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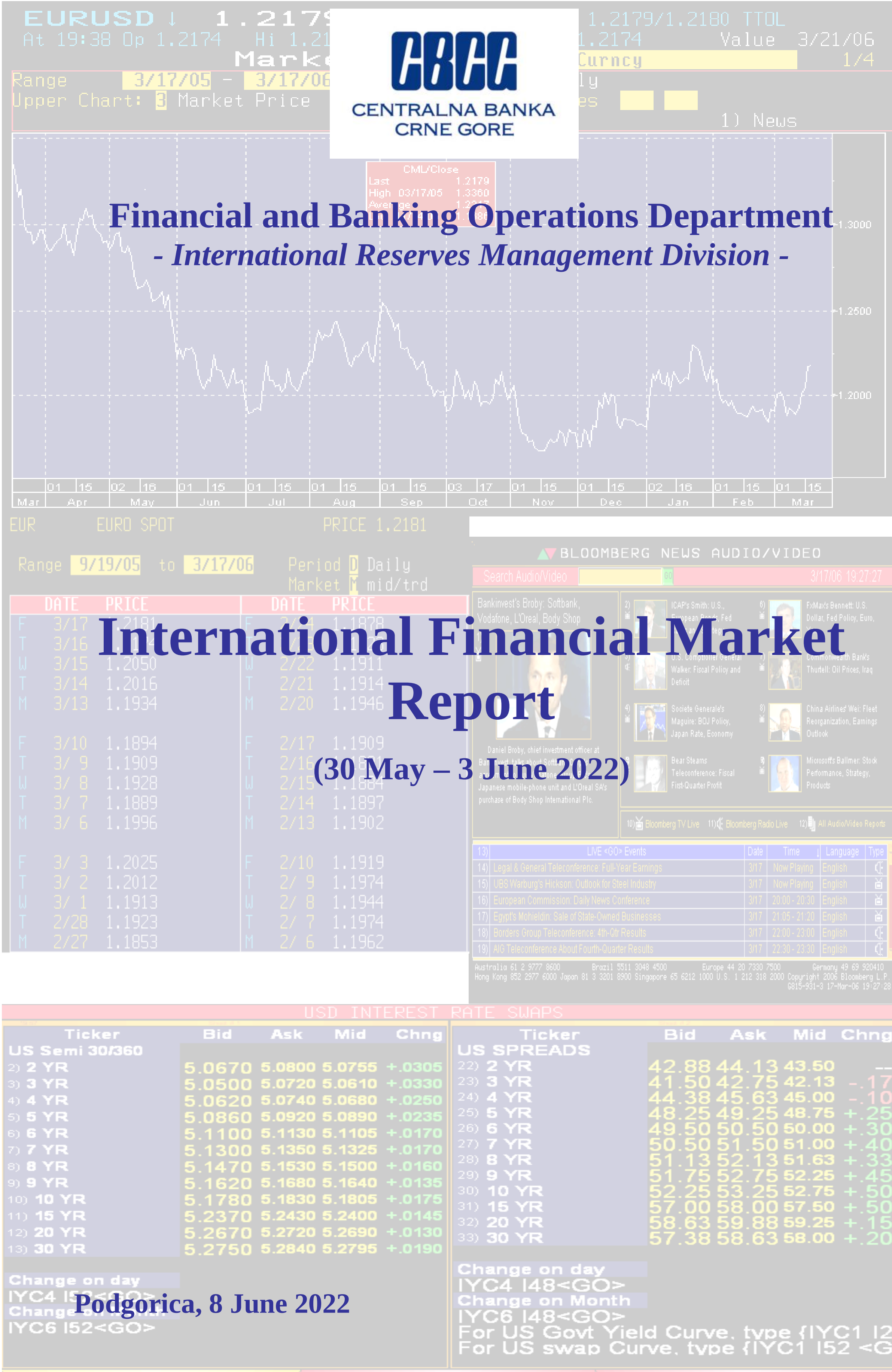


Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(30 May – 3 June 2022)

Podgorica, 8 June 2022

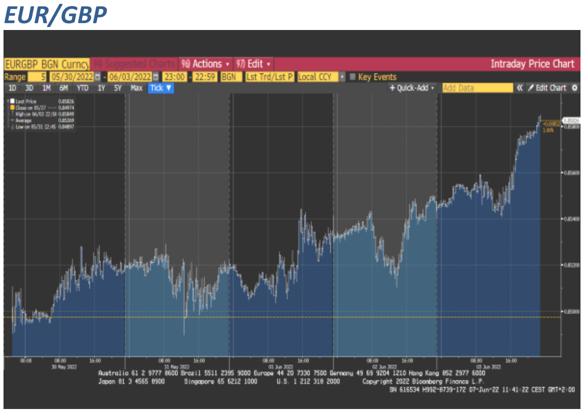
FX NEWS

EUR/USD

Source: *Bloomberg LP*

The **EUR/USD exchange rate** fluctuated during the reporting period to stand at approximately the same level as at the beginning of the period (around 1.0720). At the beginning of the week, the market was less worried about the global recession after relaxed measures in China. The number of coronavirus-infected people in Beijing and Shanghai decreased, so the USD depreciated against the euro. However, after preliminary data on inflation rates in Spain and Germany, the euro began to depreciate, as data were higher than expected, putting additional pressure on the ECB to start tightening monetary policy. According to these data, the CPI in Germany reached 7.9% vs the expected 7.6%, and 8.7% vs 8.5% in Spain. These data also raised concerns about global inflation, so the return on US government bonds rose, causing the USD to appreciate. On Wednesday, the exchange rate weakened further after retail sales in Germany fell more than expected in April, 5.4% vs 0.2%. The next day, the EUR/USD exchange rate recovered. The USD depreciated that day due to rising stock prices and mixed US economic data that clouded the outlook (weaker-than-expected growth in private sector employment; an unexpected drop in unemployment benefits). The end of the week saw another exchange rate depreciation due to the USD appreciation after the payrolls in the US non-productive sector exceeded expectations.

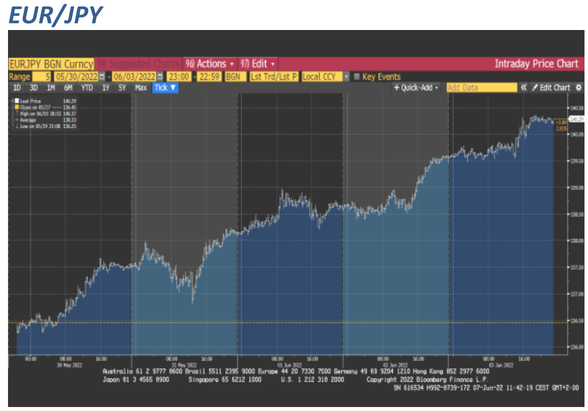
EUR/GBP



Source: *Bloomberg LP*

This reporting week, the **EUR/GBP exchange rate** appreciated from 0.84974 to 0.85826. The rise earlier in the week was prompted by a statement from the UK's Chancellor of the Exchequer that a 15 billion economic support package would have a minimal impact on inflation (to quote, "much less than 1%"), opposing critics who believe additional spending would accelerate inflation. According to the BoE, credit card lending in the UK rose in April at an annual rate of 11.6% (the fastest pace since 2005), indicating a deteriorating cost of living situation, which could begin to slow the real estate market. Total consumer loans grew at an annual rate of 5.7% in April (the highest rate since February 2020). According to Nationwide, real estate prices rose 11.2% in May compared to the same period last year, the tenth consecutive month of growth, but are likely to slow in the coming months. Markets in the UK were closed on Thursday and Friday due to Spring Bank Holiday and Bank Holiday.

EUR/JPY



Source: *Bloomberg LP*

The **EUR/JPY exchange rate** also appreciated this week, from 136.45 to 140.29. Earlier this week, expectations that Japan's factory output data would show a fall in April, for the first time in three months after some manufacturers were affected by locks in Shanghai and other industrial centres in China caused the exchange rate to rise. Later in the week, the exchange rate appreciated due to a statement by the BoJ Governor. He reiterated that he would adhere to the previous monetary easing to support the economic recovery affected by the corona. This statement highlighted differences in governance and expectations regarding the future conduct of Japan's monetary policy and other leading economies' monetary policies. At the end of the week, the euro was supported by expectations regarding the ECB's interest rate increase, so the exchange rate reached a 7-year high at the end of the week. The yen depreciated to its lowest level in 20 years compared to the USD.

Table 1 - Exchange rates of the most important currencies

	30.05.2022[1]	03.06.2022[2]	% Change
EUR/USD	1.0735	1.0719	-0.15
EUR/GBP	0.8497	0.85826	1.00
EUR/JPY	136.45	140.29	2.81
EUR/AUD	1.49906	1.48737	-0.78
EUR/CHF	1.02767	1.03173	0.40
USD/JPY	127.11	130.88	2.97
GBP/USD	1.2631	1.2488	-1.13

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%	9 June 2022
Federal Reserves	Federal Funds Target Rate	1.00%	15 June 2022
Bank of Japan	Overnight Call Rate	-0.10%	17 June 2022
Bank of England	Official Bank Rate	1.00%	16 June 2022
Swiss National Bank	Libor Target Rate	-0.75%	16 June 2022
Bank of Canada	Target Overnight Rate	1.50%	13 July 2022
Reserve Bank of Australia	Cash Rate Target	0.35%	7 June 2022

The Central Bank of Canada held a meeting this reporting week, which increased the interest rate by 50 basis points to 1.50%. Canada's monetary authorities warned that price increases could be present in the coming period and require even higher rates.

Table 3 – ESTR and Euribor

	30.05.2022[1]	03.06.2022[2]	Change in basis points
ESTR	-0.585	-0.587	0.20
Euribor 1W	-0.572	-0.566	-0.60
Euribor 1M	-0.545	-0.538	-0.70
Euribor 3M	-0.368	-0.328	-4.00
Euribor 6M	-0.076	-0.008	-6.80
Euribor 12M	0.358	0.486	-12.80

[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 recorded a weekly growth of almost 27 basis points. It happened after growing investors' concerns following inflation after publishing consumer price indices from Germany, Spain and later the euro area (the euro area index reached a record annual level of 8.1% in May). Rising oil prices boosted expectations that the ECB would raise interest rates by 50 basis points in December, which continued to weaken European bond prices. The return on German 10-year bonds rose on Friday as the focus of the market was on the ECB meeting, the interest rate increase pace, and how many basis points the interest rate would increase.

US GOVERNMENT BONDS MARKET

Source: *Bloomberg LP*

The US bond market was closed on Monday due to Memorial Day. On Tuesday, the return on 10-year US bonds rose as inflation concerns the market, confirming expectations that the Fed would continue to raise interest rates in the coming period. The return on 10-year US bonds was stable on Thursday, awaiting new US labour market data. The return on 10-year US bonds rose throughout Friday due to good data from the US labour market.

GOLD

Source: Bloomberg LP

The gold price weakened in the first part of the week after speculations that the Fed would increase interest rates by 50 basis points in the following meetings until the inflation growth finally stopped. The gold price also weakened due to the USD appreciation against a basket of currencies, making investing in gold less attractive. Gold prices recovered in the second half of the week amid growing investors' concerns about the Fed's monetary tightening. Inflation and rising volatility affected economic prospects, and uncertainty over the US recession affected investor demand for this precious metal. On Thursday, investors sought refuge in gold as the latest economic data indicated a weaker US economy and labour market recovery. At the very end of the week, the gold price fell as the USD appreciated due to good US labour market data.

OIL

Source: Bloomberg LP

At the very beginning of the week, the oil price rose as the EU agreed on a partial oil import ban from Russia. The oil embargo will apply to all petroleum products and fuel but will exclude oil deliveries that go directly to Hungary, Slovakia and the Czech Republic. On Tuesday, the oil price weakened as the media reported that OPEC members were considering the possibility of excluding Russia from their agreement on oil production. After that, the chart shows that the oil price increased as investors assessed the threat to the OPEC+ unity against the market conditions tightening after the publication of data from the OPEC research department, which reduced the global oil surplus estimate in 2022. The US President is expected to visit Saudi Arabia, and the kingdom is ready to increase oil production if Russian production weakens significantly due to sanctions against Russia. Oil rose on Thursday as the USD depreciated as Moody's said it could put the US rating under consideration for a possible downgrade if there is no progress on raising the debt limit. Saudi Arabia increased its official prices for Asian consumers on Friday as China cautiously exits COVID measures, pushing the oil price.

Table 4 - Economic indicators (30 May - 3 June 2022)

Current value	Indicator	Euro area	Expected value	Current value	Previous value
EU	**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.	May YoY%	7.8%	8.1%	7.5%
	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.	April MoM% (YoY%)	2.0% (38.2%)	1.2% (37.2%)	5.3% (36.8%)
	Retail Sales This indicator measures the volume of sales of personal and household goods.	April MoM% (YoY%)	0.1% (5.4%)	-1.3% (3.9%)	-0.4% (0.8%)
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.	May K=1.000	318 K	390 K	436 K
	Unemployment Rate It shows the number of unemployed persons as a percentage of the total labour force.	May	3.5%	3.6%	3.6%
Japan	**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**.**	April MoM% (YoY%)	-0.2% (-3.6%)	-1.3% (-4.8%)	0.3% (-1.7%)

Source: Bloomberg