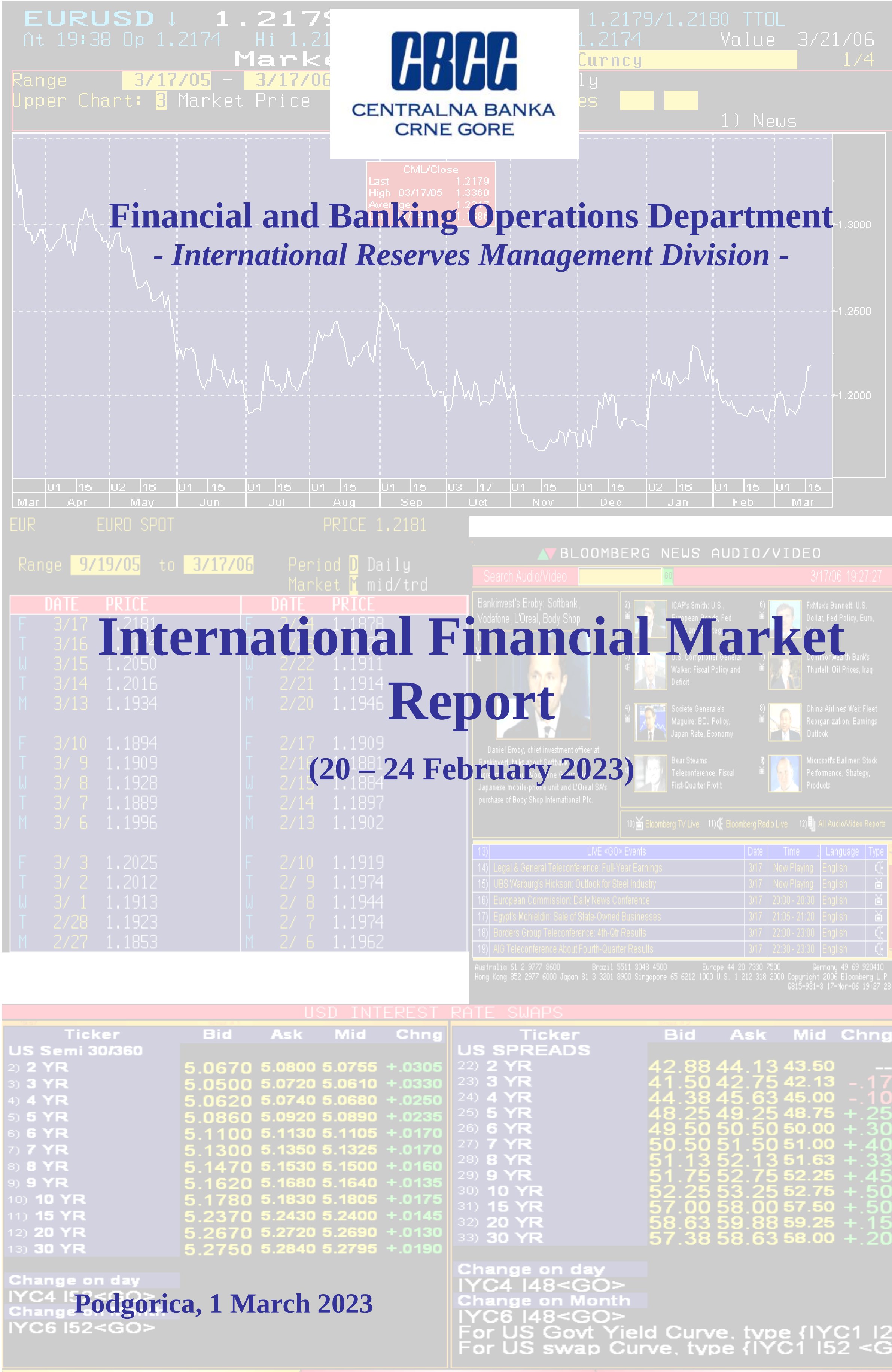


CBCG

CENTRALNA BANKA
CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

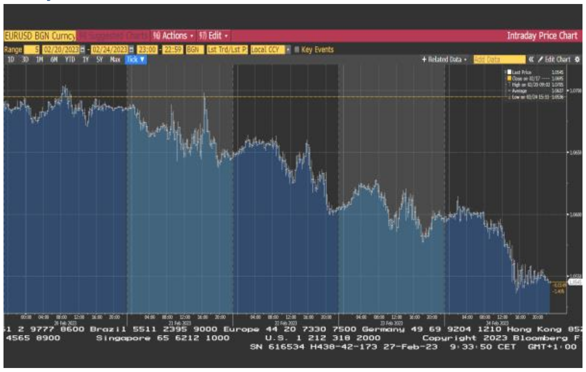
International Financial Market Report

(20 – 24 February 2023)

Podgorica, 1 March 2023

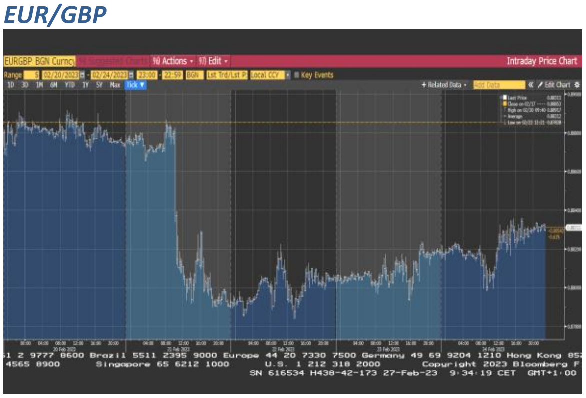
FX NEWS

EUR/USD



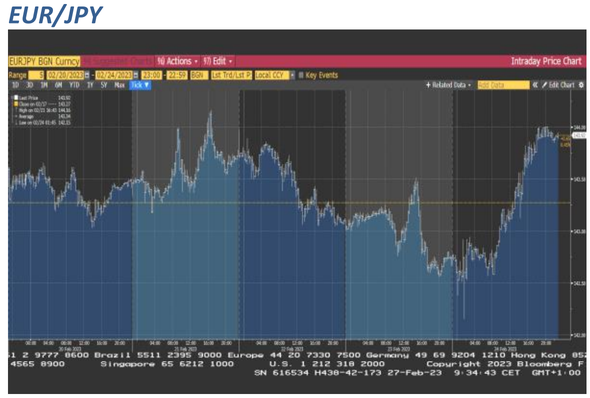
This reporting week, the **EUR/USD exchange rate** depreciated from 1.0705 to 1.0536. The exchange rate was stable on Monday due to the US holiday, so the trade volume decreased. The next day, the exchange rate recorded a short-term appreciation after announcing that the euro area composite PMI rose to a 9-month high in February. The exchange rate depreciated by the end of the day after the US composite PMI index data showed higher-than-expected growth. On Wednesday, the USD appreciated against the euro after releasing the last Fed meeting minutes. They pointed out that most monetary policymakers supported a 25 basis points rate hike as a minor increase “allowed them to assess the economy’s progress” towards reducing inflation to a target level. Some of them opted for a 50 basis points increase. In any case, Fed officials expected that further increases would be necessary to bring inflation down to 2%. The Banque de France Governor also said on Wednesday that the ECB interest rates could reach maximum by the end of the summer and that the ECB need not raise rates at every meeting until September. On Thursday, the exchange rate ranged between 1.0577 and 1.0628 after the released mixed economic data. Eurostat announced that the annual euro area CPI rose as expected, while the December data were revised upwards (from 8.5% to 9.2%). The US GDP grew less than expected, while initial jobless claims fell unexpectedly last week. On Friday, the USD was attractive to investors due to increased expectations that the Fed would continue to raise the interest rate after releasing that the US PCE deflator, a US inflation measure, was higher than expected in January. Sanctions against Russia and tensions between the US and China over military aid to Russia further boosted demand for the USD.

EUR/GBP



The **EUR/GBP exchange rate** depreciated in this reporting week. At the beginning of the week, the exchange rate was stable as investors awaited preliminary data on the UK’s production and service sectors to conclude more about the economy’s state. After their announcement on Tuesday, the exchange rate depreciated sharply. Namely, the output, service, and composite indices exceeded expectations, pointing to the economy’s resilience and increased expectations of the BoE interest rates increase, which caused the sterling to appreciate against the euro. In the rest of the week, the exchange rate showed slight signs of recovery as investors ruled out the possibility that the ECB would cut the interest rate this year, especially after publishing final data on euro area inflation in January. However, this recovery was insufficient to offset the decline as the GfK Institute data showing that British consumers had become more optimistic about their finances and the economic outlook due to signs of easing inflation supported the sterling.

EUR/JPY



Early this week, the **EUR/JPY exchange rate** was stable. The yen has been an attractive option for carry trade traders to finance purchases of higher-return currencies. In this strategy, traders take advantage of the difference in interest rates between the two economies to borrow (stocks, commodities, bonds denominated in another currency) where the rate is low and invest where it is high. The exchange rate appreciated slightly on Tuesday as investors raised expectations that the ECB would continue to raise interest rates. The return on 10-year Japanese bonds once again surpassed the level set by the BoJ as its target, reaching 0.505% as investors prepared for the nominated BoJ Governor’s address to the country’s parliament. In the middle of the week, the yen appreciated against the euro. Namely, Kazuo Ueda expressed its expectation in the parliament that inflation would peak in January. He also said that the BoJ could move towards policy normalisation only if a stable 2% inflation were “visible.” During this period, investors evaluated the statements of the nominated BoJ governor. The current BoJ governor Kuroda said the bank would continue the current way of conducting monetary policy to keep inflation “under control.” At the end of the week, the EUR/JPY rate recovered despite the upcoming BoJ Governor’s statement that it was appropriate to maintain an ultra-loose monetary policy to support the economy.

Table 1 - Exchange rates of the most important currencies

	20.02.2023[1]	24.02.2023[2]	% Change
EUR/USD	1.0695	1.0548	-1.37
EUR/GBP	0.88853	0.88319	-0.60
EUR/JPY	143.27	143.84	0.40
EUR/AUD	1.55456	1.56838	0.89
EUR/CHF	0.98860	0.99218	0.36
USD/JPY	134.15	136.48	1.74
GBP/USD	1.2037	1.1944	-0.77

Table 2 - Overview of the leading central banks' reference interest rates

Central Bank	Reference interest rate	Reference interest rate level	Next meeting
European Central Bank	ECB main refinancing rate	3.00%	16 March 2023
Federal Reserves	Federal Funds Target Rate	4.75%	22 March 2023
Bank of Japan	Overnight Call Rate	-0.10%	10 March 2023
Bank of England	Official Bank Rate	4.00%	23 March 2023
Swiss National Bank	Libor Target Rate	1.00%	23 March 2023
Bank of Canada	Target Overnight Rate	4.50%	8 March 2023
Reserve Bank of Australia	Cash Rate Target	3.35%	7 March 2023

Table 3 – ESTR and Euribor

	20.02.2023[1]	24.02.2023[2]	Change in basis points
ESTR	2.3980	2.3980	0.00
Euribor 1W	2.345	2.379	3.40
Euribor 1M	2.374	2.429	5.50
Euribor 3M	2.667	2.698	3.10
Euribor 6M	3.212	3.233	2.10
Euribor 12M	3.572	3.662	9.00

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

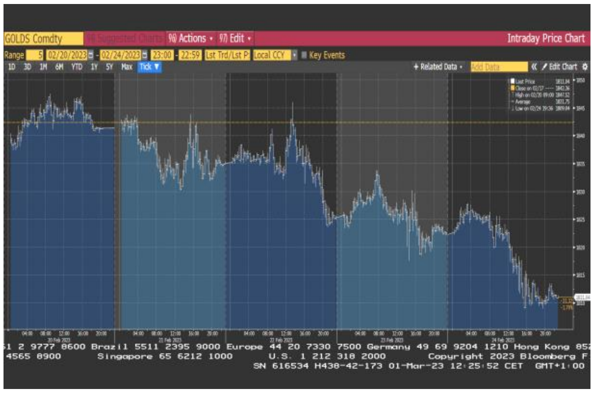
EUROPEAN GOVERNMENT BONDS MARKET

The return on 10-year German government bonds was flat on Monday, to make a sharp jump on Tuesday as investors expected the ECB to continue raising interest rates after the May meeting. In the middle of the week, the return on these bonds stabilised. The release of weaker-than-expected data on Germany's GDP pushed down the return on 10-year German bonds on Thursday. On Friday, the return on 10-year bonds recorded a sharp jump after a global rise in inflationary expectations. It again influenced the rising speculations that the leading central banks would continue with the increasing interest rates policy. Moreover, the return on 2-year German bonds rose above 3% for the first time since 2008. The return on 10-year bonds stood at 2.53% at the end of the week.

US GOVERNMENT BONDS MARKET

On Monday, US markets were closed for the holiday. The next day, the return on the 10-year US bond increased on rising expectations that the leading central banks would continue to raise interest rates. In the middle of the week, the return on these bonds fell slightly after the released last FED meeting minutes that indicated that the institution's monetary policymakers believed the interest rate increase of 25 basis points was adequate. After a short rise on Thursday, the return on these bonds fell as the US GDP growth in Q4 was lower than expected. On Friday, the return on these bonds recorded a sharp increase as the PCE index measuring inflation rose unexpectedly during January. It pressured the FED to increase interest rates in the coming period further. The return on 2-year bonds rose to the highest level since 2007 that day. The return on 10-year bonds was at 3.94% at the end of the period.

GOLD



In this reporting week, the gold price declined due to the USD appreciation. Increased expectations regarding additional US interest rate growth affected the drop in demand for this precious metal. The gold price recorded its maximum on Monday morning of 1,847.52 USD/oz. tr. and its minimum of 1,809.04 USD/oz. tr. was at the end of the week.

OIL

The oil price rose at the beginning of the week amid hopes that the demand recovery in China was accelerating as the zero Covid policy ended. On Tuesday, the oil price recorded large fluctuations, but it recorded a daily fall due to concerns that the global economy's slowdown would harm the demand for this fuel. The next day, this energy product's price fell due to the continued traders' concerns about the demand for this energy product. A private industry report showed that US oil stocks rose by 9.9 million barrels in the previous week. The US government data showed that stocks rose by 7.6 million to 479 million barrels. On the last day, the oil price experienced a sharp drop in the morning to return in the afternoon to a slightly higher level than in the morning due to the expectation that oil exports from Russia would decrease.

Table 4 - Economic indicators (20 - 24 February 2023)

Country	Indicator	Period	Expected value	Current value	Previous value
Euro area	**S&P Global Eurozone Composite PMI** This survey tracks opinion among procurement managers at manufacturing, construction and services firms. The index is obtained from a questionnaire related to production, orders, stocks, employment, prices, etc.	February Preliminary data	50.7	52.3	50.3
	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.	January Final data MoM% YoY%	-0.2% 8.6%	-0.2% 8.6%	-0.2% 9.2%
Germany	**IFO Business climate** Monthly survey of companies in Germany (in production, construction, wholesale and retail), in terms of the current business climate and expectations for the next 6 months. Given that Germany "accounts for" a quarter of the total GDP of the euro area, this is a significant indicator of the economic health of the euro area as a whole.	February	91.2	91.1	90.1
	GDP Seasonal Adjustments (GDP SA) It measures the final market value of all products and services produced within the country. GDP is the most comprehensive measure of economic output and provides a key insight into an economy's main drivers.	Q4 QoQ%	-0.2%	-0.4%	-0.2%
USA	**S&P Global US Composite PMI** PMI surveys tracks opinion among procurement managers at manufacturing, construction and/or services firms. The index is obtained from a questionnaire related to production, orders, stocks, employment, prices, etc.	February Preliminary data	47.5	50.2	46.8
	Gross domestic product (GDP) One of the basic macroeconomic indicators, which represents the calculated value in the market prices of goods and services produced within the country, but excludes the income of citizens and corporations working abroad. The GDP calculation uses the following four components: consumption, investments, government expenditure, and net exports.	Q4 QoQ%	2.9%	2.7%	2.9%
	PCE Core Deflator This indicator tracks changes in personal consumption expenditures excluding food products and energy.	January MoM% YoY%	0.4% 4.3%	0.6% 4.7%	0.4% 4.6%
Great Britain	**S&P Global UK Composite PMI** This survey tracks opinion among procurement managers at manufacturing, construction and services firms. The index is obtained from a questionnaire related to production, orders, stocks, employment, prices, etc.	February Preliminary data	49.0	53.0	48.5
	GfK Consumer Confidence This index measures the level of households' confidence in terms of economic performance.	February	-43	-38	-45