CENTRALNA BANKA
CRNE GORE

Financial and Banking Operations Department
- International Reserves Management Division -

International Financial Market Report

(10 – 14 July 2023)

Podgorica, 19 July 2023

FX NEWS

EUR/USD

The **EUR/GBP exchange rate** appreciated this reporting week. The EUR/USD exchange rate appreciated early this week owing to the USD depreciation, which followed the announcement that consumer loans in the USA grew at the lowest rate since November 2020 in May. The next day, the EUR/USD exchange rate depreciated until mid-day as the ZEW data in Germany was weaker than expected (the index measuring ZEW expectations fell to -14.7 in July; the index measuring ZEW's current situation fell to -59.5). However, in the afternoon, the exchange rate recovered, as the USD depreciated in response to US inflation data, which was expected to show that inflation had weakened, which later turned out to be correct. The consumer price index in June showed that inflation was slowing in the USA - the lowest level since 2021. After the better-than-expected data, traders still believed that the Fed would raise its benchmark interest rate by 25 basis points at the upcoming meeting and that the rate hike cycle is ending. The EUR/USD exchange rate fluctuated throughout Friday and averaged to 1.12. Data on the strong earnings of large financial institutions in the USA and consumer confidence encouraged investors' appetite for risk, which caused the USD to depreciate.

EUR/GBP

The **EUR/GBP exchange rate** appreciated on Monday morning to depreciate in the afternoon after the BoE Governor's speech. Namely, he stated that inflation was more persistent than expected, which increased expectations concerning the level to which the BoE would increase the interest rate in the coming period. Along with the publication of data that wages in Great Britain rose more than expected, it caused the exchange rate to depreciate on Tuesday. In the middle of the week, the exchange rate rose as ECB Governing Council member Vujčić stated that inflation risks in the euro area remained elevated. On Thursday, the exchange rate fell again after it was announced that the UK government had accepted a recommendation to increase the pay of all public sector workers by 6% or more. On Friday, the exchange rate recovered again.

EUR/JPY

In the first two days of the reporting week, the **EUR/GBP exchange rate** depreciated. Rising return on the Japanese bond market and expectations that the BoJ would change something in monetary policy at its meeting this month caused the yen to appreciate. On Wednesday, the exchange rate fluctuated slightly and appreciated during the last two days. The yen stabilised at the end of Friday after BoJ Governor Kazuo Ueda said there was still a lot of global uncertainty about economies.

Table 1 - Exchange rates of the most important currencies

	10.07.2023[1]	14.07.2023[2]	% Change
EUR/USD	1.0967	1.1228	2.38
EUR/GBP	0.85416	0.85752	0.39
EUR/JPY	156.07	155.84	-0.15
EUR/AUD	1.64017	1.64123	0.06
EUR/CHF	0.97493	0.96778	-0.73
USD/JPY	142.21	138.80	-2.40
GBP/USD	1.2839	1.3093	1.98

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	4.00%	27 July 2023
Federal Reserves (Fed)	Federal Funds Target Rate	5.25%	26 July 2023
Bank of Japan (BoJ)	Overnight Call Rate	-0.10%	28 July 2023
Bank of England (BoE)	Official Bank Rate	5.00%	3 August 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%	1 August 2023

This week, the Bank of Canada increased the interest rate by 25 basis points at its regular meeting.

Table 3 – ESTR and Euribor

	10.07.2023[1]	14.07.2023[2]	Change in basis points
ESTR	3.406	3.402	-0.4
Euribor 1W	3.393	3.393	0.0
Euribor 1M	3.425	3.464	3.9
Euribor 3M	3.640	3.660	2.0
Euribor 6M	3.945	3.941	-0.4
Euribor 12M	4.193	4.134	-5.9

[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 fell from 2.65% to 2.51%. It had its maximum weekly value on Monday (2.679%) and its minimum value on Friday (2.466%). On Monday, the return fluctuated, to weaken on Tuesday morning after the final data on the inflation rate in Germany were in line with expectations. On the same day, the return rose in response to US inflation data. However, after the publication of these data, the return recorded a sharp decline. Traders cut expectations for further rate hikes in both the euro area and the UK after a report showed US inflation slowed more than expected in June, suggesting the Fed may not raise rates as much as expected. Towards the end of the week, the Minutes of the ECB's June meeting were published, which indicated a rate hike in July and a possible hike in September. On Friday, the return did not register significant changes.

US GOVERNMENT BONDS MARKET

During this reporting week, the return on 10-year US government bonds dropped from 4.06% to 3.83%. It had its maximum weekly value on Monday (4.0879%) and its minimum on Thursday (3.7556%). The downward trend has been present since Monday, as the Fed's inflation expectations survey showed that the 1-year outlook for inflation in June reduced from 4.07% to 3.83% for the third time in a row. Wednesday's US inflation data put additional pressure on returns. The data showed that the inflation rate in June recorded the lowest annual growth of 3% in the last two years, which led to decreased expectations regarding the interest rate hike by the Fed. Data released the next day showed that producer prices barely rose in June, by 0.1%, raising expectations that the Fed may be close to peaking. However, the return rebounded slightly on Friday as rising US consumer confidence highlighted the economy's strength. It reignited speculation about how many basis points the Fed would raise interest rates in July and how long it would continue to conduct monetary policy.

GOLD

Gold price rose on a weekly basis. At the beginning of the week, the price was relatively stable, as the US inflation data was expected, which was thought to indicate a slowdown. After that, this precious metal's price increased due to the USD exchange rate depreciation and falling returns on US government bonds. On Wednesday, US inflation data showed a more-than-expected consumer prices slowdown in June. The gold price was stable on Thursday and Friday, averaging around 1,959.6 USD/oz. tr.

OIL

The oil price did not register significant changes on Monday. Still, it rose on Tuesday due to the USD depreciation and the reduction of output by OPEC+, and the signal that oil production in Russia was falling, which may lead to a decreased amount of oil available on the market in the coming period. The price growth continued the next day owing to optimism about the US inflation "cooling". The continued slowdown in inflation led to reduced expectations regarding additional monetary tightening by the Fed and concerns about the negative impact on fuel consumption. In a monthly report released on Thursday, the International Energy Agency forecast global oil demand to grow by 2.2 million bbl./day in 2023, bringing total demand to 102.1 million bbl./day - a new record. On Friday, a downward oil price trend can be observed as investors "picked up" the profit from the current growth in the previous three weeks. Oil prices fell despite news of supply disruptions in Libya and Nigeria. In addition, information appeared that Russian oil exports could drop by 100-200 thousand barrels per day next month compared to the July level.

Table 4 - Economic indicators (10 – 14 July 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).	May MoM% YoY%	-0.4% -2.3%	-0.6% -2.3%	-0.3% -1.9%
Germany	**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.	June MoM% YoY%	0.3% 6.4%	0.3% 6.4%	0.3% 6.4%
France	**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.	June MoM% YoY%	0.2% 4.5%	0.2% 4.5%	0.2% 4.5%
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.	June MoM% YoY%	0.3% 3.1%	0.2% 3.0%	0.1% 4.0%
	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.	8 July K=1,000	237 K	248 K	249 K
	Consumer Credit Consumer credit is intended for individuals for personal purposes. It is essential for the economy because it enables the population's consumption beyond their purchasing power and thus leads to increased domestic demand.	May b=bill.	$7.240 b	$23.010 b	$20.323 b