CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

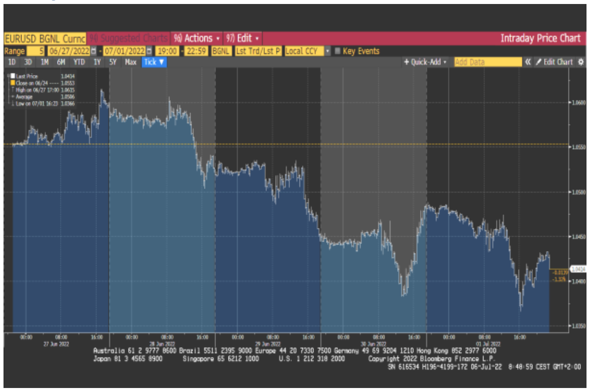
International Financial Market Report

(27 June – 1 July 2022)

Podgorica, 6 July 2022

FX NEWS

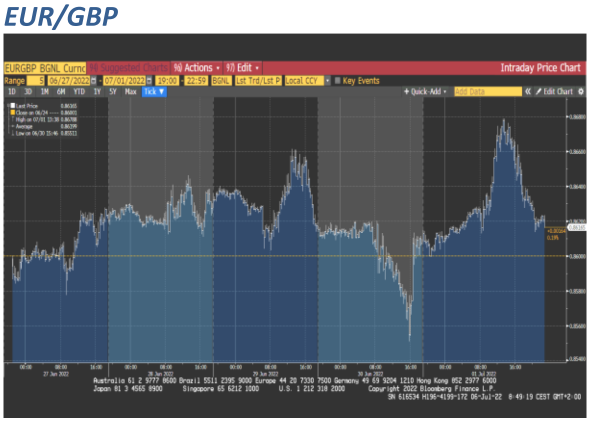
EUR/USD



Source: *Bloomberg LP*

The **EUR/USD exchange rate** was stable during the first day of this reporting period. It depreciated from Tuesday until the end of Thursday. The exchange rate's depreciation in the mentioned period occurred when the New York Fed Chair called for a rapid additional interest rate increase by 75 basis points to slow down inflation. He pointed out that he did not expect the USA to fall into recession and that the interest rate should range between 3% and 3.50% by the end of the year. Moreover, the euro's depreciation against the USD also resulted from concerns about the impact of the embargo against Russia on European economic growth and inflation. Nevertheless, at the end of Thursday, the exchange rate appreciated after announcing that personal consumption in the USA contracted by 0.4% in May, which was its first decline this year. The EUR/USD exchange rate depreciated again on Friday.

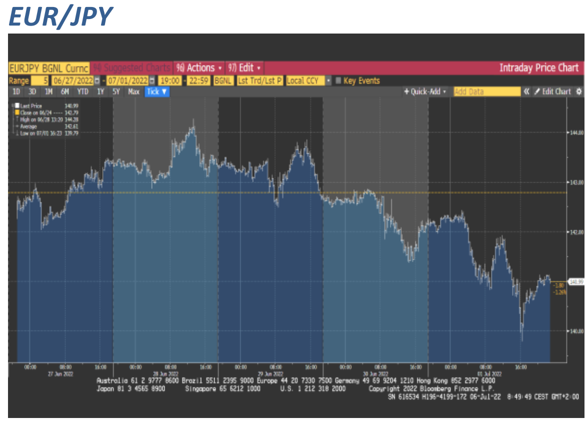
EUR/GBP



Source: *Bloomberg LP*

At the beginning of the week, the **EUR/GBP exchange rate** appreciated as the UK faced significant economic challenges due to Brexit, the pandemic and rising inflation, which ultimately resulted in consumer confidence hitting its nadir in nearly half a century. The EUR/GBP exchange rate moved in a narrow range of 0.8614 and 0.8646 the following day. The BoE Governor, Andrew Bailey, said policymakers "have the option" to act more strongly to contain inflation if rising prices show persistent signs of a problem. He did not rule out a reference interest rate increase by 50 basis points at the next meeting but noted that there is still a month until the decision. In the afternoon, the exchange rate recovered and stood at the level from the beginning of the day. Namely, the euro started to appreciate as details emerged about the ECB's measures to prevent fragmentation. There was speculation on Friday that Britain could cut gas supplies to Europe if the country faced gas shortages in the coming months. There was speculation on Friday that Britain could cut gas supplies to Europe if the country faced gas shortages in the coming months.

EUR/JPY



Source: *Bloomberg LP*

The **EUR/JPY exchange rate** was stable until the middle of the week. From then, it depreciated, lasting until the very end of this period. The Japanese currency's appreciation compared to the euro occurred mainly as concerns about the global economic growth slowdown fuelled the demand for safe assets.

Table 1 - Exchange rates of the most important currencies

	27.06.2022[1]	01.07.2022[2]	% Change
EUR/USD	1.0553	1.0414	-1.32
EUR/GBP	0.86001	0.86165	0.19
EUR/JPY	142.79	140.99	-1.26
EUR/AUD	1.51921	1.52858	0.62
EUR/CHF	1.01115	1.00111	-0.99
USD/JPY	135.23	135.21	-0.01
GBP/USD	1.2268	1.2095	-1.41

Table 2 - Overview of the reference interest of the leading central banks

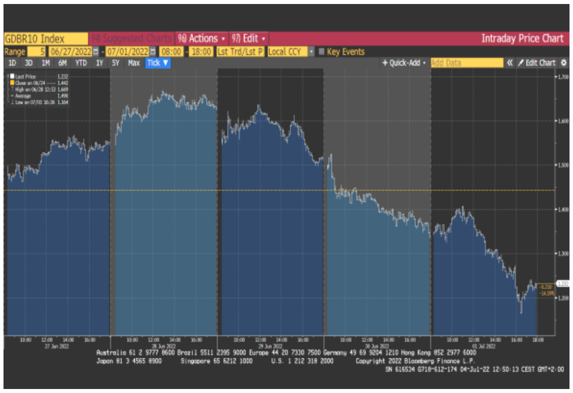
Central Bank	Reference interest rate name	Reference interest rate level	Next meeting
European Central Bank	ECB main refinancing rate	0.00%	21 July 2022
Federal Reserves	Federal Funds Target Rate	1.75%	27 July 2022
Bank of Japan	Overnight Call Rate	-0.10%	21 July 2022
Bank of England	Official Bank Rate	1.25%	4 August 2022
Swiss National Bank	Libor Target Rate	-0.25%	22 September 2022
Bank of Canada	Target Overnight Rate	1.50%	13 July 2022
Reserve Bank of Australia	Cash Rate Target	0.85%	5 July 2022

Table 3 – ESTR and Euribor

	27.06.2022[1]	01.07.2022[2]	Change in basis points
ESTR	-0.5800	-0.5800	0.0
Euribor 1W	-0.572	-0.565	0.7
Euribor 1M	-0.553	-0.506	4.7
Euribor 3M	-0.218	-0.176	4.2
Euribor 6M	0.223	0.228	0.5
Euribor 12M	0.975	0.961	-1.4

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

EUROPEAN GOVERNMENT BONDS MARKET



Source: *Bloomberg LP*

The return on German 10-year government bonds fell in this reporting week. It trended up in the first two days due to the increased expectations regarding the ECB's interest rate increase. However, since Wednesday, it has been steadily weakening. On Wednesday, it was reported that the inflation rate in the German province of North Rhine-Westphalia recorded a monthly fall in June for the first time this year, indicating that national inflation may be lower. Despite mixed inflation data released later in the week, the return continued to fall. The inflation rate in Germany rose less than expected, in France in line with expectations, while inflation in Spain surprised markets with double-digit growth. The return fall was also caused by the growing demand for safe assets due to falling stock prices and growing concerns about the recession. At the very end of the week, this return stood at 1.23%, while it was 1.50% on Monday. Preliminary data published on Friday showed that the inflation rate in the euro area rose more than expected in June.

US GOVERNMENT BONDS MARKET

Source: *Bloomberg LP*

The US government bond market trend was similar to the European government bond market trend. In the first two days, the return on 10-year US government bonds increased slightly to start dropping and maintaining such a trend until the end of the week. The decline at the beginning of the week was caused by increased supply in this market, as the USA issued new bonds of various maturities. However, after reporting that US consumer confidence fell in June, the return started to drop. The additional drop followed the announcement that the US economic growth in the first quarter decreased by 1.6% compared year-on-year with an expected decline of 1.5%, so the concern about the potential impact of monetary policy tightening on economic growth grew. This market was concerned about the recession until the end of the week, so the demand for safe assets grew. The return on 10-year bonds was 2.88% at the end of the week and 3.13% at the beginning.

GOLD

Source: Bloomberg LP

During most of the week, the gold price had a slightly downward trend due to the increased return and USD exchange rate appreciation. On Thursday, the decline was more pronounced due to the expectation that the Fed would pursue an aggressive monetary policy. The gold price fell on Friday morning to recover in the afternoon. Traders looked at prospects for further US monetary policy tightening. Central banks globally are raising interest rates to curb skyrocketing inflation.

OIL

Source: Bloomberg LP

In the first half of the week, the oil price trended up as investors were waiting for the moves of the G7 group, which would ban the oil and gas export from Russia. Libya is facing additional disruptions in oil exports due to the political crisis, and anti-government protests may lead to oil production interruption in Ecuador, which further “pushed” the oil price upwards. Another reason for the oil price increase is that Saudi Arabia and the United Arab Emirates will most likely not be able to increase oil production. The G7 is considering limiting the oil price that Russia exports to their countries. On Thursday, the oil price fell in the afternoon as concerns about the global economy were again present. The price rose at the very end of the week and stopped at 118.39 USD/bbl.

Table 4 - Economic indicators (27 June – 1 July 2022)

Current value	Indicator	Euro area	Expected value	Current value	Previous value
Germany	**Consumer price index (CPI)** It estimates the changes in the cost of living, measuring price changes in the basket of consumer goods and services used by an average German household.	June MoM% YoY%	0.40% 7.90%	0.10% 7.60%	0.90% 7.90%
	Retail Sales This indicator measures changes in retail sales in Japan.	May MoM% YoY%	0.50% -1.80%	0.60% 0.40%	-5.40% 0.90%
France	**Consumer Confidence** This index measures the level of households' confidence in terms of economic performance.	June	84	82	86
USA	**(Initial Jobless Claims)** This indicator measures the number of people receiving unemployment allowances. The growing number of jobs accompanies an economic expansion that could influence inflationary pressures.	25 June K=1.000	230K	231K	229K
Italy	**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.	Q1 QoQ% YoY%	0.80% 8.70%	0.80% 8.70%	0.80% 8.70%

Source: Bloomberg