CENTRALNA BANKA CRNE GORE

## Financial and Banking Operations Department

### *- International Reserves Management Division -*

# International Financial Market Report

## (19 - 23 June 2023)

**Podgorica, 28 June 2023**

## *FX NEWS*

### *EUR/USD*

**The EUR/USD exchange rate** was stable Monday and Tuesday. The first significant change was on Wednesday when the exchange rate appreciated sharply as market participants expecting further monetary policy tightening by the Fed were somewhat disappointed by the central bank Chair's statement. Namely, in his presentation to Congress, he said that "earlier in the process, (interest rate increase) speed was very important, but is not very important now". He added that it might make sense to continue moving rates higher in the coming months but at a more moderate pace. On Thursday, the EUR/USD exchange rate depreciated, which continued to a greater extent on Friday due to concerns that a prolonged interest rate hikes cycle by leading central banks would harm the global economic outlook.

### *EUR/GBP*

The **EUR/GBP exchange rate** appreciated in the first half of the week. The exchange rate appreciation in this period occurred expecting the regular BoE meeting. The data from Great Britain in that period increased concerns about stagflation, and it was also announced that inflation in Great Britain rose more than expected for the fourth consecutive month. This exchange rate started depreciating on Thursday as the BoE increased the interest rate by 50 basis points, surprising market participants.

### *EUR/JPY*

The **EUR/JPY exchange rate** was stable on Monday. On Tuesday, it depreciated as the BoJ's last meeting minutes showed that the institution's officials discussed the risk of not being late with an interest rate increase and that they should avoid the risk of sudden monetary policy changes. In the middle of the week, and on Thursday, the EUR/JPY exchange rate appreciated as the BoJ Governor reiterated the institution's position that it would continue with an ultra-expansive policy. On Friday, the exchange rate depreciated to recover in the afternoon.

**Table 1 - Exchange rates of the most important currencies**

| | 19.06.2023[1] | 23.06.2023[2] | % Change |
|---|---|---|---|
| EUR/USD | 1.0937 | 1.0894 | -0.39 |
| EUR/GBP | 0.85324 | 0.85669 | 0.40 |
| EUR/JPY | 155.22 | 156.66 | 0.93 |
| EUR/AUD | 1.59098 | 1.63052 | 2.49 |
| EUR/CHF | 0.97795 | 0.97752 | -0.04 |
| USD/JPY | 141.82 | 143.70 | 1.33 |
| GBP/USD | 1.2817 | 1.2714 | -0.80 |

**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 | 4.00% | 27 July 2023 |
| Federal Reserves (Fed) | Federal Funds Target Rate | 5.25% | 26 July 2023 |
| Bank of Japan (BoJ) | Overnight Call Rate | -0.10% | 28 July 2023 |
| Bank of England (BoE) | Official Bank Rate | 5.00% | 3 August 2023 |
| Swiss National Bank (SNB) | Libor Target Rate | 1.75% | 21 September 2023 |
| Bank of Canada (BoC) | Target Overnight Rate | 4.75% | 12 July 2023 |
| Reserve Bank of Australia (RBA) | Cash Rate Target | 4.10% | 4 July 2023 |

The Swiss National Bank (SNB) increased the interest rate by 25 basis points to 1.75%.
The BoE raised interest rates by 50 basis points and surprised market participants who had expected a 25 basis points rate hike. The BoE's seven Board members voted for the increase, while 2 were against it. The BoE cited "stubborn" high food prices growth and high inflation in the service sector as reasons for this increase.

**Table 3 – ESTR and Euribor**

| | 19.06.2023[1] | 23.06.2023[2] | Change in basis points |
|---|---|---|---|
| ESTR | 3.1440 | 3.400 | 25.6 |
| Euribor 1W | 3.234 | 3.396 | 16.2 |
| Euribor 1M | 3.355 | 3.448 | 9.3 |
| Euribor 3M | 3.572 | 3.610 | 3.8 |
| Euribor 6M | 3.822 | 3.933 | 11.1 |
| Euribor 12M | 4.020 | 4.147 | 12.7 |

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

## *EUROPEAN GOVERNMENT BONDS MARKET*


The return on 10-year German government bonds rose on Monday due to market expectations that the ECB rate would exceed 4.00% by December. After that, the return weakened, and traders reduced expectations regarding the level to which the ECB would increase rates in response to the presentations of this monetary institution's officials. The return also declined due to the published data on production prices in Germany showing their fall. At the end of the week, the return on 10-year German government bonds trended down in the morning (to 2.395%). After that, it recovered, as UK inflation data reminded the market that curbing inflation is still ongoing and that central banks may need to continue to tighten monetary policy. On Friday, the return dropped by around 12 basis points as expectations for monetary policy tightening by the ECB eased due to weaker-than-expected production data in the Eurozone and Germany. At the end of the week, the return stood around 2.35%.

## *US GOVERNMENT BONDS MARKET*


On Friday, the market was closed for the holidays. The return on 10-year US government bonds later fluctuated as expectations of the interest rate rise to curb inflation increased after the Fed Chair's presentation in Congress. However, due to the strong auction of 20-year bonds, the return soon fell to 3.72%. At the end of the week, the return on 10-year US government bonds rose as three European central banks increased interest rates (the BoE, the SNB and the Bank of Norway), which suggested the continued monetary policy tightening at the global level. Additionally, the Fed Chair's statement that two more rate hikes by the central bank would likely impact the return growth. The return on US bonds and the return on European bonds fell daily on Friday due to weak euro area data, which fuelled concerns that the global economy could "sag under the weight" of higher interest rates. At the end of the week, the return stood around 3.73%.

## *GOLD*


The gold price trended down in this reporting week. Early this week, the price fell due to the depreciation of the EUR/USD exchange rate, expectations of further monetary policy tightening by the Fed and the ECB, and reduced demand for safe assets. Encouraging data on real estate in the US caused the USD to appreciate, resulting in a gold price drop. In the middle of the week, the gold price fell due to higher returns on US government bonds after the Fed Chair's comments on the interest rates increase. The Fed Chairman stated that despite the interest rate being left unchanged last week, monetary policymakers expected interest rates to rise further to contain price pressures. He added that it makes sense for the rate hike process to continue in the coming months but at a slower pace, and the timing would depend on the data that will be published. Expectations that leading central banks will continue to tighten monetary policy weakened demand for gold on Thursday. The gold price partially recovered on Friday due to fears of a recession.

## *OIL*


The oil price fluctuated for the first three days. On Monday, it rose in the morning after the announcement that Saudi Arabia's oil exports hit its nadir in April for the last five months, and the number of oil and gas platforms working in the USA decreased for the seventh consecutive week in a row. However, in the afternoon, the price of this fuel fell due to concerns about the Chinese economy. The next day's oil price drop came after investors' dampened optimism, as the People's Bank of China cut its key interest rate less than expected and as the National Petroleum Corporation of China cut its forecast for the country's oil demand for this year from 5.1% to 3.5%. On Wednesday, the price of this fuel rose daily as an industry report showed that oil stocks fell by 1.2 million barrels last week. The following day saw a downward trend due to concerns about the impact of the central bank rates' increase on the economy. On Friday, the oil price dropped in the morning due to signs of a potential growth slowdown to recover in the afternoon due to some positive factors, such as increased demand from China and the US for this fuel. Central banks worldwide point to a slowdown in growth as they focus on reducing inflation, even if it is detrimental to economic growth.

## Table 4 - Economic indicators (19 – 23 June 2023)

| Country | Indicator | Period | Expected value | Current value | Previous value |
|---|---|---|---|---|---|
| **Great Britain** | **Consumer price index (CPI)**<br>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. | May<br>MoM%<br>YoY% | 0.5%<br>8.4% | 0.7%<br>8.7% | 1.2%<br>8.7% |
| | **Consumer price index (CPI Core)**<br>Core inflation represents the long-term trend of price levels. In measuring long-term inflation, transient price changes should be excluded, and the only way is to exclude items subject to frequent price changes, such as food and energy. | May<br>YoY% | 6.8% | 7.1% | 6.8% |
| **Germany** | **Producer Price Index (PPI)**<br>The index measures the average price change that domestic producers receive for their production. | May<br>MoM%<br>YoY% | -0.7%<br>1.7% | -1.4%<br>1.0% | 0.3%<br>4.1% |
| **USA** | **Existing Home Sales**<br>The indicator shows records of sales in the US real estate sector and is revised monthly. This report provides a rather accurate assessment of housing market conditions. Due to its sensitivity to the business cycle, it can be an important indicator of overall housing conditions at a time when this is particularly important for the economy. | May<br>MoM% | -0.7% | 0.2% | -3.4% |
| **Euro area** | **Consumer Confidence**<br>It measures consumer confidence. This figure is the result of a survey of consumers in terms of their finances, labour market, willingness to save, and expectations regarding the economy. | 4 June<br>P= Preliminary data | -17 | -16.1 | -17.4 |