CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(21 – 25 August 2023)

Podgorica, 30 August 2023

FX NEWS

EUR/USD

The **EUR/USD exchange rate** was stable on Monday, to depreciate sharply on Tuesday. It depreciated after announcing that the producer prices index in Germany fell by 6% annually compared to the expected 5.1% decline. In the middle of the week, the exchange rate first depreciated in the morning to appreciate in the afternoon as the Fed Chair told Richmond that the central bank must be open to the possibility that the economy will begin to "accelerate" again, not slow down. The next day, the exchange rate depreciated sharply, getting closer to the symposium in Jackson Hole, where the Fed Chair was expected to confirm that interest rates would remain elevated longer. On Friday, the exchange rate hit its lowest level in this reporting period as the Fed Chair indicated it might be necessary to continue increasing the interest rate to ensure that inflation is under control in his presentation in Jackson Hole.

EUR/GBP

The **EUR/GBP exchange rate** was stable on Monday but depreciated slightly on Tuesday and most of Wednesday. On Wednesday afternoon, it recorded a sharp appreciation. The exchange rate's appreciation occurred after announcing that the index of service activities in the UK fell in August. Namely, the service sector index was 48.7 (with 50 indicating whether the index declined or grew), and the expected level was 51. The EUR/GBP exchange rate continued to appreciate for the rest of the week due to the signal that the UK economy was moving towards recession. On Friday, the exchange rate stabilised around 0.855.

EUR/JPY

At the beginning of the week, the **EUR/JPY exchange rate** recorded a sharp appreciation as investors were attracted to invest in the euro due to the rise in the return on the euro area countries' bonds. There was a strong depreciation in this exchange rate on Tuesday and Wednesday after weak data on production indices from the euro area and Germany. The period of mild recovery of this exchange rate began on Thursday.

Table 1 - Exchange rates of the most important currencies

	21.08.2023[1]	25.08.2023[2]	% Change
EUR/USD	1.0873	1.0796	-0.71
EUR/GBP	0.85381	0.85820	0.51
EUR/JPY	158.22	158.03	-0.12
EUR/AUD	1.69746	1.68600	-0.68
EUR/CHF	0.95932	0.95503	-0.45
USD/JPY	145.39	146.44	0.72
GBP/USD	1.2734	1.2578	-1.23

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	4.25%	14 September 2023
Federal Reserves (Fed)	Federal Funds Target Rate	5.50%	20 September 2023
Bank of Japan (BoJ)	Overnight Call Rate	-0.10%	22 September 2023
Bank of England (BoE)	Official Bank Rate	5.25%	21 September 2023
Swiss National Bank (SNB)	Libor Target Rate	1.75%	21 September 2023
Bank of Canada (BoC)	Target Overnight Rate	5.00%	6 September 2023
Reserve Bank of Australia (RBA)	Cash Rate Target	4.10%	5 September 2023

Table 3 – ESTR and Euribor

	21.08.2023[1]	25.08.2023[2]	Change in basis points
ESTR	3.655	3.652	-0.3
Euribor 1W	3.634	3.648	1.4
Euribor 1M	3.615	3.620	0.5
Euribor 3M	3.816	3.780	-3.6
Euribor 6M	3.944	3.935	-0.9
Euribor 12M	4.091	4.045	-4.6

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

EUROPEAN GOVERNMENT BONDS MARKET

Early this week, the return on 10-year German government bonds rose as traders raised expectations of an ECB interest rate hike. The return dropped over the next two days after announcing that real estate sales in the USA and the euro area PMI index were weaker than expected. PMI data may influence the ECB to leave the interest rate at its current level at the next meeting, especially if these data for the next month were weaker than expected. On Thursday, the return on 10-year German government bonds rose slightly after ECB official Nigel said it was too early to consider pausing the rate hike cycle. The return on 10-year German government bonds fluctuated slightly on Friday and averaged 2.54%. The ECB President Christine Lagarde said the bank would set rates as high as needed to reduce inflation and that central banks must keep price expectations "anchored". In her speech, the president of the ECB was more focused on the inflation growth risks than the adverse risks for the economy. Her comments did not draw a conclusion that the Governing Council would decide on a break in September and that the increase could amount to 25 basis points.

US GOVERNMENT BONDS MARKET

On Monday, the return on 10-year US bonds rose as interest rates were expected to remain elevated longer than market participants had predicted so far that interest rates would not return to low levels. On Tuesday, the return fluctuated as traders awaited the Fed Chair's speech in Jackson Hole. The return dropped on that day due to the announcement that real estate sales in the USA were weaker than forecasts. The next day, the return on 10-year US bonds fell after publishing weaker-than-expected data on the US and Europe PMI indices. The indices of production and service activities in the USA were weaker than expected, with the index measuring the service sector activity being above 50, or more precisely 51, while the index measuring the manufacturing activity fell to 47. The return on 10-year US bonds had an upward trend on Thursday morning due to growing speculation that Fed Chair Jerome Powell would confirm expectations that interest rates would remain higher for longer when he addressed a meeting of global central bankers on Friday. At the end of the week, the return on US 10-year government bonds did not record significant changes and hovered around 4.23%. The Fed Chair's speech in Jackson Hole indicated that the central bank would raise rates again if necessary.

GOLD

The gold price trended up until Friday to record a slight decline on Friday. Demand for gold grew due to signals that interest rates in the US would remain high for longer, and traders were waiting for the Fed Chair's speech in Jackson Hole, which was to take place at the end of the week. Powell's speech could shed light on the US interest rates trend. On Wednesday, the price of this precious metal rose as data on business activity in the USA led to a fall in the return on US bonds, i.e. to a reassessment of the outlook regarding interest rates in the USA, which was reflected in the growing demand for gold. The gold price fluctuated slightly on Thursday, to fall on Friday after the Fed chair "left the door open" for new interest rate hikes.

OIL

The oil price continued to depreciate until Thursday. The price fell at the beginning of the week due to signals that oil stocks were recovering and concerns that China's economy was slowing down. Iran's oil exports rose by 2.2 million bbl./day this month, and Turkey and Iraq unexpectedly put negotiations on hold as they tried to "restart" a significant oil pipeline. On Wednesday, the price of this fuel fell daily due to growing expectations that the oil supply would increase in the coming period, and the US administration was negotiating with Venezuela to lift sanctions limiting the oil export from that country temporarily. Towards the end of the day, the oil price rose slightly. It fluctuated on Thursday to record a slight drop on Friday due to the damaged global outlook regarding the demand for this fuel.

Table 4 - Economic indicators (21 – 25 August 2023)

Country	Indicator	Period	Expected value	Current value	Previous value
Euro area	**(HCOB Eurozone Composite, Manufacturing, Services 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.	August preliminary	48.5 42.7 50.5	47 43.7 48.3	48.6 42.7 50.9
	Consumer Confidence This index tracks confidence among households or consumers. The results are obtained by conducting surveys on a random sample of households.	August preliminary	-14.5	-14.5	-15.1
Germany	**Producer Price Index (PPI)** The index measures the average price change that domestic producers receive for their production.	July MoM% YoY%	-0.2% -5.1%	-1.1% -6.0%	-0.3% 0.1%
	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.	August preliminary	38.8 51.5 48.3	39.1 47.3 44.7	38.8 52.3 48.5
USA	**Initial Jobless Claims** It measures the number of people first time applying for receiving compensation.	19 August K=1,000	240 K	230 K	239 K
	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.	July MoM%	0.9%	4.4%	-2.5%