CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(3 – 7 April 2023)

Podgorica, 12 April 2023

FX NEWS

EUR/USD

The **EUR/USD exchange rate** appreciated in the first two days – first, because of publishing good economic data (the S&P indices for the production of the euro area, Germany, Spain, and Italy rose in March), and later due to the US production activity decline in March (to the lowest level since May 2020), as new orders continued to decline. The USD depreciated again after publishing the JOLTS – Report of the US Bureau of Statistics – because these data also did not meet expectations. The US Department of Labour reported that the number of job openings fell to 9.9 million in February – the lowest since May 2021. The data did not meet market forecasts and indicated that this market could begin to "cool down" due to the economy's slowdown. On Wednesday, despite promising data on factory orders in Germany, the exchange rate depreciated as the euro depreciated due to the release of weaker-than-expected data on the euro area service and composite PMI index. The next day, the EUR/USD exchange rate fluctuated. The euro appreciated as the Chinese President, Xi Jinping, declared he would remain active in facilitating peace talks in Ukraine. The same day, the ECB's Chief Economist, Philip Lane, said that the ECB was likely to raise interest rates unless the economy's outlook changed significantly due to the recent financial turmoil. This week's economic data indicated the US economy's "cooling." On Friday, the exchange rate tended to depreciate as data from the US Department of Labour showed that 236,000 jobs were created in March outside some government services, NGOs and agriculture, and the unemployment rate fell from 3.6% to 3.5% in February. Many markets were closed on Friday for a holiday, so trading volume was also weak.

EUR/GBP

The **EUR/GBP exchange rate** appreciated this reporting week slightly. The depreciation trend was present since the beginning of the week, as the better-than-expected GDP data of Great Britain in Q4 published at the end of the previous week started speculations that the British economy was resilient enough, which leaves room for the BoE to increase interest rates. On Tuesday, the BoE's Chief Economist said that the BoE still needed to be sure it had raised interest rates enough to stop inflation. The exchange rate recovered the same day but depreciated from Wednesday afternoon. Namely, the weaker-than-expected euro area data on the service and composite PMI index were published. In contrast, data on the British service sector's activity were somewhat better than expected. The exchange rate recovered again on Thursday after releasing that German industrial production in February was better than expected. That day market activity was reduced due to the Easter holidays, and markets were closed the following day.

EUR/JPY

Early this week, the **EUR/JPY exchange rate** fluctuated. The EUR/JPY exchange rate fluctuated at the beginning of the week. On Tuesday, the exchange rate appreciated in the morning to depreciate in the afternoon as Japan's former finance minister stated that the BoJ's return control programme needed revision even if there was a short-term shock and added that return control could not last forever. On Wednesday, the euro depreciated against the yen due to the released euro area data that did not meet expectations. On the other hand, the growth in demand for safe assets supported the yen. On Thursday, trade volume declined as the market "prepared" for the upcoming holidays in the world's largest centres - Singapore, Great Britain and the USA.

Table 1 - Exchange rates of the most important currencies

	03.04.2023[1]	07.04.2023[2]	% Change
EUR/USD	1.0839	1.0905	0.61
EUR/GBP	0.87902	0.87819	-0.09
EUR/JPY	144.09	144.09	0.00
EUR/AUD	1.62167	1.63541	0.85
EUR/CHF	0.99218	0.98732	-0.49
USD/JPY	132.86	132.16	-0.53
GBP/USD	1.2377	1.2418	0.33

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	3.50%	4 May 2023
Federal Reserves (Fed)	Federal Funds Target Rate	5.00%	3 May 2023
Bank of Japan (BoJ)	Overnight Call Rate	-0.10%	28 April 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%	12 April 2023
Reserve Bank of Australia (RBA)	Cash Rate Target	3.60%	2 May 2023

In this reporting week, the RBA held its meeting. After ten consecutive increases, the interest rate remained unchanged, and this monetary institution's officials stated that they needed more time to see the previous increases' effects.

Table 3 – ESTR and Euribor

	03.04.2023.[1]	07.04.2023.[2]	Change in basis points
ESTR	2.884	2.903	1.90
Euribor 1W	2.898	2.886	-1.20
Euribor 1M	2.915	2.887	-2.80
Euribor 3M	3.038	3.075	3.70
Euribor 6M	3.341	3.339	-0.20
Euribor 12M	2.884	2.903	1.90

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

EUROPEAN GOVERNMENT BONDS MARKET

The return on 10-year German government bonds declined this week. The return fell at the beginning of the week as market participants lowered expectations of the ECB's aggressive interest rate hike. On Tuesday, the return on these bonds first rose to fall in the afternoon following the declined return on US bonds, and the same reason also caused the return to fall on Wednesday. Towards the end of the week, the decline in the return stopped because there was no large volume of trade on the market awaiting the holidays, and the markets were also closed on Friday. At the end of the week, the return on 10-year bonds was 2.18%.

US GOVERNMENT BONDS MARKET

The return on 10-year US government bonds declined this week. The return fell early this week after the weak US economic data was released. On Tuesday, the data that the number of open jobs in the US dropped more than expected increased speculation that the Fed would slow down the interest rates increase, which was reflected in the further return decline. In the middle of the week, the fact that US service activities grew less than expected further increased concerns about a possible economic slowdown, which was reflected in the fall in the return. Towards the end of the week, awaiting the holidays, the return stopped falling and stood at 3.39% at the very end of the week.

GOLD

The gold price increased in the first two days. The price rose as weak US economic data supported the demand for this precious metal, and the USD exchange rate depreciated. The sudden oil production drop also contributed to investors turning to gold. On Wednesday, the gold price was slightly lower as the USD recovered. However, on Thursday, the price dropped again as traders looked at the US economy data published in the past period and their possible impact on the Fed's decision (the number of claims for receiving initial social claims was higher than expected; activity in the service sector increased slower than anticipated; companies created fewer jobs). On Friday, the market was closed for the holidays.

OIL

The oil price rose on Monday. US officials voiced their discontent a day after OPEC members had announced significant production cuts – a move reaffirming Saudi Arabia, the group's leader, as a stubborn oil giant. On Sunday, Saudi Arabia and other OPEC+ members said they would cut production by 1.16 million bbl./day starting in May, while Russia said it would extend March's cut of 500,000 bbl./day until the end of the year. The decision surprised and underscored concerns about where the global economy could be headed. Concerns about the US and European banking sectors fuelled recession fears. From Tuesday to Friday, the oil price fluctuated. On Tuesday, it rose until the middle of the day to fall after weak US data. However, API data showed that oil prices recovered slightly near the end of the day as US crude oil inventories fell by 4.3 million barrels the previous week. In the first part of the next day, the oil price again declined but quickly recovered, as the US Government data confirmed that stocks fell last week. On Friday, the market was closed for the holidays.

Table 4 - Economic indicators (3 – 7 April 2023)

Country	Indicator	Period	Expected value	Current value	Previous value
Great Britain	**S&P Global/CIPS UK Services PMI** PMI surveys tracks opinion among procurement managers at manufacturing, construction and/or services firms. The index was obtained from the results of questionnaires related to production, orders, stocks, employment, prices, etc.	March	52.8	52.9	52.8
Euro area	**S&P Global Euro Area Manufacturing PMI** **S&P Global Euro Area Composite PMI** **S&P Global Euro Area 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.	March Final data	47.1 54.1 55.6	47.3 53.7 55.0	47.1 54.1 55.6
Germany	**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.	February MoM% YoY%	0.3% -9.3%	4.8% -5.7%	0.5% -12.0%
	Industrial output It measures the output of industrial enterprises in the following industries: mining and ore mining, production, and public utilities (electricity, gas and water supply).	February MoM% YoY%	-0.1% -2.0%	2.0% 0.6%	3.7% -1.6%
USA	**ISM Manufacturing** This indicator assesses the state of US industry by questioning executors about their expectations in terms of production, new orders, employment, raw materials deliveries and inventory.	March	47.5	46.3	47.0
	JOLTS Job Openings This concept tracks the number of specific jobs in the economy. Vacancies generally include either newly created or unfilled positions (or soon-to-be-vacant positions) that the employer is taking particular action to fill.	February K=1,000	10500K	9931K	10563K
	ADP Employment Change This indicator measures the number of employees on the private sector payroll. It is sometimes called the institution's employment survey to distinguish it from the household survey employment measure.	March K=1,000	210K	145K	261K
	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.	March K=1,000	230K	236K	326K
Japan	**Household Spending** This indicator monitors all consumers' expenditures on products and services, and is adjusted with inflation.	February YoY%	4.8%	1.6%	-0.3%