CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(23 – 27 October 2023)

Podgorica, 1 November 2023

FX NEWS

EUR/USD

The **EUR/USD exchange rate** appreciated this Monday, awaiting the ECB meeting, and the appreciation continued during the morning, after which a decline was achieved due to weak European PMI data. During Wednesday and Thursday, the exchange rate depreciated as the USD appreciated due to the release of better-than-expected data from the US real estate market. After the ECB meeting, the euro depreciated, and the USD appreciated due to the released US GDP data. On Friday, the exchange rate appreciated for a short time, influenced mainly by the fall in demand for safe assets, reflected in the euro's appreciation against the USD. However, geopolitical risks and stagnation in terms of economic growth at the global level soon turned investors back to the USD as a haven.

EUR/GBP

On Monday, the **EUR/GBP exchange rate** did not record a daily change. The next day, first, the exchange rate depreciated sharply after weak PMI data in Europe to return to the same level after announcing that business activity in the UK contracted for the third consecutive month in a row. In the middle of the week, the exchange rate appreciated after speculations that the BoE had finished raising interest rates. On Thursday, the EUR/GBP exchange rate depreciated sharply due to the ECB's decision to keep rates. On Friday, this exchange rate appreciated slightly, awaiting the regular BoE meeting.

EUR/JPY

On Monday, the **EUR/JPY exchange rate** appreciated. The BoJ announced an unplanned bond-buying operation, underscoring its desire to curb the speed of the rising return on government bonds. The BoJ announced it would buy 5-10 year bonds worth 300 billion yen and 10-25 year bonds worth 100 billion yen. The yen also depreciated due to the fundamental difference in monetary policies led by the Fed, the ECB and the BoJ. The next day, the exchange rate depreciated after the PMI data in Europe. Meanwhile, the BoJ's inflation trend measure accelerated to 2% in September from a year earlier, for the first time since 2001, reaching the target level as a sign that the economy is progressing to remove years of prolonged price stagnation. By the end of the week, the exchange rate continued to trend down. The BoJ faces growing pressure to loosen its yield control programme further at its next meeting as the return rose globally.

Table 1 - Exchange rates of the most important currencies

	23.10.2023[1]	27.10.2023[2]	% Change
EUR/USD	1.0594	1.0565	0.80
EUR/GBP	0.87102	0.87156	0.66
EUR/JPY	158.77	158.13	1.00
EUR/AUD	1.67773	1.66768	0.51
EUR/CHF	0.94500	0.95367	-0.33
USD/JPY	149.86	149.66	0.19
GBP/USD	1.2164	1.2122	0.17

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%	1 November 2023
Bank of Japan (BoJ)	Overnight Call Rate	-0.10%	31 October 2023
Bank of England (BoE)	Official Bank Rate	5.25%	2 November 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	4.10%	7 November 2023

At this week's meeting, the BoC did not decide to change the interest rate level.
The ECB kept its benchmark interest rate at 4% this week as expected, ending a 10 consecutive hikes streak, and kept its guidance signalling a stable future policy. At the press conference, Lagarde said that holding did not mean to say the ECB would never hike again, and a rate cut was not even discussed. There were no signs that the ECB was particularly concerned about a potential oil shock and its implications for inflation. Although the dependence on data was emphasised again, the economy's weakening indicates that the ECB remains firmly "on hold" for the time being. Lagarde confirmed there will be no future guidance on how long the ECB will keep interest rates at these high levels. However, she stressed that at this point, the discussion about reducing rates was "totally premature". As for the PEPP programme, ECB officials agreed to discuss terminating reinvesting in the PEPP programme early next year as now was not the right time to "test" the bond market. The programme is worth 1.7 billion euros and should last until the end of 2024.

Table 3 – ESTR and Euribor

	23.10.2023[1]	27.10.2023[2]	Change in basis points
ESTR	3.905	3.903	-0.2
Euribor 1W	3.890	3.872	-1.8
Euribor 1M	3.863	3.868	0.5
Euribor 3M	3.969	3.948	-2.1
Euribor 6M	4.107	4.102	-0.5
Euribor 12M	4.185	4.104	-8.1

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

EUROPEAN GOVERNMENT BONDS MARKET

The return on 10-year German government bonds fell from 2.92% to 2.83% in this reporting week. It reached its maximum weekly value of 2.97% on Monday due to the easing of the Middle East tensions. The same day, the return started to fall, recording the next day's minimum weekly value of 2.79%. The decline resulted from weaker-than-expected German economic data (consumer confidence; service index) and weaker data from the euro area (manufacturing, service and composite PMI indices), increasing the fear that economic growth could weaken in Q4. The return recovered soon lasting until Thursday, owing to better-than-expected data on the German business outlook in October, which raised expectations that Germany could record a modest recovery. The return also rose due to a decreased demand for safe assets, as the WSJ reported that Israel agreed to delay a ground attack on Gaza. However, this delay should provide time for the US to transfer missiles to the region to defend US troops. The return weakened on Thursday after growing demand for safe-haven assets following the ECB's decision to leave interest rates unchanged after ten consecutive hikes, citing that most core measures of inflation continued to ease. On Friday, the return fluctuated between 2.82% and 2.86%.

US GOVERNMENT BONDS MARKET

The return on 10-year US government bonds fell from 4.95% to 4.84% in this reporting week. On Monday, it reached its peak value at the weekly level, and it was above 5% (almost 5.02%) for the first time since 2007 due to traders' expectations that the Fed would maintain high-interest rates for a more extended period and that the US government would continue with auctions to cover the growing deficit. The same day, the return began to fall, and it recorded the minimum weekly value (4.80%) the next day as traders assessed the conflicts in the Middle East and the continued strength of the American economy. On Wednesday, the return recovered due to weak demand at the auction of 5-year US bonds and better-than-expected data from the real estate market. Although the return approached 5% again the next morning after stronger-than-expected data on the US GDP in Q3, it began to fall due to traders' expectations that the Fed would refrain from raising the interest rate at the November meeting. The return weakened after durable goods orders in the USA, and the initial jobless claims were higher than expected. On Friday, the return generally eased as demand for safe-haven assets grew after news that Israel expanded its activities in the Gaza Strip, although investors were cautious awaiting the Fed meeting.

GOLD

During the first two days of this reporting week, the gold price did not record any significant changes. Since the middle of the week, a slight increase in this metal's price was noticeable. At the end of the week, the gold price recorded a sharper rise and stood at 2009.41 USD/oz. tr. due to the growing demand for safe assets as the conflict in the Middle East worsened due to Israel's plans to launch a ground offensive on the Gaza Strip.

OIL

On Monday noon, oil prices rose to 91 USD/bbl. to fall by the evening as investors focused on monitoring the situation in the Middle East, where diplomatic efforts to contain the conflict between Hamas and Israel have intensified. EU leaders have called for a "humanitarian pause" so aid could reach Palestinians in Gaza. Chinese Foreign Minister Wang Yi called on both sides to restraint to avoid escalation in the Middle East. In the rest of the week, the oil price fell due to optimism that the war between Israel and Hamas would remain limited and not spread to the region. However, oil prices rose on Friday afternoon as the Israeli military announced it would "expand ground operations" in the Gaza Strip, raising concerns that the conflict could spread.

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

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Country	Indicator	Period	Expected value	Current value	Previous value
USA	**Gross domestic product (GDP)** Measures the final market value of all products and services produced within the country. This is the most commonly used indicator of economic activity. **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.	Q3 QoQ% 21 October K=1,000	4.5% 207 K	4.9% 198 K	2.1% 200 K
Germany	**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.	October Preliminary	40.1 50 46.6	40.7 48 45.8	39.6 50.3 46.4
Euro area	**HCOB Eurozone 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.	October Preliminary	43.7 48.6 47.4	43 47.8 46.5	43.4 48.7 47.2
France	**HCOB Eurozone 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.	October Preliminary	44.5 45 44.6	42.6 46.1 45.3	44.2 44.4 44.1
Great Britain	**UK 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.	October Preliminary	44.7 49.3 48.5	45.2 49.2 48.6	44.3 49.3 48.5