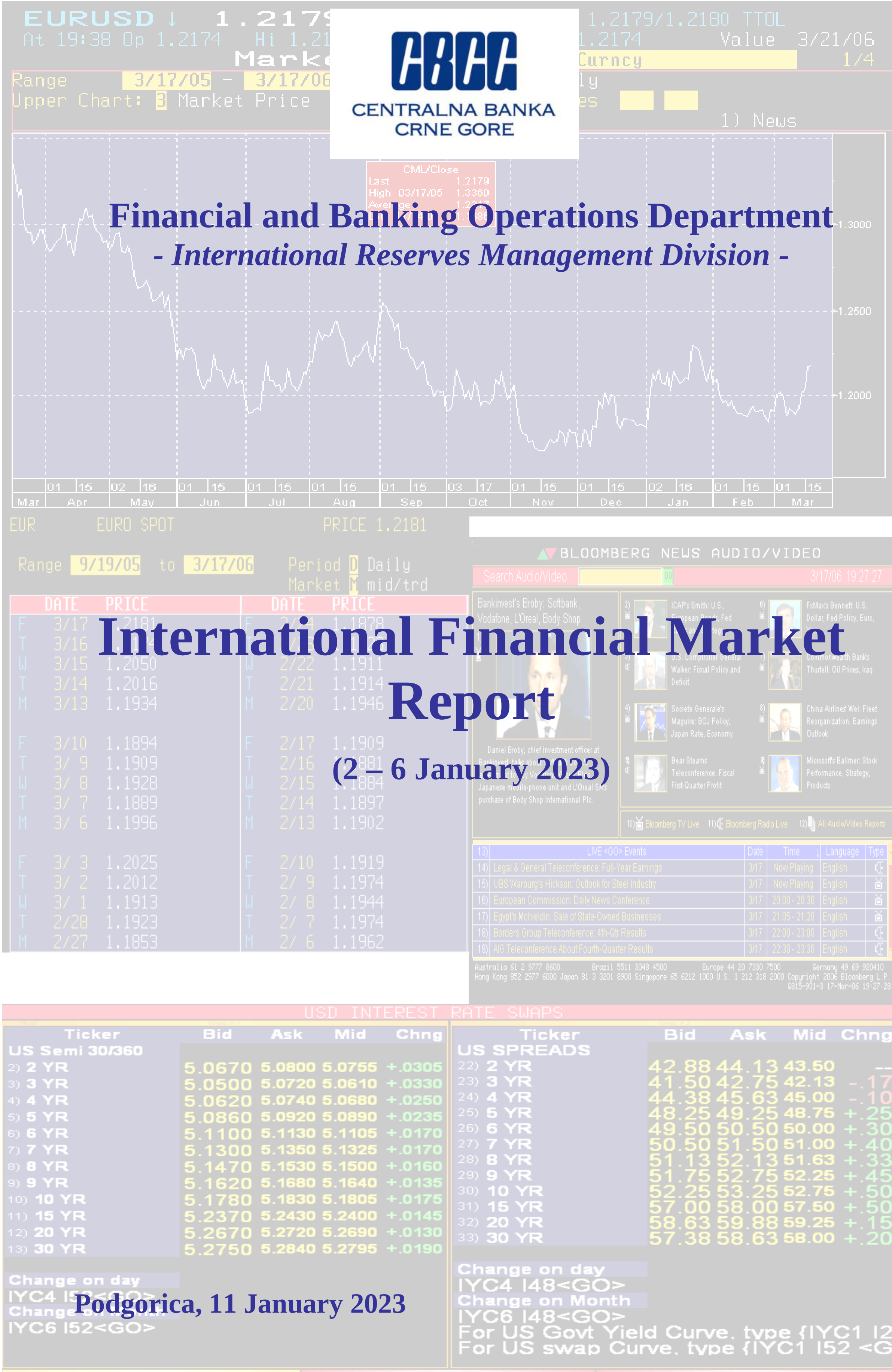
CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -



International Financial Market Report

(2 – 6 January 2023)

Podgorica, 11 January 2023

FX NEWS

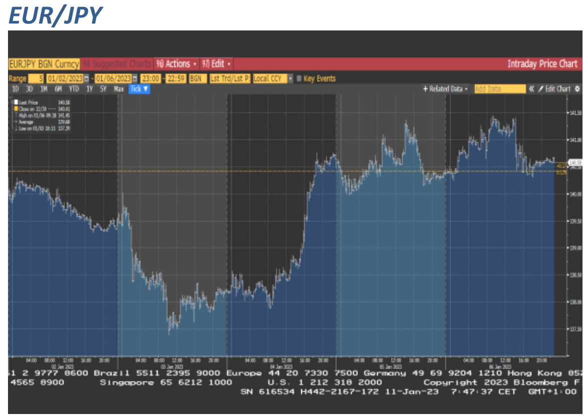
EUR/USD

This reporting week, the **EUR/USD exchange rate** depreciated from 1.0705 to 1.0644. The exchange rate's maximum value of 1.0709 was on Monday, but it soon started to retreat from this level as most markets were closed. The following day, the exchange rate depreciated sharply to 1.0520, as the German inflation data pointed to the easing of inflationary pressures in December, so the euro depreciated. On the same day, it recovered, and the recovery lasted until Thursday when it stood at 1.0631. The USD was exposed to selling pressure, as the focus was on China and the potential economic recovery due to abandoning the zero Covid policy. The USD depreciated, and it was released that the output index in December depreciated more than expected, but also awaiting the minutes from the last Fed meeting. The minutes showed that US monetary policymakers remained concerned about inflationary risks despite the price pressures easing in October and November. However, on Thursday, the exchange rate depreciated sharply again to 1.0516, and the downward trend continued the following day when it hit the nadir this week at 1.0484. Stable data from the US labour market (unexpected drop in new unemployment claims and higher-than-estimated number of private sector job openings in December) and a larger-than-expected reduction in the US trade deficit in November caused the USD to appreciate, while the euro depreciated in response to the euro area inflation data. Despite preliminary data pointing to an inflation slowdown, the stock rallied sharply on Friday as the USD depreciated due to data on weaker-than-expected earnings growth, and a weakening US services sector raised expectations that the Fed would reduce interest rate hikes.

EUR/GBP

The **EUR/GBP exchange rate** was stable on Monday as most markets were closed for the holidays. The exchange rate depreciated sharply on Tuesday as market participants expected the inflationary shock to last longer in the UK than elsewhere, forcing the BoE to continue with interest rate hikes. In the middle of the week, the exchange rate's trend stabilised. On Thursday, it recorded a slightly more significant jump after announcing that the production index in the euro area measured by S&P rose to a 5-month maximum (49.3) in December. On Friday, the exchange rate depreciated again after announcing that the inflation rate slowed down in the euro area in December, which may influence the ECB to continue raising interest rates at a slower pace than the BoE.

EUR/JPY



The **EUR/JPY exchange rate** appreciated slightly in this reporting period. At the beginning of the week, the exchange rate trended down, although markets in Japan were closed for the first two days of the week for the New Year holiday, as the euro depreciated after releasing data on slowing inflation in Germany. By mid-week, the exchange rate appreciated above 140. Minutes from the Fed's December meeting showed that officials are determined to rein in inflation, and data pointed to the resilience of the US labour market. During the last two days of this reporting week, the EUR/JPY exchange rate was volatile due to concerns that the BoJ could "step back" from its ultra-expansionary policy. Still, it remained above the previously mentioned level.

Table 1 - Exchange rates of the most important currencies

	02.01.2023[1]	06.01.2023[2]	% Change
EUR/USD	1.0705	1.0644	-0.57
EUR/GBP	0.88534	0.88022	-0.58
EUR/JPY	140.41	140.58	0.12
EUR/AUD	1.57172	1.54844	-1.48
EUR/CHF	0.98956	0.98769	-0.19
USD/JPY	131.12	132.08	0.73
GBP/USD	1.2083	1.2093	0.08

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

Central Bank	Reference interest rate	Reference interest rate level	Next meeting
European Central Bank	ECB main refinancing rate	2.50%	2 February 2023
Federal Reserves	Federal Funds Target Rate	4.50%	1 February 2023
Bank of Japan	Overnight Call Rate	-0.10%	18 January 2023
Bank of England	Official Bank Rate	3.50%	2 February 2023
Swiss National Bank	Libor Target Rate	1.00%	23 March 2023
Bank of Canada	Target Overnight Rate	4.25%	25 January 2023
Reserve Bank of Australia	Cash Rate Target	**3.10%**	**7 February 2023**

This week, the Reserve Bank of Australia held a regular meeting where it did not change the interest rate.

Table 3 – ESTR and Euribor

	02.01.2023[1]	06.01.2023[2]	Change in basis points
ESTR	1.8900	1.898	0.80
Euribor 1W	1.872	1.890	1.80
Euribor 1M	1.884	1.904	2.00
Euribor 3M	2.132	2.254	12.20
Euribor 6M	2.693	2.805	11.20
Euribor 12M	3.291	3.328	3.70

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

EUROPEAN GOVERNMENT BONDS MARKET

The return on 10-year German government bonds trended down in this reporting week. During the first two days, the trade volume was low, as many markets were closed for the New Year holidays. In the rest of the week, expectations regarding an increase in ECB interest rates declined after publishing the December inflation data of France and Germany (weaker compared to expectations), which indicated an inflation slowdown, so the return weakened. In addition to the inflationary data, European gas prices fell to the lowest level since 2021, affecting the yields' downward trend. At the very end of the week, data were published on the euro area inflation, which slowed down in the last month of 2022. In December, the consumer price index fell by 9.2% annually, less than November's 10.1%.

US GOVERNMENT BONDS MARKET

The return on 10-year US government bonds weakened at the beginning of the week due to reduced trading and a slight drop in share prices on the stock exchanges. The return dropped despite warnings from the Fed that investors should not doubt the bank's willingness to maintain a high-interest rate policy. Fed officials want to see more evidence of an improving economy to be convinced that inflation is on a sustained downward path. Inflation data coming in from Europe "helped" US bond prices rise. The St. Louis Fed Chair, James Bullard, stated that interest rates were high enough to suppress inflation. On Friday, the return recorded a sharp decline after releasing data from the US labour market, which showed slowed wage growth and employment.

GOLD

After the market opened on Tuesday, the gold price rose by mid-week and hovered around a 6-month high. Speculation that the Fed would soften its stricter approach to conducting monetary policy increased the gold's attractiveness. On the other hand, it affected the decline in US government bond yields and put pressure on the USD. During this week, a driver of the gold price growth was also the more pronounced purchase of this precious metal in China. On Thursday, the gold price fell from the previous maximum after publishing better-than-expected data from the US labour market, which positively affected the return on US bonds and the USD. The strong data on US employment raised doubts about the further course of Fed interest rate increases and whether they would keep them at such high levels to deal with rising inflation. A key US employment report released on Friday fuelled a gold price recovery. This report's data was close to expectations, where wage growth also slowed more than expected, indicating a slight easing of inflation and confirming speculation from the beginning of the reporting week that the Fed would slow down interest rate hikes.

OIL

The markets were closed for the New Year holidays on Monday. In the rest of the week, the oil price weakened as mild winter temperatures in many parts of the world alleviated fears of an energy crisis. The oil prices drop also resulted from the news that China's monetary policymakers aimed to stimulate economic growth in 2023. This move would positively affect the crude oil price regulation, as China is the world's largest importer of this raw material. However, the fact that a significant number of people in China die daily from the coronavirus casts a shadow on the optimistic forecasts this year. The Saudi Arabia oil company Aramco reduced the oil price for Asia and Europe, which also affected the oil price trend. At the end of the week, the oil price recovered slightly as the government agency Energy Information Administration published a report showing a smaller-than-expected increase in the US oil inventories.

Table 4 - Economic indicators (2 - 6 January 2023)

Country	Indicator	Period	Expected value	Current value	Previous value
France	**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.	December	84	82	83
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.	December MoM% YoY%	-0.6% 9.0%	-0.8% 8.6%	-0.5% 10.0%
USA	**(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.	December	3.7%	3.5%	3.7%
	Factory Orders Factory orders provide a rather comprehensive overview of the manufacturing sector.	November MoM%	-1.0%	-1.8%	1.0%
Euro area	**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.	December MoM% YoY%	-0.1% 9.5%	-0.3% 9.2%	-0.1% 10.10%
	Retail Sales This indicator measures changes in retail sales in euro area.	November MoM% YoY%	0.6% -3.1%	0.8% -2.8%	-1.8% -2.7%
	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.	December	-22.2	-22.2	-22.2