CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

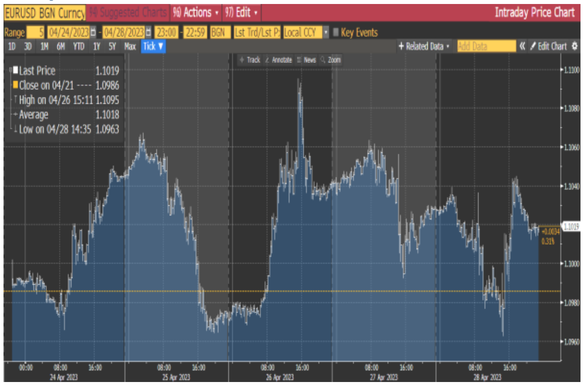
International Financial Market Report

(24 – 28 April 2023)

Podgorica, 5 May 2023

FX NEWS

EUR/USD



The **EUR/USD exchange rate** appreciated throughout Monday. The IFO business climate in Germany unexpectedly improved in April. The next day, the exchange rate depreciated after increased demand for safe assets reflected in the USD appreciation. Namely, the increased demand for safe funds resulted from the news that the First Republic Bank shares fell by some 48% after announcing that the deposits outflow from that bank amounted to more than 100 billion USD this quarter. On Wednesday, the EUR/USD exchange rate appreciated again to its peak over the last one-year period (1.1095) as concerns about First Republic Bank had impacted the USD adversely. On the other hand, the ECB Vice-President Guindos's statement that the euro area economy would avoid the 6-month slowdown forecasted at the end of last year supported the euro. On Thursday, the euro depreciated against the USD. The US inflation data for Q1 supported the US currency and fuelled expectations that the Fed would raise interest rates at its May meeting. On Friday, the USD maintained its growth after economic data showed that core inflation remained "buoyant" while consumer spending was "stagnant". The euro depreciated after releasing that the euro area GDP in Q1 grew less than expected annually.

EUR/GBP

The **EUR/GBP exchange rate** appreciated slightly in the first three days to record a sharp decline in the last two days. The EUR/GBP exchange rate appreciated by Tuesday noon before slight depreciation in the afternoon. The BoE Chief Economist said the policymakers must ensure that interest rates remain high long to curb inflation. The next day, the exchange rate recovered as traders reduced expectations for a BoE interest rate hike in the coming months. In the last two days, the EUR/GBP exchange rate depreciated due to expectations that the BoE would increase the interest rate by 25 basis points at the upcoming May meeting.

EUR/JPY

The EUR/JPY exchange rate appreciated during this reporting week. Investors were waiting for the first meeting of the new BoJ Governor Kazuo Ueda, which was supposed to take place at the end of the week. Ueda and board members were expected to keep existing interest rates and bond purchases unchanged on Friday. Ueda noted that the BoJ would tighten monetary policy only if wages and inflation rose more than expected. The next day, the exchange rate depreciated as demand for safe-haven assets rose after renewed concerns about the US banking sector. The EUR/JPY exchange rate fluctuated slightly on Wednesday and it did not deviate significantly to register a sharp appreciation at the end of the week due to the yen's depreciation after the new BoJ Governor prepared the ground for a more flexible policy stance, withdrawing the central bank's guidance on future interest rate levels while keeping the main incentive measures unchanged. The BoJ kept rates on Friday. It would continue with monetary easing pending a comprehensive policy review that could take up to 18 months.

Table 1 - Exchange rates of the most important currencies

	24.04.2023[1]	28.04.2023[2]	% Change
EUR/USD	1.0986	1.1019	0.30
EUR/GBP	0.88363	0.87676	-0.78
EUR/JPY	147.40	150.07	1.81
EUR/AUD	1.64155	1.66580	1.48
EUR/CHF	0.98062	0.98540	0.49
USD/JPY	134.16	136.30	1.60
GBP/USD	1.2432	1.2567	1.09

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%	16 June 2023
Bank of England (BoE)	Official Bank Rate	4.25%	11 May 2023
Swiss National Bank (SNB)	Libor Target Rate	1.50%	22 June 2023
Bank of Canada (BoC)	Target Overnight Rate	4.50%	7 June 2023
Reserve Bank of Australia (RBA)	Cash Rate Target	3.60%	2 May 2023

Under the management of the new Governor Ueda, the BoJ maintained the same monetary policy but announced its review. It kept the interest rate unchanged. The BoJ will conduct a "broad perspective review" of current policy, with a planned timeline of about a year to a year and a half.

Table 3 – ESTR and Euribor

	24.04.2023[1]	28.04.2023[2]	Change in basis points
ESTR	2.902	2.896	-0.60
Euribor 1W	2.886	2.872	-1.40
Euribor 1M	2.956	3.093	13.70
Euribor 3M	3.261	3.274	1.30
Euribor 6M	3.601	3.622	2.10
Euribor 12M	3.854	3.822	-3.20

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

EUROPEAN GOVERNMENT BONDS MARKET

At the beginning of this reporting week, the return on 10-year German government bonds was stable. The return on these bonds fell on Tuesday, following a sharp drop in the return on US bonds. In the middle of the week and on Thursday, the return grew as data on US inflation influenced the growing expectations that central banks would continue to increase interest rates in the coming period. However, at the very end of the week, the return on these bonds experienced a sharp decline after a significantly reduced probability that the ECB would increase the interest rate by 50 basis points at the next meeting, and all signals pointed out that the interest rate increase would amount to 25 basis points. The return on 10-year bonds stood at 2.31% at the end of the period.

US GOVERNMENT BONDS MARKET

The return on the 10-year US Treasury bonds fell sharply during Monday and Tuesday. The fall was driven by rising demand for safe-haven assets after renewed concerns about the US banking sector with the First Republic Bank shares falling 49% after it reported larger-than-expected deposit withdrawals from that bank. From the middle of the week, the return's recovery period began after announcing that retail sales in the US grew more than expected and the US inflation data release, indicating that the Fed would continue to increase the interest rate at the next meeting. On Friday, the return fell again as demand for safe-haven assets rose again due to concerns about the US banking sector. The return on 10-year bonds ended the period at 3.42%.

GOLD

The gold price rose on Monday as traders were waiting for US economy data then that should have given more clues about how the Fed would continue to conduct monetary policy. On Tuesday, after the initial drop, the oil price rose after concerns about the US banking sector, which affected the demand growth for safe assets. In the middle of the week, the gold price continued to rise for most of the day as investors continued preferring safe investments. However, towards the end of the day, the gold price fell, and the fall continued on Thursday after releasing that the US GDP grew by 1.1% in Q1, which supported expectations that the Fed would increase the interest rate at the next meeting. On Friday, the gold price did not change significantly. At the end of the week, the gold price stood at 1,900 USD/oz. tr.

OIL

The oil price increased on Monday due to the increased demand for this fuel. From Tuesday and throughout Wednesday, the oil price recorded a sharp decline due to concerns about the global economy's growth outlook and as the adverse event with First Republic Bank increased concerns about the recession in the USA. The oil price growth started on Thursday as the appetite for risk recovered and after announcing that stocks of this energy product fell in the USA by 5.05 million barrels during the previous week. At the end of the week, the oil price stood at 81.31 USD/bbl.

Table 4 - Economic indicators (24 – 28 April 2023)

Country	Indicator	Period	Expected value	Current value	Previous value
Euro area	**GDP Seasonal Adjustments (GDP SA)** 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.	SA Q1 QoQ% YoY%	0.2% 1.4%	0.1% 1.3%	0.0% 1.8%
Germany	**IFO Business climate** It refers to a survey of German companies on the current conditions (state) of business in Germany, and their expectations for the next six months.	April	93.5	93.6	93.3
	GfK Consumer Confidence This index measures the level of households' confidence in terms of economic performance.	May	-28.0	-25.7	-29.5
	Consumer price index (CPI) It estimates the cost of living changes by measuring changes in the price level of market basket of consumer goods and services purchased by an average household. Therefore, it is the key inflation measure.	April MoM% YoY%	0.6% 7.3%	0.4% 7.2%	0.8% 7.4%
Great Britain	**Consumer price index (CPI)** It estimates the cost of living changes by measuring changes in the price level of market basket of consumer goods and services purchased by an average household. Therefore, it is the key inflation measure.	March MoM% YoY%	0.5% 9.8%	0.8% 10.1%	1.1% 10.4%
	Retail Sales This indicator measures activity related to retail trade volume.	March MoM%	-0.5%	-0.9%	1.2%
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.	April 22 K=1,000	248 K	230 K	245 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.	March MoM%	-1.3%	9.6%	1.1%
	PCE Deflator The deflator of expenditures for personal consumption monitors on a monthly level the total price changes of goods and services purchased by consumers.	March MoM%	0.1%	0.1%	0.3%
	Personal Spending Total value of goods and services purchased by households within a specific period.	March	-0.1%	0.0%	0.2%
Japan	**Retail Sales** This indicator measures changes in retail sales in Japan.	March MoM% YoY%	0.3% 6.5%	0.6% 7.2%	1.4% 6.6%