CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(4 – 8 September 2023)

Podgorica, 13 September 2023

FX NEWS

EUR/USD

The **EUR/USD exchange rate** depreciated in this reporting week. On Monday, it appreciated as the euro was supported by an ECB official's statement of a possible interest rate increase and the hope that the incentives in China could stabilise the economy. On Friday, the US market labour data fuelled expectations that the Fed could end its rate hike cycle. The exchange rate recorded a sharp depreciation on Tuesday as the USD appreciated amid concerns about global economic growth. Meanwhile, the euro appreciated after released data on a business activity decline in the euro area. Although the exchange rate showed recovery signs in the middle of the week, the depreciation trend continued mainly due to published economic data from the euro area and the USA, and the exchange rate hit its 3-month low (1.0686) on Thursday. Namely, German factory orders in July fell more than expected, and euro zone retail sales fell in the same period, which negatively affected the euro, while solid data from the US labour market (unemployed initial jobless claims) and the activity growth in the service sector in August, supported the USD. On Friday, the exchange rate fluctuated due to the Fed officials' "mild" comments (the New York Fed Chair stated that US monetary policy was "in a good place" but that the data must be analysed to decide what to do with interest rates) and expectations that the Fed would continue to raise interest rates were growing.

EUR/GBP

The **EUR/GBP exchange rate** appreciated in this reporting week. Early this week, the exchange rate depreciated as the sterling appreciated due to the stock prices rise, and the weaker-than-expected investors' confidence index in the euro area negatively affected the euro. On Tuesday morning, the exchange rate appreciated sharply to depreciate soon due to the disappointing data on PMI indices for the euro area, while British data were better than expected. Strong expectations for an increase in the BoE's interest rate also supported the sterling. After the BoE Governor's statement that inflation would continue to weaken, these expectations eased, the sterling depreciated against the euro, and the exchange rate began to appreciate. A survey of executives conducted by the BoE suggested inflationary pressures easing as companies expected to raise their prices at the lowest rate in nearly two years. On Thursday afternoon, the exchange rate depreciated slightly as the euro depreciated after weaker-than-expected GDP data for the euro area in Q2. At the end of the week, the exchange rate started to rise again as the BoE Governor signalled UK interest rates were close to the current cycle's peak.

EUR/JPY

The **EUR/JPY exchange rate**, with occasional fluctuations, appreciated most of the week. The yen has been under pressure for a long time because the BoJ was the only central bank in the world that implemented a negative interest rate policy, and recent comments by this monetary institution's officials pointed to the continuation of this policy until next summer. Former BoJ Governing Board member Goushi Kataoka insisted that the bank should consider easing its monetary policy only when confident that the 2% inflation target had been sustainably achieved. However, on Thursday, the exchange rate depreciated sharply and returned to the level from the beginning of the week. On that day, the yen appreciated due to the BoJ board member Junko Nakagawa's comments that the central bank would closely cooperate with the government to monitor movements in the foreign exchange markets and pay special attention to potential economic impacts. The exchange rate appreciated at the end of the week, resulting in its weekly appreciation as well.

Table 1 - Exchange rates of the most important currencies

	04.09.2023[1]	08.09.2023[2]	% Change
EUR/USD	1.0780	1.0700	-0.74
EUR/GBP	0.85605	0.85821	0.25
EUR/JPY	157.58	158.20	0.39
EUR/AUD	1.66986	1.67815	0.50
EUR/CHF	0.95458	0.95567	0.11
USD/JPY	146.22	147.83	1.10
GBP/USD	1.2590	1.2468	-0.97

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	4.25%	14 September 2023
Federal Reserves (Fed)	Federal Funds Target Rate	5.50%	20 September 2023
Bank of Japan (BoJ)	Overnight Call Rate	-0.10%	22 September 2023
Bank of England (BoE)	Official Bank Rate	5.25%	21 September 2023
Swiss National Bank (SNB)	Libor Target Rate	1.75%	21 September 2023
Bank of Canada (BoC)	Target Overnight Rate	5.00%	25 October 2023
Reserve Bank of Australia (RBA)	Cash Rate Target	4.10%	3 October 2023

This week, the Central Bank of Australia (RBA) and the Central Bank of Canada (BoC) held their meetings. As expected, the RBA decided to keep the key interest rate unchanged at its third consecutive meeting. The BoC also kept interest rates unchanged but opened the door for further increases.

Table 3 – ESTR and Euribor

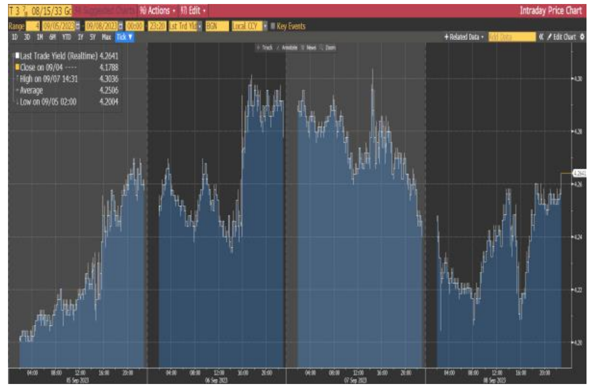
	04.09.2023[1]	08.09.2023[2]	Change in basis points
ESTR	3.6333	3.6530	0.10
Euribor 1W	3.642	3.659	1.70
Euribor 1M	3.639	3.682	4.30
Euribor 3M	3.770	3.800	3.00
Euribor 6M	3.934	3.952	1.80
Euribor 12M	4.055	4.086	3.10

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

EUROPEAN GOVERNMENT BONDS MARKET

On the first two days, the return on 10-year German government bonds rose due to speculation that the ECB would keep interest rates high for a long time and due to the publication of an ECB survey on consumer expectations regarding inflation in the euro area. The ECB's monthly survey showed that inflationary expectations of euro area consumers increased in July, so the inflation rate for the next 3 years is expected to be 2.4% (2.3% in the previous survey), while expectations for the next 12 months remained unchanged (3.4%). Together with the previously mentioned service sector data, which until now compensated for the weakening of the manufacturing sector and thus avoided recession, the survey made the upcoming ECB decisions difficult. The return on 10-year German government bonds rose to intraday levels on Wednesday after increased market expectations that the ECB would continue to raise interest rates due to good data on the US services sector. Knott felt that the market may be underestimating the prospects with this venture, while Kazimir thought that a rate hike was necessary. The next day, the return on 10-year German government bonds stood at 2.61%, as the euro area's GDP for Q2 was revised downwards, and Germany's industrial production fell for the third consecutive month in July. The return on 10-year German government bonds fell by around 2 basis points on Friday.

US GOVERNMENT BONDS MARKET



On Monday, US markets were closed for the holiday. After the opening of the market, the return increased due to the announcement that factory orders in the USA fell less than expected in July and awaiting the next Fed move. The return on 10-year US government bonds rose on Wednesday due to good data on the US service sector for August (the index rose the most since February this year). On Thursday, the return on the 10-year US Treasury bonds fell, ending the day at 4.24%. Although the return initially rose after the release of solid data from the US labour market, it soon began to weaken as investors shifted their focus to statements from Fed officials. The Chicago Fed Chair said, "We are very rapidly approaching the time when our argument is not going to be about how high should the rates go. It's going to be an argument of how long do we need to keep the rates at this position before we're sure that we're on the path back to the target". The return on 10-year US Treasuries fluctuated on Friday to record a daily rise, expecting the Fed to raise rates in September and November.

GOLD

The gold price was in a downward trend for the first three days as the market focused on divided views regarding the outlook for interest rates in Europe. Markets were betting that the ECB would keep rates high for longer, even as Governing Council member Mario Centeno warned his colleagues of the risk of maintaining high rates excessively. The price fell due to the USD appreciation, the rise in the return on US government bonds, and traders' expectations that the Fed's interest rates would remain high, even if there were a pause in the monetary policy tightening in September. Gold price fell on Wednesday as the return on US bonds strengthened after vital US service sector data raised expectations that the Fed would keep interest rates high for a long time. The gold price first fluctuated on Friday to drop by the end of the day due to the USD appreciation. Solid US economic data was released last week, fuelling expectations that the Fed would continue to raise interest rates.

OIL

Oil price rose on Monday, awaiting up-to-date production data from OPEC+. Cuts from Saudi Arabia and Russia fuelled the recent rise in oil prices. The next day, the oil price fluctuated, continuing its upward trend, as it was unlikely that the oil availability on the global market would increase after Saudi Arabia decided to continue cutting production by 1 million bbl./day until the end of the year, and Russia's announcement that oil exports would continue to decrease. Investors looked at the decision of OPEC+ leaders Saudi Arabia and Russia. On Thursday, the oil price fell as uncertainty regarding the outlook for Chinese demand exceeded the positive impact of the news about reducing stocks of this fuel in the USA. The oil price rose on Friday due to the potential interest rate increase in the USA.

Table 4 - Economic indicators (4 – 8 September 2023)

Country	Indicator	Period	Expected value	Current value	Previous value
Euro area	**HCOB Eurozone 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.	August Final data	48.3 47.0	47.9 46.7	48.3 47.0
	Retail Sales This indicator measures the volume of sales of personal and household goods.	July MoM% YoY%	-0.2% -1.2%	-0.2% -1.0%	0.2% -1.0%
	GDP S.A. It measures the value of products and services produced inside the country. GDP is the most comprehensive measure of economic output and provides a key insight into an economy's main drivers.	Q2 QoQ% YoY% Final data	0.3% 0.6%	0.1% 0.5%	0.3% 0.6%
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.	July MoM%	-4.3%	-11.7%	7.6%
Great Britain	**S&P Global/CIPS UK 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.	August Final data	48.7 47.9	49.5 48.6	48.7 47.9
USA	**ISM Services Index** 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.	August	52.5	54.5	52.7
	Initial Jobless Claims It measures the number of people filing for unemployment benefits for the first time.	2 September K=1,000	233K	216K	229K
	Continuing Claims It measures the total number of people filing for unemployment benefits.	26 August K=1,000	1719K	1679K	1719K
Japan	**Household Spending** This indicator monitors all consumers' expenditures on products and services, and is adjusted with inflation.	July YoY%	-2.5%	-5.0%	-4.2%
	GDP S.A. It measures the final market value of all products and services produced within the country.	Q2 QoQ%	1.4%	1.2%	1.5%