basis rather than offering explicit guidance on the next move size. After announcing that the GDP of the USA decreased in Q2, the USD depreciated, and the return on American government bonds dropped, resulting in the gold price continuing to rise until the end of the week. Market expectations that the interest rate increase pace in the USA will slow due to the US economy slowdown also contributed to this.

OIL



Source: Bloomberg LP

The oil price also increased in this reporting week. The price increase at the beginning of the week was caused by the low level of stocks of this energy and the announcement by Russian Gazprom that it would reduce gas deliveries to Europe to 20% of the total capacity via the Nord Stream 1 gas pipeline. After the Biden administration announced the release of an additional 20 million barrels from strategic reserves, the oil price fell. The growing trend soon continued due to the publication of API (American Petroleum Institute) data that the US oil stocks fell by 4.04 million barrels in the week preceding this reporting period. The EIA (Energy Information Administration) report indicated a decrease in stocks in the same period, by 4.52 million barrels, and increased demand at the global level. Weaker-than-expected US economic data (GDP) briefly brought down the oil price towards the end of the week.

Table 4 - Economic indicators (25 – 29 July 2022)

Current value	Indicator	Euro area	Expected value	Current value	Previous value
Euro area	**Consumer price index (CPI)** It estimates the cost of living changes by measuring changes in the price level of market basket of consumer goods and services purchased by an average household. Therefore, it is the key inflation measure in the euro area.	July - Preliminary data MoM%	-0.10%	0.10%	0.80%
Germany	**Consumer price index (CPI)** It estimates the cost of living changes by measuring changes in the price level of market basket of consumer goods and services purchased by an average household. Therefore, it is the key inflation measure in the euro area.	July MoM% YoY%	0.60% 7.40%	0.90% 7.50%	0.10% 7.60%
France	**Producer Price Index (PPI)** This indicator measures the change in the price paid by domestic producers. The indicator rise is an early inflation indicator.	June MoM% YoY%	1.30% 27.00%	-0.10% 27.30%	-0.10% 27.10%
	Consumer price index (CPI) It estimates the cost of living changes by measuring changes in the price level of market basket of consumer goods and services purchased by an average household. Therefore, it is the key inflation measure in the euro area.	July MoM% YoY%	0.30% 6.00%	0.30% 6.10%	0.70% 5.80%
USA	**Initial Jobless Claims** It measures the number of people receiving unemployment allowances.	23 July K=1.000	250 K	256 K	251 K
	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.	Q2 QoQ%	0.40%	-0.90%	-1.60%
Japan	**Retail Sales** This indicator measures changes in retail sales in Japan.	June MoM% YoY%	0.20% -7.00%	-1.40% -3.10%	0.60% -3.10%

Source: Bloomberg