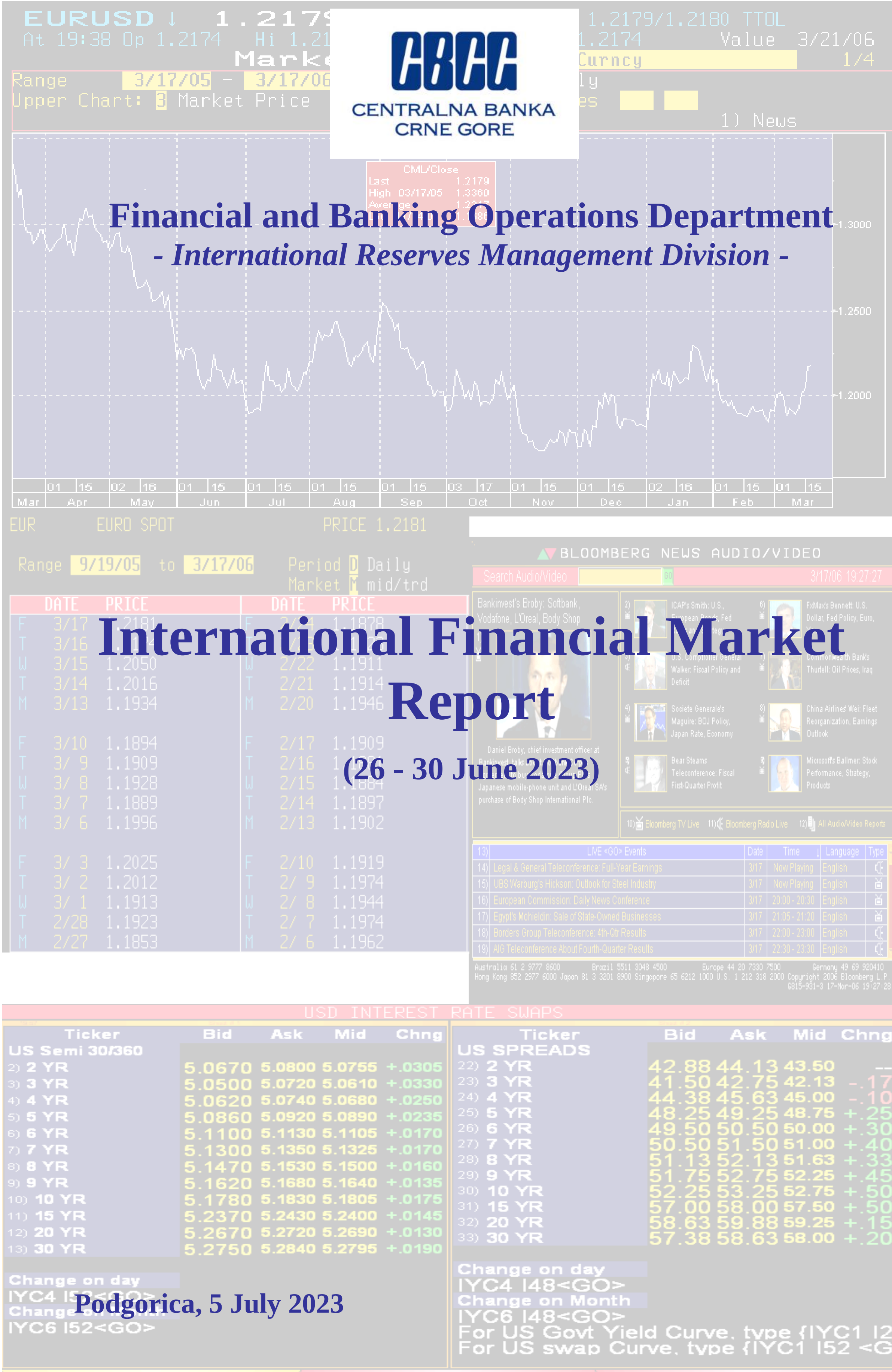

CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(26 - 30 June 2023)

Podgorica, 5 July 2023

FX NEWS

EUR/USD

The **EUR/USD exchange rate** appreciated slightly in this reporting week. It reached its maximum weekly value on Tuesday (1.0977), as expectations regarding interest rate increases in Europe supported the euro. It appreciated after the ECB President's statement at the annual conference of central banks in Portugal that it would have a stricter approach in conducting monetary policy. However, the exchange rate depreciated from Wednesday until Friday, when it recorded the minimum weekly value (1.0835). Namely, the USD started to appreciate after rising expectations regarding the interest rate increase in the US market. The Fed Chair stated that interest rates need to be more restrictive and that there could be an increase at the next two meetings. He stated that the Fed increased interest rates at a rapid pace last year, so there needed to be more time to see the effects on economic activity and inflation in terms of their slowdown. On Thursday, the exchange rate appreciated briefly due to the released stronger-than-expected preliminary data on the June inflation rate in Germany and Spain. Soon, the US GDP data pointing to the economy's resilience boosted expectations that the FED would increase the rate twice, which caused the exchange rate depreciation to continue. On Friday morning, the lower-than-expected preliminary data on the June inflation rate of the euro area further depreciated the exchange rate. In the afternoon, it appreciated sharply due to the USD depreciation after the data showed an unexpected slowdown in the annual growth rate of consumer prices in the USA in May.

EUR/GBP

The **EUR/GBP exchange rate** appreciated in the first half of the week, to depreciate in the second half of the week. The EUR/GBP exchange rate first depreciated early this week, to appreciate sharply later as the ECB President's speech at the central bank's annual conference in Sintra, Portugal, was expected to indicate that the bank was ready to reduce inflation, despite the possibility that it would harm economic growth. After the speech, the euro appreciated against the GBP as Christine Lagarde, in line with market expectations, sent a bold message regarding tighter monetary policy. This news was relevant on Wednesday as well. On Thursday, the EUR/GBP exchange rate, with fluctuations, nevertheless depreciated daily. Home mortgage approvals in the UK rose more than expected in May (from 48,690 to 50,000), appreciating the sterling. The next day, the GBP appreciated as it was supported by a survey showing that business confidence in the UK had jumped to its highest level in 13 months and that wage pressures looked set to remain high due to employment growth. On the other hand, the euro showed depreciation due to inflation data.

EUR/JPY

On Monday, the **EUR/JPY exchange rate** fell to 155.75, the lowest level this week, following a statement by Japan's Deputy Finance Minister for International Affairs that recent currency market trends were rapid and excessive and that officials were closely monitoring further developments. The exchange rate appreciated on the same day, and the trend continued on Tuesday as the euro appreciated due to growing market expectations for further ECB interest rate hikes. In the middle of the week, the exchange rate recorded the highest value in the last almost 15 years, 158.00. In the rest of the week, this exchange rate generally depreciated as the Minister of Finance of Japan warned that appropriate actions would be taken should the Japanese currency depreciation continue. He told reporters that the government must respond adequately to excessive currency market movements. The BoJ Governor suggested that the BoJ could start normalising monetary policy once it was confident of a rising inflation rate next year. The exchange rate recovered on Friday afternoon as data on slower-than-expected inflation growth in Japan in June supported the current management of the BoJ's monetary policy, so the exchange rate ended the reporting week close to the mentioned level.

Table 1 - Exchange rates of the most important currencies

	26.06.2023[1]	30.06.2023[2]	% Change
EUR/USD	1.0894	1.0909	0.14
EUR/GBP	0.85669	0.85927	0.30
EUR/JPY	156.66	157.44	0.50
EUR/AUD	1.63052	1.63771	0.44
EUR/CHF	0.97752	0.97697	-0.06
USD/JPY	143.70	144.31	0.42
GBP/USD	1.2714	1.2703	-0.09

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	4.00%	27 July 2023
Federal Reserves (Fed)	Federal Funds Target Rate	5.25%	26 July 2023
Bank of Japan (BoJ)	Overnight Call Rate	-0.10%	28 July 2023
Bank of England (BoE)	Official Bank Rate	5.00%	3 August 2023
Swiss National Bank (SNB)	Libor Target Rate	1.75%	21 September 2023
Bank of Canada (BoC)	Target Overnight Rate	4.75%	12 July 2023
Reserve Bank of Australia (RBA)	Cash Rate Target	4.10%	4 July 2023

Table 3 – ESTR and Euribor

	26.06.2023[1]	30.06.2023[2]	Change in basis points
ESTR	3.400	3.400	0.00
Euribor 1W	3.396	3.362	-3.40
Euribor 1M	3.448	3.399	-4.90
Euribor 3M	3.610	3.577	-3.30
Euribor 6M	3.933	3.900	-3.30
Euribor 12M	4.147	4.134	-1.30

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

EUROPEAN GOVERNMENT BONDS MARKET

The return on 10-year German government bonds recorded slight fluctuations during the first three days of this reporting period before rising sharply on Thursday following the recovery of the return on US bonds and expectations that the world's leading central banks would continue to raise interest rates. On Friday, the return on these bonds dropped after the released preliminary data on inflation in the euro area, which indicated that inflation slowed down from 6.1% to 5.5% y-o-y in June. The return on 10-year German bonds was 2.39% at the end of the period.

US GOVERNMENT BONDS MARKET

The return on the 10-year US Treasury bonds was flat during the first three days of the reporting period. The first significant change happened on Thursday, which was a big jump in the return trend. The increased return in that period occurred after upbeat data on economic growth from the USA, which ultimately increased expectations that the Fed would raise the interest rate twice this year. US economic data showed that economic growth in Q1 was faster than previously estimated, and at the same time, new jobless claims unexpectedly fell. This rise in the return continued until mid-Friday when it turned slightly lower following the release of weaker-than-expected US consumption and inflation data that day. The return on 10-year US bonds ended the week at 3.83%.

GOLD

The gold price fell in this reporting week. The main reason for this trend was the expectation that the leading central banks would continue to increase interest rates in July, increasing after the officials' statements at the annual ECB conference of central banks in Portugal. The price trended down also due to the USD appreciation. On Thursday, the price fell below 1,900 USD/oz. tr. However, it recovered the same afternoon, lasting until the end of the week but insufficiently compensating for the previous decline. The recovery came as the USD depreciated after the announcement that the consumer price inflation's annual rate had unexpectedly slowed in the US in May.

OIL

The oil price generally trended down in the first half of the week. It recovered in the week's second half, resulting in weekly price growth. Concerns about global economic growth caused the price to weaken in the first half of the week, as further interest rates increase could lead to a recession in developed economies. However, after the US government report showed that oil stocks in the US fell more than expected last week and the most over the previous two months, by 9.6 million barrels, the oil price started to rise and maintained this trend until the end of the week. The price increase was also caused by the US GDP data, which indicated the economic activity's strengthening and the data on the inflation slowdown in the USA.

Table 4 - Economic indicators (26 – 30 June 2023)

Country	Indicator	Period	Expected value	Current value	Previous value
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.	Maj Q1 Final data QoQ% YoY%	0.1% 0.2%	0.1% 0.2%	0.1% 0.2%
	Mortgage Approvals This indicator measures the number and/or value of mortgage loans approved by lenders.	May K=1,000	49.7 K	50.5 K	48.7 K
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.	June	90.7	88.5	91.7%
	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.	June Preliminary data MoM% YoY%	0.2% 6.3%	0.3% 6.4%	-0.1% 6.1%
USA	**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.	May MoM%	-1.0%	12.2%	4.1%
	Durable Goods Orders This is an indicator of consumer safety that reflects their expectations and the ability to spend money. Its positive growth marks the state of the economy, helping to strengthen the currency. Its decline leads to the opposite result. The DGO index is an excellent indicator for the future. Many manufacturers plan production based on available orders, the decline in DGO precedes the decline in production and vice versa.	May Preliminary data	-0.9%	1.7%	1.1%
	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 the economy's health.	Q1	1.4%	2.0%	1.3%
Euro area	**Consumer price index (CPI)** This indicator estimates the changes in the cost of living, measuring changes in the price level of the basket of consumer goods and services purchased by an average household. Therefore, it is a key measure of euro area inflation.	June Preliminary data	0.3%	0.3%	0.0%
Japan	**Industrial output** It measures the output volume in the mining and industrial sectors of Japan. Industrial output responds significantly to business cycle changes and can often predict trends in employment rates, earnings, and personal income.	May Preliminary data MoM% YoY%	-1.0% 4.3%	-1.6% 4.7%	0.7% -0.7%