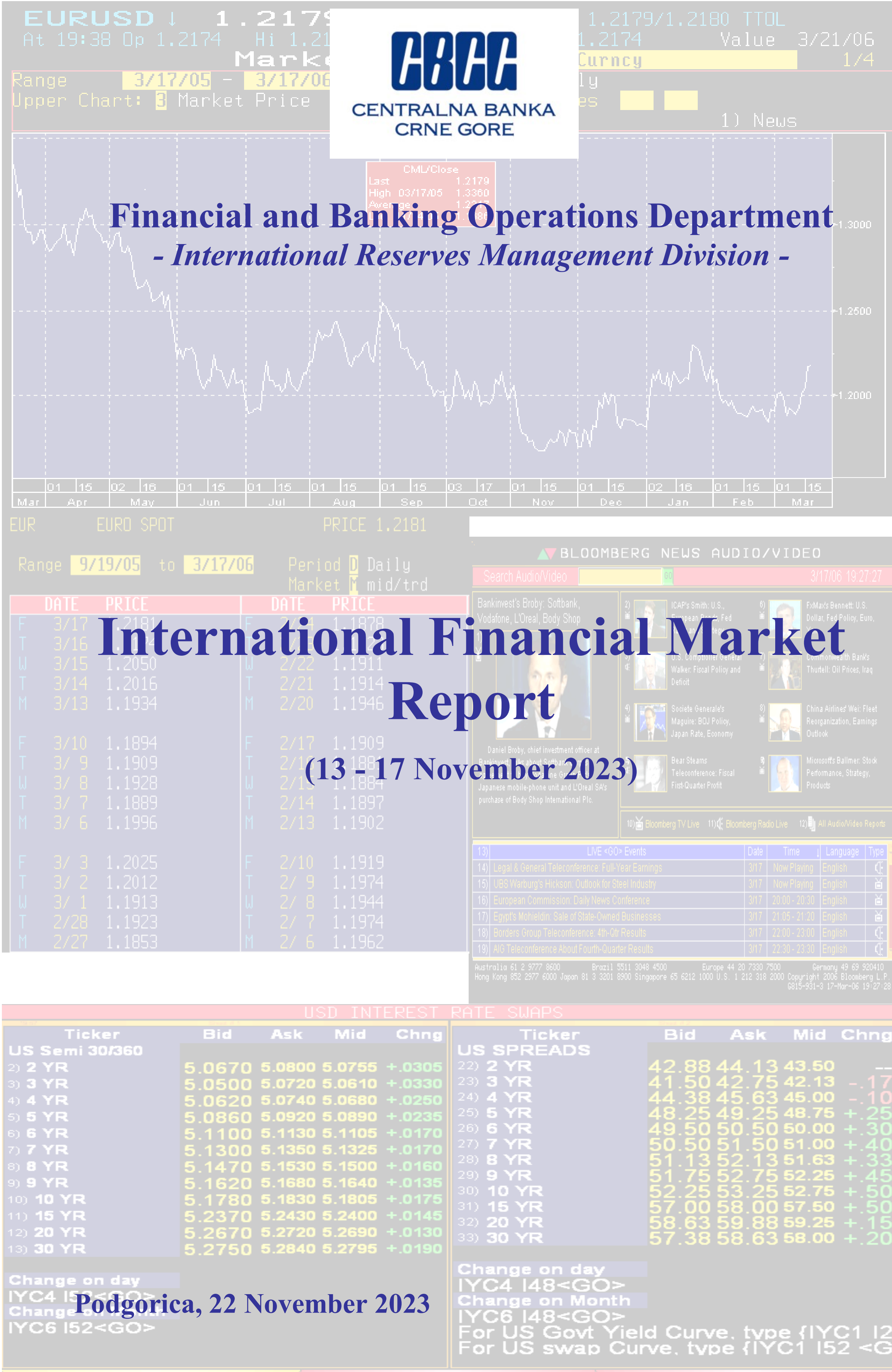
CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -



International Financial Market Report

(13 - 17 November 2023)

Podgorica, 22 November 2023

FX NEWS

EUR/USD

Early this week, the **EUR/USD exchange rate** was stable, with a minimum weekly value of 1.0665 on Monday. However, there was a sharp exchange rate appreciation on Tuesday from around 1.0700 to 1.0887, which is its 2-month high. That day, solid data from the euro area and Germany (ZEW index of investors' expectations) supported the euro even though the depreciated USD significantly impacted the exchange rate. Namely, weaker-than-expected US inflation data fuelled market expectations that the Fed had finished raising interest rates and that the rhetoric of "keeping rates at the existing level for a longer period" would no longer be valid, so the USD depreciated against most currencies. In the middle of the week, the exchange rate had a slight depreciation, as the European Commission published a report in which the economic growth for the euro area for 2023 and 2024 was revised downwards to respective 0.6% and 1.2%, so the euro depreciated. Nevertheless, by the end of the week, expectations regarding a less aggressive approach by the Fed came to the front again, depreciating the USD exchange rate to 1.0915 at the end of the reporting week.

EUR/GBP

The **EUR/GBP exchange rate** depreciated on Monday and Tuesday. The euro's depreciation due to the euro area GDP data for Q3 caused such a trend, and the sterling depreciated due to the better-than-expected data from the British labour market. On Wednesday, the EUR/GBP exchange rate appreciated after the inflation in the UK had fallen to its lowest level in the last two years, which increased market participants' expectations that the BoE would be able to cut interest rates in mid-2024. The following day, the EUR/GBP exchange rate slightly appreciated. The following day, the EUR/GBP exchange rate slightly appreciated. Namely, the exchange rate had an upward trend in the morning as the sterling continued to depreciate due to weaker-than-expected UK inflation data. However, the exchange rate soon began to fall. It kept such a trend until the end of the day, as a BoE Monetary Policy Committee member, commenting on the inflation data, stated that, although it was good news, "there are still reasons for concern about the persistence of inflation in Great Britain", causing the sterling to recover. At the end of the week, the EUR/GBP exchange rate fluctuated in response to the BoE Governor's speech.

EUR/JPY

The **EUR/JPY exchange rate** appreciated most of the week, first appreciating slowly and with a more significant appreciation from Tuesday. Namely, US inflation data caused a decreased demand for safer assets. Hence, as a traditional haven, the yen depreciated against the euro. On the other hand, the euro appreciated due to the better-than-expected data on the German ZEW index of investor expectations. In the rest of the week, the yen depreciated due to the published weaker-than-expected data on Japan's GDP in Q3, mainly due to a business spending drop, lack of recovery in personal consumption and higher imports. In the middle of the week, the exchange rate depreciated briefly, but the growth continued and hit its highest level in the last 15 years of 164.30 on Thursday. However, after reaching the mentioned level, the exchange rate began to depreciate. On Friday, it came close to the level from the beginning of the week, as the yen appreciated due to concerns about the global economy's slowdown. In the afternoon, there was an increase in the exchange rate, which resulted in its weekly appreciation.

Table 1 - Exchange rates of the most important currencies

	13.11.2023[1]	17.11.2023[2]	% Change
EUR/USD	1.0686	1.0915	2.14
EUR/GBP	0.87386	0.87583	0.23
EUR/JPY	161.93	163.27	0.83
EUR/AUD	1.67969	1.67523	-0.27
EUR/CHF	0.96418	0.96633	0.22
USD/JPY	151.52	149.63	-1.25
GBP/USD	1.2227	1.2462	1.92

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%	14 December 2023
Federal Reserves (Fed)	Federal Funds Target Rate	5.50%	13 December 2023
Bank of Japan (BoJ)	Overnight Call Rate	-0.10%	19 December 2023
Bank of England (BoE)	Official Bank Rate	5.25%	14 December 2023
Swiss National Bank (SNB)	Libor Target Rate	1.75%	14 December 2023
Bank of Canada (BoC)	Target Overnight Rate	5.00%	6 December 2023
Reserve Bank of Australia (RBA)	Cash Rate Target	4.35%	5 December 2023

Table 3 – ESTR and Euribor

	13.11.2023[1]	17.11.2023.[2]	Change in basis points
ESTR	3.904	3.9020	-0.20
Euribor 1W	3.896	3.871	-2.50
Euribor 1M	3.834	3.819	-1.50
Euribor 3M	3.992	3.984	-0.80
Euribor 6M	4.074	4.064	-1.00
Euribor 12M	4.040	3.991	-4.90

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

EUROPEAN GOVERNMENT BONDS MARKET

The return on 10-year German government bonds fell this reporting week. On Monday, the return was stable, to fall sharply on Tuesday after the decline in the return on US bonds. In the middle of the week, the return on these bonds recovered slightly. The return fell again on Thursday as market participants raised expectations for an interest rate cut by the ECB. Market participants now expect the ECB to keep interest rates on hold in the next two meetings, while the ECB is expected to cut rates by 97 bp next year. On Friday, the return increased again.

US GOVERNMENT BONDS MARKET

The return on 10-year US government bonds fell this reporting week. On Monday, the return was stable to experience a sharp drop on Tuesday after weaker-than-expected data on US inflation, which reduced the likelihood of an additional Fed monetary policy tightening. In the middle of the week, the publication of data that retail sales were better than expected influenced the growth of the return. The next day, the return dropped after data indicated the cooling of the US economy. On Friday, the daily return on these bonds mainly stayed the same.

GOLD

The gold price rose in this reporting week. The price started growing early this week in response to the US inflation data in October, to record a higher growth after their publication. Namely, weaker-than-expected data fuelled expectations that the Fed’s aggressive cycle of monetary policy tightening had ended, which led to the USD’s depreciation. In the middle of the week, the gold price showed signs of weakening, as data that pointed to the US economy’s resilience (retail sales, factory activity in New York) caused the market to question the future directions of the US supreme monetary institution. However, weaker US labour market data (total initial jobless claims) fuelled expectations that the Fed would still “draw the line” concerning interest rates, so the gold price trended almost until the end of the week. On Friday afternoon, the gold price weakened slightly due to the Fed’s statements concerning the interest rates reduction (the San Francisco Fed Chair stated that uncertainty remains high and that the Fed would practice gradualism; the Boston Fed Chair stated that more interest rate hikes may still be needed to bring down the inflation rate).

OIL

Early this week, the oil price went up, as OPEC stated in its monthly report that the fundamentals of the oil market are still strong, and it slightly improved its expectations regarding the oil demand in 2023, while the expectations for 2024 were relatively high. The price continued to rise on Tuesday following the US inflation data release. However, the price fell from Tuesday afternoon. Despite the OPEC report, investors remained concerned about the global oil demand. The previously published weaker-than-expected data on China’s exports and the reduction of concerns about events in the Middle East caused the oil price’s downward trend. The price also fell due to the data from the American Petroleum Institute, which showed that oil stocks in the USA increased by 1.3 million barrels last week, while according to data from the US Government, oil stocks increased by as much as 17.5 million barrels in the previous two weeks, so the price hit its lowest level since July on Thursday. On Friday, the oil price rose due to expectations that OPEC and its allies were ready to extend production cuts and potentially deepen them. Still, despite this, the price recorded a slight decline on the weekly level.

Table 4 - Economic indicators (13 - 17 November 2023)

Country	Indicator	Period	Expected value	Current value	Previous value
Euro area	**GDP Seasonal Adjustments (GDP SA)** One of the basic macroeconomic indicators, which represents the calculated value in the market prices of goods and services produced within the country, but excludes the income of citizens and corporations working abroad. The GDP calculation uses the following four components: consumption, investments, government expenditure, and net exports.	Q3 Preliminary data	-0.1% 0.1%	-0.1% 0.1%	-0.1% 0.1%
	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.	October Final data MoM% YoY%	2.9% 0.1%	2.9% 0.1%	2.9% 0.1%
	ZEW expectations The survey monitors general state of the economy related to operations. It may include wider economic conditions or specific economic condition of an industry.	November MoM%	-	13.8	2.3
Germany	**ZEW expectations** The survey monitors general state of the economy related to operations. It may include wider economic conditions or specific economic condition of an industry.	November MoM%	5.0	9.8	-1.1
Great Britain	**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.	October MoM% YoY%	0.1% 4.7%	0.0% 4.6%	0.5% 6.7%
	Retail Sales Inc Auto Fuel This indicator measures changes in retail sales.	October MoM%	0.4%	-0.3%	-0.9%
USA	**Initial Jobless Claims** This indicator measures the number of people receiving unemployment allowances.	11 November K=1,000	220 K	231 K	217 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.	October MoM% YoY%	0.1% 3.3%	0.0% 3.2%	0.4% 3.7%
	Retail Sales Ex Auto This indicator measures changes in retail sector sales, excluding car sales.	October MoM%	-0.2%	0.1%	0.6%
Japan	**GDP Annualised SA** GDP SA measures the annual change in the inflation-adjusted value of all goods and services produced by the economy. It is the broadest measure of economic activity and the primary indicator of the economy's health.	Q3 Preliminary data	-0.4%	-2.1%	4.8%
	Exports Products and services produced in Japan, sold or pending for sale outside of Japan.	October MoM%	1.0%	1.6%	4.3%
	Imports Japan's demand for foreign products. The value of exports and imports is an important input in the calculations of the trade balance, current account and GDP.	October MoM%	-12.8%	-12.5%	-16.3%