CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(23 – 27 January 2023)

Podgorica, 01 February 2023

FX NEWS

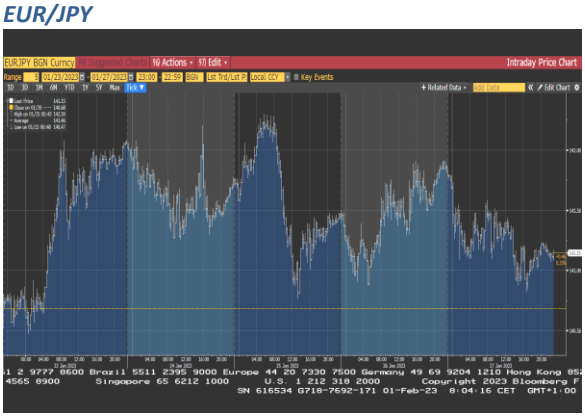
EUR/USD

In this reporting period, the **EUR/USD exchange rate** ranged between 1.0835 and 1.0929. On Monday, the exchange rate appreciated to a 9-month high (1.0927) as the euro appreciated amid growing expectations of an aggressive ECB interest rate hike. At the same time, weaker-than-expected US economic data fuelled rumours that the Fed was on the verge of slowing the interest rate hikes amount, which caused the USD to depreciate. On the same day, the exchange rate depreciated to 1.0850. During the rest of the week, the exchange rate fluctuated but was generally trending up until Thursday, when it recorded a new 9-month high (1.0929). Namely, this period's trend resulted mainly from the ECB officials' statements, all of which indicated that the ECB's interest rates would increase by 50 basis points each in February and March and that further increases were not excluded, which supported the European currency. Concerning the euro area economic data, better-than-expected data on the index of production and services in January were published, and the report of the IFO Institute indicated an improvement in the German economic outlook. On the other hand, uncertainty regarding the Fed's interest rate increase pace and reports of weaker-than-expected earnings of American companies caused the USD to depreciate. However, on Thursday, the exchange rate recorded a sharp depreciation as US GDP data, which grew more than expected in the fourth quarter (2.9% vs 2.6%), supported the USD. Although the exchange rate showed recovery signs until the end of the week, a downward trend prevailed, so the exchange rate stood at 1.0868 at the very end of the week.

EUR/GBP

The **EUR/GBP exchange rate** appreciated during the first two days of this reporting period. The exchange rate appreciation in that period resulted from the ECB President's statement, who suggested that the central bank would continue to aggressively tighten monetary policy in the coming period to bring inflation to the target level of 2%. In addition to the exchange rate's appreciation, there was also the news that economic activity slowed down in Great Britain in January, which increased the risk of a recession. In the rest of the week, the exchange rate depreciated primarily due to increased expectations that the BoE would increase the interest rate by 50 basis points at the February meeting as inflation in that country was still above 10%. At the very end of the week, the UK's Chancellor of the Exchequer announced he would fight against low productivity and high inflation.

EUR/JPY



The **EUR/JPY exchange rate** appreciated this reporting week slightly. On Monday, the exchange rate appreciated sharply as the yen depreciated after expectations that the BoJ would not change the direction of monetary policy. With occasional fluctuations, the exchange rate had an upward trend until Wednesday due to the ECB President's statement that it would do everything necessary to return inflation in the euro area to the target of 2%. However, the exchange rate depreciated on Wednesday as the yen was boosted by rising demand for safe-haven assets. The next day the exchange rate recovered, but after releasing that the inflation rate in Tokyo in January increased at an annual rate of 4.3%, the fastest growth rate in the last almost 42 years, it continued to depreciate. Namely, after releasing this data, the market began to predict that the BoJ could change its current monetary policy, boosting the yen.

Table 1 - Exchange rates of the most important currencies

	23.01.2023[1]	27.01.2023[2]	% Change
EUR/USD	1.0856	1.0868	0.11
EUR/GBP	0.87564	0.87743	0.20
EUR/JPY	140.68	141.15	0.33
EUR/AUD	1.55927	1.53044	-1.85
EUR/CHF	0.99890	1.00127	0.24
USD/JPY	129.60	129.88	0.22
GBP/USD	1.2397	1.2382	-0.12

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

Central Bank	Reference interest rate	Reference interest rate level	Next meeting
European Central Bank	ECB main refinancing rate	2.50%	2 February 2023
Federal Reserves	Federal Funds Target Rate	4.50%	1 February 2023
Bank of Japan	Overnight Call Rate	-0.10%	10 March 2023
Bank of England	Official Bank Rate	3.50%	2 February 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	3.10%	7 February 2023

The Bank of Canada increased the interest rate by 25 basis points this week.

Table 3 – ESTR and Euribor

	23.01.2023[1]	27.01.2023[2]	Change in basis points
ESTR	1.903	1.906	0.30
Euribor 1W	1.899	1.884	-1.50
Euribor 1M	1.999	2.130	13.10
Euribor 3M	2.417	2.492	7.50
Euribor 6M	2.895	2.942	4.70
Euribor 12M	3.327	3.356	2.90

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

EUROPEAN GOVERNMENT BONDS MARKET

The return on 10-year German government bonds fluctuated slightly in the first two days and averaged 2.19%. The return on euro area bonds increased as the market analysed encouraging information coming from ECB officials and data on euro area consumer confidence. (ECB Governing Council members Kazimir and Knott opted for a 50 basis hike; ECB Governing Council member Ignacio Visco said the ECB should take a moderate approach to interest rates rise; Janis Sturnaras said the ECB should adopt a more measured stance on borrowing costs and should stick to the "meeting by meeting" approach). On Thursday, the return rose and stood at 2.209% at end-Thursday as US data showed that GDP decreased less than expected in the 2022 Q4. The return on the 10-year bonds fell slightly on Friday as investors focused on regular meetings of the ECB, BoE and Fed due next week. An interest rate increase is expected at all meetings.

US GOVERNMENT BONDS MARKET

The return on 10-year US government bonds rose on Monday as demand for riskier assets increased in the USA. The next day, the return mentioned above fell as the 2-year US bond auction recorded solid demand. Investors were also convinced that the Fed would ease the interest rate pace due to signs of a slowing economy. S&P Global survey showed that the volume of the US economy slowed in early 2023, and business conditions worsened in January, as demand for goods and services fell for the fourth consecutive month. In the last two days, the return increased due to the rising prices on the US stock exchange as the GDP data for the 2022 Q4 was better than expected. The return on 10-year US government bonds weakened slightly on Friday afternoon as the US indicator measuring inflation, which excludes the price of food and energy, slowed in December to 4.4% (the lowest level since October 2021), which increased speculation that the Fed could raise interest rates at a slower pace at the upcoming meetings.

GOLD

During this reporting week, the gold price ranged from 1,911.45 to 1,949.20 USD/oz. tr. In the first part of the week, in addition to the apparent fluctuation, the price ended each day at a level higher than the previous day, so it reached a 9-month maximum on Wednesday and Thursday. There were no significant events in this period. Still, the gold price trend resulted from the European currency's trend, supported by expectations regarding a further ECB interest rate increase. Concerning the USA, market participants believed that the Fed would continue to increase the interest rate in smaller amounts, but inflationary pressures easing could interrupt their increase cycle in the near future. However, the USD appreciated on Thursday after releasing better-than-expected US GDP data, and the gold price fell from the previous level. On Friday, the gold price did not change significantly, as investors took a more cautious stance awaiting US inflation data and the Fed's regular meeting. At the end of the week, the gold price hovered around 1,928 USD/oz. tr. and around 1,926 USD/oz. tr. and at the beginning, for the sixth consecutive time to record a weekly increase.

OIL

After two consecutive weeks of growth, oil prices fell in this reporting week. On Monday, the price trended up, supported by China's outlook and expectations that the demand will increase due to the economy's opening. Over the next two days, the price of this fuel mainly weakened due to the announcement that oil stocks in the USA increased by 1.6 million barrels, expectations that OPEC+ would not change production output, and due to forecasts concerning the weather conditions in Europe, which should reduce the oil demand. In the rest of the week, the price recovered. Optimism about China outweighed concerns about a global economic slowdown, so the price rose. However, on Friday afternoon, the price reduced the previous gain after growing uncertainty due to the OPEC+ and the Fed meeting on 1 February, and the date of entry into force of the ban on the import of diesel fuel and other oil derivatives obtained processing in Russian refineries (5 February).

Table 4 - Economic indicators (23 - 27 January 2023)

Country	Indicator	Period	Expected value	Current value	Previous value
Euro area	**Consumer Confidence** An assessment of consumer confidence in terms of business conditions, employment and personal income. The Consumer Confidence Index is tied to personal consumption.	January	-20	-20.9	-22.2
France	**Consumer Confidence** An assessment of consumer confidence in terms of business conditions, employment and personal income. The Consumer Confidence Index is tied to personal consumption.	January	83	80	82
USA	**Initial Jobless Claims** This indicator measures the number of people receiving unemployment allowances. Similar to the applicant, the growing number of jobs is accompanied by an economic expansion that could influence inflationary pressures.	January 21 K=1,000	186 K	190 K	192 K
	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%	2.60%	2.90%	3.20%
	New Home Sales The indicator shows the sale of newly built properties in the United States.	December MoM%	-4.40%	2.30%	5.80%
	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.	December MoM%	2.50%	5.60%	-2.10%
Italy	**Consumer Confidence** An assessment of consumer confidence in terms of business conditions, employment and personal income. The Consumer Confidence Index is tied to personal consumption.	January	102.5	100.9	102.5