CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(13 - 17 March 2023)

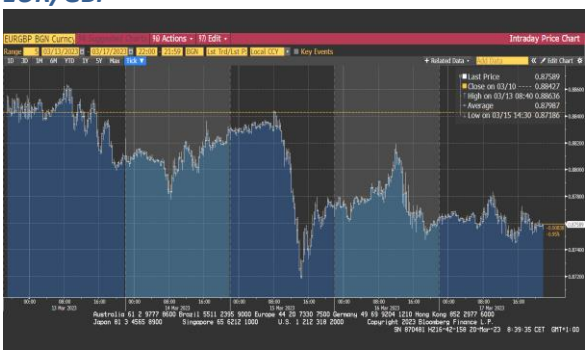
Podgorica, 22 March 2023

FX NEWS

EUR/USD

On Monday and Tuesday, the **EUR/USD** exchange rate appreciated slightly to record a sharp drop on Wednesday. The German Finance Minister, Christian Lindner, said on Monday that the US government and financial authorities reacted decisively over the weekend to remedy the banking sector's situation caused by the SVB collapse and Signature Bank (one of the crypto industry's leading banks based in New York). He also added that European and German financial institutions are monitoring the situation. The German financial supervisor BaFin announced introducing a moratorium on the German branch of SVB. During this period, the USD depreciated due to speculation that the Fed would stop raising interest rates after the SVB collapse and due to threatened financial stability. Some analysts believed the Fed could cut the rate by 25 basis points at the upcoming meeting. On Wednesday, the exchange rate "sunk" due to Credit Suisse Bank (CS), which increased market concerns regarding the European banking sector just a day before the ECB meeting, adversely affecting the euro's attractiveness. The significant drop in CS Bank's stock price that day raised investor concerns about the global banking system's resilience. Namely, the Saudi National Bank, CSV's largest investor with a share of 9.9%, announced that it could not provide them with financial assistance because it would conflict with statutory restrictions (the maximum share was 10%). Some investors remained convinced that the ECB would "ignore" the developments with CS and increase the interest rate by 50 basis points, given that inflationary pressures in Europe were not easing. On Thursday, the exchange rate recovered as the USD depreciated after US jobless claims fell in the previous week, while housing construction data exceeded market expectations. Fears in the global markets subsided that day due to the news that 11 of the largest US banks agreed to help the US First Republic Bank, and the Swiss National Bank offered liquidity to CS of about 50 billion CHF (54 billion USD), which recovered the demand for riskier assets. Moreover, the euro appreciated due to the ECB's decision to increase the interest rate. On Friday, the EUR/USD exchange rate, with minor fluctuations, recorded daily appreciation. A member of the ECB Governing Council, Villeroy, stated that the central bank's decision to continue increasing the interest rate reflected the institution's priority to curb inflation and sent a message of firm confidence in the European banks' soundness.

EUR/GBP



The **EUR/GBP exchange rate** depreciated in this reporting week. The fall at the beginning of the week resulted from the SVB Bank collapse and the announcement that, in addition to the US authorities, British authorities also decided to protect its depositors, and the British Government enabled the sale of SVB's assets in Great Britain to HSBC. To that end, the BoE said the wider UK banking system remained safe, sound and well-capitalised, despite the market concern about regional banks. However, the exchange rate appreciated from Tuesday. The euro appreciated as the media reported that the ECB would increase the interest rate by 50 basis points and data on slower wage growth in the UK in January caused the sterling to depreciate. However, in the middle of the week, the exchange rate depreciated sharply to a 2-month low (0.87186), as the euro depreciated significantly due to the released news about CS Bank. On the same day, the British Finance Minister presented the budget plan and stated predictions that the British economy would not enter a technical recession this year. He said that international experts believed the British economy was on the right track and added that he would anything necessary for economic stability. Soon, the exchange rate recovered awaiting the ECB meeting to continue depreciating after the meeting and maintained this trend on Friday. Following earlier announcements, the ECB increased the interest rate by 50 basis points.

EUR/JPY

The **EUR/JPY exchange rate** depreciated on Monday morning but recovered in the afternoon. The demand for safe funds has existed despite US authorities confirming that all SVB deposits were safe and finding new ways to protect customers. On Tuesday, the exchange rate appreciated throughout the day awaiting the regular ECB meeting and expecting the bank to increase the interest rate by 50 basis points. Japan's Minister of Economy stated that they thoroughly monitored events in the USA and the possibility of uncertainty spilling into the Japanese economy. He added that, at present, the SVB collapse was not expected to impact Japan's banking system significantly. A new wave of uncertainty, this time affecting the European banking sector, caused the exchange rate to depreciate sharply on Wednesday and made the yen appreciate compared to the euro. The next day, the exchange rate recovered as the tone regarding investments in riskier assets improved due to announced providing support to the First Republic Bank in the USA. The yen appreciated on Friday as traders sought refuge in safe-haven assets as uncertainty over the global financial sector's soundness continued.

Table 1 - Exchange rates of the most important currencies

	13.03.2023[1]	17.03.2023[2]	% Change
EUR/USD	1.0643	1.0670	0.25
EUR/GBP	0.88427	0.87589	-0.95
EUR/JPY	143.70	140.67	-2.11
EUR/AUD	1.61750	1.59210	-1.57
EUR/CHF	0.98021	0.98785	0.78
USD/JPY	135.03	131.85	-2.36
GBP/USD	1.2030	1.2173	1.19

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 main refinancing rate	3.50%	4 May 2023
Federal Reserves	Federal Funds Target Rate	4.75%	22 March 2023
Bank of Japan	Overnight Call Rate	-0.10%	28 April 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%	12 April 2023
Reserve Bank of Australia	Cash Rate Target	3.60%	4 April 2023

In this reporting week, the ECB held its meeting. It increased interest rates by 50 basis points each as concerns about persistent inflation in the euro area outweighed fears of the banking system's destabilisation caused by the SVB Bank collapse and the CS Bank problems. The ECB Governing Council closely monitors the current market tensions and is ready to react as necessary to preserve price stability and financial stability in the euro area. The ECB pointed out that the euro area banking sector was resilient. President Lagarde stated that inflation was projected to remain "quite high for a longer period". She reiterated that the ECB's data-dependent approach would continue to be current.

Table 3 – ESTR and Euribor

	13.03.2023[1]	17.03.2023[2]	Change in basis points
ESTR	2.4030	2.4020	-0.10
Euribor 1W	2.378	2.482	10.40
Euribor 1M	2.630	2.648	1.80
Euribor 3M	2.978	2.750	-22.80
Euribor 6M	3.445	3.055	-39.00
Euribor 12M	3.953	3.380	-57.30

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

EUROPEAN GOVERNMENT BONDS MARKET

The return on 10-year German government bonds trended down at the beginning of this period as the demand for safe assets increased after the SVB collapse. The next day, the return on these bonds increased, and the media reported that ECB officials would advocate for a 50 basis points interest rate increase. In the middle of the week, the return on these bonds fell sharply as ECB decreased expectations for an interest rate hike, and the return weakened due to concerns about the banking sector. On Thursday, the return on German bonds did not record significant daily change. On that day, the ECB also held a regular meeting and increased the interest rate by 50 basis points. The return on these bonds again trended down on Friday as traders further downgraded forecasts for an ECB interest rate hike after growing uncertainty in the global banking sector. The return on 10-year German bonds stood at 2.10% at the end of the period.

US GOVERNMENT BONDS MARKET

The return on 10-year US Government bonds trended down on Monday as the SVB Bank collapse weighed on investors' expectations that the Fed would pause or slow rate hikes at its next meeting. The next day, the information that the annual US inflation was 6% influenced the growth of the return on US bonds. In the middle of the week, there was a sharp drop in the return as the demand for safe assets increased due to concerns that the US financial crisis could be transmitted to Europe. Traders now also expect the Fed interest rate to decrease by 100 basis points by the end of the year. The return on US bonds rose on Thursday after an initial drop, and 11 large US banks agreed to help the First Republic Bank (another American bank that is on the "edge") with 30 billion USD in deposits and thus reduced expectations that this bank would be the next to suffer the SVB fate. On Friday, the return fell as uncertainty in the global banking sector affected expectations regarding the pace at which the leading central banks, primarily the Fed and the ECB, would increase interest rates. The return on 10-year bonds stood at 3.42% at the end of the period.

GOLD

Oil price trended up during this reporting week. On Monday, it rose as the SVB collapse directed investors to safe havens, and concerns about the banking sector gripped the financial market. The next day, the gold price depreciated slightly as the market focused on the regular Fed meeting and expected that it would increase the interest rate by 25 basis points at the upcoming meeting. On Wednesday, the problems faced by Credit Suisse Bank after the SVB collapse led to growing concerns about the European banking sector, which influenced the growing demand for safe assets. The gold price fluctuated on Thursday and averaged 1,922 USD/oz. tr. The precious metal's attractiveness reduced as market concerns eased as a group of large US banks reached an agreement on First Republic Bank and the Swiss National Bank provided liquidity to Credit Suisse. The US Treasury Secretary told a Senate Finance Committee hearing that the US banking system remains sound and that this week's "strong actions" show the government's determination to ensure that depositors' savings remain safe. On Friday, the demand for gold increased due to weak data on the US economy (industrial production remained unchanged in February compared to the expected growth; Mich confidence fell in March; 1-year expectations fell from 4.1% to 3.8% in March - lowest since April 2021).

OIL

In this reporting period, the oil price fell from 82 USD/bbl. at the beginning of the week to 70.68 USD/bbl. at the end of the week. The oil price dropped due to turbulence in the market of shares, currencies and bonds. The growing uncertainty regarding the US economy due to the USB collapse has largely driven down the oil value. The price drop in the rest of the week resulted from concerns about the US banking sector, and the US government's report on the oil stocks increased last week by 1.55 million barrels. On Thursday, the oil price recovered slightly in the afternoon after the market stabilisation in the USA. OPEC+ believes that the recent oil prices drop was driven by financial fears rather than any imbalance between demand and supply, adding that the group expected the market to stabilise. Russian Deputy Prime Minister Alexander Novak met with Saudi Arabia's Energy Minister in Riyadh to discuss oil markets and OPEC+ efforts to promote market balance and stability. The cartel will likely wait for financial markets to calm down before deciding whether to respond to falling oil prices by cutting output. On fRI day, the fuel's price lost value because the banking system's instability shook investors' confidence and drove them away from risky investments. Concerns about the US and European banking sectors have fuelled fears of a recession in the market.

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

Country	Indicator	Period	Expected value	Current value	Previous value
Euro area	**Industrial output** It measures the output in mining and quarrying, manufacturing and utilities (electricity, gas and water supply).	January MoM% YoY%	0.3% 0.3%	0.7% 0.9%	-1.3% -2.0%
	Consumer price index (CPI) 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.	February Final data MoM% YoY%	0.8% 8.5%	0.8% 8.5%	0.8% 8.6%
USA	**Housing starts** It shows the change in the number of new real estates constructed in the USA. This indicator's increase points to a rise in investments and business optimism.	February MoM%	0.1%	9.8%	-2.0%
	Industrial output It measures the changes in output of production, service and mining sectors.	February MoM%	0.2%	0.0%	0.3%
Great Britain	**Weekly Earnings Excluding Bonuses** This indicator tracks the total weekly compensation (in cash or in-kind) paid to employees in exchange for work performed (and/or paid leave) and excludes the payment of bonuses.	January YoY%	6.5%	6.6%	6.7%
	ILO Unemployment Rate Unemployment, defined by the International Labour Organization (ILO), represents a situation where people are unemployed but actively looking for a job. Unemployment rate measures the size of unemployment and is obtained as a percentage when the number of unemployed individuals is shared with all. individuals currently on the labour market**.**	January	3.8%	3.7%	3.7%
Japan	**Exports** Products and services made in the UK sold or awaiting sale abroad.	February YoY%	7.0%	6.5%	3.5%
	Imports Japan's demand for foreign products.	February YoY%	12.4%	8.3%	17.5%