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CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(20 - 24 November 2023)

Podgorica, 29 November 2023

FX NEWS

EUR/USD

The **EUR/USD exchange rate** appreciated from the beginning of this period until Tuesday noon. In this period, the exchange rate appreciated as the return on US bonds dropped, which suggested that the Fed was approaching the end of the interest rate increase cycle. From Tuesday afternoon until Wednesday noon, the exchange rate depreciated. It depreciated after the release of the Minutes from the last Fed meeting, which indicated that interest rates would remain restrictive until it was evident that inflation was heading sustainably towards the target level. The EUR/USD exchange rate grew during the last two days of this reporting week. The euro appreciated after better-than-expected data on the PMI of the euro area and Germany. On the other hand, the USD depreciation was influenced by mixed data on US PMI indices.

EUR/GBP

In this reporting period, the **EUR/GBP exchange rate** recorded the most significant weekly depreciation since August. Early this week, it did not change significantly, and it depreciated from 0.8750 to 0.8700 on Tuesday. The sterling appreciated that day as BoE officials in the Parliament took a unified stance on persistent inflation and warned of rising inflationary pressures in the coming years. The sterling was also supported by the statement of the British Chancellor of the Exchequer, Jeremy Hunt that minimum wages would increase from April 2024. While presenting the new budget, he announced a series of tax cuts and other measures to strengthen Great Britain's economic growth. However, the exchange rate recovered slightly on Wednesday afternoon as Britain's independent Office for Budget Responsibility sharply cut its growth forecasts and raised its inflation projections, highlighting the country's problems as household finances remain weighed down by a prolonged period of high inflation and slow growth. However, better-than-expected UK PMI data later this week caused the sterling to appreciate. According to preliminary data, the composite PMI rose in November to a level indicating a return to economic growth for the first time in the last four months. The sterling appreciated by the end of the week after the GfK agency announced that British consumer confidence recorded the most significant increase since April in November.

EUR/JPY

The **EUR/JPY exchange rate** depreciated on Monday as demand for safe assets grew due to the absence of significant market drivers. During the rest of the week, this exchange rate appreciated. The exchange rate appreciation in this period was caused by the fact that the ECB President warned against prematurely reaching conclusions regarding inflation and that it was too early to declare victory over it. Better-than-expected PMI data additionally influenced the exchange rate appreciation in the euro area and Germany.

Table 1 - Exchange rates of the most important currencies

	20.11.2023[1]	24.11.2023[2]	% Change
EUR/USD	1.0915	1.0939	0.22
EUR/GBP	0.87583	0.86779	-0.92
EUR/JPY	163.27	163.47	0.12
EUR/AUD	1.67523	1.66101	-0.85
EUR/CHF	0.96633	0.96574	-0.06
USD/JPY	149.63	149.44	-0.13
GBP/USD	1.2462	1.2603	1.13

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%	14 December 2023
Federal Reserves (Fed)	Federal Funds Target Rate	5.50%	13 December 2023
Bank of Japan (BoJ)	Overnight Call Rate	-0.10%	19 December 2023
Bank of England (BoE)	Official Bank Rate	5.25%	14 December 2023
Swiss National Bank (SNB)	Libor Target Rate	1.75%	14 December 2023
Bank of Canada (BoC)	Target Overnight Rate	5.00%	6 December 2023
Reserve Bank of Australia (RBA)	Cash Rate Target	4.35%	5 December 2023

Table 3 – ESTR and Euribor

	20.11.2023[1]	24.11.2023[2]	Change in basis points
ESTR	3.9020	3.9040	0.20
Euribor 1W	3.871	3.895	2.40
Euribor 1M	3.819	3.805	-1.40
Euribor 3M	3.984	3.935	-4.90
Euribor 6M	4.064	4.074	1.00
Euribor 12M	3.991	4.056	6.50

[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 slightly on Monday as the market expected the ECB to cut interest rates more slowly next year. The Governor of the Central Bank of Belgium, Pierre Wunsch, said that the market was highly “optimistic” about monetary easing in April. On the other hand, the Banco de España’s Governor, Pablo Hernandez de Cos, stated that “it is absolutely too early to start talking about reducing interest rates”. Over the next two days, the return dropped. On Wednesday, it recorded its minimum value of 2.51%, as ECB President Christine Lagarde said that inflationary pressures will ease in the future. On Wednesday, the return recovered after higher-than-expected inflation data from the University of Michigan. The next day, the return on 10-year German government bonds rose. The main reason for the growth was investors’ concern about interest rates and the government’s borrowing needs. After inflation warnings from ECB officials Lagarde, Holzmann and de Guindos, markets expected interest rates could be at restrictive levels for extended periods, which continued to boost the return.

US GOVERNMENT BONDS MARKET

On Monday, the return on 10-year US Government bonds fell as an auction of 20-year US Government bonds drew strong demand. On Wednesday, the return fluctuated for most of the day to rise at the very end of the day as the University of Michigan’s index of 1-year inflation expectations rose to 4.5% in November (expected to be 4.4%). Markets were closed on Thursday due to the US holiday (Thanksgiving Day). On Friday, the return on the 10-year US government bond recorded a slight increase, and market activity was reduced due to Thanksgiving, so it ended the day at 4.47%.

GOLD

On Monday, the gold price dropped until the middle of the day, to rise in the second part of the day, which continued on the following day. The rise came as the return on US bonds fell, and expectations rose that the Fed was nearing the end of its rate hike cycle. In the middle of the week, the gold price fell as the latest data showed a rise in inflation expectations in the US. Gold price was steady on Thursday due to reduced trading volume as markets were closed in the US and Japan for holidays. On Friday, the price of gold continued to rise.

OIL

On Monday, oil prices rose as expectations rose that OPEC+ would consider further cuts in oil production at their next meeting. The next day, the oil price did not register a significant change. In the middle of the week, the oil price first fell sharply as the OPEC+ meeting was postponed, which reduced expectations that the organisation would intervene to reduce the production of this energy product. However, the oil price recovered the previous losses in the second part of the day. On Thursday, the price of this energy did not register a significant change as the markets were closed in the USA due to the holidays. In contrast, the oil price fell due to reduced geopolitical tensions. Some OPEC+ members, primarily Angola and Nigeria, were dissatisfied with the current quotas, which could also lead to increased oil production from certain OPEC+ members.

Table 4 - Economic indicators (20 - 24 November 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 euro area consumers in terms of their labour market finances, willingness to save, and expectations regarding the economy.	November Preliminary data	-17.8	-16.9	-17.8
	HCOB Manufacturing, Services, Composite PMI The survey 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.	November Preliminary data	43.5 48.1 46.8	43.8 48.2 47.1	43.1 47.8 46.5
Great Britain	**S&P Global/CIPS Manufacturing, Services, Composite PMI** The survey 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.	November Preliminary data	45.0 49.5 48.7	46.7 50.5 50.1	44.8 49.5 48.7
	GfK Consumer Confidence This index measures the level of households' confidence in terms of economic performance.	November	-28	-24	-30
USA	**Existing Home Sales** The indicator shows the sale of existing real estates.	October MoM%	-1.5%	-4.1%	-2.2%
	Initial Jobless Claims It measures the number of people filing for unemployment benefits for the first time.	18 November K=1,000	227K	209 K	233K
	Durable Goods Orders This indicator monitors the value of new orders domestic producers receive in the reporting period. This indicator monitors the industrial activity and investors use it as an economic indicator.	October Preliminary data	-3.2%	-5.4%	4.0%
	S&P Global Manufacturing, Services, Composite PMI The survey 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.	November Preliminary data	49.9 50.3 50.4	49.4 50.8 80.7	50.0 50.6 50.7
	(U. Of Mich. Sentiment) This index tracks confidence among households or consumers. The results are obtained by conducting surveys on a random sample of households.	November Final data	61.0	61.3	60.4
Japan	**Natl 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.	October YoY%	3.4%	3.3%	3.0%