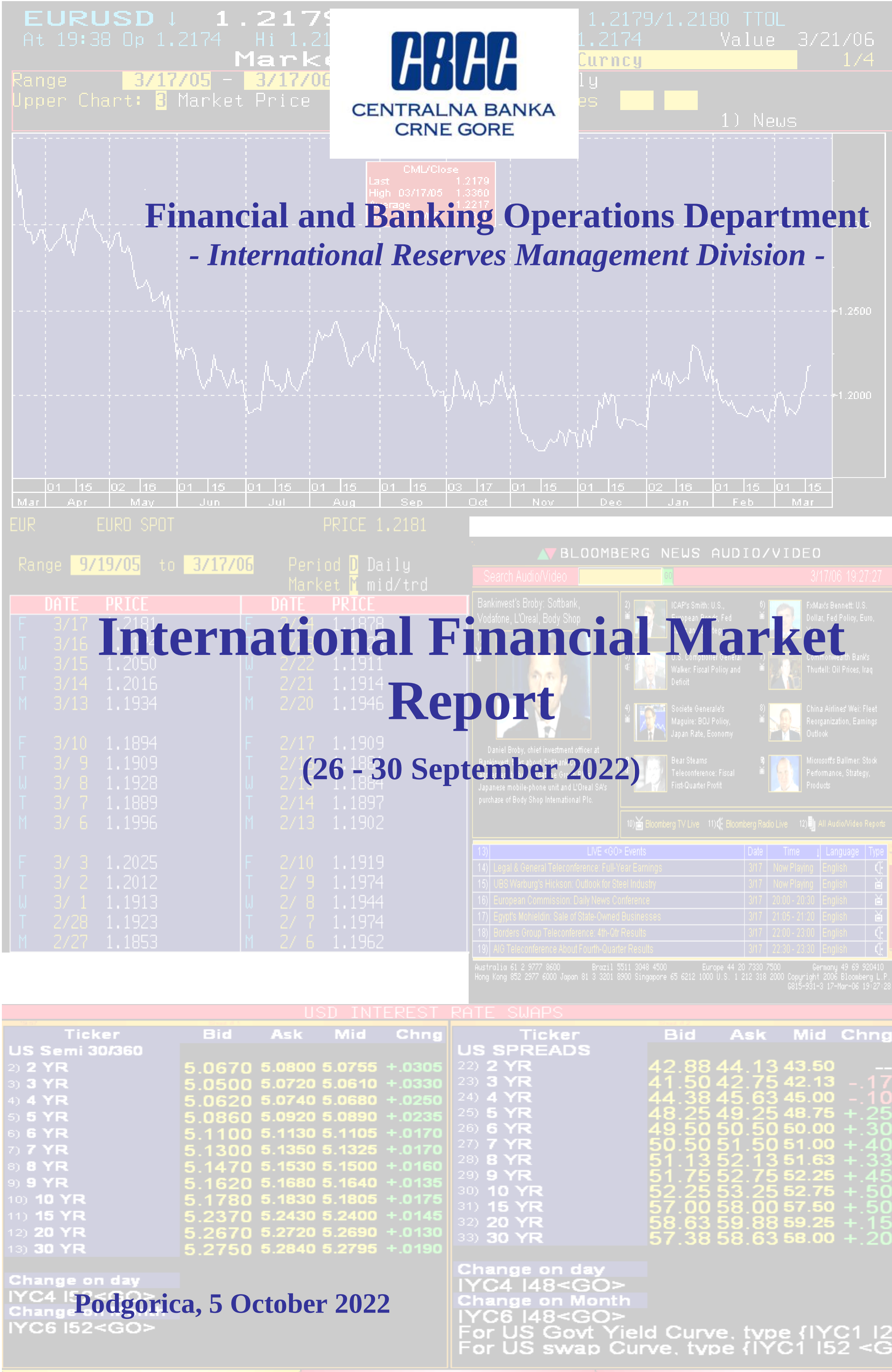


CENTRALNA BANKA
CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(26 - 30 September 2022)

Podgorica, 5 October 2022

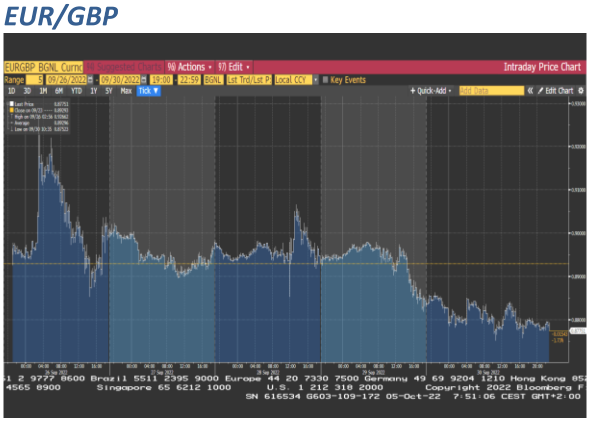
FX NEWS

EUR/USD

Source: Bloomberg LP

During the first two days of this week, the **EUR/USD exchange rate** slightly decreased. The exchange rate depreciated due to the European energy crisis escalation (due to a damaged key gas pipeline from Russia to Germany). This exchange rate recorded a sharp appreciation in the middle of the week. The Governor of the Central Bank of Finland stated that the ECB must continue to increase the interest rate quickly until the Christmas holidays to limit inflation and reach the interest rate level considered not to stimulate the economy. He also stated that the ECB may have to increase the interest rate by an additional 75 basis points at the next meeting because the inflation rate was still very high. On Thursday, the exchange rate continued to rise after announcing that inflation in Germany reached a double-digit level for the first time since the introduction of the euro, which fuelled expectations that the ECB would continue its interest rates increase policy. On Friday, the EUR/USD exchange rate did not change much.

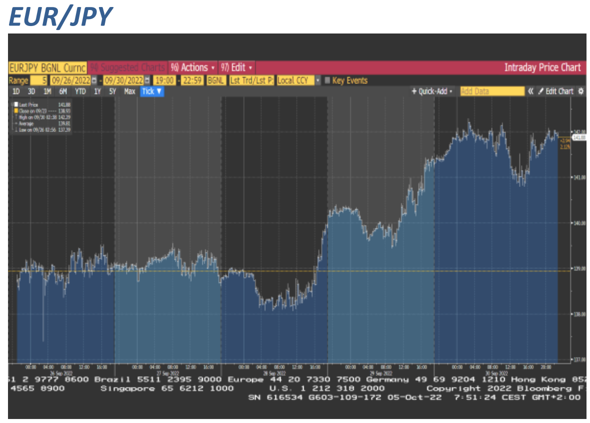
EUR/GBP



Source: Bloomberg LP

The **EUR/GBP exchange rate** appreciated on Monday morning as sterling depreciated on growing concerns about UK finances, sparking speculation about potential BoE action. The new UK government announced it would focus on tax cuts and new borrowing to boost economic growth, despite the sterling depreciation. Rumours began circulating in the market that the BoE would increase the interest rate at an extraordinary meeting, which could take place in the coming period. It was also expected that the BoE could directly intervene in the currency market and support the sterling. The BoE soon reacted concerning these rumours, stating that "the bank is carefully monitoring the events on the currency market due to the significant financial assets value change". After the BoE announcement, the market calmed down somewhat, so the sterling recovered against the euro in the second part of the day. Later this week, the BoE's Chief Economist, Huw Pill, also said that the bank would give a "significant policy response", pointing to the considerable tax cut presented by Chancellor of the Exchequer Kwarteng. He added that the bank wanted to wait until the next scheduled meeting in November before taking action, thereby defusing market speculation about a potential interest rate hike between meetings. On Thursday, the EUR/GBP exchange rate depreciated as the BoE bought British government bonds for the second consecutive day to stabilise the market (the BoE bought 1.415 billion pounds of government bonds maturing over 20 years). On the last day, the EUR/GBP exchange rate fluctuated and averaged 0.8793. The UK's Office of National Statistics announced that economic output unexpectedly increased in the second quarter by 0.2%, which indicates that this country had not yet fallen into recession, causing the sterling to appreciate. Fears that Prime Minister Truss's new fiscal plan will worsen public finances and accelerate inflation depreciated the sterling on the same day.

EUR/JPY



Source: Bloomberg LP

The **EUR/JPY exchange rate** was stable during the first three days of this week. The jump in this exchange rate trend occurred at the very end of Wednesday when the BoJ announced that it would continue with its loose monetary policy. On Thursday, the exchange rate rose amid the expectation that the ECB would continue increasing the interest rate, and it was stable on Friday.

Table 1 - Exchange rates of the most important currencies

	26.09.2022[1]	30.09.2022[2]	% Change
EUR/USD	0.9687	0.9802	1.19
EUR/GBP	0.89294	0.87751	-1.73
EUR/JPY	138.93	141.88	2.12
EUR/AUD	1.48477	1.53169	3.16
EUR/CHF	0.95235	0.96740	1.58
USD/JPY	143.31	144.74	1.00
GBP/USD	1.0859	1.1170	2.86

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	1.25%	27 October 2022
Federal Reserves	Federal Funds Target Rate	3.25%	2 November 2022
Bank of Japan	Overnight Call Rate	-0.10%	28 October 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	3.25%	26 October 2022
Reserve Bank of Australia	Cash Rate Target	2.35%	4 October 2022

Table 3 – ESTR and Euribor

	26.09.2022[1]	30.09.2022[2]	Change in basis points
ESTR	0.6620	0.6420	-2.00
Euribor 1W	0.654	0.648	-0.60
Euribor 1M	0.698	0.679	-1.90
Euribor 3M	1.153	1.173	2.00
Euribor 6M	1.803	1.809	0.60
Euribor 12M	2.500	2.556	5.60

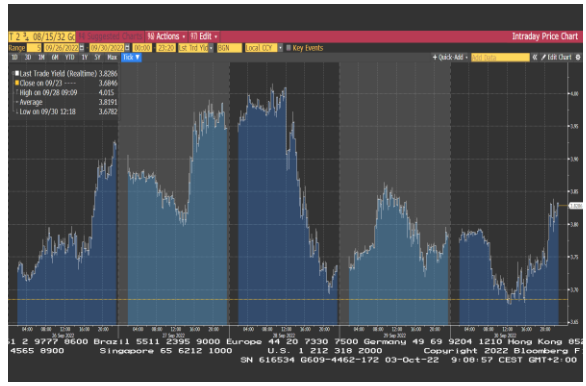
[1] Opening market value on Monday
[2] Closing market value on Friday

EUROPEAN GOVERNMENT BONDS MARKET

Source: *Bloomberg LP*

The return on 10-year German government bonds increased by around 2 basis points in this reporting period. On Monday, the return was stable, but it fell to 2.04% (this week's minimum value) on Tuesday. On the same day, it recovered and continued recovery on Wednesday, when the return reached 2.35% (this week's maximum value). The return rise was driven by signals from several ECB officials to support another 75 basis points interest rate hike at the October meeting due to persistent inflation concerns (Kazimir, Holzmann). On Wednesday, the return fell following the BoE decision to buy unlimited amounts of long-term British government bonds until 14 October to calm markets. The next day, the return rose due to the release of stronger-than-expected data on the inflation rate in Germany. Still, it weakened at the end of that day and the next day after the ECB's Chief Economist "suppressed" the previous statements of his colleagues, saying that it was still too early to decide on the next increase amount. The return also fell due to the growing demand for safe assets, despite data showing that the euro area's inflation rate rose more than expected in September. Thus, it stood at around 2.11% at the very end of the week.

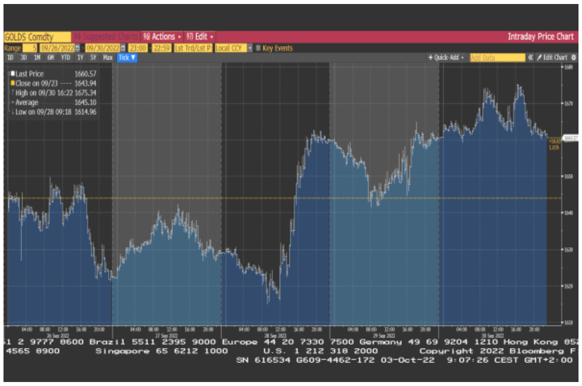
US GOVERNMENT BONDS MARKET



Source: *Bloomberg LP*

The return on 10-year US government bonds increased from 3.73% to 3.83% during the observed period. It mostly trended up in the first half of the week, expecting that the FED would continue with an aggressive interest rate increase. In a speech on Friday, the Fed Chair pointed out that the US economy was entering a "new normal" after the disruption caused by the coronavirus pandemic and added that they continued to face a very unusual set of disruptions. The USD appreciation contributed to the rising return trend, reaching its maximum value of 4.015% on Wednesday, the highest since October 2008. However, on the same day, the return fell sharply by even 30 basis points as the BoE began buying British government bonds to stabilise the market, spilling the return decline in the British bond market to the US market. By the end of the week, the 10-year return on US government bonds fluctuated and generally recovered, amounting to 3.83% at the very end of the week, mainly due to the Fed officials' (Bullard, Master) statements that "heated" expectations regarding interest rate increases.

GOLD



Source: Bloomberg LP

In the first two days, the gold price averaged around 1,635.47 USD. On Wednesday, this precious metal's price rose as the USD depreciation influenced the demand for gold to recover. By the week's end, this precious metal's price was rising. The USD exchange rate trend and the fear of a new jumbo Fed interest rate increase determined the gold price direction.

OIL

Source: Bloomberg LP

The oil price did not register significant changes in the first two days and hovered around 84.64 USD/bbl. On Wednesday, the price rose after the USD depreciated compared to a basket of currencies, which increased the demand for this energy product. Moreover, the fact that there was a drop in oil stocks in the USA indicated a demand recovery. The following day, this energy product's price increased, as it was expected that OPEC+ would reduce output production at the meeting next week. On Friday, the oil price fell due to traders' concerns about the deteriorating demand outlook for this energy product.

Table 4 – Economic indicators (26 – 30 September 2022)

Current value	Indicator	Period	Expected value	Current value	Previous value
France	**Consumer price index (CPI)** It 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 an average household in Germany.	September MoM% YoY%	-0.20% 6.00%	-0.50% 5.60%	0.50% 5.90%
Germany	**Consumer price index (CPI)** It 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 an average household in Germany.	September MoM% YoY%	1.50% 9.50%	1.90% 10.00%	0.30% 7.90%
Great Britain	**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% YoY%	-0.10% 2.90%	0.20% 4.40%	-0.10% 2.90%
Japan	**Retail Sales** This indicator measures the volume of sales of personal and household goods.	August YoY%	2.8%	4.10%	2.6%
USA	**Initial Jobless Claims** This indicator measures the number of people receiving unemployment allowances.	24 September K=1.000	215 K	193 K	213 K

Source: Bloomberg