CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(16 – 20 October 2023)

Podgorica, 25 October 2023

FX NEWS

EUR/USD

During this reporting week, the **EUR/USD exchange rate** depreciated. Early this week, the USD depreciated following Philadelphia Fed Chair Patrick Harker's statement that high-interest rates put too much pressure on first-time homebuyers. He suggested that the Fed should stop increasing the interest rate since price pressures were weakening. He was convinced that keeping interest rates current would allow the effects of previous increases to manifest. On the other hand, the euro appreciated after the ZEW index of expectations for the euro area and Germany in October rose from -8.9 to 2.3, from -11.4 to -1.1, respectively, somewhat reducing concerns about stagflation in the euro area. The strengthening of geopolitical tensions in the middle of the week led to increased demand for safe assets, so the USD appreciated, and the exchange rate depreciated. However, the exchange rate appreciation continued after the USD depreciated against the leading currencies after Fed Chair Jerome Powell's statement in New York on Thursday afternoon. Powell emphasised the Fed's prudence in these uncertain times and the readiness to increase interest rates again if there are still indications of economic growth resilience. He also pointed to tighter financial conditions, led by rising returns on long-term bonds, adding that "persistent changes in financial conditions can have implications for the path of monetary policy." On Friday, it was announced that the producer price index in Germany recorded a record decline in September, which supported the European currency.

EUR/GBP

The **EUR/GBP exchange rate** appreciated in this reporting period. The EUR/GBP exchange rate fluctuated on Monday. The BoE's Chief Economist said the bank should not consider curbing inflation was over just because the price growth rate was slowing. The following day, the sterling depreciated following the release of UK earnings data pointing to a cooling labour market, which could help inflation ease in the coming months. Earnings rose in August at an annual rate of 8.1%, lower than expectations (8.3%) and the previous level (8.5%). The earnings data sparked speculation in the UK that the BoE would be against further interest rate hikes. On the other hand, the growth of the economic confidence index in the euro area caused the euro to appreciate. In the middle of the week, the exchange rate first depreciated after announcing that inflation in the UK in September remained unchanged at 6.7% compared to the expected decline (6.6%). Nevertheless, the exchange rate appreciated in the afternoon as the market expected the BoE would keep the interest rate current at the next meeting, even though inflation was still robust, which was also the case on Thursday. At the end of the week, the EUR/GBP exchange rate appreciated in the morning due to the publication of weaker-than-expected data on British retail sales in September. However, the rate depreciated in the afternoon.

EUR/JPY

The **EUR/JPY exchange rate's** trend was similar to the EUR/USD exchange rate trend. The yen's depreciation mainly caused the exchange rate growth in the first half of the week. Namely, efforts to contain the conflict in the Middle East caused an increased demand for riskier assets, depreciating the yen, traditionally a safe currency. In the middle of the week, after the explosion at the hospital in Gaza, the demand for safe assets increased, causing the Japanese currency to appreciate. However, since Thursday, the exchange rate continued to appreciate. The yen depreciated due to the BoJ Governor's comments that the central bank was obliged to reach the inflation target of 2% stably and sustainably. At the same time, the data on the decline in the producer price index in Germany reduced concerns about stagflation, so the euro appreciated.

Table 1 - Exchange rates of the most important currencies

	16.10.2023[1]	20.10.2023[2]	% Change
EUR/USD	1.0510	1.0594	0.80
EUR/GBP	0.86530	0.87102	0.66
EUR/JPY	157.20	158.77	1.00
EUR/AUD	1.66918	1.67773	0.51
EUR/CHF	0.94816	0.94500	-0.33
USD/JPY	149.57	149.86	0.19
GBP/USD	1.2143	1.2164	0.17

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%	26 October 2023
Federal Reserves (Fed)	Federal Funds Target Rate	5.50%	1 November 2023
Bank of Japan (BoJ)	Overnight Call Rate	-0.10%	31 October 2023
Bank of England (BoE)	Official Bank Rate	5.25%	2 November 2023
Swiss National Bank (SNB)	Libor Target Rate	1.75%	14 December 2023
Bank of Canada (BoC)	Target Overnight Rate	5.00%	25 October 2023
Reserve Bank of Australia (RBA)	Cash Rate Target	4.10%	7 November 2023

Table 3 – ESTR and Euribor

	16.10.2023[1]	20.10.2023[2]	Change in basis points
ESTR	3.9030	3.905	0.20
Euribor 1W	3.874	3.890	1.60
Euribor 1M	3.860	3.863	0.30
Euribor 3M	3.985	3.969	-1.60
Euribor 6M	4.121	4.107	-1.40
Euribor 12M	4.171	4.185	1.40

[1] Opening market value on Monday

[2] Closing market value on Friday

EUROPEAN GOVERNMENT BONDS MARKET

The return on 10-year German government bonds was stable during the first three days of this period. The rise in the return came as ECB officials expressed concerns about inflation. Namely, the ECB Chief Economist stated that he believed the central bank should be ready to take additional steps if there were more shocks on the inflation side. Moreover, the growth of the return on these bonds was also influenced by the expectation that the Fed would continue to raise interest rates. During Thursday and Friday, there was a slight downward trend in the return on German bonds. This drop occurred after increased market expectations that the ECB would keep the interest rate current at the next meeting.

US GOVERNMENT BONDS MARKET

The return on the 10-year US Treasury bonds rose during the first four days of the week. The rise in the return came first after better-than-expected retail sales and industrial production data in the US, which raised expectations for further interest rate hikes by the Fed. In addition, the Fed Chair's comment that the US economy was resilient and that an additional interest rate increase could influence the return to continue growing. An auction of 20-year bonds was also held this week, which recorded strong demand, and the return was 5,245%. On Friday, the return on the 10-year bond fell slightly due to increased demand for safe assets.

GOLD

The gold price continued to rise in this reporting week. At the beginning of the week, the price ranged in a limited interval as investors were cautious about the events in the Middle East. Since Wednesday, the price started to rise, as the concern over the mentioned events prevailed on the market, so the demand for gold as a safe investment grew. The explosion in the hospital in Gaza reduced hopes for a diplomatic solution and increased concern that this could become a regional conflict. At the end of the week, this precious metal's price reached a 5-month high of 1997.22 USD/oz.tr. The USD depreciation also caused a rise in the gold price during the week.

OIL

The oil price also rose this week. Early this week, the price showed signs of weakening due to reports that the US may ease oil sanctions on Venezuela, which could increase the stock in the market. In the rest of the week, the oil price increased. Reports on oil stocks in the USA last week (industry report and US government report) showed that stocks of this energy product fell more than expected. Further tightening of relations in the Middle East and Iran's proposal to impose an embargo on oil from Israel also caused the price to rise. Namely, the explosion in the hospital in Gaza in the middle of the week complicated efforts to diplomatically suppress the conflict. At the very end of the week, the price showed signs of weakening after the release of American hostages by Hamas reduced concerns about the situation, and expectations rose that the worst possible scenario could be avoided.

Table 4 - Economic indicators (16 - 20 October 2023)

Country	Indicator	Period	Expected value	Current value	Previous value
USA	**Housing Starts** It shows a change in the number of new real estate built in the US (the increase in this indicator indicates investment growth and business optimism).	September MoM%	7.8%	7.0%	-11.3%
	Industrial output It measures the changes in output of production, service and mining sectors.	September MoM%	0.0%	0.3%	0.4%
	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.	14 October K=1,000	210 K	198 K	209 K
Euro area	**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.	September MoM% YoY%	0.3% 4.3%	0.3% 4.3%	0.3% 4.3%
Germany	**Producer Price Index (PPI)** The index measures the average price change that domestic producers receive for their production.	September MoM% YoY%	0.4% -14.1%	-0.2% -14.7%	0.3% -12.6%
Great Britain	**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.	September MoM% YoY%	0.5% 6.6%	0.5% 6.7%	0.3% 6.7%
	GfK Consumer Confidence This index measures the level of households' confidence in terms of economic performance.	October MoM%	-20	-30	-21
	Retail Sales Inc Auto Fuel The indicator tracks sales of new and used goods to the general public. This concept is based on the volume of goods sold.	September MoM% YoY%	-0.4% -0.2%	-0.9% -1.0%	0.4% -1.4%
Japan	**Exports** Products and services produced in Japan, sold or pending for sale outside of Japan.	September YoY%	3.0%	4.3%	-0.8%
	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.	September YoY%	-12.7%	-16.3%	-17.8%