CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(6 – 10 March 2023)

Podgorica, 15 March 2023

FX NEWS

EUR/USD

Early this week, the **EUR/USD exchange rate** appreciated due to the euro's appreciation after the Central Bank of Austria Governor's statement expressed his expectation of a long period before inflation decreases and the hopes that the interest rates would peak in the next 12 months. He added that the ECB should increase the interest rate by 50 basis points each at the upcoming four meetings. However, the exchange rate depreciated sharply on Tuesday. Namely, the USD appreciated that day due to the Fed Chair's address in Congress. He said, "The latest economic data have come in stronger than expected, which suggests that the ultimate level of interest rates is likely to be higher than previously anticipated. If the totality of the data were to indicate that faster tightening is warranted, we would be prepared to increase the pace of rate hikes." This statement made clear that rates will have to rise more than previously expected and that the "door was open" for a return to a 50 basis points increase. Over the next two days, the exchange rate recorded a slight appreciation. On the second day of his address, the Fed Chair softened his tone regarding the interest rates increase and said that the March meeting's outcome would depend on economic data, so the USD depreciated. However, the euro appreciated due to the publishing that Germany's monthly industrial output in January increased more than expected and fell less than expected annually. On Thursday afternoon, the market was mainly concerned after reports that the SVB financial group in the USA recorded losses, so the return on American government bonds began to fall. On Friday, the exchange rate appreciated sharply as the USD depreciated even higher as the news of the SVB collapse increased concerns about the impact on the financial system and changed market expectations concerning the Fed's interest rate hike. Moreover, the February data on higher-than-expected expanding US jobless payrolls, higher-than-expected unemployment rate, and slower wage growth were published.

EUR/GBP

The **EUR/GBP exchange rate** appreciated in the first two days as the Central Bank of Austria Governor's statement encouraged market participants to expect the ECB's deposit rate to be at least 4% by this September. The exchange rate began to depreciate from the middle of the week until the end of this period. The exchange rate depreciated after the release that the UK's economic growth in January exceeded monthly expectations. Namely, it recorded a 0.3% growth compared to the expected 0.0%. It lessened the concern regarding the UK economy's recession and favoured the BoE to continue with the interest rate policy increase.

EUR/JPY

The **EUR/JPY exchange rate** depreciated slightly in this reporting week. Early this week, the exchange rate appreciated as the euro appreciated due to the Central Bank of Austria Governor's statement. The exchange rate fluctuated during the rest of the week but generally depreciated. This trend resulted from the yen's appreciation amid investors' expectations that the BoJ would increase the upper limit of the return on 10-year bonds. The yen also appreciated after the Fed Chair softened his tone on the Fed's interest rate hike on the second day of his address to Congress. However, the exchange rate appreciated on Friday as BoJ Governor Kuroda kept monetary policy unchanged concerning the interest rate and the return curve control programme at the last meeting he chaired. However, the exchange rate depreciated sharply in the afternoon as the SVB financial group collapse increased the demand for safe funds, which resulted in the Japanese currency's appreciation.

Table 1 - Exchange rates of the most important currencies

	06.03.2023[1]	10.03.2023[2]	% Change
EUR/USD	1.0635	1.0643	0.08
EUR/GBP	0.88301	0.88427	0.14
EUR/JPY	144.68	143.70	-0.68
EUR/AUD	1.57064	1.6175	2.98
EUR/CHF	0.99549	0.98021	-1.53
USD/JPY	135.87	135.03	-0.62
GBP/USD	1.2036	1.2030	-0.05

Table 2 - Overview of the leading central banks' reference interest rates

Central Bank	Reference interest rate	Reference interest rate level	Next meeting
European Central Bank	ECB main refinancing rate	3.00%	16 March 2023
Federal Reserves	Federal Funds Target Rate	4.75%	22 March 2023
Bank of Japan	Overnight Call Rate	-0.10%	28 April 2023
Bank of England	Official Bank Rate	4.00%	23 March 2023
Swiss National Bank	Libor Target Rate	1.00%	23 March 2023
Bank of Canada	Target Overnight Rate	4.50%	12 April 2023
Reserve Bank of Australia	Cash Rate Target	3.60%	4 April 2023

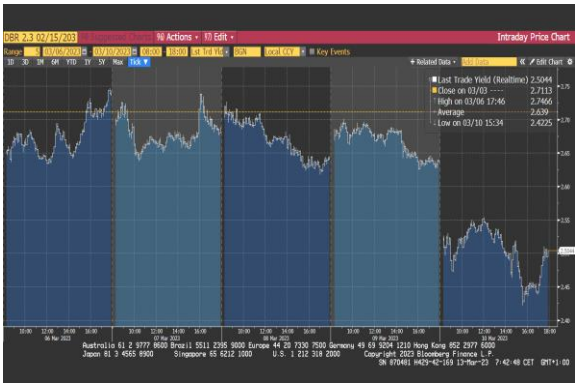
This week, the Bank of Canada, the Central Bank of Australia, and the BoJ held regular meetings. Only the Central Bank of Australia increased the interest rate by 25bp to 3.60%.

Table 3 – ESTR and Euribor

	06.03.2023	10.03.2023	Change in basis points
ESTR	2.4000	2.4030	0.30
Euribor 1W	2.393	2.378	-1.50
Euribor 1M	2.551	2.630	7.90
Euribor 3M	2.849	2.978	12.90
Euribor 6M	3.353	3.445	9.20
Euribor 12M	3.826	3.953	12.70

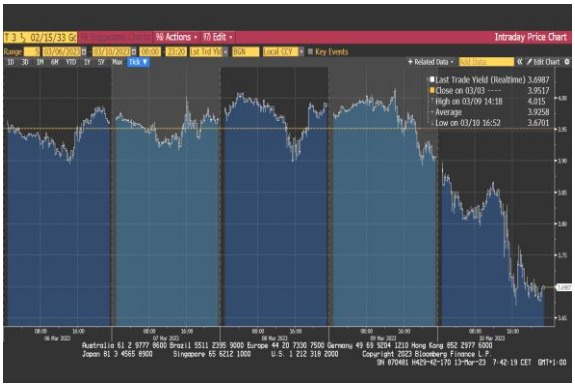
[1] Opening market value on Monday
[2] Closing market value on Friday

EUROPEAN GOVERNMENT BONDS MARKET



The return on 10-year German government bonds fluctuated during most of the week (it hovered around 2.67%) to decline on Friday (it stood at 2.50% at the end of the week). The return rose early this week as the Central Bank of Austria's Governor called for an interest rate increase of 50 basis points at the each upcoming four meetings. On Tuesday morning, the return on 10-year German government bonds dropped as an ECB survey showed that inflation expectations dropped in January, resulting in traders lowering expectations for future ECB interest rate hikes. Still, the return rose after the Fed Chair's address on Capitol Hill in the afternoon. The next day, the return on the euro area bonds rose after the release that industrial production in Germany grew more than expected. On Thursday, the return on 10-year German government bonds fell after data showed that US initial jobless claims rose the most since December and after the news of the SVB Financial Group collapse in the USA. The Banque de France Governor stated that inflation in France would peak between "now and June" and that the ECB would do everything necessary to bring inflation down to 2%. On Friday, traders decreased expectations for an ECB interest rate hike due to the SVB collapse, so the return weakened.

US GOVERNMENT BONDS MARKET

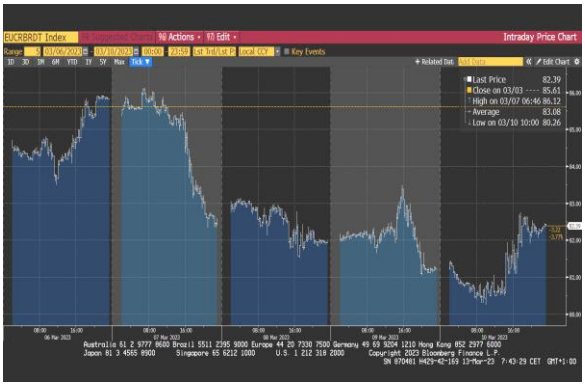


The return on 10-year US government bonds fluctuated around 3.95% for the first four days, beginning to fall from Thursday afternoon and maintaining such a trend until the end of the reporting week (the return stood at 3.69% at the end of the week). On Monday, the return on US bonds followed the trend of German government bonds. The next day, it first trended down to trend up after Jerome Powell's address in the US Congress. On the first day of his address on Capitol Hill, Fed Chair Jerome Powell spelled out that rates would have to be higher than previously expected and that the "door was open" for a return to the 50 basis points increase. The return on 10-year US Treasuries fell on Thursday as demand for the safe-haven asset increased after SVB Bank saw a $52 billion loss in market value as an unexpected withdrawal of deposits caused turbulence in US stock markets, also resulting in the S&P 500 index fell by almost 6%. The US authorities later announced a series of measures to protect the US economy and increase confidence in the banking system. They also said that the SVB Bank clients would be protected and able to access their money. After consultation with the US President, the US Treasury Department, the Fed, and the Deposit Guarantee Agency acted appropriately. The market already calculated Fed's monetary policy tightening. After the SVB situation, the expectations changed. The market was no longer sure of a more significant interest rate increase. On Friday, the return on 10-year bonds fell by about 20 basis points, while the return on 2-year bonds fell by 30 basis points.

GOLD

The gold price rose in this reporting week. It trended down slightly on Monday to record a further decline the following day as the USD appreciated following the Fed Chair's address in Congress that the US monetary authorities were ready for a more significant interest rate increase that might be necessary to stop inflation growth. In the middle of the week, the price was stable, as the Fed Chair said on the second day of the address that the central bank had not decided on the potential rate increase size but that it would depend on published economic data, primarily on inflation and data from the labour market. However, this precious metal's price has constantly risen since Thursday afternoon. The growth resulted from the increased demand for safe funds, which was current due to the released US labour market data and the news about the SVB financial group. Namely, the SVB collapse led to the American banking sector's turbulence. The published mixed US labour market data decreased expectations regarding the Fed's interest rate increase and supported the gold price.

OIL



On Monday, the oil price rose awaiting the Fed chair's two-day presentation in the Congress. The next day, the price fell as the Fed Chair indicated the possibility of a more significant interest rate increase, which led to the USD's appreciation. In the rest of the week, the price declined slightly even though the industry report and the Department of Energy's report showed that oil stocks in the US fell last week. On Thursday afternoon, announcing that the US initial jobless claims rose more than expected briefly interrupted the downward trend. The decline soon continued as the prospect of further and potentially faster Fed interest rate hikes weighed on the fuels demand outlook. Although the price increased due to the USD depreciation at the end of the week, this fuel's price recorded a weekly decline.

Table 4 - Economic indicators (6 – 10 March 2023)

Country	Indicator	Period	Expected value	Current value	Previous value
Italy	**Retail Sales** This indicator measures changes in retail sales in Japan.	January MoM%	 0.2%	 1.7%	 -0.2%
Germany	**Factory Orders** Shows change in the number of orders with domestic producers. 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.	January MoM%	-0.7%	1.0%	3.2%
	Retail Sales This indicator measures changes in retail sales in Japan.	January MoM%	2.3%	-0.3%	-5.3%
USA	**Change in non-farm payrolls** 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.	February K=1,000	225 K	311 K	150 K
	Initial Jobless Claims This indicator measures the number of people receiving unemployment allowances. Similar to the applicant, the growing number of jobs is accompanied by an economic expansion that could influence inflationary pressures.	March 4 K=1,000	195 K	211 K	190 K
Euro area	**Retail Sales** This indicator measures changes in retail sales in Japan.	January MoM% YoY%	 0.6% -1.8%	 0.3% -2.3%	 -2.7% -2.8%
	Gross domestic product (GDP) 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.	Q4 YoY%	1.9%	1.8%	1.9%