CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

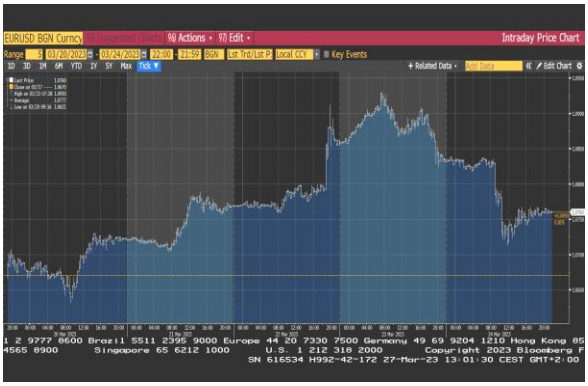
International Financial Market Report

(20 - 24 March 2023)

Podgorica, 29 March 2023

FX NEWS

EUR/USD



The **EUR/GBP exchange rate** appreciated during the first three days of this reporting period. At the beginning of the week, the exchange rate appreciated after speculations that the Fed would take a more cautious approach at the meeting this week. On the other hand, the ECB President stated in the European Parliament that the central bank has all necessary tools to provide liquidity to the euro area financial system. The next day, the exchange rate appreciated after the appetite for riskier investments recovered as the US authorities looked for ways to temporarily extend deposit insurance to all deposits, easing concerns about financial instability. In the middle of the week, this exchange rate recorded additional appreciation after the Fed increased the interest rate by 25 basis points at its regular meeting and expectations for further interest rate increases did not rise after the meeting. On the other hand, market participants' expectations that the Fed's rate would be at 4.15% by the end of this year increased, which is almost 100 basis points lower than the Fed's planned level. The exchange rate depreciated from Thursday until the end of the week as investors became concerned about the drop in Deutsche Bank's stock prices and the rise of its CDS.

EUR/GBP

The **EUR/GBP exchange rate** did not register significant changes on Monday, to appreciate sharply on Tuesday as the rescue of Credit Suisse (CS) affected bank stocks to recover, and concerns about the industry's "health" eased. The Swiss government temporarily suspended certain types of bonuses for CS employees. The next day, the EUR/GBP exchange rate depreciated until mid-day due to the news that inflation in the UK unexpectedly rose to 10.4%, which strengthened expectations that the BoE would increase the interest rate. However, this rate recovered in the afternoon. The Sterling appreciated against the euro on Thursday as the BoE raised interest rates by 25 basis points. The Bank's Monetary Policy Committee members voted 7-2, where two members supported keeping the interest rate unchanged. The BoE will continue to closely monitor indications of persistent inflationary pressures, including tight labour market conditions, services and wage growth behaviour. The institution said that if evidence of more persistent pressures existed, further monetary policy tightening would be necessary. The BoE Governor stated there could be a sharp drop in inflation from the summer. The Sterling appreciated that day also due to the market's perception that the Great Britain's financial sector was insulated from the banking crisis. On Friday, the euro depreciated due to the fall in the prices of shares of Deutsche Bank and other banks (Societe Generale, Commerzbank).

EUR/JPY

Early this week, the **EUR/JPY exchange rate** first depreciated as the demand for safe funds grew due to the situation in the global financial market. Still, shortly after the initial drop, the exchange rate recovered as the euro was supported by the ECB President's statement that the central bank was ready to respond to market events and to be equipped with tools to provide liquidity to the euro area financial system. On Tuesday, the exchange rate continued to appreciate as investors' appetite for risk recovered. In the middle of the week, the exchange rate's appreciation stopped due to growing speculation after the Fed meeting that the period of interest rate increases by the leading central banks was ending. From Thursday until the end of the week, the EUR/JPY rate depreciated. The exchange rate depreciation came as the demand for safe assets increased due to concerns about the global banking sector's soundness.

Table 1 - Exchange rates of the most important currencies

	20.03.2023[1]	24.03.2023[2]	% Change
EUR/USD	1.0670	1.0760	0.84
EUR/GBP	0.87589	0.87973	0.44
EUR/JPY	140.67	140.66	-0.01
EUR/AUD	1.59210	1.61913	1.70
EUR/CHF	0.98785	0.98988	0.21
USD/JPY	131.85	130.73	-0.85
GBP/USD	1.2173	1.2233	0.49

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	3.50%	4 May 2023
Federal Reserves (Fed)	Federal Funds Target Rate	**5.00%**	3 May 2023
Bank of Japan (BoJ)	Overnight Call Rate	-0.10%	28 April 2023
Bank of England (BoE)	Official Bank Rate	**4.25%**	11 May 2023
Swiss National Bank	Libor Target Rate	**1.50%**	22.06.2023
Bank of Canada (BoC)	Target Overnight Rate	4.50%	12 April 2023
Reserve Bank of Australia	Cash Rate Target	3.60%	4 April 2023

Fed, BoE and SNB held regular meetings this week, where all three banks increased interest rates. The **Fed** raised the interest rate by 25 basis points. The Fed Chair stated that the institution's decision-makers considered a pause in interest rate increases due to recent developments in the banking sector. He added that there would be no interest rate reduction later this year if economic events continue to develop as expected. The **BoE** also increased the interest rate by 25 basis points. The BoE said Britain's banking system was resilient and able to cope with higher interest rates. The **SNB** increased the interest rate by 50 basis points. The bank said it would not rule out further increases to ensure price stability in the medium term. The SNB added that the Swiss authorities' recent measures stopped the Credit Suisse crisis.

Table 3 – ESTR and Euribor

	20.03.2023.[1]	24.03.2023.[2]	Change in basis points
ESTR	2.4020	2.899	49.70
Euribor 1W	2.482	2.878	39.60
Euribor 1M	2.648	2.928	28.00
Euribor 3M	2.750	3.025	27.50
Euribor 6M	3.055	3.281	22.60
Euribor 12M	3.380	3.533	15.30

[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 from 1.924% to 2.129% in this reporting week and recorded the maximum value of 2.393% on Wednesday. In the first half of the week, the return had an upward trend as the demand for safe assets decreased. UBS concluded a contract on purchasing Credit Suisse. Some of the world's biggest central banks joined forces to calm markets, easing concerns about the banking crisis in the US and Europe and recovering stock prices. One of the ECB's monetary policy creators', Kazaks, stated that it is impossible to say that the ECB was done with raising interest rates. Concerning the high financial markets uncertainty, he said that European banks were well-capitalised. This statement increased expectations regarding the ECB's interest rate increase in May. However, the return fell in the second half of the week. After the Fed meeting, the return on the US bond market dropped, spilling over to the European market. Expectations for an ECB interest rate hike started to fall again – markets expected the ECB to end its rate hike cycle in the coming months. The fear of recession led to the sale of bank shares by investors, so their prices fell, and the demand for safe funds increased, which caused a drop in the return on bonds. However, they recovered slightly on Friday due to the stock price recovery and after publishing stronger-than-expected data on the US manufacturing sector.

US GOVERNMENT BONDS MARKET

On Monday, the return on 10-year US government bonds fell from 3.50% to 3.29% due to ongoing concerns about the US banking sector, so investors turned to safe assets. However, by the end of the day, the return returned to 3.50% as the market climate changed, and share prices began to recover, leading to a bond demand decrease. Investors turned their attention to the Fed meeting, expecting a rate increase of 25 basis points. The outcome of the two-day meeting that ended on Wednesday was in line with expectations. Despite the interest rate hike, the return fell as traders began to expect that the Fed was done with its rate hike cycle and that there could be a rate cut this year. The downward trend of the return lasted until the end of the week due to the stability risk of the banking sector, and share prices fell. The Fed Chair told reporters that monetary policymakers would use their tools to protect depositors. The US Treasury secretary said the US would take additional steps to safeguard deposits if necessary, which calmed markets somewhat. On Friday, near the end of the day, the return recovered slightly due to the publication of solid data on the US manufacturing sector, so at the very end of the day, the 10-year yield was at the level of 3.38%.

GOLD

The gold price rose sharply on Monday, in the first half of the day, and crossed the level of 2000 USD/oz tr, for the first time in more than a year, as the crisis in the banking sector of the USA and Europe turned investors to safe assets. However, soon the price began to fall, and at the end of the day, it was approximately the same as at its beginning. The decline continued the next day as concerns about the banking crisis eased, and traders assessed the Fed's path in the next period. The period of gold price growth began in the middle of the week, primarily influenced by the Fed's decision and the USD depreciation after the central bank's regular meeting. The gold price rise was also caused by increased expectations that the Fed could lower the interest rate this year. On Friday, the gold price depreciated slightly as the recovery of the US stock markets distracted investors from investing in safe assets. At the end of the week, the gold price stood at 1,978 USD/oz. tr.

OIL

The oil price rose during the first three days of this week. At the beginning of the week, it rose due to optimism that the banking crisis would stop. The next day, the US Finance Minister's statement further calmed the markets, so the oil price rose. Namely, she stated that the state could take drastic measures to protect deposits placed with smaller banks. In the middle of the week, the oil price continued to rise, as data on oil exports from the US indicated an increased global demand for this energy product. According to EIA data, oil exports from the USA rose to a record level, i.e. the export of oil and oil products reached 12 million bbl. a day. On Thursday and Friday morning, the oil price weakened to achieve growth in the afternoon as concerns about the oil delivery from Turkey grew due to the dispute between that country and Iraq in the Kurdistan region, which interrupted the daily export of about 400 thousand bbl. In addition, the recovery of oil prices was influenced by optimism that a broader banking crisis had been avoided. At the end of the week, the oil price stood at 74 USD/bbl.

Table 4 - Economic indicators (20 – 24 March 2023)

Country	Indicator	Period	Expected value	Current value	Previous value
Euro area	**Consumer Confidence** It measures consumer confidence in euro area countries. This figure is the result of a survey of consumers in terms of their labour market finances, willingness to save, and expectations regarding the economy.	March Preliminary data	-18.2	-19.2	-19.0
	S&P Global 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.	March Preliminary data	52.0	54.1	52.0
Germany	**Producer Price Index (PPI)** This index measures changes in sale prices of goods and services used by producers. Producers transfer higher costs to consumers through retail prices, thus PPI is important as an early inflation indicator.	February MoM% (YoY%)	-1.4% (14.5%)	-0.3% (15.8%)	-1.0% (17.8%)
USA	**New Home Sales** The indicator shows the sale of newly built properties in the United States. The figure is a temporary indicator of the housing market calculating the sale of houses when housing contracts have been signed.	February MoM%	-3.1%	1.1%	7.2%
	Durable Goods Orders This is an indicator of consumer safety that reflects their expectations and the ability to spend money. Its positive growth marks the state of the economy, helping to strengthen the currency. Its decline leads to the opposite result. The DGO index is an excellent indicator for the future. Many manufacturers plan production based on available orders, the decline in DGO precedes the decline in production and vice versa.	February Preliminary data	0.2%	-1.0%	-4.5%
	Initial Jobless Claims This indicator measures the number of people receiving unemployment allowances. It is similar to the applicant. The growing number of jobs accompanies the economic expansion, which could influence inflationary pressures.	March 18 K=1,000	197 K	191 K	192 K
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.	February MoM% (YoY%)	0.6% (9.9%)	1.1% (10.4%)	-0.6% (10.1%)
Japan	**Natl CPI ex Fresh Food, Energy** It estimates changes in the cost of living, measuring changes in the goods and services' prices, excluding fresh food and energy. This index measures the change in prices from the consumer's perspective.	February YoY%	3.4%	3.5%	3.2%