CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

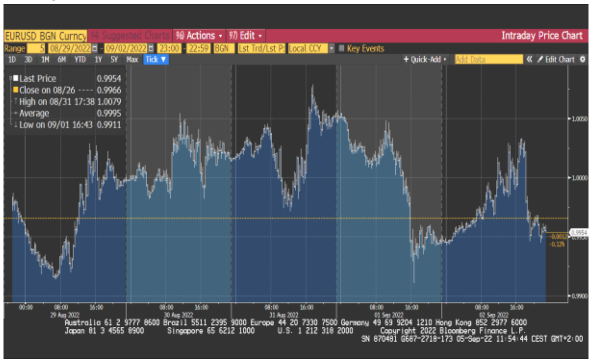
International Financial Market Report

(29 August – 2 September 2022)

Podgorica, 7 September 2022

FX NEWS

EUR/USD



Source: *Bloomberg LP*

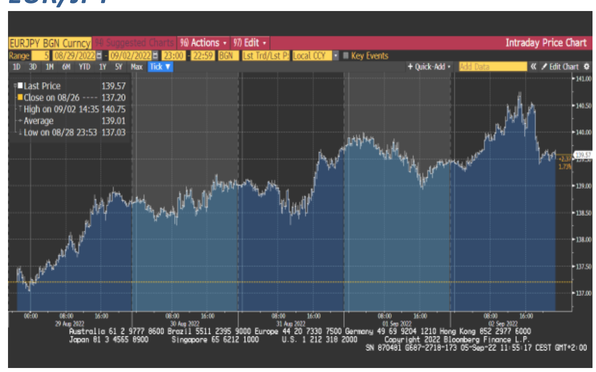
The **EUR/USD exchange rate** appreciated on Monday as the EU prepared to intervene in the energy market, and traders anticipated an interest rate hike by the ECB. After that, the exchange rate fluctuated. The euro appreciated expecting a significant interest rate hike by the ECB, following many announcements from the institution's officials in the past period. At the same time, the USD appreciated after the encouraging data from the US labour market and consumer confidence. In the middle of the week, it was published that inflation in the euro area rose 9.1% in August, raising the prospect that the ECB would raise interest rates more aggressively. On Thursday, the USD appreciated against the euro due to encouraging data from the US labour market. Namely, the number of initial jobless claims by Americans fell last week more than expected to 232,000. The index measuring manufacturing activity in the USA rose from 51.3 to 51.5 in August. At the end of the week, the EUR/USD exchange rate trended up as the USD depreciated after the announcement that the unemployment rate had increased. At the same time, average hourly earnings were weaker than expected in the USA. However, the euro began to appreciate after Gazprom announced it had found a crack and that the Nord Stream gas pipeline would remain closed, delaying its planned opening.

EUR/GBP

Source: *Bloomberg LP*

The **EUR/GBP exchange rate** appreciated this reporting week. The EUR/GBP exchange rate appreciated at the beginning of the week as the outlook for the UK economy remained "gloomy". The EUR/GBP exchange rate rose mid-week after euro area inflation data came in, raising the prospect of more aggressive interest rate hikes by the ECB. On Thursday morning, the sterling slightly appreciated against the euro. In Great Britain, Liz Truss was expected to succeed Boris Johnson as the new prime minister. Truss' proposals to tackle the cost-of-living crisis have already "roiled" UK fixed-income markets and appeared, at the end of the day, to boost the sterling's appeal as a hedge against stagflation. On Friday, the EUR/GBP exchange rate appreciated as sterling depreciated on expectations that higher energy costs in the UK will worsen the cost of living.

EUR/JPY



Source: *Bloomberg LP*

The **EUR/JPY exchange rate** recorded weekly appreciation. On Monday, the exchange rate appreciated as investors expected the gap between monetary policy led by the ECB and the BoJ to widen in the coming period. On the following day, the yen appreciated against the euro due to investors' caution that the Fed's aggressive tone in conducting monetary policy will "keep the pressure" on share prices on the stock exchanges. At the end of the week, the exchange rate depreciated in the second part of the day due to the yen's appreciation after Japan's Minister of Finance stated that sudden changes in the yen were not desirable and that careful monitoring of the currency market was necessary.

Table 1 - Exchange rates of the most important currencies

	29.08.2022[1]	02.09.2022[2]	% Change
EUR/USD	0.9966	0.9954	-0.12
EUR/GBP	0.84851	0.8649	1.93
EUR/JPY	137.20	139.57	1.73
EUR/AUD	1.44252	1.4615	1.32
EUR/CHF	0.96279	0.97663	1.44
USD/JPY	137.64	140.20	1.86
GBP/USD	1.1744	1.1509	-2.00

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

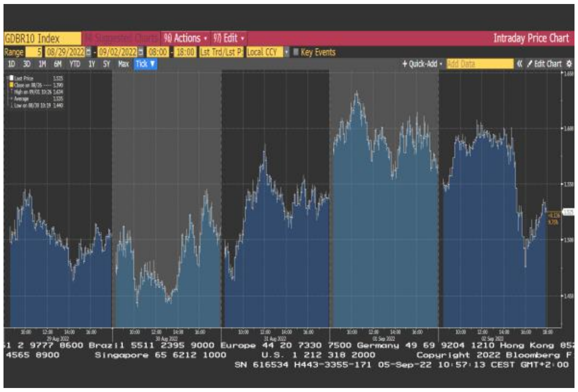
Central Bank	Reference interest rate name	Reference interest rate level	Next meeting
European Central Bank	ECB main refinancing rate	0.50%	8 September 2022
Federal Reserves	Federal Funds Target Rate	2.50%	21 September 2022
Bank of Japan	Overnight Call Rate	-0.10%	22 September 2022
Bank of England	Official Bank Rate	1.75%	15 September 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	1.85%	6 September 2022

Table 3 – ESTR and Euribor

	29.08.2022[1]	02.09.2022[2]	Change in basis points
ESTR	-0.080	-0.083	-0.30
Euribor 1W	-0.067	-0.071	-0.40
Euribor 1M	0.094	0.314	22.00
Euribor 3M	0.542	0.763	22.10
Euribor 6M	0.983	1.290	30.70
Euribor 12M	1.482	1.896	41.40

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

EUROPEAN GOVERNMENT BONDS MARKET



Source: *Bloomberg LP*

In this reporting week, the return on 10-year German government bonds rose by about 2.5 basis points from 1.50% to 1.525%. During the week, the return fluctuated between 1.440% and 1.634%. The return drop at the beginning of the week was caused by the news of the EU's preparation to intervene in the energy market, decreasing the demand for safe assets. In the rest of the week, the return generally trended up due to the strengthened expectations regarding the ECB's interest rate increase – investors expected that the interest rate would increase by 125 basis points by the end of October to curb inflation. On Friday, the return fell after the weaker-than-expected data from the US labour market influenced the weakened expectations concerning the Fed and the ECB interest rate increase.

US GOVERNMENT BONDS MARKET

Source: *Bloomberg LP*

The return on 10-year US government bonds rose by about 12 basis points this week from 3.07% to 3.19%. In the first half of the week, the return ranged between 3.05% and 3.15% to have a more pronounced trend from Wednesday afternoon due to increasing expectations regarding the Fed's interest rate increase. The Cleveland Fed Chair said that the Fed should increase the key interest rate above 4% by the beginning of next year, which further caused the return to rising. The return recorded its peak value of 3.29% this week on Thursday. The growth was driven by fairly good data on the US manufacturing sector and optimistic data on new orders and employment. However, on Friday, the return retreated from this level, as somewhat weaker-than-expected data from the US labour market affected expectations of a Fed interest rate hike (the unemployment rate rose unexpectedly, and hourly earnings also missed expectations).

GOLD

Source: Bloomberg LP

At the beginning of the week, the gold price rose due to the USD depreciation, which made this precious metal more attractive to investors. However, the price had a constant downward trend for the rest of the week. Encouraging economic data from the USA caused the price to weaken in this period. The price was also falling due to the expectation that central banks worldwide would continue to increase interest rates aggressively in the coming period. However, at the very end of the week, after releasing the weaker-than-expected US unemployment rate data, the USD depreciated, and the gold price rose. Despite the growth, the price recorded a weekly fall for the third consecutive week.

OIL

Source: Bloomberg LP

The oil price also decreased during this reporting week. On Monday, it trended up due to the growing expectation that OPEC would reduce production to support and stabilise this fuel's price. Since Tuesday, the price mostly declined due to concerns that the economic growth slowdown would harm demand and the leading central banks' expectations concerning the interest rate increase. Another cause of the price drop was the news that China closed Chengdu, a city of 21 million inhabitants, to establish control over Covid ("zero Covid" policy).

Table 4 – Economic indicators (29 August – 2 September 2022)

Current value	Indicator	Euro area	Expected value	Current value	Previous value
Euro area	**Industrial output** It measures the changes in output of production, service and mining sectors.	July MoM% (YoY%)	3.7% (37.3%)	4.0% (37.9%)	1.1% (35.8%)
	Consumer price index (CPI) This indicator estimates the changes in the cost of living, measuring changes in the price level of the basket of consumer goods and services purchased by an average household. Therefore, it is a key measure of euro area inflation.	August MoM%	0.4%	0.5%	0.1%
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.	August MoM% (YoY%)	0.4% (7.8%)	0.3% (7.9%)	0.9% (7.5%)
Great Britain	**Mortgage Approvals** This indicator measures the number and/or value of mortgage loans approved by lenders.	July K=1.000	62.0 K	63.8 K	63.7 K
USA	**Initial Jobless Claims** This indicator measures the number of people receiving unemployment allowances.	27 August K=1.000	248 K	232 K	243 K
	Factory Orders Factory orders provide a rather comprehensive overview of the manufacturing sector.	July	0.2%	-1.0%	2.0%
	Consumer Confidence An assessment of consumer confidence in terms of business conditions, employment and personal income. The Consumer Confidence Index is tied to personal consumption.	August	98.0	103.2	95.7
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.	July MoM% (YoY%)	0.3% (1.9%)	0.8% (2.4%)	-1.4% (1.5%)
	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.	July MoM% (YoY%)	-0.5% (-2.4%)	1.0% (-1.8%)	9.2% (-2.8%)

Source: Bloomberg