CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(13 – 17 February 2023)

Podgorica, 22 February 2023

FX NEWS

EUR/USD

The **EUR/USD exchange rate** appreciated during the first two days of the reporting week. The euro appreciated due to the European Commission's announcement that expected 0.9% economic growth in the euro area this year, higher than in the previous forecast (0.3%), and the release of data on higher-than-expected employment growth in the euro area. The exchange rate appreciated, as investors were cautious awaiting the US inflation data. However, the exchange rate continued to depreciate after these data were released. The monthly January US inflation rate was 0.5% as expected (reaching its highest level in last 3 months), while the annual rate of 6.4% was above the expected 6.2% despite slowdown compared to December. These data resulted in boosted expectations concerning the further Fed interest rate increase, which supported the USD. Stronger-than-expected data on retail and production prices in the USA additionally supported the USD. By the end of the week, the exchange rate continued to depreciate as Fed officials' commented that there were insufficient efforts in limiting price pressures that supported the US currency. However, the exchange rate appreciated on Friday afternoon as the euro recovered due to ECB officials' comments that interest rates in Europe still had space to grow. The exchange rate recorded weekly growth, with the minimum value recorded on Friday (1.0613) and the maximum value on Tuesday (1.0803).

EUR/GBP

On the first two days of this week, the **EUR/USD exchange rate** depreciated. The exchange rate depreciated after increased expectations that the BoE should continue interest rate increase after announcing that the wages in the UK increased by 6.7% in Q4. This exchange rate appreciated sharply after the release that the inflation in the UK in January was 10.1%, still below the expected 10.3%. On Thursday, the exchange rate continued to depreciate mildly on Friday after the retail sale in UK increased unexpectedly in January.

EUR/JPY

The **EUR/JPY exchange rate** appreciated this reporting week. The market focused on electing the BoJ Governor. Japanese Prime Minister appointed Kazuo Ueda, the professor and former BoJ Board member, as Governor. Ueda's prior comments characterised him as a person advocating medium monetary policy tightening, which the market interpreted as a step towards gradual ultra-low interest rates abolishing. However, he pointed out that it was important to keep expansive monetary policy so far, additionally pointing the difference among the return in Japan and worldwide, and leading investors to re-examine their opinion on potential monetary policy change. The public hearing of candidates will be on 24 February, after which the Parliament will vote. These events caused the Yen to depreciate against the euro. On the other hand, euro was supported by expectations that the euro area's economic growth would be slightly higher than the previous forecasts and expectations concerning additional ECB interest rate increase. The Japanese economic data published this week included the less-than-expected GDP recovery in Q4, and the trade deficit that reached its peak in January.

Table 1 - Exchange rates of the most important currencies

	13.02.2023[1]	17.02.2023[2]	% change
EUR/USD	1.0678	1.0695	0.16
EUR/GBP	0.88531	0.8853	0.00
EUR/JPY	140.39	143.27	2.05
EUR/AUD	1.54379	1.55456	0.70
EUR/CHF	0.98628	0.98860	0.24
USD/JPY	131.36	134.15	2.12
GBP/USD	1.2062	1.2037	-0.21

Table 2 - Overview of the leading central banks' reference interest rates

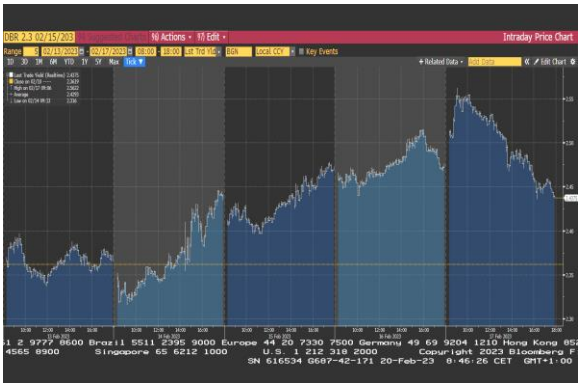
Central Bank	Reference interest rate	Reference interest rate level	Next meeting
European Central Bank	ECB main refinancing rate	3.00%	16 March 2023
Federal Reserves	Federal Funds Target Rate	4.75%	22 March 2023
Bank of Japan	Overnight Call Rate	-0.10%	10 March 2023
Bank of England	Official Bank Rate	4.00%	23 March 2023
Swiss National Bank	Libor Target Rate	1.00%	23 March 2023
Bank of Canada	Target Overnight Rate	4.50%	8 March 2023
Reserve Bank of Australia	Cash Rate Target	3.35%	7 March 2023

Table 3 – ESTR and Euribor

	13.02.2023[1]	17.02.2023[2]	Change in basis points
ESTR	2.401	2.398	-0.30
Euribor 1W	2.359	2.345	-1.40
Euribor 1M	2.375	2.374	-0.10
Euribor 3M	2.621	2.667	4.60
Euribor 6M	3.080	3.212	13.20
Euribor 12M	3.465	3.572	10.70

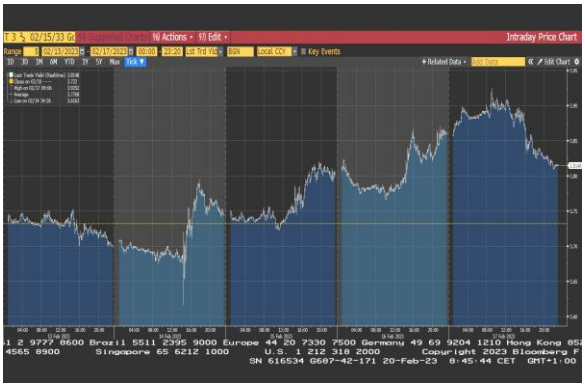
[1] Opening market value on Monday
[2] Closing market value on Friday

EUROPEAN GOVERNMENT BONDS MARKET



The return on 10-year German bonds averaged around a close range of 2.33% to 2.39% on Monday. The return on 10-year German government bonds rose this week. On Tuesday, it followed the trend in the return on the US bonds market, and the ECB Governing Council member Gabriel Makhlouf's statement that interest rates could continue to grow after March and be above 3.50% supported the growth. The return on European state bonds increased after data on US inflation fostering expectations that the interest rates in the USA would remain high and increased expectations that the ECB would continue to increase rates. Germany announced its readiness to increase defence budget by some 10 billion euros (10.7 billion USD) next year to finance additional spending caused by the Russian invasion on Ukraine. ECB Governing Council Member, Joachim Nagel said that interest rates were not restrictive, which pointed to the further rate increase. The return increased on Thursday after releasing US market data that pointed to production prices being higher than expected. The return declined on Friday after mixed political signals from the ECB. Its officials suggested that interest rate outlooks might not be clear in the upcoming months.

US GOVERNMENT BONDS MARKET



The return on 10-year US Government bonds declined slightly on Monday after the investors were cautious awaiting the release of US inflation data that would indicate more concerning the future FED interest rate increase pace. The return on 10-year US government bonds declined slightly on Tuesday morning to increase to almost 3.80% after the release of US inflation data. The annual inflation rate that exceeded forecast caused the growing investors' expectations concerning the Fed interest rate rise. Two Fed officials warned that the legal remedy might require higher interest rates for a longer period, although the second policymaker pointed to its possible end. The Richmond Fed Chair said at the Bloomberg TV that the central bank "might do more" in curbing inflation, while the Dallas Fed Chair said the interest rate increase could last longer than previously forecast. The Philadelphia Fed official stated that policymakers were approaching the sufficiently restrictive rates. In his opinion, the increase was still not over, but was probably close. Traders believe that the Fed will continue to increase rates throughout June and they do not see rates decrease at present. On Wednesday, it was announced that the retail in the USA increased more than expected last month, and the return continued to increase. The return on 10-year US state bonds increased on Thursday after market participants' growing expectations that the Fed would continue to interest rate policy increase by 50 basis points each after releasing data on US producer prices. On Friday, the return declined and followed the trend of the return on German government bonds.

GOLD

Early this week, the gold price was volatile as traders expected data on US inflation to draw detailed conclusions on the Fed strategy concerning the interest rate increase. However, the price started dropping after the data were released and hit the 5-day minimum of some 1,830 USD/oz tr. The stronger-than-expected data on the annual inflation rate in January fostered expectations that the Fed would continue the monetary policy tightening. As the week continued, the price was stable to continue falling on Friday and reach the lowest level in this year (1,819 USD/oz tr.). The wholesale prices in the USA, the key inflation determinant, recorded the highest growth in the last seven months in January, additionally pointing to inflation being more persistent than thought. On the same day, the price recovered actively, despite the recorded decline for the third consecutive week. The price declined due to the USD depreciation throughout the week.

OIL

The gold price decreased in the observed period. Early this week, the price showed growth signs after the news of oil export restarting from the Ceyhan harbour in Turkey, which decreased concerns concerning long-term disorder in this fuel's supply. However, the price declined from Tuesday initiated by the US Government's release that they would sell more oil from their strategic reserves. The price declined after data on higher US inflation rate in January and expectations that private industrial report showed that the US oil inventories in the previous week increased by 10.5 million barrels, as confirmed later. The price continued to decline by the end of the week although the oil price recovered on Wednesday afternoon due to investors' expectations that the global demand for this fuel would grow. The US Government report showed that oil inventories increased last week more-than-expected (by 16 million compared to 2 million barrels). The price declined as US economic data fostered expectations that the Fed would be more aggressive in increasing interest rates to curb persistent inflation.

Table 4 - Economic indicators (13 – 17 February 2023)

Country	Indicator	Period	Expected value	Current value	Previous value
Euro area	**Gross domestic product (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.	December QoQ% YoY%	 0.1% 1.9%	 0.1% 1.9%	 0.1% 1.9%
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.	January MoM% YoY%	 0.4% 6.0%	 0.4% 6.0%	 0.4% 6.0%
Japan	**Gross domestic product (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.	Q4 QoQ%	 2.0%	 0.6%	 -0.8%
USA	**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.	11 February K=1,000	200 K	194 K	196 K
	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.	January YoY%	6.2%	6.4%	6.5%