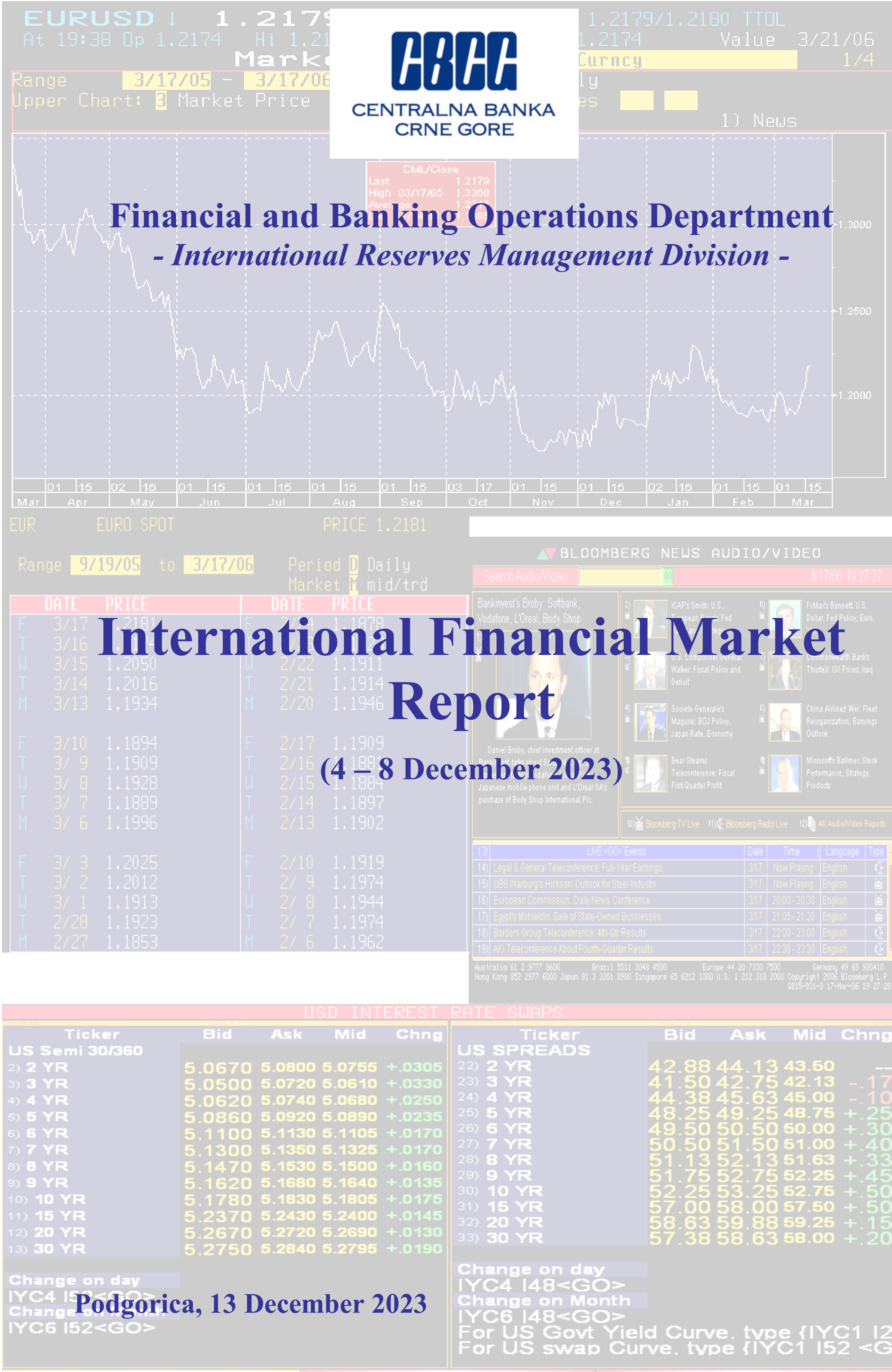
CENTRALNA BANKA CRNE GORE

## Financial and Banking Operations Department

### *- International Reserves Management Division -*



# International Financial Market Report

**(4 – 8 December 2023)**

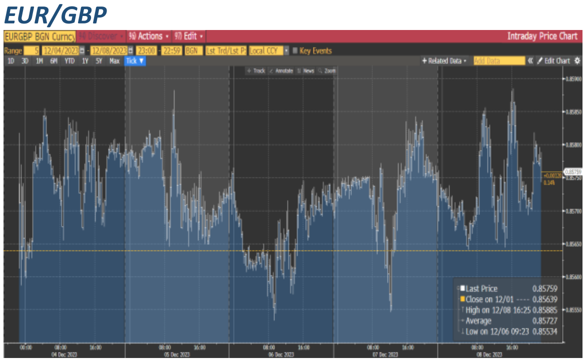
**Podgorica, 13 December 2023**

## FX NEWS

### EUR/USD

The **EUR/USD exchange rate** depreciated in this reporting week. Early this week, Germany's export data decline in October by 0.2% than in September compared to expected 1.1%, causing the euro to depreciate. On Tuesday, better-than-expected services and composite PMI data for the euro area, Germany and France briefly led to its recovery, but the exchange rate continued to depreciate. Isabel Schnabel, a member of the ECB's Executive Board, said that an interest rate increase was unlikely to happen considering the latest inflation data, and the Governor of the Central Bank of Slovakia, Peter Kažimir, shared the same opinion. The USD appreciated awaiting data from the labour market, but also because of the fear of a global growth slowdown. On Thursday, the exchange rate recovered after new initial jobless claims increased last week compared to the previous one, so the USD depreciated. However, data published the next day showed that payrolls in November expanded more than expected, and the declining unemployment caused the USD to appreciate, so the exchange rate continued to depreciate. The exchange rate also depreciated as expectations regarding the ECB's interest rate drop in the coming year pressured the euro.

### EUR/GBP



The **EUR/GBP exchange rate** fluctuated between 0.85534 and 0.85885 in this reporting period. After Monday's volatile trend, the exchange rate depreciated the following day as the euro depreciated after growing market expectations for an ECB interest rate cut, which differed from BoE's expectations (investors expect deeper monetary policy easing in the euro area than in Great Britain). On Wednesday, the exchange rate continued to depreciate after the service index PMI in Great Britain recorded a monthly rise from 49.5 to 50.9 in November. The euro was also under pressure due to the ECB representative's statement rejecting an additional interest rates increase by the ECB after a "significant" inflation drop. The exchange rate fluctuated on Friday as the focus was on the BoE meeting. Goldman Sachs said the BoE would make its first interest rate cut in August 2024, with the pace of the cut faster than previously forecast.

### EUR/JPY

During this reporting week, the **EUR/JPY exchange rate** depreciated. For the first three days, this market recorded a slightly downward trend. The euro generally depreciated on rising expectations of an ECB interest rate cut. On the other hand, the inflation slowdown data in Tokyo, in line with BoJ's view that price pressures were easing the Japanese currency, supported the JPY. One of the BoJ's vice-governors said the bank must think carefully about the timing of the exit from the monetary easing policy and closely monitor the development of wages and prices. On Thursday, the exchange rate depreciated sharply as the BoJ Governor hinted at the end of the negative interest rates cycle as early as next year, increasing speculation that the change could happen as early as this month, so the yen appreciated. On Friday, this exchange rate recovered slightly after announcing that Japan's GDP in Q3 was weaker than expected. It may complicate a potential decision to change the BoJ's monetary policy, so the Japanese currency weakened.

**Table 1 - Exchange rates of the most important currencies**

| | 04.12.2023[1] | 08.12.2023[2] | % Change |
|---|---|---|---|
| EUR/USD | 1.0884 | 1.0763 | -1.11 |
| EUR/GBP | 0.85639 | 0.85769 | 0.15 |
| EUR/JPY | 159.75 | 156.05 | -2.32 |
| EUR/AUD | 1.63034 | 1.63594 | 0.34 |
| EUR/CHF | 0.94574 | 0.94714 | 0.15 |
| USD/JPY | 146.82 | 144.95 | -1.27 |
| GBP/USD | 1.2710 | 1.2549 | -1.27 |

**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% | 14 December 2023 |
| Federal Reserves (Fed) | Federal Funds Target Rate | 5.50% | 13 December 2023 |
| Bank of Japan (BoJ) | Overnight Call Rate | -0.10% | 19 December 2023 |
| Bank of England (BoE) | Official Bank Rate | 5.25% | 14 December 2023 |
| Swiss National Bank (SNB) | Libor Target Rate | 1.75% | 14 December 2023 |
| Bank of Canada (BoC) | Target Overnight Rate | 5.00% | 24 January 2024 |
| Reserve Bank of Australia (RBA) | Cash Rate Target | 4.35% | 6 February 2024 |

This week, the Bank of Canada and the Reserve Bank of Australia held regular meetings and did not change the interest rates.

**Table 3 – ESTR and Euribor**

| | 04.12.2023[1] | 08.12.2023[2] | Change in basis points |
|---|---|---|---|
| ESTR | 3.904 | 3.903 | -0.10 |
| Euribor 1W | 3.839 | 3.843 | 0.40 |
| Euribor 1M | 3.869 | 3.853 | -1.60 |
| Euribor 3M | 3.960 | 3.950 | -1.00 |
| Euribor 6M | 4.004 | 3.935 | -6.90 |
| Euribor 12M | 3.902 | 3.725 | -17.70 |

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

## *EUROPEAN GOVERNMENT BONDS MARKET*


The return on 10-year German government bonds fell during the first three days of this reporting week. Early this week, the drop in the return came as ECB official Isabelle Schnabel opined that an interest rate increase was unlikely to happen, considering recent inflation data developments. Additionally, the drop in the return was influenced by the oil price drop and the statement of the Central Bank of Slovakia's Governor that it was unlikely that the ECB would continue to increase the interest rate. On Thursday, the return on 10-year bonds stabilised its movement and will grow on Friday. The rise in the return in that period occurred as positive data from the US labour market weakened the demand for safe assets.

## *US GOVERNMENT BONDS MARKET*


The return on 10-year US government bonds rose on Monday to decline on Tuesday and Wednesday. The decline came after it was announced that the number of open jobs in the US in October had fallen the most since March 2021. The return trend stabilised on Thursday, and there was another increase on Friday. On Friday, traders reduced expectations that the Fed would start reducing the interest rate at the beginning of next year after the data on payrolls in the non-manufacturing sector in the USA.

## *GOLD*

The gold price fell in this reporting week. The gold price fell in this reporting week. On Monday morning, the price was at a record-high level of 2135.39 USD/oz.tr. to drop sharply the same day due to the USD appreciation and the rise in the return on US government bonds. During the rest of the week, the price trended in a limited interval between 2010 and 2040 USD/oz.tr. The main reason for its fluctuation was expectations regarding the Fed's interest rate trend, and investors were waiting for the US labour market data, which could give an insight into the possible monetary policy path. However, this precious metal's price fell below 2,000 USD/oz.tr on Friday after better-than-expected US labour market data, which suggested that market expectations for a Fed rate cut early next year were premature. Still, the day ended somewhat above the mentioned level.

## *OIL*

The oil price mostly dropped during the first three days, as traders were still determining the extent to which the voluntary reduction of output by some OPEC+ members will be implemented, so it hit a 5-week low on Wednesday. Although it showed signs of recovery on Thursday, it continued to trend around the mentioned level due to the data that oil imports by China in November fell at an annual rate of 9.2%, the first yearly decline since April, due to high inventories, weak economic indicators and lower orders from independent refiners that weakened demand. On Friday, the price mostly rose after Saudi Arabia and Russia sent a joint call to OPEC+ members to comply with the output cuts agreement. The price also increased due to the publication of better-than-expected data from the US labour market, which increased optimism that the US would avoid recession. Despite this, the oil price fell for the seventh consecutive week as concerns about the market's oversupply arose.

**Table 4 - Economic indicators (4 – 8 December 2023)**

| Country | Indicator | Period | Expected value | Current value | Previous value |
|---|---|---|---|---|---|
| Euro area | **HCOB Composite PMI**<br>PMI surveys tracks opinion among managers at manufacturing, construction and/or services firms. The index is calculated from the survey results on production, orders, inventories, employment, prices, etc. | November<br>Final data | 47.1 | 47.6 | 47.1 |
| | **Retail Sales**<br>This indicator measures activity related to retail trade volume (not applicable to motor vehicles and motorcycles). | October<br>MoM%<br>YoY% | 0.2%<br>-1.1% | 0.1%<br>-1.2% | -0.3%<br>-2.9% |
| Germany | **Consumer price index (CPI)**<br>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. | November<br>Final data MoM%<br>YoY% | -0.4%<br>3.2% | -0.4%<br>3.2% | -0.4%<br>3.2% |
| France | **Industrial output**<br>It measures the changes in output of production, service and mining sectors. | November<br>Final data | 0.2% | -0.3% | -0.5% |
| Great Britain | **S&P Global/CIPS UK Composit PMI)**<br>Composite PMI is the weighted average of PMI for production and service sector for the selected geography and economy. | November<br>Final data | 50.1 | 50.7 | 50.1 |
| USA | **Factory Orders**<br>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. | October | -3.0% | -3.6% | 2.8% |
| | **Initial Jobless Claims**<br>It measures the number of people filing for unemployment benefits for the first time. | December 2<br>K=1,000 | 220 K | 220 K | 218 K |
| | **Unemployment Rate**<br>The percentage of individuals on the labour market and unemployed, but actively looking for a job. In general, higher unemployment rate weakens the economy and results in lower personal spending. | November | 3.9% | 3.7% | 3.9% |
| | **Change in non-farm payrolls**<br>This report shows the total number of newly employed workers on a monthly basis by economy industries. It does not include employees in government services, NGOs, and the agricultural sector. It serves as the basis for tailoring economic policy and forecasting future economic trends. | November<br>K=1,000 | 185 K | 199k | 150 K |
| Japan | **GDP Seasonal Adjustments (GDP SA QoQ)**<br>It measures the final market value of all products and services produced within the country quarterly. | Q3 Final data | -0.5% | -0.7% | -0.5% |