CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(2 – 6 October 2023)

Podgorica, 11 October 2023

FX NEWS

EUR/USD

The **EUR/USD exchange rate** depreciated early this week as the USD appreciated boosted by good US economic data, increased return, and the prospect that interest rates will be higher for longer than in a typical business cycle. The euro also depreciated due to expectations that inflation in the euro area was slowing down, while fears of a recession fuelled bets that the ECB might have finished raising interest rates in the current cycle. From Wednesday until the end of the week, the exchange rate appreciated. On Wednesday, the exchange rate recovered as the USD depreciated after unfavourable US labour market data. US companies added the fewest jobs since the start of 2021 in September, and wage growth slowed, pointing to weakening demand for labour in several industries. At the end of the week, the EUR/USD exchange rate appreciated, but it began to depreciate after stronger-than-expected data from the US labour market. However, these data did not change the expectations that the Fed would pause raising interest rates in November, so the exchange rate continued to rise. Economists believe the Fed could increase the interest rate at the next meeting only if stronger-than-expected inflation data were published.

EUR/GBP

On Monday, the **EUR/GBP exchange rate** fluctuated in a narrow range. It neither made a significant daily exchange rate either. In the middle of the week, the sterling appreciated against the euro in response to the released UK inflation data. The BoE Governor stated that addressing inflation remained a priority despite inflation being expected to decline this year. On Thursday, this exchange rate appreciated briefly as the data showed the UK's most extensive construction sector activity since 2020. However, the exchange rate soon depreciated, and the slight depreciation continued on Friday.

EUR/JPY

The **EUR/JPY exchange rate** depreciated during this reporting week. Japan's finance minister, Shun'ichi Suzuki, said authorities were closely monitoring the currency market and ready to respond anytime. On the following day, the EUR/JPY exchange rate recorded a sharper depreciation from 157.364 to 154.459, to stabilise shortly after that. The yen appreciated against the euro amid speculation that Japanese officials acted on the market to slow the currency's depreciation. The top currency diplomat, Masato Kanda, declined to say whether Japan had entered the market. He said he maintained close contact with his US counterparts, and sides agreed that excessive currency movements were undesirable. The Minister of Finance warned about currency fluctuations going on for six consecutive days back to Tuesday. The EUR/JPY exchange rate appreciated on Friday as the yen depreciated due to the rise in the return on US government bonds.

Table 1 - Exchange rates of the most important currencies

	02.10.2023[1]	06.10.2023[2]	% Change
EUR/USD	1.0573	1.0586	0.12
EUR/GBP	0.86664	0.86513	-0.17
EUR/JPY	157.95	158.07	0.08
EUR/AUD	1.64308	1.65777	0.89
EUR/CHF	0.96763	0.96330	-0.45
USD/JPY	149.37	149.32	-0.03
GBP/USD	1.2199	1.2237	0.31

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	4.50%	26 October 2023
Federal Reserves (Fed)	Federal Funds Target Rate	5.50%	1 November 2023
Bank of Japan (BoJ)	Overnight Call Rate	-0.10%	31 October 2023
Bank of England (BoE)	Official Bank Rate	5.25%	2 November 2023
Swiss National Bank (SNB)	Libor Target Rate	1.75%	14 December 2023
Bank of Canada (BoC)	Target Overnight Rate	5.00%	25 October 2023
Reserve Bank of Australia (RBA)	Cash Rate Target	4.10%	7 November 2023

During this period, RBA held its regular meeting and decided to keep the interest rate unchanged.

Table 3 – ESTR and Euribor

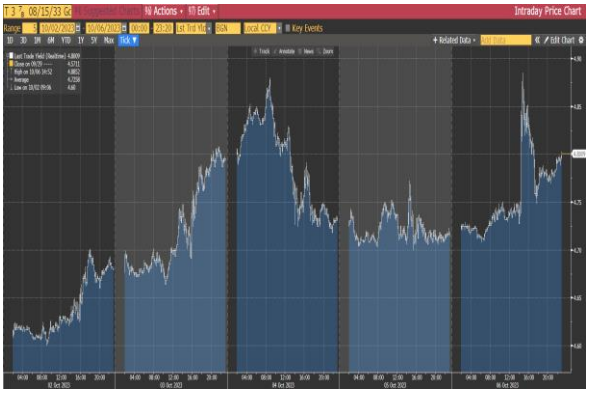
	02.10.2023[1]	06.10.2023[2]	Change in basis points
ESTR	3.880	3.899	1.9
Euribor 1W	3.872	3.898	2.6
Euribor 1M	3.847	3.863	1.6
Euribor 3M	3.952	3.983	3.1
Euribor 6M	4.125	4.113	-1.2
Euribor 12M	4.228	4.194	-3.4

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

EUROPEAN GOVERNMENT BONDS MARKET

The return on 10-year German government bonds started the week at around 2.88% and ended at approximately the same level. The return increased for the first two days, and for the first time since 2011, it exceeded 3% (3.026%) on Wednesday morning. This growth resulted mainly from trends in the US government bond market and after releasing that the unemployment rate in the euro area in August was as expected (6.4% - lower compared to July's revised rate of 6.5%), while the service PMI index in September was slightly better than expected (48.7 vs 48.4). The ECB's Chief Economist said the fight against inflation was still ongoing. According to him, there are indications that price increases will be less intense by the end of the year, but they are still far from the inflation target of 2%. However, since Wednesday morning, this market trended down. The ECB Vice President of the ECB, Luis de Guindos, emphasised that interest rate increases had yet to be felt. At the same time, President Lagarde reiterated that rates would remain high, increasing concerns about the region's recession. The euro area retail sales data in August indicated a further economy's weakening. The ECB Governing Council member, Villeroy de Galhau, stated there were no grounds for the ECB to increase interest rates further. At the same time, the ECB Governing Council member, Kažimir, repeated that he hoped there would be no more interest rate increases in the coming period. On Friday, the return fluctuated but did not register a significant daily change despite better-than-expected data on German factory orders in August being published that day (monthly growth 3.9% vs. expected 1.5%; annual decline 4.2% vs. expected 7.9%).

US GOVERNMENT BONDS MARKET



In this reporting week, the return on 10-year US government bonds rose from 4.61% to 4.80%. The return constantly grew in the first half of the week, reaching its peak over the last 16 years (4.885%) on Wednesday. Encouraging data on the US manufacturing index published early this week and the news that the US government shutdown had been avoided fuelled investors' appetite for risk, leading to large-scale bond selling. An unexpected jump in job creation in the US fuelled speculation that the Fed was not done raising interest rates. Investors believe that even if this central bank does not decide on another increase, the reference rate could remain elevated indefinitely. However, the return fell the same day after US private sector employment rose less than expected in September, sparking speculation that the Fed may not raise interest rates this year. On Thursday, the return was stable, followed by a recovery on Friday, as the data on the expansion of payrolls in the non-manufacturing sector in September, almost twice as large as forecast, fuelled expectations for an additional monetary policy tightening in the USA.

GOLD

Early this week, the gold price trended down due to the increased return on US bonds and signals concerning the further monetary policy tightening by the Fed. Gold price remained unchanged mid-week and hovered around a seven-month low. At the same time, the return on US government bonds rose to fresh multi-year highs after US jobs data made the arguments for higher interest rates for more extended periods more solid. At the end of the week, this precious metal's price increased due to the USD depreciation.

OIL

The oil price fluctuated on Monday but recorded a daily rise after Russia announced it would cut oil production by 500,000 bbl./day in March to hit back at the USA.es on Friday. The Russian government's Vice-President Alexander Novak said they regarded the price cap on Russian oil and petroleum products as interference in market relations and a continuation of the destructive energy policy of the collective West. The next day, the oil price also rose after an unstable morning session where traders weighed the tension on the market to macroeconomic problems that "cloud" the outlook for demand. On Wednesday, the price trended down throughout the day, as US government data showed that gas inventories rose to more than 6 million barrels (the lowest demand for gas in 25 years), pointing to weakness existing in demand for this fuel. The oil prices drop followed, announcing that Saudi Arabia (as expected) confirmed its plan to extend production cuts (1 million bbl./day) until the end of the year. At the end of the week, the oil price fell due to concerns about the global economic slowdown and the impact of high interest rates on the global economy. At the same time, it did not register significant changes on Friday.

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

Country	Indicator	Period	Expected value	Current value	Previous value
Euro area	**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.	August MoM% YoY%	 -0.5% -1.0%	 -1.2% -2.1%	 -0.2% -1.0%
	Producer Price Index (PPI) This indicator measures the change in the price paid by domestic producers. The indicator rise is an early inflation indicator.	August MoM% YoY%	 0.6% -11.5%	 0.6% -11.5%	 0.6% -7.6%
Germany	**Exports** Products and services produced in Germany, sold or pending for sale outside of Germany.	August MoM%	 -0.6%	 -1.2%	 -0.9%
	Imports Germany's demand for foreign products.	August MoM%	 0.5%	 -0.4%	 1.4%
France	**Industrial output** It measures the changes in output of production, service and mining sectors.	August MoM% YoY%	 -0.4% -0.5%	 -0.3% -0.5%	 0.8% -2.7%
Italy	**Unemployment Rate** The percentage of unemployed individuals actively looking for a job.	August	6.4%	6.4%	6.4%
	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.	August MoM%	 0.0%	 -0.4%	 0.4%
USA	**ADP Employment Change** This indicator measures the number of employees on the private sector payroll.	September K=1,000	 150 K	 89 K	 180 K
	Change in non-farm payrolls The report shows the total number of newly employed workers on a monthly basis by economy industries. It does not include employees in farms, some government agencies, self-employed individuals and NGOs. It serves as the basis for tailoring economic policy and forecasting future economic trends.	September K=1,000	 170 K	 336 K	 187 K
	Factory Orders This index points to a change in the number of orders from domestic manufacturers. The data shows the demand for industrial products. Factory orders are an early indicator of the overall consumption in an economy, which affects economic growth.	August MoM%	 0.3%	 1.2%	 -2.1%