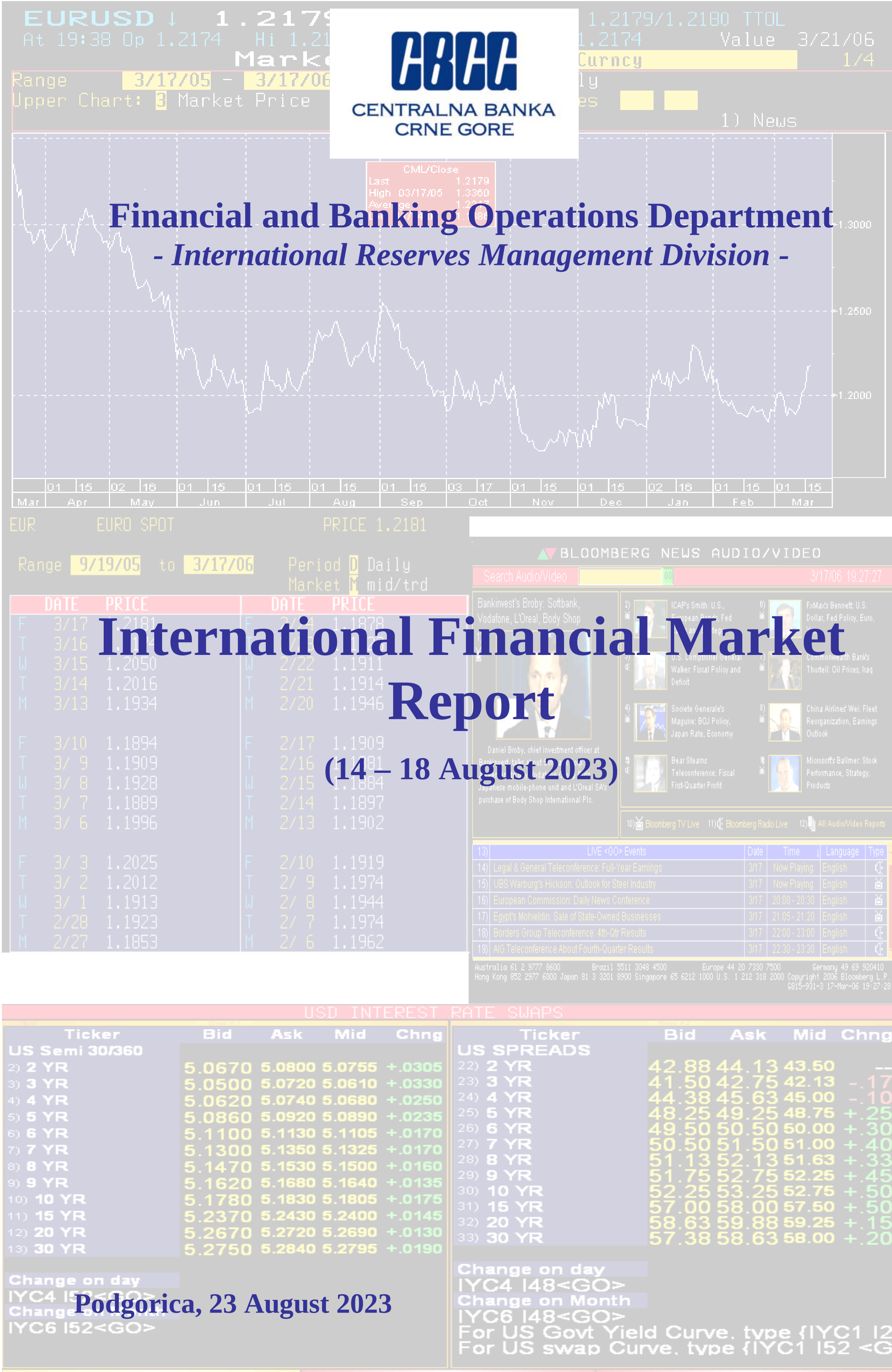

CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(14 – 18 August 2023)

Podgorica, 23 August 2023

FX NEWS

EUR/USD

The **EUR/USD exchange rate** fluctuated during this period and recorded a weekly depreciation. On Monday, the exchange rate depreciated from 1.0961 to 1.0905 on rising demand for safe-haven assets on concerns about China after weak economic data (industrial production, retail sales and fixed investment rose less than expected in July) increased concerns about its economic growth. However, towards the end of the day, the exchange rate recovered slightly. The next day, the exchange rate fluctuated due to the signal that the Fed's fight against inflation was still not over, and it was also announced that US retail sales rose more than expected in July by 0.7%. On Wednesday, the USD hovered around a 2-month high, as minutes from the Fed's last meeting showed that its officials mostly expressed concern that inflation would fail to recede and suggested they might continue to raise interest rates. The EUR/USD exchange rate fluctuated at the end of the week.

EUR/GBP

The **EUR/GBP exchange rate** depreciated last week. At the very start of the week, the exchange rate depreciated, awaiting the release of UK earnings data expected to show that they had increased in that country, which would increase pressure on the BoE to continue raising interest rates policy. The prediction regarding the earnings of employees without bonuses was confirmed later, i.e. the index rose 7.8% in June, more than the expected 7.4% and more than the previous month, 7.3%. The EUR/GBP exchange rate depreciated on Thursday as market participants expected the BoE would continue to raise interest rates, and they would remain higher for longer. Sterling depreciated on Friday due to weak data on UK retail sales (monthly retail sales fell 1.2% in July, more than expected, 0.6%). The retail sales drop resulted from rainy weather that put shoppers off shopping, causing sales of clothing, household goods and food products to fall while online sales jumped.

EUR/JPY

The **EUR/JPY exchange rate** fluctuated on Monday without a clear trend. The following day, the exchange rate appreciated in the morning to depreciate in the afternoon. Japan's economy surprised the market - the y-o-y economic growth was 6.0% in Q2 (2.9% growth was expected). Currency traders were on alert mid-week as the Japanese government intervened in the market in the past when the yen hovered around this level (158.98). The EUR/JPY exchange rate depreciated on Thursday after the announcement that the annual inflation rate in Japan was 3.3% in July, well above the expected 2.5%. On Friday, the exchange rate depreciated as the yen appreciated against the euro.

Table 1 - Exchange rates of the most important currencies

	14.08.2023[1]	18.08.2023[2]	% Change
EUR/USD	1.10949	1.0873	-2.00
EUR/GBP	0.86250	0.85381	-1.01
EUR/JPY	158.78	158.22	-0.35
EUR/AUD	1.678478	1.69746	1.13
EUR/CHF	0.95983	0.95932	-0.05
USD/JPY	144.96	145.39	0.30
GBP/USD	1.2694	1.2734	0.32

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	4.25%	14 September 2023
Federal Reserves (Fed)	Federal Funds Target Rate	5.50%	20 September 2023
Bank of Japan (BoJ)	Overnight Call Rate	-0.10%	22 September 2023
Bank of England (BoE)	Official Bank Rate	5.25%	21 September 2023
Swiss National Bank (SNB)	Libor Target Rate	1.75%	21 September 2023
Bank of Canada (BoC)	Target Overnight Rate	5.00%	6 September 2023
Reserve Bank of Australia (RBA)	Cash Rate Target	4.10%	5 September 2023

Table 3 – ESTR and Euribor

	14.08.2023[1]	18.08.2023[2]	Change in basis points
ESTR	3.653	3.655	0.20
Euribor 1W	3.628	3.634	0.60
Euribor 1M	3.638	3.615	-2.30
Euribor 3M	3.781	3.816	3.50
Euribor 6M	3.928	3.944	1.60
Euribor 12M	4.056	4.091	3.50

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

EUROPEAN GOVERNMENT BONDS MARKET

On Monday, the return on 10-year German government bonds rose as market participants expect interest rates to remain elevated for an extended period. The following day, after the initial rise, the return on these bonds fell as demand for safe assets increased after it was announced that China's industrial growth slowed from 4.4% in June to 3.7% in July. In the middle of the week, the return on German bonds did not change much, but it was slightly higher on Thursday as it followed the recovery of the return on American bonds. On Friday, the return on German bonds fell as concerns about China resurfaced. The return on 10-year German bonds stood at 2.61% at the end of the period.

US GOVERNMENT BONDS MARKET

The return on 10-year US government bonds increased during this week primarily due to increased expectations that the Fed would further raise interest rates in the coming period and that interest rates will remain elevated longer than previously thought to slow down inflation. The return on 10-year government bonds dropped slowly only from Thursday evening to Friday morning, after which it stabilised at 4.25%.

GOLD

The gold price trended down throughout this reporting week. The gold price dropped as the return on US bonds rose, and US retail sales rose more than expected. In the middle of the week, the minutes of the Fed's last meeting were released, which increased expectations of more interest rate hikes. Expectations that the Fed will keep interest rates at these or higher levels for a longer than expected period so far further depressed the gold price.

OIL

The oil price dropped during the first three days of this week. The fall occurred after growing concerns regarding the weakening of China's economic growth, which may lead to a significant drop in the oil demand. The stabilisation and a slight increase in the oil price began on Thursday, as China announced the introduction of measures aimed at economic recovery.

Table 4 - Economic indicators (14 – 18 August 2023)

Country	Indicator	Period	Expected value	Current value	Previous value
Great Britain	**Retail Sales** This indicator measures changes in retail sales in the UK.	July	-0.6%	-1.2%	0.7%
	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.	July MoM% YoY%	-0.5% 6.7%	-0.4% 6.8%	0.1% 7.9%
	ILO Unemployment Rate UK 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.	June 3 months	4.0%	4.2%	4.0%
Euro area	**Consumer price index (CPI)** This indicator estimates the changes in the cost of living, measuring changes in the price level of the basket of consumer goods and services purchased by an average household. Therefore, it is a key measure of euro area inflation.	F July F = Final data MoM% YoY%	-0.1% 5.3%	-0.1% 5.3%	-0.1% 5.3%
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.	August	-14.9	-12.3	-14.7
USA	**Initial Jobless Claims** It measures the number of people first time applying for receiving compensation.	12 August K=1,000	240 K	239 K	248 K
	Industrial output It measures the output volume in the mining and industrial sectors of Japan. Industrial output responds significantly to business cycle changes and can often predict trends in employment rates, earnings, and personal income.	July MoM%	0.3%	1.0%	-0.5%
Japan	**Exports** Products and services produced in Japan, sold or pending for sale outside of Japan.	July YoY%	-0.2%	-0.3%	1.5%
	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.	July YoY%	-15.2%	-13.5%	-12.9%
	GDP Annualized Gross domestic product (GDP) 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.	2Q P P = Preliminary data	2.9%	6.0%	2.7%