CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

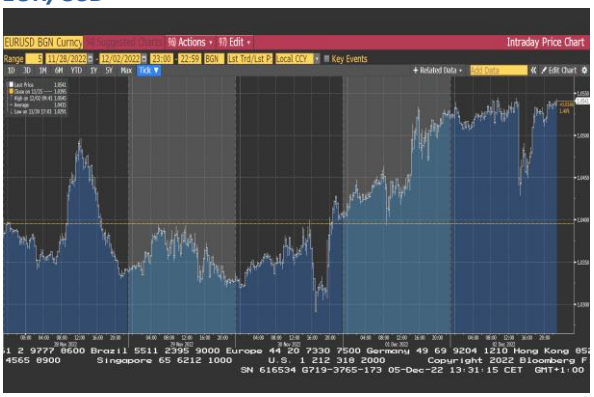
International Financial Market Report

(28 November – 2 December 2022)

Podgorica, 7 December 2022

FX NEWS

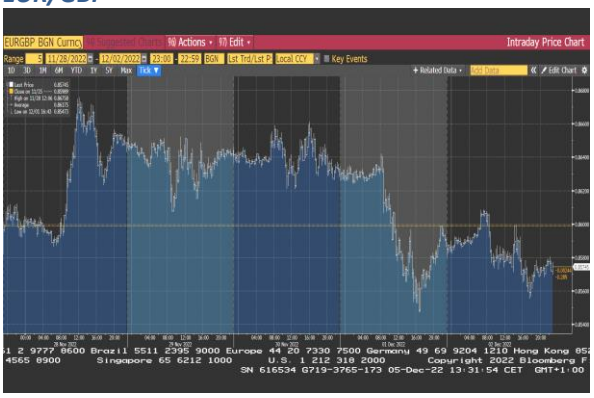
EUR/USD



Source: *Bloomberg LP*

The **EUR/JPY exchange rate** appreciated this week. On Monday, the exchange rate appreciated to 1.0497, an almost 5-month high, as the euro appreciated due to growing unrest in China over Covid restrictions and expectations of their easing. However, it depreciated the same day due to the New York Fed Chair's comments that interest rates should continue to rise and remain high in the next year, and could reduce in 2024. In the rest of the week, the exchange rate fluctuated. On Wednesday, it depreciated to 1.0291 after lowered expectations regarding the size of the future ECB's interest rate increase following the publication of certain European economies' inflation data. In November, the inflation rate in Germany was at a lower level compared to October, and an inflation slowdown was also recorded in Spain and Belgium. The exchange rate generally appreciated during the rest of the week due to the USD depreciation. The USD depreciated as the demand for safe assets decreased due to growing expectations that China would loosen rather than tighten Covid restrictions. In addition, the Fed Chair pointed out that the Fed would slow the interest rate increase pace, and pointed out that combating the inflation was not over. The exchange rate depreciated mid-day briefly on Friday after stronger-than-expected US labour market data boosted the USD. Still, the US currency soon continued to depreciate on speculation that the Fed would slow down interest rate hikes as early as this month. The exchange rate ended the reporting week at above 1.05 for the first time in the last five months.

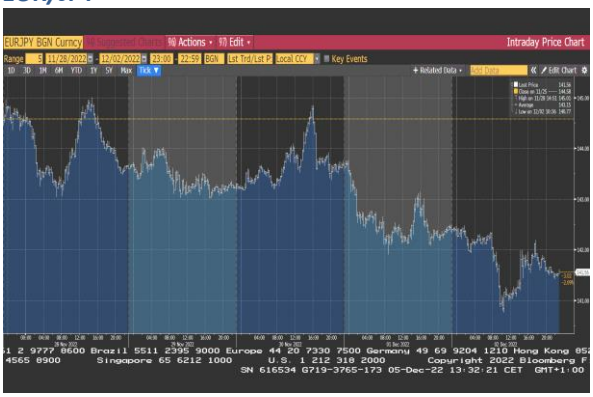
EUR/GBP



Source: Bloomberg LP

The **EUR/GBP exchange rate** appreciated at the beginning of this week as investors' risk aversion fuelled the demand for the European currency. Moreover, the euro's appreciation also resulted from the ECB President's statement suggesting that the central bank was nowhere near the end of its interest rates increasing policy. During the next two days, this exchange rate fluctuated around 0.864, after which it fell sharply on Thursday following the statement of an ECB Governing Council member that further interest rate increases should be gradual. On Friday, the exchange rate continued to depreciate after growing expectations that a negotiated solution to the Protocol on Northern Ireland would be reached, thereby avoiding the possibility of a trade war between the EU and the UK.

EUR/JPY



Source: *Bloomberg LP*

During this reporting week, the **EUR/JPY exchange rate** depreciated. The exchange rate was volatile during the first three days but generally depreciated from 144.70 to 143.70. The rising number of infected in China during the weekend preceding this reporting week and the protests in China caused the yen to appreciate. Data on inflation in Germany, which decreased to 11.3% in November compared to October's 11.6%, reduced expectations that the ECB would have another significant interest rate increase in December, resulting in the euro's depreciation. In the last two days, the exchange rate depreciated more, as BoJ board member Naoki Tamura stated that it would be adequate to conduct a new assessment of the monetary policy and the target level of inflation soon. These comments fuelled speculation that the BoJ would revise its firm stance in monetary policy management, which caused the Japanese currency's appreciation. The yen also appreciated due to the drop in the return on US government bonds due to Fed's indications concerning a minor interest rate increase at the upcoming meeting.

Table 1 - Exchange rates of the most important currencies

	28.11.2022[1]	02.12.2022[2]	% Change
EUR/USD	1.0395	1.0535	1.35
EUR/GBP	0.85989	0.85730	-0.30
EUR/JPY	144.58	141.48	-2.14
EUR/AUD	1.54033	1.55220	0.77
EUR/CHF	0.98320	0.98733	0.42
USD/JPY	139.19	134.31	-3.51
GBP/USD	1.2092	1.2280	1.55

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

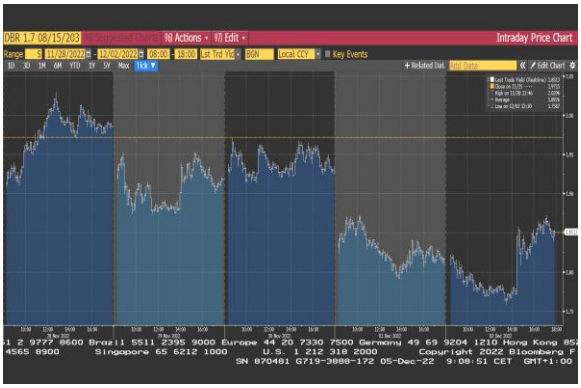
Central Bank	Reference interest rate	Reference interest rate level	Next meeting
European Central Bank	ECB main refinancing rate	2.00%	15 December 2022
Federal Reserves	Federal Funds Target Rate	4.00%	14 December 2022
Bank of Japan	Overnight Call Rate	-0.10%	20 December 2022
Bank of England	Official Bank Rate	3.00%	15 December 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	2.85%	6 December 2022

Table 3 – ESTR and Euribor

	28.11.2022.[1]	02.12.2022.[2]	Change in basis points
ESTR	1.403	1.400	-0.30
Euribor 1W	1.388	1.398	1.00
Euribor 1M	1.476	1.514	3.80
Euribor 3M	1.922	1.975	5.30
Euribor 6M	2.374	2.406	3.20
Euribor 12M	2.860	2.811	-4.90

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

EUROPEAN GOVERNMENT BONDS MARKET



Source: *Bloomberg LP*

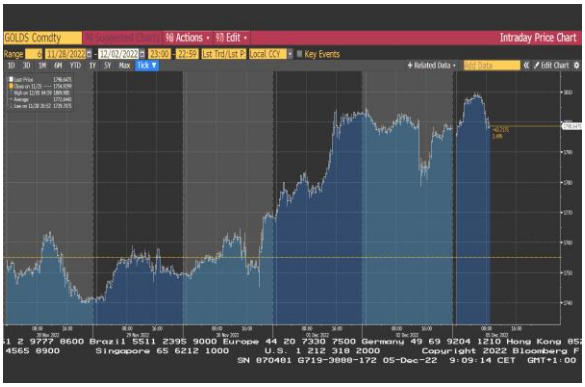
The return on 10-year German government bonds fell on the weekly level. On Monday, the return on bonds rose after market expectations for an ECB interest rate hike increased following comments from this monetary institution's officials who believed the interest rate hike cycle was far from over and the inflation trend was worrisome. The next day, it was released that the German annual inflation in November rose by a less-than-expected 6.6% compared to the expected 7.1% growth, resulting in a return drop. In addition to Germany, Spain and Belgium also recorded slightly lower monthly inflation in November. Hence, investors' expectations regarding a significant ECB interest rate increase decreased. On Friday, at the very end of the day, the return rose by around 4 basis points after the released better-than-expected US labour market data.

US GOVERNMENT BONDS MARKET

Source: *Bloomberg LP*

The return on 10-year US bonds rose slightly on Monday due to Fed officials' comments on the need for high-interest rates next year. On Tuesday, by the end of the day, the return on 10-year bonds rose as a Fed's regional bank's Chair said that the Fed would have to keep the interest rate above 5% for most of next year and probably for some of 2024 to slow down inflation. The following day, the downward trend of the return was present as the Fed Chair, Jerome Powell, indicated a slowdown in the pace of interest rate increases in the US, starting from the next meeting. Powell said officials would consider changes in financial conditions and how they affect the economy, stressing that the bank did not want the economy to "collapse" through rate hikes and that officials wanted to avoid excessive "tightening". US labour market data released on Friday exceeded expectations, increasing the return (non-farm payrolls in November increased by 263,000 compared to the forecasted 200,000).

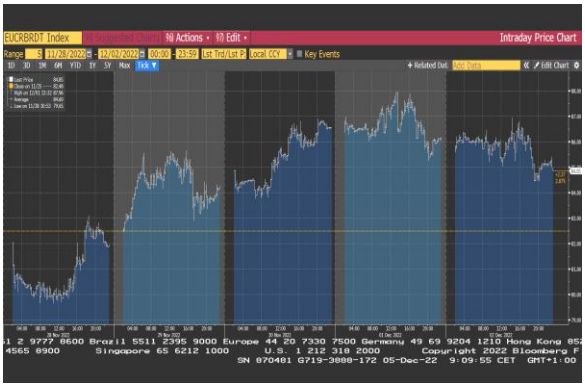
GOLD



Source: Bloomberg LP

The gold price fell early week as the USD appreciated against a basket of currencies, which reduced demand for this precious metal. During the next two days, the gold price rose slightly to record a sharp increase on Thursday. This growth occurred after increasing signals that the Fed would raise interest rates in the coming period in smaller amounts than expected, at which the Fed Chair hinted. He signalled that the central bank would increase the interest rate by 50 basis points at the December meeting, compared to the previously expected 75 basis points. On Friday, the gold price did not achieve a significant daily change.

OIL



Source: Bloomberg LP

The oil price rose during the first three days of this reporting period. The increase in fuel price resulted from the growing expectation that China would ease the strict measures in place to prevent the coronavirus spread. Additionally, the news that US oil stocks fell by 12.6 million barrels during the previous week also influenced the oil price growth. During the last two days, the oil price declined slightly after the expectation that the OPEC+ members would continue with the current oil production volume at the meeting and wait for the period after the New Year and additional data to bring about changes in the oil production volume possibly.

Table 4 - Economic indicators (28 November - 2 December 2022)

Country	Indicator	Period	Expected value	Current value	Previous value
Euro area	**CPI estimate** This is an early euro area estimate. This index uses available data comparable to a historical trend in order to anticipate changes in consumer prices. By itself, CPI monitors the consumer price changes by measuring price changes of market basket of consumer goods and services purchased by an average household. Therefore, it is the key inflation measure. Positive CPI points to price increase.	November	10.4%	10.0%	10.6%
	S&P Global Eurozone Manufacturing PMI PMI surveys tracks opinion among procurement managers at manufacturing, construction and/or services firms. The index was obtained from the results of questionnaires related to production, orders, stocks, employment, prices, etc.	November	47.3	47.1	47.3
	Unemployment Rate The percentage of individuals on the labour market and unemployed, but actively looking for a job. In general, higher unemployment rate weakens the economy and results in lower personal spending.	October	6.6%	6.5%	6.6%
	Producer Price Index (PPI) This index measures changes in sale prices of goods and services used by producers. Producers transfer higher costs to consumers through retail prices, thus PPI is important as an early inflation indicator.	October MoM% YoY%	-2.0% 31.7%	-2.9% 30.8%	1.6% 41.9%
Great Britain	**Property Prices (Nationwide House PX)** This indicator monitors changes in housing prices.	November MoM% YoY%	-0.4% 5.8%	-1.4% 4.4%	-0.9% 7.2%
USA	**Change in non-farm payrolls** This report shows the total number of newly employed workers on a monthly basis by economy industries. It does not include employees in government services, NGOs, and the agricultural sector. It serves as the basis for tailoring economic policy and forecasting future economic trends.	November k=1000	200K	263K	261K
	Average Hourly Earnings This indicator monitors the average amount of money paid to employees per hour of work performed and its change.	November MoM% YoY%	0.3% 4.6%	0.6% 5.1%	0.5% 4.9%
Japan	**Retail Sales** This indicator shows changes in sales. The statistics covers universal shops and supermarkets. It shows the level of consumer shocks and consumer demand.	October MoM% YoY%	1.0% 5.1%	0.2% 4.3%	1.1% 4.5%
	Industrial output It measures the output volume in the mining and industrial sectors of Japan. Industrial output responds significantly to business cycle changes and can often predict trends in employment rates, earnings, and personal income**.**	October MoM% YoY%	-1.8% 5.1%	-2.6% 3.7%	-1.7% 9.6%
	Housing starts This indicator tracks the number of new housing units (or buildings) whose construction was started in the reference period.	October YoY%	-1.0%	-1.8%	1.0%

Source: Bloomberg