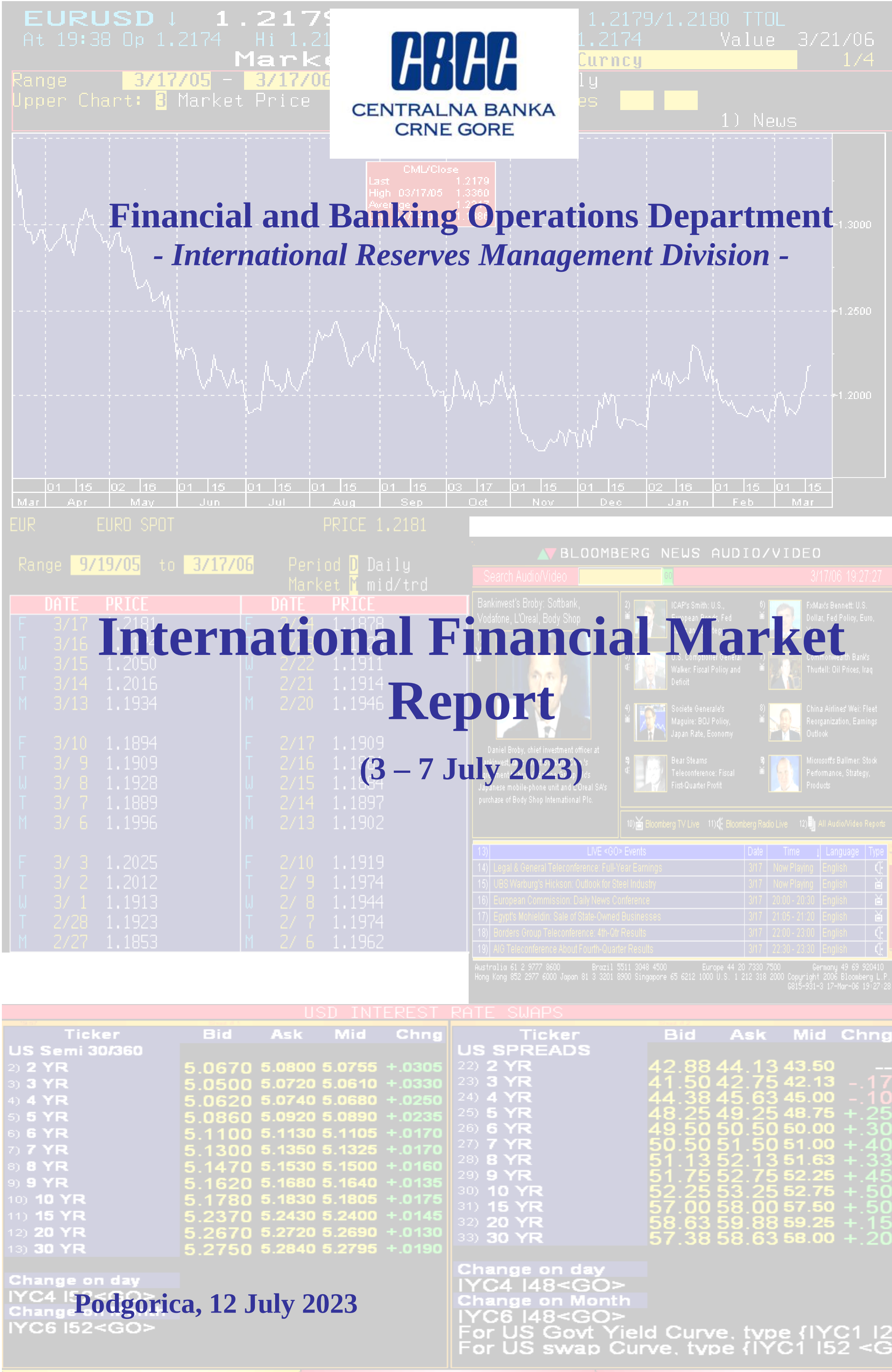

CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(3 – 7 July 2023)

Podgorica, 12 July 2023

FX NEWS

EUR/USD

The **EUR/USD exchange rate** depreciated on Monday morning as weak data on production indices in the euro area countries were published. Still, the exchange rate recovered in the afternoon, as equally weak data on the US manufacturing sector index arrived. At the same time, the euro's appreciation was also influenced by the ECB Governing Board member Joachim Nagel's statement that the ECB still had room to increase interest rates. He added that the process still needed to be completed as there was still a risk of inflation. During the next two days, the EUR/USD exchange rate weakened as the ECB's monthly survey showed that inflationary expectations of euro area consumers fell, but also due to the publication of weaker than expected data from the euro area, and on the other hand, the USD was supported by the publication of the Minutes of the last Fed meeting indicating further interest rate increases this year. The upward trend of this exchange rate started on Thursday. The exchange rate appreciated first when positive data from Germany on factory orders were published and then when the data from the US labour market was weaker than expected.

EUR/GBP

The **EUR/GBP exchange rate** depreciated in this reporting week. At the beginning of the week, the exchange rate was stable. Still, it started to depreciate on Tuesday due to market participants' expectations that the BoE would continue to increase the interest rate this year. On Tuesday, the British Prime Minister said inflation was more persistent than estimated. It did not mean that the decisions in combating inflation were wrong, reiterating his support for the BoE. In the middle of the week, the exchange rate started to recover, but the downward trend soon continued, and it fell to a 2-week low on Thursday. Financial market expectations that the BoE interest rate will increase to 6.50% early next year caused the return on 2-year British government bonds to rise to the highest level since June 2008, which boosted the value of sterling against the leading currencies. On the other hand, the information about lower-than-expected retail sales in the euro area caused the euro to depreciate. The euro appreciated after the better-than-expected data on factory orders in Germany, while the weaker-than-expected construction PMI index in the UK negatively affected sterling. On Friday, this course showed little changes.

EUR/JPY

The **EUR/JPY exchange rate** was stable at the beginning of this week but depreciated from Tuesday until the end of the week. The exchange rate depreciated after growing expectations that the BoJ would intervene. In addition, falling stock prices on Japanese stock markets fuelled demand for the yen as a safe-haven asset. The growth in the demand for this currency was also contributed by the uncertainty regarding global economic growth in a situation where the world's leading central banks were aggressively tightening monetary policy. This exchange rate recovered shortly on Thursday afternoon to experience a sharp depreciation on Friday.

Table 1 - Exchange rates of the most important currencies

	03.07.2023[1]	07.07.2023[2]	% Change
EUR/USD	1.0909	1.0967	0.53
EUR/GBP	0.85927	0.85416	-0.59
EUR/JPY	157.44	156.07	-0.87
EUR/AUD	1.63771	1.64017	0.15
EUR/CHF	0.97697	0.97493	-0.21
USD/JPY	144.31	142.21	-1.46
GBP/USD	1.2703	1.2839	1.07

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	4.00%	27 July 2023
Federal Reserves (Fed)	Federal Funds Target Rate	5.25%	26 July 2023
Bank of Japan (BoJ)	Overnight Call Rate	-0.10%	28 July 2023
Bank of England (BoE)	Official Bank Rate	5.00%	3 August 2023
Swiss National Bank (SNB)	Libor Target Rate	1.75%	21 September 2023
Bank of Canada (BoC)	Target Overnight Rate	4.75%	12 July 2023
Reserve Bank of Australia (RBA)	Cash Rate Target	4.10%	1 August 2023

The RBA held a meeting this week and kept the interest rate unchanged. It said more time was needed to assess the impact of previous increases and warned that further monetary policy tightening might be necessary to curb inflation.

Table 3 – ESTR and Euribor

	03.07.2023[1]	07.07.2023[2]	Change in basis points
ESTR	3.400	3.4060	0.60
Euribor 1W	3.362	3.393	3.10
Euribor 1M	3.399	3.425	2.60
Euribor 3M	3.577	3.640	6.30
Euribor 6M	3.900	3.945	4.50
Euribor 12M	4.134	4.193	5.90

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

EUROPEAN GOVERNMENT BONDS MARKET

The return on 10-year US government bonds trended up during this reporting week. On Monday, the return on 10-year European government bonds rose, to trend downward on Wednesday morning (to 2.40%), as the ECB's survey pointed to the continued weakening of consumer inflationary expectations. Later, by the end of the day, the return rose to 2.48% due to the publication of the Minutes from the Fed's June meeting. The following day, the return on these bonds increased by 4 basis points after announcing that factory orders in Germany in May rose more than expected. The return on 10-year German government bonds did not change significantly on Friday and averaged 2.63%.

US GOVERNMENT BONDS MARKET

The return on 10-year US government bonds was little changed on Monday, daily, while the spread between 2- and 10-year bonds continued to widen. US markets were closed on Tuesday due to the Independence Day holiday. On Wednesday and Thursday, the return on 10-year US government bonds had an upward trend. The leading cause of the increase was the awaiting and later publication of the Minutes from the Fed's June meeting, which indicated an interest rate increase in July. The growth was also caused by the published solid economic data from the USA, contributing to increasing expectations that the Fed would continue raising interest rates. Namely, it was announced that the service sector index rose to 53.9 in June from 50.3 in May and that the private sector employed 497,000 people in June. The return on 10-year US government bonds fluctuated during Friday by around 10 basis points (it averaged 4.04%).

GOLD

The gold price rose on Monday after it was announced that manufacturing activity in the US fell to the lowest level since May 2020. The following day, it continued to grow as investors evaluated data on production in the USA, indicating an economic growth slowdown, reflected in the increased demand for safe assets and, thus, gold. Gold price fell midweek as the USD appreciated rose against most currencies and continued to fall on Thursday for the same reason. On Friday, the gold price jumped due to the signal that the US economy was “cooling down”.

OIL

The oil price increased during this reporting period. Early this week, the oil price fell due to concerns about the economic slowdown and its impact on the oil demand in the USA. From Tuesday until the end of the week, the oil price increased as Saudi Arabia and Russia agreed to limit the oil production and export in the following period. At the same time, the oil stocks drop in in the USA by 4.4 million barrels during the previous week caused the oil price to rise further. At the end of the week, the oil price achieved the highest growth as Saudi Arabia decided to increase the selling prices for the oil it supplies to Europe and the Mediterranean.

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

Country	Indicator	Period	Expected value	Current value	Previous value
Great Britain	**S&P Global/CIPS UK Construction PMI** This survey tracks opinion among procurement managers at manufacturing, construction and services firms. The index was obtained from the results of questionnaires related to production, orders, stocks, employment, prices, etc.	June	51.0	48.9	51.6
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	May MoM% YoY%	1.0% -9.7%	6.4% -4.3%	0.2% -9.3%
Euro area	**Retail Sales** This indicator measures the volume of sales of personal and household goods.	May MoM% YoY%	0.2% -2.7%	0.0% -2.9%	0.0% -2.9%
	HCOB Global Eurozone Manufacturing, Services, Composite 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.	June Final data	43.6 52.4 50.3	43.4 52.0 49.9	43.6 52.4 50.3
	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.	May MoM% YoY%	-1.7% -1.3%	-1.9% -1.5%	-3.2% 0.9%
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.	June	47.1	46.0	46.9
	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.	June K=1,000	225 K	497 K	267 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.	June K=1,000	230 K	209 K	306 K
Japan	**Labour Cash Earnings** This indicator shows total payments to employees in exchange for performed work.	May YoY%	1.2%	2.5%	0.8%