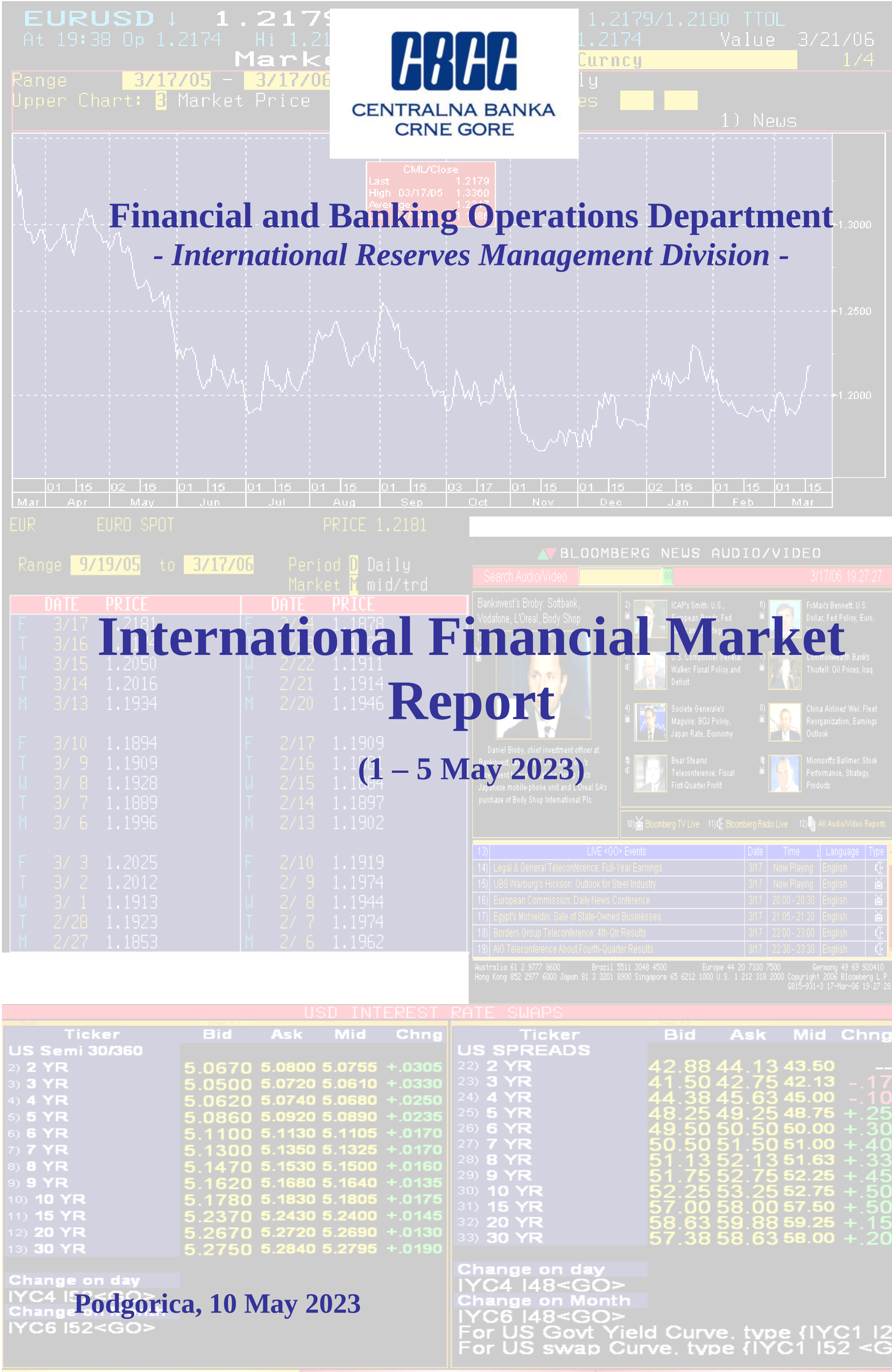

CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(1 – 5 May 2023)

Podgorica, 10 May 2023

FX NEWS

EUR/USD

The **EUR/USD exchange rate** depreciated on Monday due to reduced trade amid the May Day holiday. Over the next two days, the exchange rate appreciated after growing concerns about the US banking sector and the release of the US Bureau of Statistics' JOLTS report, which showed a slowdown in job creation in the country in March. On Wednesday, the exchange rate appreciated as the Fed meeting showed that the current interest rates increasing was ending, thus affecting the USD depreciation to the European currency. On Thursday, after the ECB meeting, the EUR/USD exchange rate depreciated as the ECB raised interest rates by 25 basis points. On Friday, the exchange rate first depreciated to appreciate in the afternoon after revising the March US labour market data downwards.

EUR/GBP

The **EUR/GBP exchange rate** depreciated in this reporting week. This exchange rate appreciated in the first half of the week. Markets were closed on Monday for a holiday. The next day, released data on house prices and manufacturing activity in the UK in April were slightly better than expected. Despite this, the sterling appreciated as property prices fell compared year-on-year, while the PMI index remained below levels that indicate expansion. Preliminary euro area inflation data in April were published the same day. However, the exchange rate showed depreciation signs awaiting the ECB meeting, to start depreciating after the meeting and maintaining such a trend until the end of the week. The euro depreciated as the ECB raised interest rates by 25 basis points each, with some expecting a 50 basis points increase. In contrast, the sterling appreciated as a survey showed the UK services sector expanded at its fastest rate in a year in April, supported by expectations that the BoE would raise interest rates by 25 basis points at its meeting on 11 May.

EUR/JPY

The **EUR/JPY exchange rate** was stable on Monday as most markets were closed for the May Day holiday. During the rest of the week, this exchange rate depreciated. The exchange rate depreciated as investors' appetite for risky investments decreased due to renewed concerns about the US banking sector. Moreover, after the ECB meeting on Thursday and the ECB decisions, the exchange rate depreciated further. On Friday, the EUR/JPY exchange rate trend stabilised and recovered towards the end of the reporting period after decreased demand for safe investments.

Table 1 - Exchange rates of the most important currencies

	01.05.2023[1]	05.05.2023[2]	% Change
EUR/USD	1.1019	1.1019	0.00
EUR/GBP	0.87676	0.87252	-0.48
EUR/JPY	150.07	148.36	-1.14
EUR/AUD	1.66580	1.63304	-1.97
EUR/CHF	0.98540	0.98136	-0.41
USD/JPY	136.30	134.80	-1.10
GBP/USD	1.2567	1.2636	0.55

Table 2 - Overview of the leading central banks' interest rates

Central Bank	Reference interest rate	Reference interest rate level	Next meeting
European Central Bank (ECB)	ECB main refinancing rate	3.75%	15 June 2023
Federal Reserves (Fed)	Federal Funds Target Rate	5.25%	14 June 2023
Bank of Japan (BoJ)	Overnight Call Rate	-0.10%	16 June 2023
Bank of England (BoE)	Official Bank Rate	4.25%	11 May 2023
Swiss National Bank (SNB)	Libor Target Rate	1.50%	22 June 2023
Bank of Canada (BoC)	Target Overnight Rate	4.50%	7 June 2023
Reserve Bank of Australia (RBA)	Cash Rate Target	3.85%	2 June 2023

At the meeting this week, the RBA surprised the markets by increasing the interest rate by 25 basis points and indicated a possible further monetary policy tightening to ensure the inflation returned to the target level in a reasonable time frame.
The Fed also increased the interest rate by 25 basis points, now ranging between 5%-5.25%. Inflation was still above the 2% target, but recent data pointed to its easing. As for future moves, the "door is open" for a pause in the monetary policy tightening.
The ECB also raised interest rates by 25 basis points each. Although the overall inflation has decreased in recent months, the underlying price pressures were still strong, and the decision-making approach that depended on the published data continued. After the meeting, ECB President told a press conference that the decision to raise interest rates was "almost unanimous" but that several colleagues supported a 50 basis points increase. The announcement that reinvestment within the assets purchase programme (APP) should be stopped from July, while reinvesting within the pandemic emergency purchase programme (PEPP) will remain unchanged was unexpected.

Table 3 – ESTR and Euribor

	01.05.2023[1]	05.05.2023[2]	Change in basis points
ESTR	2.896	2.8980	0.40
Euribor 1W	2.872	2.950	7.80
Euribor 1M	3.093	3.099	4.70
Euribor 3M	3.274	3.280	1.50
Euribor 6M	3.622	3.575	-7.00
Euribor 12M	3.822	3.770	-11.00

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

EUROPEAN GOVERNMENT BONDS MARKET

The markets were closed on Monday due to the holidays. The next day, the return on 10-year German government bonds fell after the core inflation rate in the euro area was slightly lower than expected. Market participants expected the ECB to increase the rate by 25 not 50 basis points. On Wednesday, the return dropped slightly in the morning due to the share prices weakening in stock exchanges. Germany will provide 2 billion euros (2.2 billion USD) to the international Green Climate Fund (GCF) designed to accelerate the transition to sustainable development with low emissions. It was the largest single donation in the fund's history. The GCF was established in 2010 at the Cancun Climate Conference and provides grants, loans and guarantees for programmes promoting low carbon emissions or helping countries adapt to climate change. After the regular ECB meeting at the end of the week, the demand for safe assets increased. On Friday, the return on 10-year German government bonds rose from 2.23% to 2.29% as bank shares recovered.

US GOVERNMENT BONDS MARKET

The markets were closed on Monday due to the holidays. On Tuesday, the return on 10-year US Government bonds fell as investors turned to safe havens on concerns about the US banking sector. Namely, some regional banks in the USA recorded a drop in share prices (mostly PacWest and Western Alliance), while JP Morgan took over First Republic Bank on Monday. The next day, the return depreciated as the Fed raised interest rates and signalled it might hold off on further hikes. The return weakening also resulted from some analysts' opinion that the USA was sliding towards recession. On Thursday, the return on the 10-year US government bonds first rose before falling by the end of the day. It declined as traders turned to safe-haven investments due to growing uncertainty surrounding regional US banks and expectations that the Fed would start easing monetary policy later this year. At the very end of the week, the return recovered and stood at almost 3.44% at the end of the day. Encouraging data from the US labour market reduced expectations that the Fed would start cutting interest rates, which caused the return to rise.

GOLD

The gold price did not register a significant change early this week. Over the rest of the week, the price of this precious metal was constantly rising. During the rest of the week, this precious metal's price increased. The gold price rose as the USD depreciated against most currencies, which made investing in gold more attractive. Additionally, the gold price rise resulted from expectation that the Fed would pause further interest rate increases. Growing concerns about the health of US regional banks' soundness also influenced the gold price growth. The gold price dropped only on Friday after the release of better-than-expected data on payrolls in the USA. The gold price stood at 2,016.79 USD/oz.tr. at the end of the week.

OIL

The oil price was stable at the beginning of this week, to decline during the next two days. The oil prices drop came amid concerns about a possible US bankruptcy nearing the date by which the country must raise its debt limit approaches. The adverse banking sector developments also influenced oil prices to drop. From Thursday until the end of the week, the oil price rose slightly as good data from the US labour market eased concerns about the recession. At the end of the period, the oil price stood at 75.63 USD/bbl.

Table 4 - Economic indicators (1 - 5 May 2023)

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 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.	April YoY%	6.9%	7.0%	6.9%
	Consumer price index (CPI Core) – preliminary data Core inflation represents the long-term trend of price levels. In measuring long-term inflation, transient price changes should be excluded, and the only way is to exclude items subject to frequent price changes, such as food and energy.	April YoY%	5.6%	5.6%	5.7%
	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.	March MoM% YoY%	-1.7% 5.8%	-1.6% 5.9%	-0.4% 13.3%
Germany	**Exports** Products and services produced in Germany, sold or pending for sale outside of Germany.	March MoM%	-2.2%	-5.2%	4.0%
	Imports Germany's demand for foreign products.	March MoM%	-2.1%	-6.4%	4.4%
	Factory Orders This index points to a change in the number of orders from domestic manufacturers. The data shows the demand for German industrial products. Factory orders are an early indicator of the overall consumption in an economy, which affects economic growth	March MoM% YoY%	-2.3% -3.1%	-10.7% -11.0%	4.5% -6.0%
Great Britain	**Property Prices (Nationwide House PX)** This concept measures changes in housing units prices.	April MoM% YoY%	-0.5% -3.7%	0.5% -2.7%	-0.7% -3.1%
	S&P Global/CIPS UK Manufacturing PMI **S&P Global/CIPS UK Services PMI** PMI surveys tracks opinion among procurement managers at manufacturing, construction and/or services. The indexes are obtained from a questionnaire related to production, orders, stocks, employment, prices, etc.	April	46.6 54.9	47.8 55.9	46.6 54.9
USA	**Unemployment Rate** It shows the number of unemployed persons as a percentage of the total labour force.	April	3.6%	3.4%	3.5%
	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.	April K=1,000	185K	253K	165K