CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(27 - 31 March 2023)

Podgorica, 5 April 2023

FX NEWS

EUR/USD

During this reporting week, the **EUR/USD exchange rate** appreciated. At the beginning of the week, concerns about previous events in the financial sector eased, decreasing demand for USD and causing the exchange rate to appreciate. The USD depreciated due to market participants' growing expectations that the Fed would reduce the interest rate several times this year. On the other hand, expectations that the ECB will continue to increase the interest rate in May grew. In the middle of the week, the exchange rate did not show significant changes due to investors' caution because of the preliminary German inflation rate data in March. The release that these data exceeded expectations and amounted to 7.8% vs the expected 7.5% fuelled speculations that the ECB would increase the interest rate several times this year and the exchange rate continued to appreciate. However, Friday, the exchange rate depreciated as preliminary data indicated a sharp drop in euro area inflation in March from 8.5% to 6.9%, the lowest level in the last year due to the energy costs decline. Nevertheless, the core euro area CPI reached a new record high value of 5.7%. EU officials recently pointed to this index's importance in the ECB's consideration of further monetary policy tightening. Concerning the USA, it was released on Friday that personal consumption achieved modest growth in February, and the inflation rate, measured by the personal consumption expenditure deflator (PCE deflator, PCE core deflator), remained high although slowed down, which would lead to another Fed interest rate hike this year.

EUR/GBP

At the beginning of this period, the **EUR/GBP exchange rate** depreciated as the BoE Governor stated that global banking developments would not influence the decision to increase the interest rate. For the next two days, this rate had an upward trend. The BoE's Financial Stability Committee has called for minimum buffers for bond-invested funds used in pension schemes to protect against future bond market shocks. The Committee also noted that the UK's banking system was resilient to the recent stresses after the SVB Bank collapse. The exchange rate appreciated on Thursday until noon but depreciated after announcing at noon that Great Britain's GDP increased by 0.6% annually. On Friday, the EUR/GBP exchange rate had a depreciation trend.

EUR/JPY

The **EUR/JPY exchange rate** had a depreciation trend almost throughout the week. At the beginning of the week, the fear about the banking crisis spillover was reduced – investors became more optimistic that this process had stopped – so the demand for safe assets decreased, causing the yen's depreciation and the exchange rate's appreciation. The BoJ Deputy Governor said it was essential to maintain an expansionary monetary policy to support the economy, so market participants focused on the divergence between the BoJ's monetary policy and that of other central banks, another reason for Japan's currency's depreciation. Data on Germany's inflation rate supported the outlook for an ECB interest rate hike, which supported the European currency. However, on Friday, this exchange rate depreciated due to the publishing of a weaker-than-expected preliminary euro area inflation rate in March. Still, despite this, it achieved weekly growth.

Table 1 - Exchange rates of the most important currencies

	27.03.2023[1]	31.03.2023[2]	% Change
EUR/USD	1.0760	1.0834	0.69
EUR/GBP	0.87973	0.87902	-0.08
EUR/JPY	140.66	144.09	2.44
EUR/AUD	1.61913	1.62167	0.16
EUR/CHF	0.98988	0.99218	0.23
USD/JPY	130.73	132.86	1.63
GBP/USD	1.2233	1.2377	1.18

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%	28 April 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%	12 April 2023
Reserve Bank of Australia (RBA)	Cash Rate Target	3.60%	4 April 2023

Table 3 – ESTR and Euribor

	27.03.2023[1]	31.03.2023[2]	Change in basis points
ESTR	2.899	2.884	-1.50
Euribor 1W	2.878	2.898	2.00
Euribor 1M	2.928	2.915	-1.30
Euribor 3M	3.025	3.038	1.30
Euribor 6M	3.281	3.341	6.00
Euribor 12M	3.533	3.622	8.90

[1] Opening market value on Monday

[2] Closing market value on Friday

EUROPEAN GOVERNMENT BONDS MARKET

The return on 10-year German government bonds rose until Friday and then saw a decline on Friday. The return rose due to signals of avoiding a significant disruption in the banking sector that reduced concerns, and stock market prices recovered. On Wednesday morning, the return on these bonds first dropped as the ECB Governing Council member Lane said that he expected inflation in the euro area to fall sharply at the end of the year. It recovered later in the day due to increased investors' propensity towards riskier investments. The next day, the return recorded a sharper growth as the inflation in Germany was slightly higher than predicted in March, increasing expectations that the ECB would continue to increase the interest rate in the following period. At the end of the day, the return dropped due to reduced ECB rate expectations following the announcement that euro area inflation slowed more than expected in March, although core inflation accelerated.

US GOVERNMENT BONDS MARKET

On Monday, the return on 10-year US Government bonds rose after eased fears that the banking crisis would spread, leading to increased demand for wealthier assets such as stocks. The market was also positively influenced by the news that Citizens BancShares Inc. would buy SVB. After that, the return fluctuated from 3.49% to 3.60% from Tuesday to Friday. On Friday, the return on 10-year US bonds fell from 3.58% to 3.47% due to the announcement that the basic US deflator of personal consumption expenditures rose less than expected in February, and the January data was revised downwards.

GOLD

The oil price fluctuated in this reporting week. On Monday, it fell after easing concerns about the banking crisis spillover, which decreased demand for the safe-haven asset. Moreover, the share prices on American stock exchanges recovered and further deterred investors from investing in gold. The following day, this precious metal's price recovered due to the USD depreciation and the increased demand for gold by exchange-traded funds (ETFs). In the middle of the week, gold price dropped again due to growing demand for riskier assets. On Thursday, the price recovered after publishing weaker-than-expected US economy data (initial jobless claims and GDP for Q4 2022). The end of the week again saw the gold price weakening due to the USD appreciation. The gold price remained almost the same weekly after all these changes.

OIL

The oil price rose in this reporting week. Decreased concerns about the US and European banking sectors and optimism that the banking crisis spillover had stopped increased the oil demand and caused the price to rise. The price also increased due to growing concerns about the suspension of exports from Iraqi Kurdistan via Turkey by some 400 thousand barrels daily after the arbitration court confirmed that exporters must first obtain permission from Baghdad. Industrial data that showed that US oil stocks fell by 6.1 million barrels last week and demand recovery signs in China (China's oil imports are expected to rise 6.2% this year) further supported this fuel's price. The price fell briefly in the middle of the week, although the official US government data showed that oil stocks fell by 7.5 million barrels last week. The uptrend soon resumed and lasted until the end of the week, as traders remained focused on supply-side issues due to ongoing supply disruptions from the Middle East.

Table 4 - Economic indicators (27 – 31 March 2023)

Country	Indicator	Period	Expected value	Current value	Previous value
Great Britain	**Gross domestic product (GDP)** 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.	Q4 QoQ% YoY%	0.00% 0.40%	0.10% 0.60%	0.00% 0.40%
Germany	**Retail Sales** This indicator measures activity related to retail trade volume.	February MoM% YoY%	0.50% -5.10%	-1.30% -7.00%	-0.30% -4.60%
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.	March 25 K=1,000	196 K	198 K	191 K
	Gross domestic product (GDP) 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.	Q4 QoQ%	2.70%	2.60%	2.70%
Japan	**Retail Sales** This indicator measures activity related to retail trade volume.	February MoM% YoY%	0.30% 5.80%	1.40% 6.60%	1.90% 6.30%
	Industrial output It measures the output of the energy sector, factories and mines. Growing industrial production points to increased production and economic expansion.	February MoM% YoY%	2.70% -2.40%	4.50% -0.60%	-5.30% -3.10%
Italy	**Consumer Confidence** It measures consumer confidence. This figure is the result of a survey of consumers in terms of their finances, labour market, willingness to save, and expectations regarding the economy.	March	104	105.1	104
	Unemployment Rate The percentage of unemployed individuals actively looking for a job.	February	7.90%	8.00%	7.90%