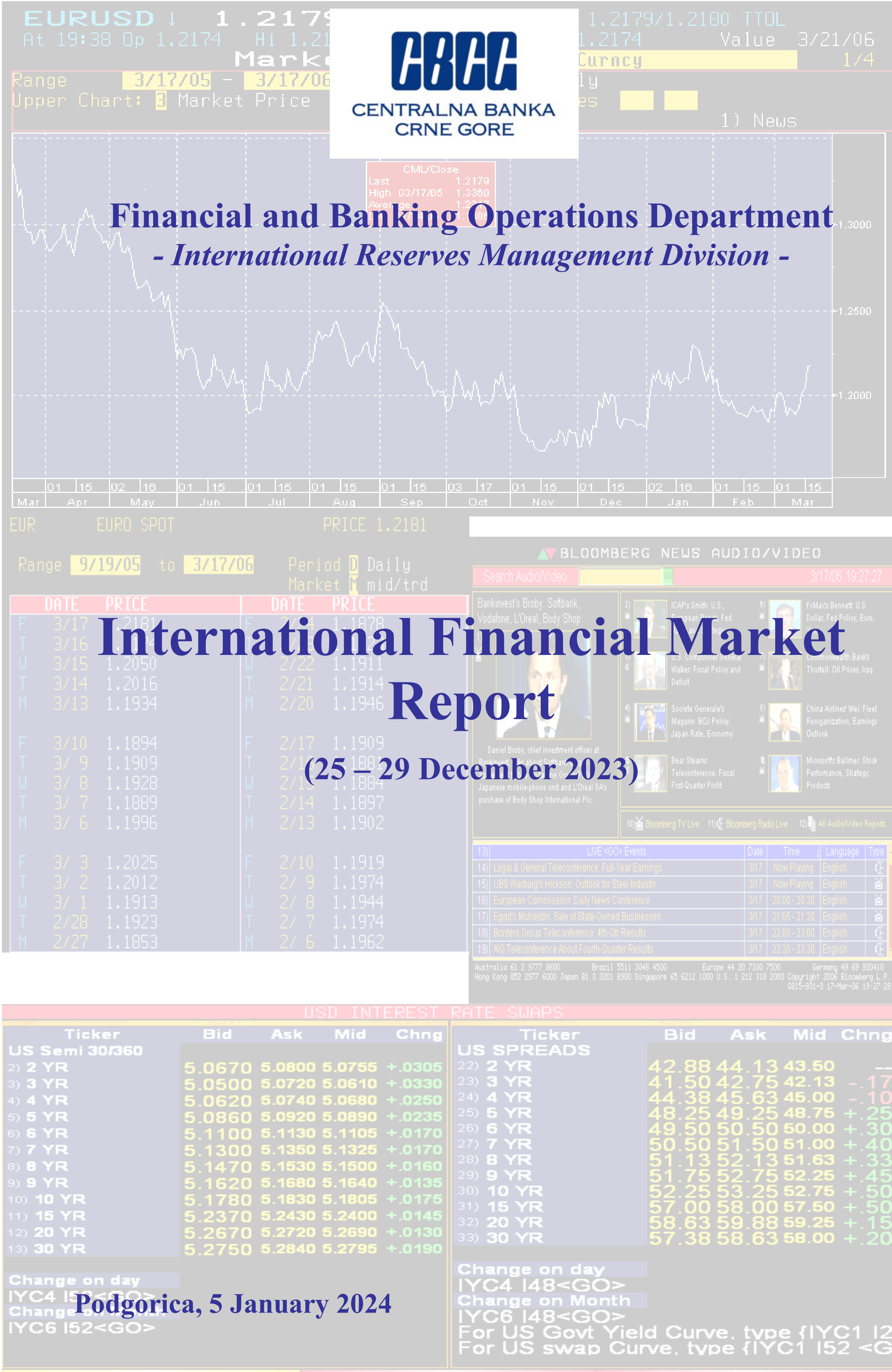

CBCG
CENTRALNA BANKA
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Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(25 – 29 December 2023)

Podgorica, 5 January 2024

FX NEWS

EUR/USD

The **EUR/USD exchange rate** appreciated until Thursday morning, after which it depreciated. Early this week, the EUR/USD exchange rate appreciated as the USD depreciated amid the reduced trade volume due to the holidays and the rise in share prices in the USA. On Wednesday, the exchange rate appreciated more significantly due to increased expectations that the Fed will substantially reduce interest rates in the coming year. The next day, "overheated" market expectations regarding the Fed's policy "turn" and the rise in the return on 7-year US government bonds led to increased demand for the USD, considered a haven, so the exchange rate depreciated. At the end of the week, the USD depreciated again after initial jobless claims in the USA increased more than expected last week.

EUR/GBP

Last week, the **EUR/GBP exchange rate** was volatile and ranged from 0.86549 to 0.86699. It depreciated in the beginning of the week due to holidays. The EUR/GBP exchange rate fluctuated on Wednesday to record daily depreciation as investors expected that the BoE would not be able to cut interest rates to the extent that the ECB and the Fed would, given the level of inflation in the country. The EUR/GBP exchange rate recorded a daily depreciation on Friday. ECB and the BoE monetary policymakers did not signal an imminent interest rate cut at their meetings this month. However, traders were still betting that the Fed's policy "pivot" and the prospect of lower rates next year will allow other leading central banks to follow suit.

EUR/JPY

The **EUR/JPY exchange rate** appreciated early this week. The EUR/JPY exchange rate appreciated on Wednesday morning to depreciate in the afternoon as the BoJ governor stated that there was "not zero" probability that the central bank would exit negative interest rates during 2024 and more favourable data on the industrial sector of Japan (in November, industrial production fell by -0.9% vs the expected -1.6%), causing the yen to appreciate at the end of the day. The yen appreciated on Monday, supported by earlier comments from BoJ Governor Kazuo Ueda, which further increased expectations for a possible policy move in the spring, not ruling out the less likely option of a rate hike in January.

Table 1 - Exchange rates of the most important currencies

	25.12.2023[1]	29.12.2023[2]	% Change
EUR/USD	1.1014	1.1039	0.23
EUR/GBP	0.86699	0.86691	-0.01
EUR/JPY	156.84	155.72	-0.71
EUR/AUD	1.61952	1.62057	0.06
EUR/CHF	0.94236	0.92887	-1.43
USD/JPY	142.91	141.04	-1.31
GBP/USD	1.2701	1.2731	0.24

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%	25 January 2024
Federal Reserves (Fed)	Federal Funds Target Rate	5.50%	31 January 2024
Bank of Japan (BoJ)	Overnight Call Rate	-0.10%	23 January 2024
Bank of England (BoE)	Official Bank Rate	5.25%	1 February 2024
Swiss National Bank (SNB)	Libor Target Rate	1.75%	21 March 2024
Bank of Canada (BoC)	Target Overnight Rate	5.00%	24 January 2024
Reserve Bank of Australia (RBA)	Cash Rate Target	4.35%	6 February 2024

Table 3 – ESTR and Euribor

	25.12.2023[1]	29.12.2023[2]	Change in basis points
ESTR	3.8990	3.8820	-1.70
Euribor 1W	3.872	3.900	2.80
Euribor 1M	3.865	3.845	-2.00
Euribor 3M	3.931	3.909	-2.20
Euribor 6M	3.895	3.861	-3.40
Euribor 12M	3.581	3.513	-6.80

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

EUROPEAN GOVERNMENT BONDS MARKET

During the first two days of this week, the bond market was closed in Europe due to holidays. On Wednesday, after the markets opened, the return on German 10-year bonds fell slightly to increase in the last two working days in 2023. It grew when the OeNB governor stated that it was still too early to think about lowering interest rates and added that there is no guarantee that they would decrease in 2024. The return on 10-year bonds stood at 2.02% at the end of the reporting period.

US GOVERNMENT BONDS MARKET

On Monday, markets in the USA were closed for a holiday. On Tuesday, the return on 10-year US government bonds was stable to fall sharply on Wednesday. The drop came as market participants increased expectations for a Fed rate cut in 2024. However, during this year's last two working days, the return rose as the US auctioned 7-year bonds, which saw weaker-than-expected demand. The return on 10-year bonds was 3.88% at the end of the period.

GOLD

The market was closed on Monday due to a holiday. Over the next two days, the gold price rose as the USD depreciated against a basket of currencies, and due to geopolitical tensions. Additionally, the gold price growth resulted from data on the production index measured by the Richmond Fed, which showed that the production index fell from -5 in November to -11 in December. During the last two days, the gold price declined, and the USD appreciated against other currencies, affecting the drop in gold demand.

OIL

The market was closed on Monday due to a holiday. On Tuesday, the oil price rose after growing concerns that tensions in the Red Sea could lead to significant global disruptions in oil supply. During the rest of the week, the oil prices trended down. The oil price dropped after the stocks of this fuel increased by 1.8 million barrels in the USA in the previous week.

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

Country	Indicator	Period	Expected value	Current value	Previous value
USA	**Initial Jobless Claims** It measures the number of people filing for unemployment benefits for the first time.	December 23 K=1,000	210 K	218 K	205 K
	Pending home sales This index monitors the sales of real estate where contracts have been signed, but the sale and/or the transaction is not yet complete. It is the leading indicator of future existing real estate sales and assesses conditions in the US real estate market. Due to the real estate market's sensitivity to business cycles' changes, it can be an important indicator of overall conditions when this market is crucial to the economy.	November MoM%	0.9%	0.0%	-1.5%
Great Britain	**Nationwide House PX** This concept monitors changes in residential property prices in the UK by the Nationwide Building Society. It is the second earliest report on real estate inflation.	December MoM%	0.1%	0.0%	0.2%
Japan	**Unemployment rate** The percentage of unemployed individuals actively looking for a job.	November MoM%	2.5%	2.5%	2.5%
	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.	November MoM% YoY%	0.5% 5.0%	1.0% 5.3%	-1.6% 4.2%