CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(6 - 10 November 2023)

Podgorica, 17 November 2023

FX NEWS

EUR/USD

The **EUR/USD exchange rate** appreciated early this week as the euro area encouraged optimism concerning the region's economic outlook. The next day, the exchange rate depreciated as the Minneapolis Fed Chair told the central bank had not yet won the fight against inflation. In the middle of the week, the exchange rate achieved a sharp appreciation after the initial depreciation due to the comments of the ECB Governing Council members Mārtiņš Kazāks and Gabriel Makhlouf, who noted that further interest rates increases by the ECB should not be ruled out, even if the market saw almost zero probability. On Thursday, the exchange rate experienced a sharp depreciation as the Fed Chair stated that the monetary institution's officials were not convinced that the monetary policy was restrictive enough and would not hesitate to tighten the conditions if necessary. The EUR/USD exchange rate did not change significantly on Friday.

EUR/GBP

The **EUR/GBP exchange rate** recorded constant appreciation in this reporting week. The exchange rate appreciated as the BoE's Chief Economist signalled the BoE's readiness to cut interest rates by the middle of next year. Market expectations rose after expectations that the BoE would cut interest rates by three quarter-points in the coming year. Towards the end of the week, the ECB officials' comments, pointing to challenges in reaching the inflation target, caused the EUR/GBP exchange rate to rise further.

EUR/JPY

The **EUR/JPY exchange rate** appreciated on Monday. The exchange rate appreciated after the BoJ Governor stated it was unlikely that the central bank would announce the end of the negative interest rates policy by the end of the year. In the middle of the week, the declining demand for safe assets caused this exchange rate to rise further. In the rest of the week, the exchange rate appreciated slightly after the BoJ Governor stated that the BoJ would maintain the policy of controlling the return curve trend and negative rates as long as necessary until inflation reached 2%.

Table 1 - Exchange rates of the most important currencies

	06.11.2023[1]	10.11.2023[2]	% Change
EUR/USD	1.0731	1.0686	-0.42
EUR/GBP	0.86661	0.87386	0.84
EUR/JPY	160.24	161.93	1.05
EUR/AUD	1.64770	1.67969	1.94
EUR/CHF	0.96452	0.96418	-0.04
USD/JPY	149.39	151.52	1.43
GBP/USD	1.2380	1.2227	-1.24

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%	6 December 2023
Reserve Bank of Australia (RBA)	Cash Rate Target	4.35%	5 December 2023

During this period, RBA held its regular meeting and decided to increase the interest rate by 25bp.

Table 3 – ESTR and Euribor

	06.11.2023[1]	10.11.2023[2]	Change in basis points
ESTR	3.9020	3.9040	0.2
Euribor 1W	3.887	3.896	0.9
Euribor 1M	3.877	3.834	-4.3
Euribor 3M	3.956	3.992	3.6
Euribor 6M	4.062	4.074	1.2
Euribor 12M	4.004	4.040	3.6

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

EUROPEAN GOVERNMENT BONDS MARKET

This reporting week, the return on 10-year German government bonds rose from 2.68% to 2.72%. The growth was current early this week when the return reached the highest weekly value of 2.76%. From Tuesday until Thursday, the return trended down due to the weakening of market participants' expectations that the central banks would keep interest rates high for longer. The return's weakening also resulted from former ECB official Mario Draghi's statement that he expected Europe to be in recession by the end of the year. On Wednesday evening, the return hit its weekly minimum of 2.61%. In the last two days of the week, the return mostly recovered. The main reason for the return recovery was the ECB officials' warnings of challenges in reaching the inflation target. The Bundesbank President pointed out that the "last mile" before reaching the inflation target might well be the hardest. At the same time, the Governors of Latvijas Banka and the Central Bank of Ireland even suggested that further interest rates increases should not be ruled out. However, the market currently sees zero probability of such a move. On Friday, the ECB President stated that the deposit rate will remain at 4% for longer, possibly increasing borrowing costs if necessary.

US GOVERNMENT BONDS MARKET

In this reporting week, the return on 10-year US government bonds rose from 4.58% to 4.65%. It hit its maximum weekly value of 4.67% on Monday as investors cautiously awaited the offer of US bonds. Over the next two days, this return trended down and recorded its lowest weekly level of 4.47% on Thursday. Strong demand at auctions of 3-year and 10-year bonds on Tuesday and Wednesday and signals from central banks about a possible reduction in interest rates caused the return to fall. On Thursday, the return sharply increased due to weak demand at the auction of 30-year US bonds. The return also increased due to the Fed Chair's comments that this monetary institution's officials were not convinced that the monetary policy was restrictive enough and would be quick to tighten the monetary conditions if necessary. Powell added that he would carefully decide on a meeting-by-meeting basis and that the inflation rate remains well above the 2% target despite the slowdown. On the last day of this reporting week, the return fluctuated.

GOLD

The gold price fell this week. The price drop mainly resulted from reduced demand for gold as a haven after decreased concern that events in the Middle East would spill over to wider regions. The comments of ECB, BoE and Fed officials also caused the price drop. The ECB Vice President Luis de Gindos stated that it was still too early to discuss reducing the ECB's interest rate. The BoE Chief Economist said that the BoE must be restrictive to bring the inflation rate to the target level, and the Fed Chair said the same - this monetary institution's officials were still not convinced that interest rates were high enough to bring the inflation rate to the target level. The USD appreciation also contributed to the gold price weakening.

OIL

The crude oil price trended down for most of the observed period. It showed no significant changes on Monday, to start falling from Tuesday. Mixed economic data from China has increased concerns about the demand for this energy product. The price declined after concerns about economic growth prevailed over the impact of production cuts implemented by Saudi Arabia and Russia, and data showed that oil stocks in the US rose by almost 12 million barrels in the week preceding the report. In the middle of the week, this exchange rate hit its 3-month minimum. In the last two days, the oil price showed signs of recovery, but it did not move far from the mentioned level by the end of the week.

Table 4 - Economic indicators (6 - 10 November 2023)

Country	Indicator	Period	Expected value	Current value	Previous value
Euro area	**Producer Price Index (PPI)** This indicator measures the change in the price paid by domestic producers. The indicator rise is an early inflation indicator.	September MoM% YoY%	0.5% -12.5%	0.5% -12.4%	0.6% -11.4%
	Retail Sales This indicator measures changes in retail sales in euro area.	September MoM% YoY%	-0.2% -3.1%	-0.3% -2.9%	-1.2% -2.1%
Germany	**Consumer price index (CPI)** It estimates the changes in the cost of living, by measuring changes in the price level of market basket of consumer goods and services purchased by households.	October MoM% YoY%	0.0% 3.8%	0.0% 3.8%	0.0% 3.8%
Italy	**Retail Sales** This indicator measures changes in retail sales in Italy.	September MoM%	0.1%	-0.3%	-0.4%
Great Britain	**Industrial output** It measures the output in mining and quarrying, manufacturing and utilities (electricity, gas and water supply).	September MoM% YoY%	0.0% 1.1%	0.0% 1.5%	-0.7% 1.3%
	Gross domestic product (GDP) Measures the final market value of all products and services produced within the country. This is the most commonly used indicator of economic activity.	Q3 QoQ% YoY%	-0.1% 0.5%	0.0% 0.6%	0.2% 0.6%
USA	**Initial Jobless Claims** This indicator measures the number of people receiving unemployment allowances.	4 November K=1,000	218 K	217 K	217 K