CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(25 – 29 September 2023)

Podgorica, 4 October 2023

FX NEWS

EUR/USD

In the first three days of the reporting week, the **EUR/USD exchange rate** depreciated. It happened as the USD appreciated after expecting the Fed to keep interest rates high for most of next year. Weak economic data released for the euro area also pressured the European currency. According to the GfK Institute data, German consumer confidence fell from -25.6 in September to -26.5 in October. The EUR/USD exchange rate rallied on Thursday after the released weaker-than-expected US GDP and personal consumption data. The EUR/USD exchange rate fluctuated the next day and averaged 0.8674. The USD was “under pressure” due to the uncertainty in the USA as the state administration’s work was called into question due to the lack of funds in the federal budget. The reason for the uncertainty is that neither the Senate (controlled by the Democrats) nor the House of Representatives (controlled by the Republicans) has been able to pass a law to extend the federal budget, which expires at midnight on the night from Saturday to Sunday. For the law to be adopted, the proposal must pass both houses. However, The US avoided a government shutdown at the last minute, as the Senate passed an emergency measure over the weekend to continue temporary funding for the next 45 days (until 17 November).

EUR/GBP

The **EUR/GBP exchange rate** depreciated early this week as the ECB President told the European Parliament lawmakers that interest rates would remain high as long as necessary to “contain” inflation. Still, her comments did not support the European currency. In the middle of the week, the exchange rate depreciated. Currency traders believe that the ECB will finish with further interest rate hikes, while they do not think the same for the BoE after rising odds to 40% for a November 2nd rate hike by this institution. On Friday, the EUR/GBP exchange rate had a volatile trend. The sterling appreciated as new data showed that the UK economy recovered from COVID-19 faster than previously forecast. The Great Britain’s Office for National Statistics showed that GDP in Q2 was 1.8% higher than in the pandemic in Q4 2019.

EUR/JPY

The **EUR/JPY exchange rate** depreciated during the first three days of this week. Japan’s Finance Minister said that the “yen’s trend is being monitored with a high sense of urgency” and that the authorities will respond appropriately if the currency trends excessively (the JPY/USD exchange rate is close to 150, a potential intervention trigger). The exchange rate fluctuated at the end of the week, but it recorded daily appreciation.

Table 1 - Exchange rates of the most important currencies

	25.09.2023[1]	29.09.2023[2]	% Change
EUR/USD	1.0653	1.0573	-0.75
EUR/GBP	0.86963	0.86664	-0.34
EUR/JPY	157.93	157.95	0.01
EUR/AUD	1.65526	1.64308	-0.74
EUR/CHF	0.96603	0.96763	0.17
USD/JPY	148.37	149.37	0.67
GBP/USD	1.2241	1.2199	-0.34

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%	26 October 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%	25 October 2023
Reserve Bank of Australia (RBA)	Cash Rate Target	4.10%	3 October 2023

Table 3 – ESTR and Euribor

	25.09.2023[1]	29.09.2023[2]	Change in basis points
ESTR	3.905	3.880	-2.50
Euribor 1W	3.875	3.872	-0.30
Euribor 1M	3.872	3.847	-2.50
Euribor 3M	3.958	3.952	-0.60
Euribor 6M	4.082	4.125	4.30
Euribor 12M	4.213	4.228	1.50

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

EUROPEAN GOVERNMENT BONDS MARKET

The return on 10-year German government bonds was relatively stable during the first three days of this period. Early this week, the return increased due to President Lagarde's statement that economic activity was slowing down but that despite this, the ECB should maintain a restrictive stance for a more extended period. During this period, an ECB Governing Council member and the Eesti Pank Governor announced he did not expect additional interest rate increases by the ECB, adding that the period of high inflation was over. On the other hand, another ECB Governing Council member and the OeNB Governor stated that persistent inflation means that further interest rate increases in the coming period could not be ruled out. On Wednesday and Thursday, the return on long-dated bonds rose as investors worried about the possibility that interest rates would remain high for an extended period, even if the September data showed that inflation in Germany was slowing down. The week ended with the return falling as traders predicted the ECB would cut interest rates next year. Softer inflation figures for September coming from the euro area, France, the Netherlands and Portugal, along with comments from monetary policymakers, indicated that the interest rate hike cycle was over. François de Galhau stated that the current level of interest rates was appropriate, Boštjan Vasle noted that interest rate increases were probably over, and Mārtiņš Kazāks said rate increases would most likely be paused.

US GOVERNMENT BONDS MARKET

The return on 10-year US government bonds trended up on Monday (the return rose from 4.44% to 4.53%). The rising trend is driven by expectations that the Fed would leave interest rates high and that the supply of new bonds would increase as the US government struggles with a growing deficit. The next day, the return fluctuated, but it grew daily as the Minneapolis Fed Chair said he expected the central bank to raise interest rates again this year. On Wednesday, the US return curve was steeper on expectations that the Fed was nearing the end of its rate hike cycle. The return on 10-year US government bonds was volatile on Friday, first weakening then recovering by the end of the day.

GOLD

The gold price fell during this reporting period. The weakening of the gold price mainly resulted from the USD appreciation and the return on US government bonds. The US economy’s resilience and rising expectations of a Fed rate hike put pressure on the gold price. The USD appreciation was driven by expectations that the Fed would maintain a strict monetary policy for longer than its counterparts, resulting in the gold price “suppression”.

OIL

The oil price fell on Monday as Russia announced plans to ease a fuel export ban and due to concerns about demand due to high interest rates. The next day, the oil price fell sharply in the morning to recover for the rest of the day as investors would face a weaker oil supply in the following part of the year. On Wednesday, the price of this fuel rose significantly after announcing that crude oil stocks in the giant US warehouse fell to the lowest level since July 2022. According to official data, overall US inventories fell more than expected, confirming how much the market was tightening due to reduced supplies from Saudi Arabia and Russia. At the end of the week, the oil price dropped as investors assessed the situation regarding the fuel stocks. The Chinese government informed major oil refiners that they should not expect additional fuel export quotas until the end of the year. On Friday, the oil price declined as the EIA announced that oil production in the USA reached record levels in July.

Table 4 - Economic indicators (25 – 29 September 2023)

Country	Indicator	Period	Expected value	Current value	Previous value
Euro area	**Consumer price index (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.	September Preliminary data MoM%	0.5%	0.3%	0.5%
	Consumer price index (CPI Core) Core inflation represents the long-term trend of price levels. In measuring long-term inflation, transient price changes should be excluded, and the only way is to exclude items subject to frequent price changes, such as food and energy.	September Preliminary data YoY%	4.8%	4.5%	5.3%
Germany	**Consumer price index (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.	September Preliminary data MoM% YoY%	0.3% 4.6%	0.3% 4.5%	0.3% 6.1%
	Retail Sales This indicator measures changes in retail sales in Germany.	August MoM%	0.5%	-1.2%	-0.8%
France	**Consumer price index (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.	September Preliminary data MoM% YoY%	-0.3% 5.1%	-0.5% 4.9%	1.0% 4.9%
Spain	**Consumer price index (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.	September Preliminary data MoM% YoY%	0.2% 3.5%	0.2% 3.5%	0.5% 2.6%
Great Britain	**Gross domestic product (GDP)** It measures the value of products and services produced inside the country. GDP is the most comprehensive measure of economic output and provides a key insight into an economy's main drivers.	Q2 QoQ% YoY%	0.2% 0.4%	0.2% 0.6%	0.2% 0.4%
USA	**PCE Deflator** The deflator of expenditures for personal consumption monitors monthly/annual total price changes of goods and services purchased by consumers.	August MoM% YoY%	0.5% 3.5%	0.4% 3.5%	0.2% 3.3%
	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.	August MoM%	-2.2%	-8.7%	4.4%
	GDP Annualized Gross domestic product (GDP) measures the annual change in the inflation-adjusted value of all goods and services produced by the economy. It is the broadest measure of economic activity and the primary indicator of an economy's health.	Q2 QoQ%	2.2%	2.1%	2.1%
Japan	**Retail Sales** This indicator shows changes in sales. The statistics covers universal shops and supermarkets. It shows the level of consumer shocks and consumer demand.	August MoM% YoY%	0.4% 6.6%	0.1% 7.0%	2.1% 6.8%