CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(12 - 16 June 2023)

Podgorica, 21 June 2023

FX NEWS

EUR/USD

This reporting week, the **EUR/USD exchange rate** appreciated to a 1-month high of 1.0971. In the first half of the week, it appreciated slightly, awaiting the Fed and the ECB meetings and amid the expectation that the difference between these institutions' interest rates would decrease. After data showed the US inflation rate slowed in May, with Minneapolis and Honolulu becoming the first major US cities to see inflation return to the Fed's target (prices rose 1.8% and 2% y-o-y), expectations that the Fed would take a break from raising rates solidified. It was also confirmed at the meeting on Wednesday - the interest rate was kept at the current level. Still, after the press conference, expectations of additional increases raised in the coming period, so the exchange rate depreciated slightly the same day. However, the next day saw a sharp appreciation of the EUR/USD exchange rate. The ECB interest rates increase, and signals of its probable increase in July, caused the euro to appreciate. At the same time, weaker US economic data softened expectations concerning the Fed's interest rate increase. Hence, the USD depreciated (jobless claims rose more than expected, and industrial production and retail sales decreased in May). At the end of the week, the exchange rate reached a 1-month high. Still, on Friday, it slightly retreated from this level, as the University of Michigan survey showed increased optimism among US consumers in June.

EUR/GBP

In this reporting week, the **EUR/GBP exchange rate** depreciated to the lowest level since the end of August last year, 0.85216. On Monday, the exchange rate appreciated as the sterling depreciated, awaiting the UK labour market reports. However, after releasing better-than-expected data, the sterling started to rise, causing the exchange rate to depreciate for the next two days. Namely, on Tuesday, it was announced that the 3-month unemployment rate from February to April fell, while average earnings for the same period rose more than expected, and previous data were revised upwards. Strong wage growth increases inflationary pressures, raising interest rate expectations and pressuring the BoE to keep raising them. On Thursday, awaiting the ECB meeting and after its conclusion, the euro appreciated, so the exchange rate appreciated. Despite this, the exchange rate depreciated until the end of the week, as expectations of the BoE's monetary policy tightening supported the sterling. Moreover, the institution's quarterly report showed that expectations for inflation for the coming year shrank from 3.9% to 3.5%, and inflation of 3% is expected for the next 5 years, which is unchanged from previous expectations.

EUR/JPY

The **EUR/JPY exchange rate** appreciated in this reporting week, reaching the highest level since September 2008 at 155.22 at the end of the week. The ECB and the BoJ held meetings this week. At the beginning of the week, the BoJ was expected to leave the monetary policy unchanged. Governor Ueda signalled his intention to pass some more time before introducing significant changes in the central bank's incentives, which caused the yen to depreciate. On the other hand, the euro appreciated due to expectations that the ECB would raise interest rates. In the last two days, the exchange rate appreciated more intensely. As expected, the ECB raised interest rates by 25 basis points each, and expectations for another increase in July rose. Meanwhile, the BoJ kept interest rates unchanged, highlighting the contrast between them in the conduct of monetary policy.

Table 1 - Exchange rates of the most important currencies

	12.06.2023[1]	16.06.2023[2]	% Change
EUR/USD	1.0749	1.0937	1.75
EUR/GBP	0.85457	0.85324	-0.16
EUR/JPY	149.70	155.22	3.69
EUR/AUD	1.59512	1.59098	-0.26
EUR/CHF	0.97083	0.97795	0.73
USD/JPY	139.40	141.82	1.74
GBP/USD	1.2572	1.2817	1.95

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	4.50%	22 June 2023
Swiss National Bank (SNB)	Libor Target Rate	1.50%	22 June 2023
Bank of Canada (BoC)	Target Overnight Rate	4.75%	12 July 2023
Reserve Bank of Australia (RBA)	Cash Rate Target	4.10%	4 July 2023

The Fed, ECB and BoJ held meetings last week.
At the meeting, the Fed did not change the interest rate, slightly surprising the markets, but signalled its increase in July. The Fed Chair pointed out that the Committee's majority believed that it was highly likely that further increases would be necessary to bring inflation back to the 2% target level in a sustainable manner.
At its meeting, the ECB increased key interest rates by 25 basis points each, and an increase is expected at the next meeting. During the press conference, the ECB President repeated her words from May that the central bank "has more ground to cover " and that raising rates is "not yet over".
The BoJ has kept the current monetary policy conduct the same.

Table 3 – ESTR and Euribor

	12.06.2023[1]	16.06.2023[2]	Change in basis points
ESTR	3.1470	3.1440	-0.30
Euribor 1W	3.128	3.234	10.60
Euribor 1M	3.290	3.355	6.50
Euribor 3M	3.469	3.572	10.30
Euribor 6M	3.762	3.822	6.00
Euribor 12M	3.928	4.020	9.20

[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 stable on Monday. From Tuesday until Thursday noon, the return on these bonds rose, awaiting the ECB to raise interest rates at its regular meeting. After the meeting on Thursday, the return on these bonds fell. On Friday, the return on 10-year bonds was stable and stood at 2.47% at the end of the period.

US GOVERNMENT BONDS MARKET

The return on 10-year US Treasury bonds was flat on Monday. The next day, it surged as the Fed's regular meeting began. In the middle of the week, the return on these bonds did not change significantly as the Fed left interest rates at their existing levels but signalled it would raise interest rates more times in the coming period than expected. On Thursday, the return on these bonds depreciated sharply after mixed economic data from the US market. Namely, jobless claims increased more than expected, industrial output decreased in May, and retail sales increased. On Friday, the return on these bonds rose slightly and stood at 3.76%at the end of the week.

GOLD

The gold price was stable on Monday to plummet on Tuesday as data indicated that inflation slowed in May in the USA, which may influence the Fed to pause raising interest rates. The gold price rose in the middle of the week due to the regular Fed meeting. However, the gold price fell after the meeting, and the decline continued until Thursday noon. The gold price rose sharply on Thursday afternoon as the ECB increased interest rates. On Friday, the gold price was stable.

OIL

Oil prices fell on the first day of the week amid lingering concerns about the outlook for oil demand from China and the USA. The following day, the oil price rose as the demand increased due to the news that China would introduce incentivising economic measures, which may affect the demand recovery for this fuel. In the middle of the week, the oil price fell again, and the International Energy Agency forecast that the oil demand would slow down to 860 thousand bbl./day during the next year from this year's 2.4 million bbl./day. On Thursday, the strengthened demand from China influenced the oil price growth. Namely, this week China announced higher oil import quotas than last year, and the incentive package the country considered to stimulate the economy provided additional incentive to oil price growth. The oil price rose slightly on Friday.

Table 4 - Economic indicators (12 – 16 June 2023)

Country	Indicator	Period	Expected value	Current value	Previous value
Euro area	**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.	May F MoM% YoY% Final data	0.0% 6.1%	0.0% 6.1%	0.0% 6.1%
	Consumer price index (CPI Core) Core inflation represents the long-term trend of price levels. In measuring long-term inflation, transient price changes should be excluded, and the only way is to exclude items subject to frequent price changes, such as food and energy.	May YoY% Final data	5.3%	5.3%	5.3%
Germany	**ZEW Survey Expectations** This survey measures expectations regarding the economic growth for the next 6 months. Experts are surveyed on whether they expect an improvement or deterioration, thus the difference between the number of positive and negative responses represents the indicator value.	June	-13.5	-8.5	-10.7
	ZEW Survey Current Situation This indicator focuses on the results of the research on the current soundness of the German economy. It is obtained by collecting estimates of experts on whether the current situation is improving, worsening or remaining unchanged, as the difference between the number of positive and the number of negative responses. The higher value points to strengthening of the economy and a better business climate.	June	-40.2	-56.5	-34.8
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.	May MoM% YoY%	0.1% 4.1%	0.1% 4.0%	0.4% 4.9%
	University of Michigan Sentiment The monthly survey of consumer confidence of the University of Michigan, is based on collecting information on consumers' attitudes and expectations to determine changes in their willingness to spend.	June Preliminary data	60.0	63.9	59.2
Great Britain	**ILO Unemployment Rate 3Mths** The unemployment rate measures the size of unemployment as a percentage of the labour force (total number of employed and unemployed).	April	4.0%	3.8%	3.9%
	Average Weekly Earnings 3M This indicator shows total weekly payments to employees in exchange for performed work.	April YoY%	6.1%	6.5%	6.1%