CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

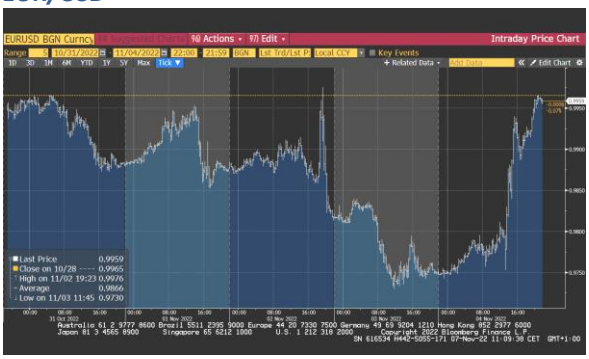
International Financial Market Report

(31 October - 4 November 2022)

Podgorica, 9 November 2022

FX NEWS

EUR/USD



Source: *Bloomberg LP*

The **EUR/USD exchange rate** depreciated on Monday. The euro depreciated after released euro area inflation data, while the USD appreciated as investors positioned themselves for another big interest rate hike at the Fed meeting. On Tuesday afternoon, the USD recovered due to strong US labour market data, which showed the increased number of jobs in September compared to August. The ECB President Lagarde said that the ECB must continue to raise interest rates to curb inflation, even if the likelihood of a euro area recession increases. The ECB's mandate is price stability, which must be fulfilled using all the tools available, Lagarde emphasised. She added the bank was determined to do whatever was necessary to return inflation to the 2% target. After the Fed meeting, where the interest rate was increased, the exchange rate rose, but soon it made a sharp depreciation as the Fed Chair stated, "it is still too early to think about pausing" rate hikes. The EUR/USD exchange rate depreciated on Thursday as the USD appreciated, boosted by rising returns on US government bonds after the Fed signalled to the market that the interest rate hike peak was likely beyond current investor expectations. On Friday, the EUR/USD exchange rate appreciated as the USD depreciated due to strong US payroll data, which points to continued positive moments in this labour market.

EUR/GBP

Source: *Bloomberg LP*

The **EUR/GBP exchange rate** trended up slightly in the first part of the week as investors focused on the BoE meeting outcome. The sterling depreciated as forecasters warned of a colder-than-usual winter, highlighting the risks of energy shortages in the country. At the regular meeting on Thursday, the BoE increased the interest rate by 75 basis points (the highest increase in the last 33 years). This institution said interest rates would probably go up, but less than what the financial markets expected, so the sterling depreciated significantly. The EUR/GBP exchange rate continued to rise on Friday.

EUR/JPY

Source: *Bloomberg LP*

The **EUR/JPY exchange rate** has been depreciating this week due to speculation that the Fed's policy could encourage the USD appreciation to a level that could trigger the Japanese authorities to intervene again in the currency market. Japan's Finance Minister reiterated that the competent authorities were monitoring the currency market situation and were ready to react regarding the yen movement. At the end of the week, the yen appreciated due to speculations about China's re-opening, i.e. relaxation of the Covid measures. Japan also announced that it would provide an economic stimulus package of 1 trillion yen (6.8 billion USD) to strengthen supply chains and 2.38 billion USD for research cooperation with the US on developing new generation semiconductors. At the very end of the week, the EUR/JPY exchange rate recovered.

Table 1 - Exchange rates of the most important currencies

	31.10.2022[1]	04.11.2022[2]	% Change
EUR/USD	0.9965	0.9957	-0.08
EUR/GBP	0.8581	0.87566	2.05
EUR/JPY	147.00	145.99	-0.69
EUR/AUD	1.55428	1.53901	-0.98
EUR/CHF	0.99241	0.99002	-0.24
USD/JPY	147.60	146.62	-0.66
GBP/USD	1.1615	1.1379	-2.03

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%	16 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

The **Fed** raised interest rates by 75 basis points, and the FOMC statement signalled that an aggressive rate hike campaign was nearing its final stage. However, at the post-meeting conference, the Fed Chair stated that slowing the interest rate increase pace would be necessary at some point but added that the final interest rate level would be higher than the decision-makers anticipated in September.

The **BoE** increased the interest rate by 75 basis points, the most significant increase in the last 33 years. The reason for such an increase was the need to deal with persistently high inflation, which deteriorated living standards and was likely to lead to a prolonged recession.

The **Central Bank of Australia** has increased the interest rate by 25 basis points. The bank revised its GDP forecasts downwards, expecting around 3% growth this year and around 1.5% growth in 2023 and 2024.

	31.10.2022[1]	04.11.2022[2]	Change in basis points
ESTR	0.6560	1.0410	38.50
Euribor 1W	0.951	1.385	43.40
Euribor 1M	1.208	1.398	19.00
Euribor 3M	1.641	1.734	9.30
Euribor 6M	2.034	2.278	24.40
Euribor 12M	2.567	2.794	22.70

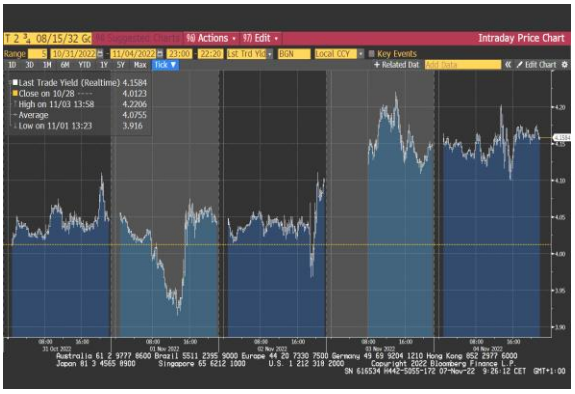
[1] Opening market value on Monday
[2] Closing market value on Friday

EUROPEAN GOVERNMENT BONDS MARKET

Source: *Bloomberg LP*

In this reporting week, the return on 10-year German government bonds increased from 2.10% to 2.30%, but it had an uneven trend during the week. On Monday, preliminary data on the euro area inflation rate in October caused a return rise (inflation was 10.7% compared to the expected 10.3%). On the same day, it was announced that the euro area GDP in Q3 dropped quarterly and annually (respectively 0.2% vs 0.8% and 2.1% vs 4.1%). However, the next day, the return fell by around 10 basis points to 2.03% after weakened market participants' expectations of an ECB interest rate hike. The ECB Governing Council member, Ignazio Visco, stated that the ECB should gradually curb inflation and consider the economic risks. The return recovered to the Monday level in the middle of the week. After the Fed raised its key interest rate by 75 basis points, market participants' expectations about the speed at which the ECB would raise interest rates rose, causing a jump in German 10-year return. By the end of the week, the return was volatile, but generally speaking, it was supported by the previously mentioned expectations. In an interview with Latvian television on Thursday, the ECB President stated that raising interest rates need to go a "long way" to stop record inflation, and the ECB will use all its instruments to return it to the target level of 2%. Earlier that day, she warned that a "mild recession" was possible but that it will not be able to stop rising prices alone.

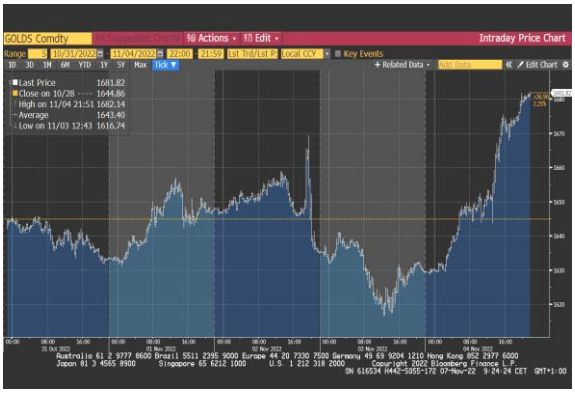
US GOVERNMENT BONDS MARKET



Source: *Bloomberg LP*

The return on 10-year US government bonds also increased from 4.01% to 4.16% in this reporting week. On Monday, the return rose, awaiting the Fed meeting to fall the following day, awaiting production and the US labour market data. After publishing strong data, the return recovered on the same day (the number of employees increased in September, while production activity in October fell slightly compared to the previous month). Awaiting the Fed meeting on Wednesday, the return fell as the Fed was expected to signal a gradual interest rate hikes slowdown. The Fed increased the interest rate by 75 basis points, and this institution's Chair stated that interest rates could go above the expected level and was better to "tighten more" than "tighten not enough", which would potentially cause inflation to get out of control. It resulted in the return rise to 4.22% on Friday. By the end of the week, the return fluctuated, ending the week at 4.16% due to released mixed data from the US labour market (the unemployment rate increased in October from 3.5% to 3.7%, while payrolls increased by 261,000 compared to the expected growth of 193,000).

GOLD



Source: Bloomberg LP

The gold price rose in this reporting week, although the rising trend was not present throughout the week. On Monday, the price weakened due to the USD appreciation. Over the next two days, this market mostly trended up, as there was a reversal in the USD and the return on US government bonds awaiting the Fed meeting. Namely, the USD currency and bond return occasionally showed signs of weakening as traders expected the Fed to signal the interest rate hike slowdown at this meeting. However, after the Fed increased the interest rate by 75 basis points, and this monetary institution's Chair stated that the central bank still "had room to act" when raising rates, the USD appreciated compared to a basket of currencies. Hence, this precious metal's price sharply fell to a 1-month low (1,616.74 USD/oz. tr.). However, the gold price retreated from this level from Thursday afternoon and amounted to 1,682 USD/oz. tr. at the end of the week compared to 1,641 USD/oz. tr. at the beginning. The rise came as mixed US labour market data clouded the prospect of further interest rate hikes by the Fed.

OIL

Source: Bloomberg LP

At the beginning of the week, the oil price trended down as weak October economic data from China fuelled concerns about demand (contraction of production and non-production activity). However, this market was mainly in an upward trend in the rest of the week, triggered by the growing share prices on Asian stock exchanges and fuelled awaiting the monetary meetings of the BoE and the Fed, where interest rates were increased by 75 basis points each. The price increase was also caused by rumours about China's preparations for a gradual exit from the Covid measures. Mid-week US inventory reports supported price growth, as inventories fell in the week before this reporting period, according to the US Government and industry reports. In addition, traders assessed the impact of the new EU sanctions against Russian oil, another cause of the increase in the price of this energy product. The International Energy Forum, the largest international organisation of energy ministers, estimates that implementing these sanctions in December could reduce Russian oil deliveries to the world market by 1 to 3 million barrels per day. On Friday, it was announced that China was working on plans to end a system penalising airlines for bringing virus cases into the country. It indicated that the nation might be easing its so-called zero Covid policy, so the concern about the demand for this energy product decreased, and the price continued to rise.

Table 4 - Economic indicators (31 October - 4 November 2022)

Country	Indicator	Period	Expected value	Current value	Previous value
Japan	**Retail Sales** This indicator measures changes in retail sales in Japan.	September MoM% (YoY%)	0.8% (4.1%)	1.1% (4.5%)	1.4% (4.1%)
Euro area	**Consumer price index (Euro-area 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. **Producer Price Index (PPI Euro area)** This index measures changes in sale prices of goods and services used by producers in the euro area. High PPI, together with the high value of other inflation indicators, will force the ECB to strive for an increase in interest rates, while declining PPI may indicate an economic slowdown.	October YoY% September MoM% (YoY%)	10.3% 1.6% (41.9%)	10.7% 1.6% (41.9%)	10.0% 5.0% (43.3%)
Germany	**Factory Orders** Factory orders provide a rather comprehensive overview of the manufacturing sector. **Retail Sales** This indicator measures changes in retail sales in Germany.	September MoM% September	-0.5% -0.5%	-4.0% 0.9%	-2.4% -1.3%
Great Britain	**Mortgage Approvals** This indicator measures the number and/or value of mortgage loans approved by lenders.	September K=1.000	63.7 K	66.8 K	74.3 K
USA	**Job Openings and Labor Turnover - JOLTS)** JOLTS defines all open (unfilled) positions on the last working day of the month. **Unemployment Rate** It shows the total percentage of those considered unemployed in the United States. Given that the Fed must keep unemployment under control, its high rate puts pressure on interest rates (in terms of their reduction), as the Fed will then seek ways to improve the situation on the labour market.	September K=1.000 October	9750 K 3.6%	10717 K 3.7%	10053 K 3.5%

Source: Bloomberg