CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(18 – 22 September 2023)

Podgorica, 27 September 2023

FX NEWS

EUR/USD

The **EUR/USD exchange rate** appreciated during the first three days of the reporting week. The exchange rate appreciated as investors awaited the Fed meeting. The exchange rate depreciated sharply on Wednesday afternoon after the Fed meeting ended. The depreciation came after rising expectations that the Fed could raise interest rates one more time this year and as expectations for a rate cut next year faded. The EUR/USD exchange rate stabilised around 1.065 during the last two days. It stayed within that level due to the conflicting statements from ECB officials about further interest rate hikes direction. Namely, ECB Governing Council members Nagel and Wunsch indicated that there would be an additional rate increase. At the same time, Stournaras stated that the ECB had reached the maximum interest rate level and that the next move would probably be a reduction.

EUR/GBP

The **EUR/GBP exchange rate** appreciated this reporting week. During most of the week, the exchange rate fluctuated, expecting the BoE meeting, which was preceded by UK inflation data for August. The market expected the BoE to raise interest rates by 25 basis points at the meeting. However, inflation data published on Wednesday shook these expectations. Namely, after July's growth at an annual rate of 6.8%, consumer prices rose 6.7% in August compared to the expected 7%. At the meeting held a day later, the BoE surprised the markets by deciding not to change the interest rate, which caused the sterling to depreciate. The sterling depreciation continued until the very end of the week after the service PMI index value's decline caused the decline in the composite PMI index even though the value of the manufacturing PMI index for Great Britain increased in September.

EUR/JPY

The **EUR/JPY exchange rate** appreciated during the first three days of this week, supported mainly by higher demand for the European currency. On Thursday, the exchange rate depreciated sharply, awaiting the regular BoJ meeting. However, the exchange rate appreciated on Friday as the BoJ kept interest rates unchanged.

Table 1 - Exchange rates of the most important currencies

	18.09.2023[1]	22.09.2023[2]	% Change
EUR/USD	1.0657	1.0653	-0.04
EUR/GBP	0.86072	0.86963	1.04
EUR/JPY	157.58	157.93	0.22
EUR/AUD	1.65632	1.65526	-0.06
EUR/CHF	0.95689	0.96603	0.96
USD/JPY	147.85	148.37	0.35
GBP/USD	1.2383	1.2241	-1.15

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%	3 October 2023

The Fed, the SNB, the BoE and the BoJ held their meetings this reporting week.
The **Fed** unanimously kept the interest rate current, between 5.25% and 5.50%. After the meeting, it was reiterated that future decisions will be made depending on the data released. Chair Powell said that "we're fairly close, we think, to where we need to get" and that the economy has been more resilient than expected, increasing expectations of another increase by the end of the year. In addition, it was announced that interest rates would remain high for a more extended period, which weakened expectations regarding its reduction in the next year.
The **SNB** kept the interest rate at 1.75%, leaving the possibility of its increase open. This monetary institution's officials believe that the inflation rate, generally below 2%, is not in danger of accelerating too much, and they have expressed more concerns about economic growth.
Despite market expectations, the **BoE** left the interest rate at 5.25%. The BoE Governor stated after the meeting that "there would be no premature celebration because the BoE has a long way to go".
The **BoJ** also kept the interest rate unchanged. It did not clearly indicate whether it would change its policy, which reduced the market's expectations that the interest rate would increase in the short term.

Table 3 – ESTR and Euribor

	18.09.2023[1]	22.09.2023[2]	Change in basis points
ESTR	3.6500	3.9050	25.50
Euribor 1W	3.690	3.875	18.50
Euribor 1M	3.762	3.872	11.00
Euribor 3M	3.878	3.958	8.00
Euribor 6M	4.055	4.082	2.70
Euribor 12M	4.169	4.213	4.40%

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

EUROPEAN GOVERNMENT BONDS MARKET

The return on 10-year German government bonds fluctuated this week but recorded a weekly rise. The return on 10-year German bonds rose on Monday as traders assessed the possible ECB's interest rates trend and whether they would remain high for an extended period. The ECB Vice President Guindos stated that core inflation would continue to move moderately; the Governing Council member Petar Kažimir believed the September increase could be the last in the cycle; other monetary policymakers do not rule out further increases. The evident stagnation of the economy has focused the market's attention on how long the ECB would keep interest rates stable. The persistent oil price rise contributed to increasing inflationary expectations, which influenced the weakening of government bond prices at the end of the week. On Friday, the return on 10-year German bonds fluctuated and averaged 2.73%. Weaker-than-expected data on the US PMI index reduced investors' appetite for risk, so the yield also fell.

US GOVERNMENT BONDS MARKET

The return on the 10-year US government bonds rose this week. It declined on Monday, awaiting the Fed meeting. The return on 10-year US government bonds trended down for most of Wednesday and recovered after the Fed meeting. Although the interest rate was kept current after the meeting, expectations of another interest rate increase rose, and there could be a minor reduction than previously forecast next year. The next day, the return grew after concerns that the USA would face a fiscal deficit and persistent inflation, and Fed policy pointed to continued monetary conditions tightening. At the end of the week, the return deteriorated due to US PMI data that missed expectations and falling stock prices. Fed officials warned that further interest rate hikes might be needed to ensure inflation is controlled.

GOLD

The price of oil rose during the first two days of this week. The growth occurred as the USD appreciated against most currencies. In the middle of the week, awaiting the Fed meeting, the gold price rose sharply, and after the meeting, the gold price fell, and the USD appreciated against a basket of currencies. Gold price continued to fall on Thursday as investors expected the Fed to continue its interest rate hike policy. The gold price rose slightly on Friday as weaker-than-expected US PMI index data was published.

OIL

The oil price was stable on Monday. On Tuesday, oil price rose as stocks dwindled due to production cuts by the world's largest producers. In the middle of the week, the price of this energy product fell due to concerns about the demand for this energy product. On Thursday, oil prices recovered, and Russia temporarily banned the export of diesel and gasoline to stabilise domestic fuel supplies. On Friday, the oil price declined slightly.

Table 4 - Economic indicators (18 – 22 September 2023)

Country	Indicator	Period	Expected value	Current value	Previous value
Germany	**Producer Price Index (PPI)** This indicator measures the change in the price paid by domestic producers. The indicator rise is an early inflation indicator.	August MoM% YoY%	0.1% -12.5%	0.3% -12.6%	-1.1% -6.0%
France	**HCOB Germany Manufacturing, Services, Composite PMI** PMI surveys tracks opinion among procurement managers at manufacturing, construction and/or services firms. The index was obtained from the results of questionnaires related to production, orders, stocks, employment, prices, etc.	September Preliminary	46.1 46.0 46.0	43.6 43.9 43.5	46.0 46.0 46.0
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.	August Final data MoM% YoY%	0.6% 5.3%	0.5% 5.2%	0.6% 5.3%
	HCOB Eurozone Manufacturing, Services, Composite PMI PMI surveys tracks opinion among procurement managers at manufacturing, construction and/or services firms. The index was obtained from the results of questionnaires related to production, orders, stocks, employment, prices, etc.	September Preliminary	44.0 47.6 46.5	43.4 48.4 47.1	43.5 47.9 46.7
USA	**Housing starts** It shows a change in the number of new real estates constructed (the increase in this indicator indicates investment growth and business optimism).	August MoM%	-0.9%	-11.3%	2.0%
	Existing Home Sales The indicator shows the sale of existing real estates.	August MoM%	0.7%	-0.7%	-2.2%
	S&P Global US Manufacturing, Services, Composite PMI PMI surveys tracks opinion among procurement managers at manufacturing, construction and/or services firms. The index was obtained from the results of questionnaires related to production, orders, stocks, employment, prices, etc.	September Preliminary data	48.2 50.7 50.4	48.9 50.2 50.1	47.9 50.5 50.2
Japan	**Exports** Products and services produced in Japan, sold or pending for sale outside of Japan.	August YoY%	-2.1%	-0.8%	-0.3%
	Imports Japan's demand for foreign products.	August YoY%	-20.0%	-17.8%	-13.6%
	Natl CPI It estimates changes in the cost of living, measuring changes in the goods and services' prices. This index measures the change in prices from the consumer's perspective.	August YoY%	3.0%	3.2%	3.3%