CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(15 –19 May 2023)

Podgorica, 26 May 2023

FX NEWS

EUR/USD

The **EUR/USD exchange rate** depreciated in this reporting week. At the beginning of the week, the exchange rate appreciated slightly as the USD depreciated after the announcement that the Fed's output index fell more than expected in May and entered negative territory. Later this week, the exchange rate depreciated. Weaker-than-expected German ZEW Institute data, which refer to expectations for the next six months, caused the euro to depreciate, while better-than-expected US data supported the USD. The Banco de España Governor pointed out that the ECB was close to ending the monetary tightening process but stressed that the rate increase would depend on the return of inflation to the 2% target. The final data confirmed that the inflation rate in the euro area in April was 7%. The bearish trend was present until Friday, as solid data continued to pour in from the US, along with statements from two Fed officials that they supported a June interest rate hike and optimism about reaching an agreement on raising the US debt ceiling, continued to appreciate the USD. On Friday, the exchange rate recovered part of the previously realised losses, as the USD depreciated due to the Fed Chair's statement that he preferred a pause in the interest rate increase in June but reiterated that the decision would be made on a meeting-by-meeting basis.

EUR/GBP

The **EUR/GBP exchange rate** depreciated in this reporting week. A survey released on Monday showed that Britain's public sector was planning its most significant pay rise in a decade, which would increase pressure on the BoE to raise rates, so the sterling appreciated against the euro that day and the exchange rate depreciated sharply. Somewhat weaker than expected data from the British labour market led to the exchange rate recovery the following day (unemployment rate increase, average wages standstill in March, increased jobless claims in April). On Wednesday, the exchange rate depreciated sharply again as the UK's Chancellor of the Exchequer expressed strong support for the BoE and emphasised that it was imperative to limit inflation. On the same day, the BoE Governor said it was necessary to reduce inflation to the 2% target and that high-interest rate brings challenges with it. By the end of the week, the exchange rate had fluctuated. By the end of the week, the exchange rate fluctuated. A survey by the UK's Office for National Statistics of Great Britain showed that the number of firms expecting price increases in the coming months has decreased, indicating a possible easing of price pressure and a reduction in expectations concerning the BoE interest rate increase. At the end of the week, it was reported that British consumer confidence continued to rise and peak since last February, indicating consumers were more optimistic due to lower energy prices.

EUR/JPY

The **EUR/JPY exchange rate** appreciated this week. The main cause of the exchange rate appreciation was the yen's weakening, mainly due to the increase in the return on the US government bond market. The yen depreciation also resulted from data that Japan's wholesale inflation slowed down for the fourth consecutive month, which reduces the pressure on the BoJ to tighten monetary policy. Although the Japanese economy was reported to grow at a faster-than-expected annual rate in Q1 (1.6% versus 0.8%), the exchange rate appreciation continued until the end of the week. The reduction of concerns concerning the increased debt limit of the USA contributed to this, leading to reduced demand for safe assets. On Friday, the yen was slightly supported by Japan's rising inflation data.

Table 1 - Exchange rates of the most important currencies

	15.05.2023[1]	19.05.2023[2]	% Change
EUR/USD	1.0849	1.0805	-0.41
EUR/GBP	0.87156	0.86812	-0.39
EUR/JPY	147.24	148.99	1.19
EUR/AUD	1.63295	1.62450	-0.52
EUR/CHF	0.97457	0.97213	-0.25
USD/JPY	135.70	138.55	2.10
GBP/USD	1.2458	1.2445	-0.10

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	3.75%	15 June 2023
Federal Reserves (Fed)	Federal Funds Target Rate	5.25%	14 June 2023
Bank of Japan (BoJ)	Overnight Call Rate	-0.10%	16 June 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	4.50%	7 June 2023
Reserve Bank of Australia (RBA)	Cash Rate Target	3.85%	6 June 2023

Table 3 – ESTR and Euribor

	15.05.2023[1]	19.05.2023[2]	Change in basis points
ESTR	3.148	3.151	0.30
Euribor 1W	3.127	3.129	0.20
Euribor 1M	3.162	3.134	-2.80
Euribor 3M	3.348	3.415	6.70
Euribor 6M	3.638	3.707	6.90
Euribor 12M	3.799	3.878	7.90

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

EUROPEAN GOVERNMENT BONDS MARKET

The return on 10-year German government bonds trended up this week. Early this week, the return on these bonds increased slightly due to the increased return on US bonds. The return on 10-year German bonds recorded a significant increase only on Thursday. That day, the ECB Vice-President stated he was particularly concerned about the inflation growth in the service sector but confirmed that the ECB focused on core inflation as a primary price pressure indicator. Additionally, the return growth mainly resulted from the recovery of stock prices in the banking system and the publication of better-than-expected data on the production price index in Germany. On Friday, the return continued to rise as the ECB President stated that interest rates must be high for a long time to reach the target inflation rate. Nevertheless, at the very end of the day, the Fed Chair's signal of a pause in the interest rate increase policy was also reflected in the trend of the return on German bonds, which declined sharply after that statement following the fall in the return on US bonds. At the very end of the week, the return stood at 2.42%.

US GOVERNMENT BONDS MARKET

The return on 10-year US government bonds increased from during the observed period. In the first half of the week, it recovered as the demand for risky assets increased due to the US President's statement that increased optimism about reaching an agreement on raising the US borrowing limit. The increase in the return in the first half of the week also resulted from the publication of data that US industrial production and retail sales were better than expected. The second part of the week, especially on Thursday and Friday, brought additional growth in optimism regarding reaching an agreement on raising the US debt ceiling. Namely, in that period, the US President and the US House of Representatives Speaker expressed optimism about reaching an agreement. The return on 10-year US bonds fell on Friday evening as the Fed Chair signalled a possible pause in the interest rate hike policy. At the end of the week, the return on 10-year bonds stood at 3.62%.

GOLD

The gold price decreased during this reporting week. It mainly declined as the USD appreciated against a basket of currencies, reducing demand for this precious metal. In the second half of the week, the optimism about reaching an agreement concerning raising the US borrowing limit also influenced this precious metal price drop. However, on Friday afternoon, the gold price jumped as the Fed Chair stated interest rates may not have to be increased to the level anticipated until now.

OIL

The oil price rose throughout Monday as the US began buying crude oil to replenish its strategic reserves. The next day, oil prices fell due to concerns about China's economic recovery. However, oil price trends showed a sharp jump due to optimism that the US would agree to increase the borrowing limit. The following day, the USD appreciation relative to a basket of currencies reduced the oil demand and thus caused the oil price to fall. On Friday, the oil price rose again in the morning due to optimism regarding reaching an agreement on the borrowing limit. However, it fell again in the afternoon as the USD appreciated against a basket of currencies.

Table 4 - Economic indicators (15 - 19 May 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).	March MoM% YoY%	 -2.8% 0.1%	 -4.1% -1.4%	 1.5% 2.0%
	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.	April MoM% YoY% Final data	 0.7% 7.0%	 0.6% 7.0%	 0.7% 7.0%
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.	May	-5.0	-10.7	4.1
	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.	May	-37.0	-34.8	-32.5
	Producer Price Index (PPI) This indicator measures the change in the price paid by domestic producers. The indicator rise is an early inflation indicator.	April MoM% YoY%	 -0.5% 4.3%	 0.3% 4.1%	 -1.4% 6.7%
USA	**Empire Manufacturing** This survey, conducted monthly by the New York Fed, tracks New York producers' confidence.	May	-3.9	-31.8	10.8
	Retail Sales This indicator measures the volume of sales of personal and household goods.	April MoM%	0.8%	0.4%	-0.7%
	Industrial output It measures the changes in output of production, service and mining sectors.	April MoM%	0.0%	0.5%	0.0%
Japan	**Gross domestic product (GDP)** It measures the final market value of all products and services produced within the country.	Q1 YoY%	0.8%	1.6%	-0.1%
	Natl CPI It estimates changes in the cost of living, measuring changes in the goods and services' prices, excluding food and energy. This index measures the change in prices from the consumer's perspective.	April YoY%	3.5%	3.5%	3.2%
Great Britain	**ILO Unemployment Rate** 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.	March 3 months	3.8%	3.9%	3.8%