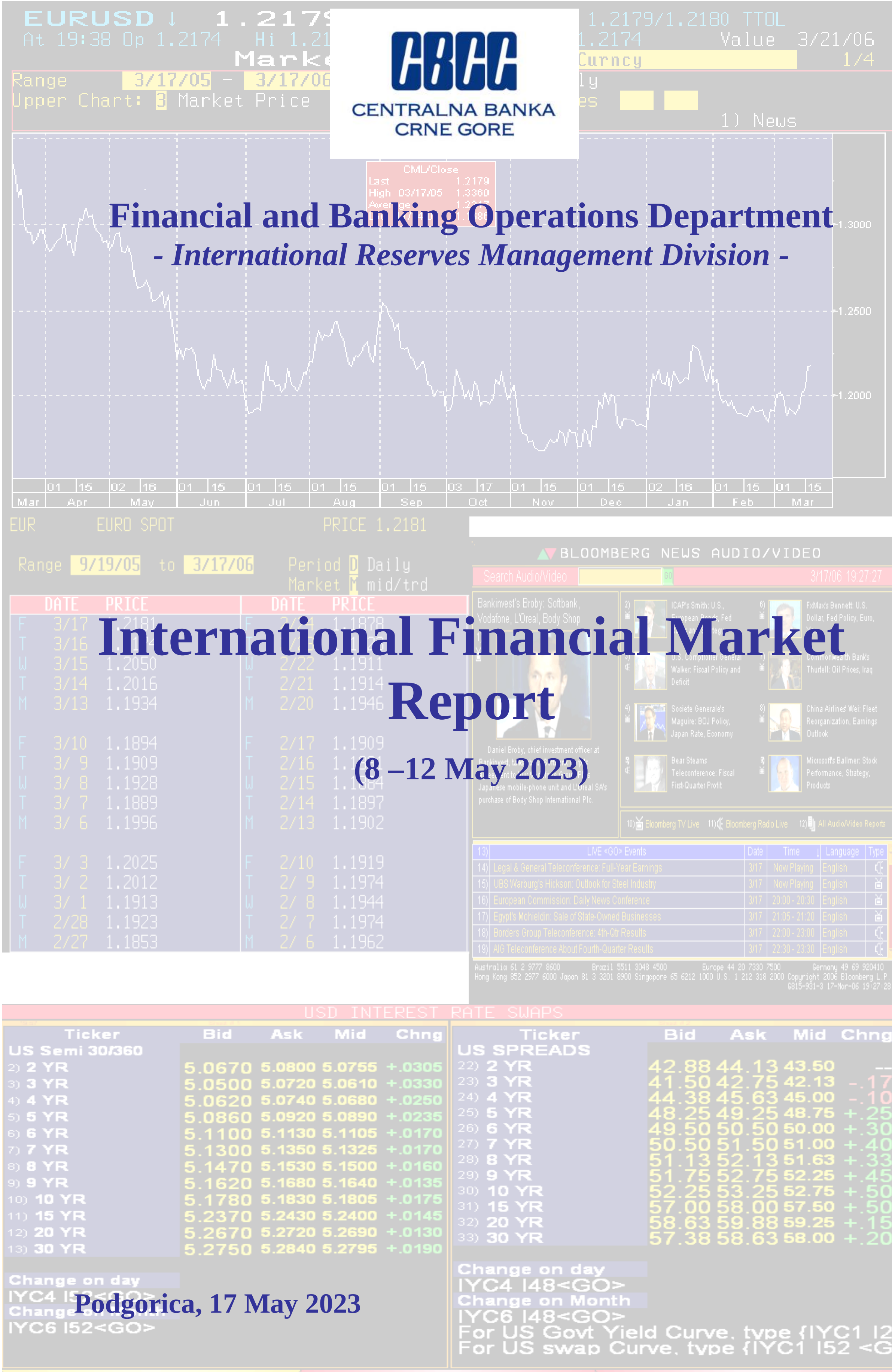

CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(8 –12 May 2023)

Podgorica, 17 May 2023

FX NEWS

EUR/USD

Throughout this reporting week, the **EUR/USD exchange rate** depreciated. The exchange rate depreciation at the beginning of the week resulted from the release that industrial production in Germany in March fell more than expected. The exchange rate depreciation continued until Wednesday, when it stabilised briefly after data from the US data of lower-than-expected inflation in April, which may influence the Fed to take a break in the interest rates raising policy. However, this exchange rate depreciated since Thursday as market participants focused on whether the US Congress would increase the borrowing limit in early June. Additionally, the exchange rate depreciation resulted from the statement of a Fed Board of Governors member, Michelle Bowman, who stated that the central bank would have to increase the interest rate again if inflation remained high, and the data published so far in May were not convincing enough to curb inflation.

EUR/GBP

The **EUR/GBP exchange rate** depreciated during the first two days of this week after announcing that retail sales in the UK grew by 5.1% in April. In the middle of the week, the exchange rate depreciation stopped awaiting the regular BoE meeting. The next day, after the meeting, this exchange rate achieved a sharp appreciation as the BoE Governor stated that the interest rate would increase if needed. Still, he pointed out that this was a conditional sentence indicating that the BoE could pause increasing the interest rate in the following period. On Friday, the exchange rate depreciated after announcing that GDP in the UK grew in Q1 by 0.2% annually, which was in line with expectations.

EUR/JPY

The **EUR/JPY exchange rate** depreciated during this week. The exchange rate depreciation at the beginning of this period occurred when the BoJ Governor stated that he intended to lift the restriction on the return on Japanese bonds trend when inflation approached the target level. He added that he would also discuss exiting the ultra-expansive monetary policy and announce this to the public when it became apparent that the target inflation rate was achieved. At the end of this period, the EUR/JPY exchange rate depreciation trend stopped.

Table 1 - Exchange rates of the most important currencies

	08.05.2023[1]	12.05.2023[2]	% Change
EUR/USD	1.1019	1.0849	-1.54
EUR/GBP	0.87252	0.87156	-0.11
EUR/JPY	148.36	147.24	-0.75
EUR/AUD	1.63304	1.63295	-0.01
EUR/CHF	0.98136	0.97457	-0.69
USD/JPY	134.80	135.70	0.67
GBP/USD	1.2636	1.2458	-1.41

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	4.50%	7 June 2023
Reserve Bank of Australia (RBA)	Cash Rate Target	3.85%	6 June 2023

The BoE raised interest rates by 25 basis points to 4.5%, a 15-year high. BoE committee members voted 7-2 to raise interest rates by 25 basis points, with two votes not to increase the rate.

Table 3 – ESTR and Euribor

	08.05.2023[1]	12.05.2023[2]	Change in basis points
ESTR	2.898	3.148	25.0
Euribor 1W	2.950	3.127	17.7
Euribor 1M	3.099	3.162	6.3
Euribor 3M	3.280	3.348	6.8
Euribor 6M	3.575	3.638	6.3
Euribor 12M	3.770	3.799	2.9

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

EUROPEAN GOVERNMENT BONDS MARKET

The return on 10-year German government bonds was almost unchanged in this reporting week, amounting to 2,276% at its end and 2,281% at the beginning. For the first two days, the return was increasing slightly. ECB Governing Council member Mārtiņš Kazāks said investors should not count on the ECB to stop raising interest rates in July, as most economists now predict. However, for the next two days, the return was falling. The decline resulted from the falling return on the US bond market and its lower-than-expected inflation rate. The slide also resulted from statements of individual ECB Governing Council members. The Banque de France Governor stated only "marginal" room left for interest rate increases. The Banco de Portugal Governor said the ECB's key interest rate was approaching a "peak," but further adjustments were needed. Banco de España believes that interest rates have been at levels limiting economic growth for some time, and the need for additional interest rate increases would cease once the economic growth restrictive zone was entered. Despite the increased inflationary expectations the ECB announced, the return dropped. The return recovered at the end of the week due to the Bundesbank President's statement that the ECB may have to increase the interest rate even after the summer.

US GOVERNMENT BONDS MARKET

The return on 10-year US government bonds increased from 3.44% to 3.46% during the observed period. At the beginning of the week, the return trended up after better-than-expected data from the US labour market published at the end of the previous week reduced expectations regarding the monetary policy easing by the Fed. The return growth continued in response to April's US inflation rate data. After the publication of somewhat weaker-than-expected data, expectations that the Fed will reduce the interest rate this year increased, so the return trended down since Wednesday. The next day, it was announced that production prices rose less than expected. However, a preliminary University of Michigan survey on Friday showed that US inflation expectations for one year and 5-10 years rose more than expected, raising expectations that the Fed may continue to raise interest rates, so the return recovered on that day. Fed Board of Governors Michelle Bowman warned on the same day that the Fed would continue to increase the interest rate if inflation remained high.

GOLD

This week, the gold price recorded a slight drop. In the first two days, the price rose slightly. Apart from the US inflation rate data expectation, this trend did not record significant causes. On Wednesday morning, the price showed signs of falling but continued to rise after the data was published. Namely, consumer prices rose less than expected in April, giving the Fed room to take a break in raising interest rates soon. Soon, this precious metal's price fell due to the Fed President's statement in Richmond that inflation was still very high, which renewed expectations regarding a stricter monetary policy. In the rest of the week, its downward trend mainly resulted from the USD appreciation.

OIL

The oil price fell in this reporting week. It mostly trended up in the first half of the week as concerns about the US economy's recession eased. The growth was also the result of the interrupted supply from Canada (several producers from the Canadian province of Alberta stopped production due to forest fires), indications of a recovery in demand for fuel, and the White House's announcement that it would buy oil to replace its reserves of that fuel. However, the oil price fell in the second half of the week. The drop came after a US Department of Energy report showed that oil inventories rose last week. The price also fell due to concerns about the demand for this fuel. At the end of the week, the price fluctuated as markets balanced between supply concerns and renewed worries about the US economy. Investors were also concerned about the Chinese economy and its recovery strength due to the released disappointing (imports and inflation) data.

Table 4 - Economic indicators (8 - 12 May 2023)

Country	Indicator	Period	Expected value	Current value	Previous value
Italy	**Industrial output** It measures the output of the energy sector, factories and mines. Growing industrial production points to increased production and economic expansion.	March MoM%	0.3%	-0.6%	-0.2%
Germany	**Industrial output** It measures the output of the energy sector, factories and mines. Growing industrial production points to increased production and economic expansion.	March MoM% YoY%	-1.5% 1.8%	-3.4% 1.8%	2.0% 0.6%
	Consumer price index (CPI) 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.	April MoM% YoY%	0.4% 7.2%	0.4% 7.2%	0.4% 7.2%
Great Britain	**Industrial output** It measures the output of the energy sector, factories and mines. Growing industrial production points to increased production and economic expansion.	March MoM% YoY%	0.1% -2.9%	0.7% -2.0%	-0.2% -3.1%
USA	**Consumer price index (CPI)** 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.	April MoM% YoY%	0.4%	0.4%	0.4%
	Initial Jobless Claims This indicator measures the number of people receiving unemployment allowances.	May 6 K=1,000	245 K	264 K	242 K