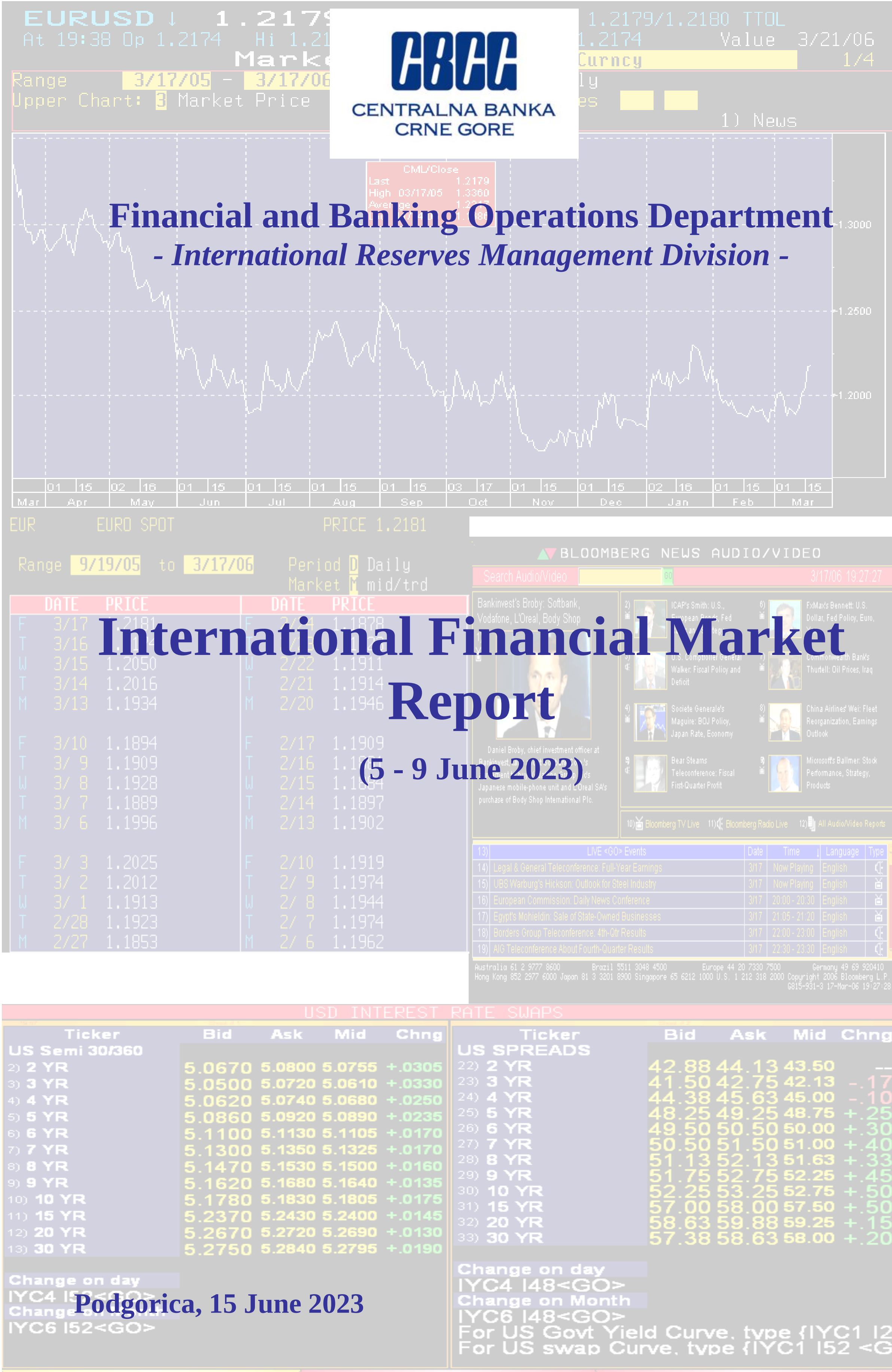
CENTRALNA BANKA
CRNE GORE



Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(5 - 9 June 2023)

Podgorica, 15 June 2023

FX NEWS

EUR/USD

Early this week, the **EUR/USD exchange rate** appreciated after an initial depreciation as weaker-than-expected US service index data were published. Namely, it was announced that the index measuring the service sector in the USA fell to 50.3 compared to the expected 52.4. The following day, this exchange rate depreciated after expectations that the Fed would continue to increase the interest rate at the subsequent meetings. In the middle of the week, the exchange rate first appreciated as the ECB officials' comments indicated that the central bank would continue with the interest rate increase policy. Then it depreciated only to fall in the afternoon due to the renewed strengthening of expectations regarding the fact that the Fed will also continue with the interest rate increase policy. On Thursday, the EUR/USD exchange rate appreciated strongly after it was announced that jobless claims in the USA increased during the previous week to 261 thousand, the highest level since October 2021 and significantly more than the expected 235 thousand. On Friday, this exchange rate depreciated slightly, awaiting the regular meetings of the world's leading central banks.

EUR/GBP

The **EUR/GBP exchange rate** appreciated early this week as ECB officials' comments supported the euro. The ECB President and the Bundesbank President stated that the euro area's inflation was high and underlying price pressures showed little sign of abating so far, so more work had to be done in this area. From Tuesday until the end of the week, the exchange rate depreciated. The sterling appreciated after reporting a slight improvement in the UK's construction sector. The index rose from 51.1 to 51.6 in May. On the other hand, mixed data on German industry caused the euro to depreciate. At the end of the week, the BoE ended its corporate debt sales program, allowing companies to issue high-quality local currency bonds without competing with the central bank for investor attention. This change creates a better backdrop for companies selling bonds and benefits sterling-focused investors, as new deals in the primary market will be the only way to buy large volumes of sterling-denominated corporate bonds. The EUR/GBP exchange rate depreciated at the end of the week as investors raised expectations for further interest rate hikes by the BoE. Investors expect the BoE to raise interest rates by an additional 100 basis points by November.

EUR/JPY

The **EUR/JPY exchange rate** depreciated during the first two days of this week. The exchange rate depreciated after published mixed euro area economic data. The final data on the service and composite index of the euro area were lower than expected, but they were still at a level that points to their growth. This exchange rate appreciated sharply in the middle of the week as the demand for riskier investments increased. On Thursday, the EUR/JPY exchange rate did not change significantly, to first appreciate on Friday morning and depreciate in the afternoon as market participants expected the BoJ to indicate that inflation has risen above the projected level.

Table 1 - Exchange rates of the most important currencies

	05.06.2023[1]	09.06.2023[2]	% Change
EUR/USD	1.0708	1.0749	0.38
EUR/GBP	0.86001	0.85457	-0.63
EUR/JPY	149.76	149.70	-0.04
EUR/AUD	1.62059	1.59512	-1.57
EUR/CHF	0.97316	0.97083	-0.24
USD/JPY	139.92	139.40	-0.37
GBP/USD	1.2453	1.2572	0.96

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	3.75%	15 June 2023
Federal Reserves (Fed)	Federal Funds Target Rate	5.25%	14 June 2023
Bank of Japan (BoJ)	Overnight Call Rate	-0.10%	16 June 2023
Bank of England (BoE)	Official Bank Rate	4.50%	22 June 2023
Swiss National Bank (SNB)	Libor Target Rate	1.50%	22 June 2023
Bank of Canada (BoC)	Target Overnight Rate	4.75%	12 July 2023
Reserve Bank of Australia (RBA)	Cash Rate Target	4.10%	4 July 2023

RBA surprised markets with a decision to raise interest rates by 25 basis points to 4.1%, saying inflation remains very high and further monetary policy tightening may be needed.
At its meeting, the BoC also increased the interest rate by 25 basis points to 4.75%.

Table 3 – ESTR and Euribor

	05.06.2023[1]	09.06.2023.[2]	Change in basis points
ESTR	3.1480	3.3824	23.44
Euribor 1W	3.121	3.128	0.70
Euribor 1M	3.218	3.290	7.20
Euribor 3M	3.490	3.469	-2.10
Euribor 6M	3.728	3.762	3.40
Euribor 12M	3.875	3.928	5.30

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

EUROPEAN GOVERNMENT BONDS MARKET

The return on 10-year German government bonds in this reporting week ranged between 2.31% and 2.48%, and at the end of the week, it was the same as at the beginning, around 2.37%. Early in the week, the return showed mild signs of growth as some ECB officials opined that inflation remained high and underlying price pressures showed little sign of abating so far, so more work needed to be done. However, after the ECB's monthly survey showed that consumer expectations for euro area inflation eased significantly in April, the return fell. A sharp rally in the return followed midweek, as surprise interest rate hikes by the Bank of Australia and the Bank of Canada raised expectations for further monetary policy tightening worldwide. However, in the last two days of this week, the return trended down. Traders moderated expectations regarding an ECB interest rate hike at the June meeting following the news that the euro area entered a technical recession in Q4. Namely, the final Eurostat data showed that the euro area's GDP in Q1 decreased by 0.1% compared to the previous quarter, which recorded the same decrease.

US GOVERNMENT BONDS MARKET

In this reporting week, the return on 10-year US government bonds rose from 3.70% to 3.74%. The return's minimum value of 3.65% was on Tuesday, and the maximum on Thursday of 3.82%. Early in the week, the return was choppy but generally declined after reporting that the US services index fell to 50.3, the second-lowest reading in three years, raising concerns that service sectors could weaken after manufacturing. However, on Wednesday, the return rose by 14 basis points. assets. On Friday, the yield showed little changes. The main reason was rising expectations of interest rate hikes worldwide, following surprise hikes by the Central Bank of Australia and the Bank of Canada. Traders' expectations were moving toward a 25 basis points increase in the Fed's interest rate by July, while expectations of a rate cut this year were weakening. The next day, the return fell due to the announcement that unemployment claims for social assistance in the US last week recorded the most significant increase since October 2021, which led to increased demand for safe assets. On Friday, the yield showed little changes.

GOLD

The gold price posted a sharp gain on Monday as the latest data on the US economy dampened expectations for an interest rate hike by the Fed. The next day, the price was stable, but it recorded a sharp drop in the middle of the week. The decline came from the increased demand for riskier assets. On Thursday, the gold price increased after announcing that the jobless claims rose in the USA during the previous week. On Friday, the gold price depreciated slightly.

OIL

Oil price fell on Monday due to concerns about global economic growth. It continued to weaken on Tuesday morning for the same reasons, and its upward trend began in the afternoon. It lasted until the end of Wednesday after announcing that oil imports by China increased in May and recorded the third-highest level ever. The next day, the oil price fell as it was announced that Iran and the US were close to reaching a temporary agreement that would allow Tehran to export up to one million bbl./day with the lifting of sanctions by Washington. However, towards the end of the day, the White House declared this news false, so the oil price jumped. The oil price dropped on Friday due to concerns about China's economic growth.

Table 4 - Economic indicators (5 – 9 June 2023)

Country	Indicator	Period	Expected value	Current value	Previous value
Euro area	**Producer Price Index (PPI)** The index measures the average price change that domestic producers receive for their production. **Retail Sales** This indicator measures changes in retail sales in euro area.	April MoM% YoY% April MoM% YoY%	 -3.1% 1.7% 0.2% -3.0%	 -3.2% 1.0% 0.0% -2.6%	 -1.6% 5.9% 1.2% -3.8%
Germany	**Industrial output** It measures the changes in output of production, service and mining sectors.	April	0.6%	0.3%	-3.4%
USA	**Factory Orders** Factory orders provide a fairly comprehensive view of the manufacturing sector. **Durable Goods Orders** This is an indicator of consumer safety that reflects their expectations and the ability to spend money. Its positive growth marks the state of the economy, helping to strengthen the currency. Its decline leads to the opposite result. The DGO index is an excellent indicator for the future. Many manufacturers plan production based on available orders, the decline in DGO precedes the decline in production and vice versa.	April April F Final data	0.8% 1.1%	0.4% 1.1%	0.9% 1.1%
Italy	**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.	April MoM%	0.3%	0.2%	0.0%
Great Britain	**S&P Global/CIPS UK Services PMI** The index was compiled based on responses to questionnaires sent as a panel to 650 companies from the service sector. Sectors covered include retail (except retail), transportation, information, communications, finance, insurance, real estate and business services. Data collection began in July 1996. Answers are collected in the second half of each month and indicate the direction of changes compared to the previous month. A score above 50 indicates that the services sector is generally expanding, while a score below 50 indicates its general decrease.	May F Final data	55.1	55.2	55.1