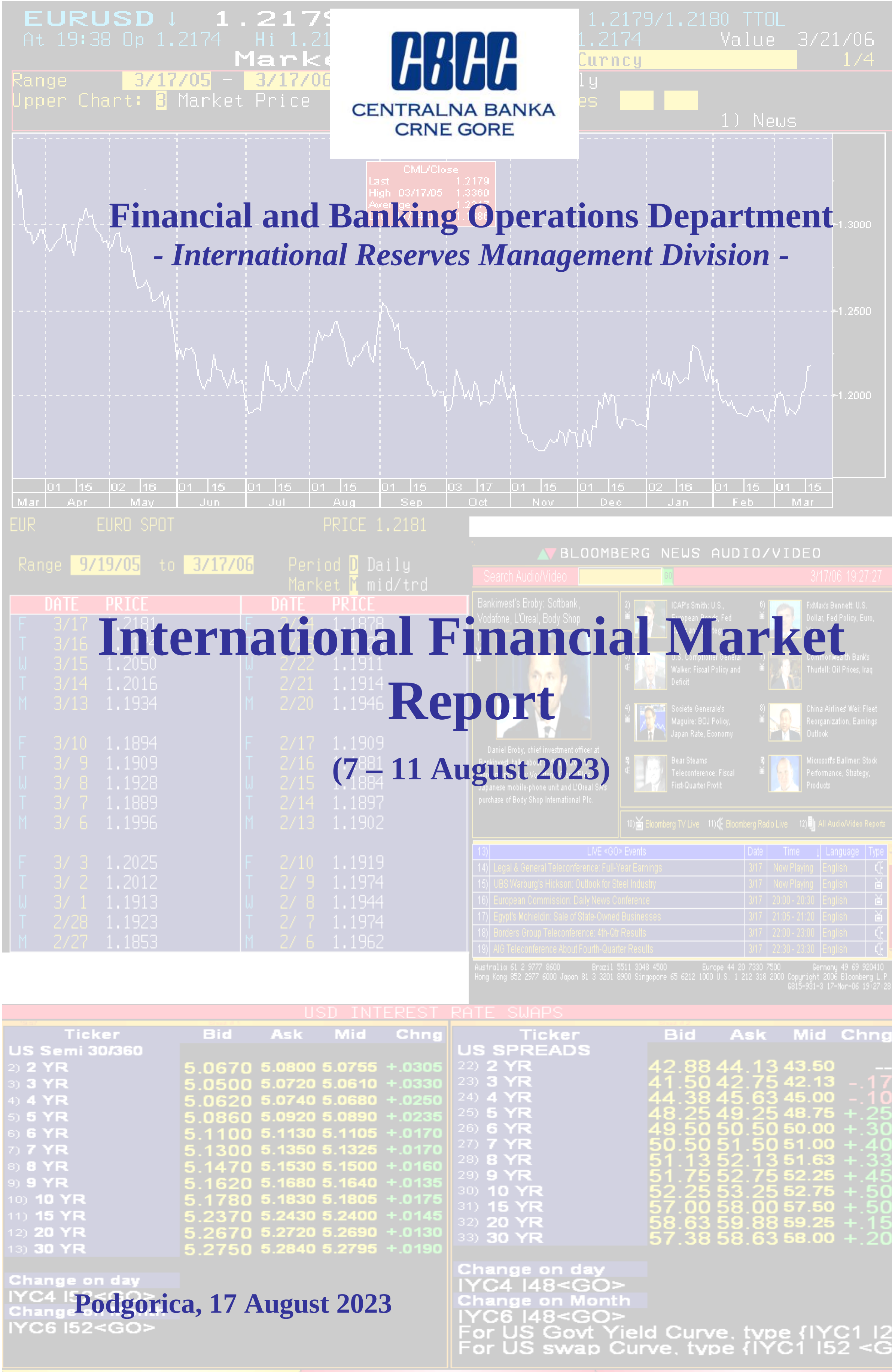


Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(7 – 11 August 2023)

Podgorica, 17 August 2023

FX NEWS

EUR/USD

The **EUR/USD exchange rate** first depreciated at the beginning of this period. The USD was supported by a statement from a Fed official about the need for additional rate hikes. At the same time, the news that Germany's industrial production fell more than expected harmed the euro. On Tuesday, the exchange rate depreciated as the demand for safe assets increased after Moody's lowered the credit rating for some regional banks in the USA. In the middle of the week, the exchange rate recovered slightly, and the growth continued until Thursday noon, awaiting US inflation data publication. However, after the data was published, the exchange rate appreciated sharply. Namely, the data showed that annual inflation amounted to 3.2%, while the base inflation rate increased by 4.7% annually. On Friday, the exchange rate continued to depreciate, and it was announced that producer prices in the USA rose by 0.3%, slightly more than the expected 0.2%.

EUR/GBP

During the first two days of this reporting period, the **EUR/GBP exchange rate** depreciated. The exchange rate depreciated after weak data on German industrial production was published. The exchange rate recorded growth from the middle of the week until the end of Thursday. The exchange rate appreciation mainly resulted from the fact that the ECB was expected to raise interest rates by an additional 25 basis points in the September meeting. On Friday, the exchange rate depreciated as it was announced that Great Britain's GDP was better than expected.

EUR/JPY

The **EUR/JPY exchange rate** appreciated during this reporting week. At the beginning of the week, the data that nominal wages in Japan increased by 2.3% in June, less than May's 2.9%, confirmed that the BoJ should continue with the monetary incentive policy, leading to the exchange rate appreciation. During the rest of the week, the exchange rate continued to appreciate due to the persistently large gap between interest rates in Japan and the rest of the world, primarily the USA and Europe. The EUR/JPY exchange rate stabilised on Friday at around 1.10.

Table 1 - Exchange rates of the most important currencies

	07.08.2023[1]	11.08.2023[2]	% Change
EUR/USD	1.1006	1.10949	0.81
EUR/GBP	0.86339	0.86250	-0.10
EUR/JPY	156.06	158.78	1.74
EUR/AUD	1.67425	1.678478	0.25
EUR/CHF	0.96114	0.95983	-0.14
USD/JPY	141.76	144.96	2.26
GBP/USD	1.2749	1.2694	-0.43

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%	6 September 2023
Reserve Bank of Australia (RBA)	Cash Rate Target	4.10%	5 September 2023

Table 3 – ESTR and Euribor

	07.08.2023[1]	11.08.2023[2]	Change in basis points
ESTR	3.653	3.653	0.0
Euribor 1W	3.643	3.628	-1.5
Euribor 1M	3.615	3.638	2.3
Euribor 3M	3.743	3.781	3.8
Euribor 6M	3.940	3.928	-1.2
Euribor 12M	4.045	4.056	1.1

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

EUROPEAN GOVERNMENT BONDS MARKET

On Monday, the return on 10-year German government bonds rose to a weekly high of around 2.63%. This growth was caused by Deutsche Bundesbank's announcement that it would reduce the rate on government deposits to 0% from 1 October, a move that would potentially encourage billions of euros to pour into the market. However, long-term, a rush of money focused on high-quality bonds would also reduce the return. The German government deposits held in the Bundesbank are estimated to be 54 billion euros. The very next day, the return fell by about 20 basis points due to the news that the Italian government would introduce a tax on "extra profit" for banks this year, negatively impacting the share prices of Italian banks. This market reaction influenced the Italian government's decision to change the planned taxation scheme 24 hours later, limiting the tax to 0.1% of banks' assets. In the rest of the week, the return on German government bonds grew and approached the level from the beginning of the week by Friday.

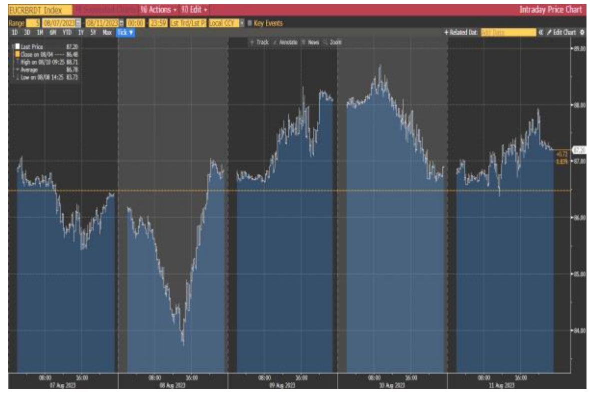
US GOVERNMENT BONDS MARKET

The return on 10-year US government bonds rose on Monday and stood at 4.09% at the end of the day. Fed official Michelle Bowman's statement that more interest rate hikes were likely to be needed, after which expectations for a rate cut were reduced, caused the return to rise. The return on US government bond yields and global bonds fell on Tuesday after weaker-than-expected trade data from China. During the last two days of this week, there was a noticeable increase in the return, after the auction of 38 billion USD of 10-year US government bonds in the USA. The auction yielded 4,189%, the highest return since 2011, and the amount allocated to primary dealers was the highest since this February, indicating weak demand. At the close of the market on Friday, the return on 10-year US government bonds stood at 4.15% as stronger-than-expected July PPI data in the USA was published on the same day.

GOLD

During this reporting week, the gold price trended down. Several factors influenced this trend. The rise in the return on the US government bond market appreciated the USD and exerted negative pressure on this precious metal. Also, the gold price drop was partly caused by the expectation of data on US inflation and production prices that would give a closer insight into whether the Fed would increase the interest rate again in September. The gold price also fell due to the announcement that consumer prices in China fell by 0.3% in July.

OIL



Early this week, the oil price dropped due to weaker seasonal demand in the USA and indications of a slower economic recovery in China. Oil price rose midweek as Ukraine’s President warned he would retaliate against Russia if it continued to block Ukrainian ports, raising concerns that oil supplies could be disrupted. On Thursday, this year’s highest oil price level was 88.71 USD/bbl. amid concerns about the possible escalation of the conflict between Russia and Ukraine, which could threaten the supply of this energy even more. At the end of the week, the oil price retreated slightly from the previous maximum due to concerns about a potential decrease in demand for this fuel.

Table 4 - Economic indicators (7 – 11 August 2023)

Country	Indicator	Period	Expected value	Current value	Previous value
Great Britain	**Industrial output** It measures the output in mining and quarrying, manufacturing and utilities (electricity, gas and water supply).	June MoM% YoY%	0.2% -1.1%	1.8% 0.7%	-0.6% -2.3%
	Gross domestic product (GDP) One of the basic macroeconomic indicators, which represents the calculated value in the market prices of goods and services produced within the country, but excludes the income of citizens and corporations working abroad. The GDP calculation uses the following four components: consumption, investments, government expenditure, and net exports.	Q2 preliminary data QoQ% YoY%	0.0% 0.2%	0.2% 0.4%	0.1% 0.2%
Germany	**Industrial output** It measures the output in mining and quarrying, manufacturing and utilities (electricity, gas and water supply).	June MoM% YoY%	-0.5% -0.2%	-1.5% -1.7%	-0.2% 0.7%
	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.	July MoM% YoY%	0.3% 6.2%	0.3% 6.2%	0.3% 6.2%
USA	**Initial Jobless Claims (US)** It measures the number of people first time applying for receiving compensation.	5 August K=1,000	230K	248K	227K
	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.	July MoM% YoY%	0.2% 3.3%	0.2% 3.2%	0.2% 3.0%
France	**Unemployment Rate** 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.	Q2	7.1%	7.2%	7.1%
	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.	July MoM% YoY%	0.0% 4.3%	0.1% 4.3%	0.0% 4.3%