CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(11 – 15 December 2023)

Podgorica, 20 December 2023

FX NEWS

EUR/USD

This reporting week, the **EUR/USD exchange rate** appreciated by 1.23%. The exchange rate did not change significantly until the Fed's regular meeting on Wednesday, after which it appreciated significantly. The exchange rate appreciated when, after the end of the Fed meeting, its Chair stated that the historical monetary policy tightening was most likely over, and traders now expected strong interest rates cut in the USA next year, especially in its second half. On Thursday, after the ECB meeting, the exchange rate appreciated again as the ECB President denied considering interest rate reduction at the press conference. On Thursday, the exchange rate reached the maximum level for this reporting period of 1.1009, from which it retreated on Friday and ended the reporting week at 1.0895. The exchange rate depreciation on Friday resulted from preliminary December data on the production, service and composite euro area, which pointed to a contraction.

EUR/GBP

The **EUR/GBP exchange rate** appreciated slightly in this reporting week. On Monday, the exchange rate depreciated but soon began to rise. Earnings data in Great Britain, which pointed to a cooling labour market and data on the decline in gross domestic product, influenced the growth of expectations regarding the BoE's interest rate cut next year, which caused the sterling to drop. However, on Thursday, the sterling appreciated after the BoE meeting. In line with expectations, the interest rate remained current, leaving the door open for further tightening if inflationary pressures persist, reducing expectations for a BoE interest rate cut at the beginning of the following year. After the ECB meeting later in the day, the euro appreciated as the ECB dismissed the possibility of an interest rate cut soon. At the end of the week, the exchange rate fell again due to the publication of preliminary data on purchasing managers' indices (PMI) for the euro area and Great Britain for December. Euro area manufacturing, services and composite PMIs were weaker than expected, while all but manufacturing for the UK were better than expected.

EUR/JPY

The **EUR/JPY exchange rate** appreciated on Monday as the BoJ said it saw no need to exit the negative interest rate policy at its December meeting. The rate then stabilised around 157 until the end of Wednesday, when the rate depreciated after reporting that confidence among Japanese manufacturers had risen to a near 2-year high. The regular ECB meeting caused this exchange rate to appreciate on Thursday, as the ECB suggested that it did not consider an interest rate cut. On Friday, the exchange rate depreciated again after weaker-than-expected preliminary data on the euro area's manufacturing, service and composite indices.

Table 1 - Exchange rates of the most important currencies

	11.12.2023[1]	15.12.2023[2]	% Change
EUR/USD	1.0763	1.0895	1.23
EUR/GBP	0.85769	0.85929	0.19
EUR/JPY	156.05	154.85	-0.77
EUR/AUD	1.63594	1.62856	-0.45
EUR/CHF	0.94714	0.94824	0.12
USD/JPY	144.95	142.15	-1.93
GBP/USD	1.2549	1.2681	1.05

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%	25 January 2024
Federal Reserves (Fed)	Federal Funds Target Rate	5.50%	31 January 2024
Bank of Japan (BoJ)	Overnight Call Rate	-0.10%	19 December 2023
Bank of England (BoE)	Official Bank Rate	5.25%	1 February 2024
Swiss National Bank (SNB)	Libor Target Rate	1.75%	21 March 2024
Bank of Canada (BoC)	Target Overnight Rate	5.00%	24 January 2024
Reserve Bank of Australia (RBA)	Cash Rate Target	4.35%	6 February 2024

The ECB, USA, the BoE and Switzerland held regular meetings this week.
The **ECB** kept interest rates unchanged. The President of this monetary institution stated that the rate reduction was not discussed at the meeting due to concerns that inflation could temporarily rise again soon. She added that future decisions would ensure that interest rates remain at restrictive levels long enough and that the ECB would continue to be guided by a data-driven approach. As for inflation, the ECB expected it to approach the targeted level in 2025.
The **Fed** kept the interest rate current. The Fed Chair said that the historic monetary policy tightening was likely over as inflation was falling faster than expected, and a discussion on reducing borrowing costs was on the horizon. The Fed's projections point to a 75bp reduction in the interest rate in the coming year, with the Fed Chair emphasising that this was not a plan but a cross-section of individual projections of the Fed's participants regarding appropriate monetary policy in the future.
The **BoE** kept the interest rate unchanged, with three of the nine members of the Monetary Policy Committee voting to increase the interest rate by 25bp. It was emphasised that the monetary policy must be restrictive for extended periods, not even excluding tightening again if necessary.
The **SNB** did not change the interest rate either.

Table 3 – ESTR and Euribor

	11.12.2023[1]	15.12.2023[2]	Change in basis points
ESTR	3.9030	3.9040	0.10
Euribor 1W	3.843	3.877	3.40
Euribor 1M	3.853	3.853	0.00
Euribor 3M	3.950	3.920	-3.00
Euribor 6M	3.935	3.912	-2.30
Euribor 12M	3.725	3.644	-8.10

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

EUROPEAN GOVERNMENT BONDS MARKET

The return on 10-year German government bonds had a downward trend early this week, awaiting data on the US inflation rate. After the US inflation data, the return recovered slightly, following the trend of bonds on the US market (the data "retracted" expectations that the Fed would start reducing interest rates next year). On Wednesday, the return declined after the Fed meeting and its officials' statements. The next day, the yield recovered after the ECB meeting, and the central bank further reduced expectations for interest rate cuts. On Friday, the return fell, amounting to 2.02% at the end of the day. Weaker-than-expected PMI data on the euro area and Germany indicated a further economic activity contraction, so expectations rose that the ECB might, after all, reduce the interest rate after March.

US GOVERNMENT BONDS MARKET

The return on 10-year US government bonds recorded a weekly drop. Early this week, the return fell slightly, awaiting the US inflation data to recover slightly after their publication. After the Fed meeting in the middle of the week and its officials' statement, the return dropped sharply from 4.20% to 4.00%. Two-year return on US government bonds fell about 38bp to 4.35%. Some market participants expect the return on 10-year US bonds to fall by around 200bp next year. On Friday, the return did not register significant changes as the market looked at the statements that followed the Fed meeting (at the end of the day, the return stood at 3.91%).

GOLD

The gold price did not change significantly until Wednesday, when it sharply increased. In the reporting period, the gold price increased after the Fed meeting, and the consequent market expectation that the monetary institution would reduce interest rates in the following year increased. The following day, the gold price did not change significantly to fall slightly on Friday. The gold price dropped on Friday due to USD appreciation against a basket of currencies, reflected in the declining demand for gold.

OIL

The oil price was stable at the beginning of this period, to record a sharp decline on Tuesday. Oil prices fell on Tuesday as US inflation data fuelled expectations that the Fed would not cut interest rates as quickly as previously expected and the announcement that Russian oil exports rose to their highest level since early July. On Wednesday and Thursday, the oil price rose as stocks of this energy product fell in the US and as concerns arose regarding oil supply from the Middle East after attacks on tankers carrying oil in the Red Sea. The price of oil was stable on Friday.

Table 4 - Economic indicators (11 – 15 December 2023)

Country	Indicator	Period	Expected value	Current value	Previous value
Euro area	**Industrial Production SA** It measures the output in mining and quarrying, manufacturing and utilities (electricity, gas and water supply).	October MoM%	-0.3%	-0.7%	-1.0%
	HCOB Eurozone Manufacturing, Services, Composite PMI PMI surveys tracks opinion among procurement managers at manufacturing, construction and/or services firms. The index was obtained from the results of questionnaires related to production, orders, stocks, employment, prices, etc.	December Preliminary data	44.6 49.0 48.0	44.2 48.1 47.0	44.2 48.7 47.6
Germany	**ZEW Survey Expectations** The survey measures expectations concerning the economic growth in the upcoming 6 months based on the experts' examinations whether to expect improvement or deterioration.	December	9.5	12.8	9.8
USA	**Consumer price index (CPI)** Estimates changes in the cost of living by measuring changes in the prices of certain items for which the consumers allocates their money**.**	November MoM% YoY%	0.0% 3.1%	0.1% 3.1%	0.0% 3.2%
	S&P Global US Manufacturing, Services, Composite PMI PMI surveys tracks opinion among procurement managers at manufacturing, construction and/or services firms. The index was obtained from the results of questionnaires related to production, orders, stocks, employment, prices, etc.	December Preliminary data	49.5 50.7 50.5	48.2 51.3 51.	49.4 50.8 50.7
Great Britain	**Weekly Earnings Excluding Bonuses 3M** This indicator shows total weekly payments to employees in exchange for performed work excluding bonuses.	October YoY%	7.4%	7.3%	7.8%
	Monthly 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.	October MoM%	-0.1%	-0.3%	0.2%
	S&P Global/CIPS UK Manufacturing, Services, Composite PMI PMI surveys tracks opinion among procurement managers at manufacturing, construction and/or services firms. The index was obtained from the results of questionnaires related to production, orders, stocks, employment, prices, etc.	December Preliminary data	47.5 51.0 51.0	46.4 52.7 51.7	47.2 50.9 50.7