CENTRALNA BANKA
CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(29 May – 2 June 2023)

Podgorica, 7 June 2023

FX NEWS

EUR/USD

The **EUR/USD exchange rate** depreciated slightly in this reporting week. The trade volume declined on Monday due to the US holiday, and the exchange rate depreciated slightly. The downtrend prevailed until Thursday, mainly due to uncertainty about reaching an agreement in the US regarding the debt limit increase and, consequently, the growing demand for the USD as a safe investment. In this period, the euro showed depreciated due to the publication of weaker-than-expected preliminary data on May inflation in Spain (3.2% vs expected 3.6%), Germany (6.1% vs 6.5%) and France (5.1% vs 5.5%). However, the exchange rate appreciated on Thursday and Friday mornings. The news that the US Senate adopted the proposal of the debt ceiling suspending law that would prevent the economy's catastrophic bankruptcy, which was waiting for President Biden's signature, caused the USD to depreciate (the President signed the law on Saturday). The USD also depreciated due to the increasing prospects that the Fed would abandon an interest rate increase at the June meeting, while the ECB President's statement that future interest rate increases were necessary supported the European currency despite preliminary data on a larger-than-expected euro area's inflation rate drop in May. However, the exchange rate depreciated on Friday afternoon as the USD appreciated due to encouraging data from the US labour market (payroll growth).

EUR/GBP

In this reporting week, the **EUR/GBP exchange rate** experienced its most significant depreciation since February, reaching a 6-month low on Thursday. The downtrend was present most of the week due to the sterling's appreciation, and the markets were closed on Monday for the holiday. Earlier in the week, it was reported that the British Government was reportedly considering plans to ask supermarkets to cap prices on basic food items as their prices continued to rise by double-digit percentages. Catherine Mann, a BoE's Monetary Policy Committee member, said the UK was more exposed to challenges limiting core inflation than the US and the euro area. She added that the gap between inflation and UK core inflation was much more significant. For this reason, the BoE is expected to take a more aggressive approach to monetary policy tightening. The exchange rate also fell due to publishing of the euro area inflation data. Towards the end of the week, the exchange rate recovered slightly, as the sterling depreciated due to the released British economic data, which showed that the manufacturing sector was still weak, and that demand for real estate and mortgages was weakening due to the high-interest rates environment.

EUR/JPY

The **EUR/JPY exchange rate** also depreciated this week. The EUR/JPY exchange rate also depreciated this week. For most of the week, it trended down as the yen appreciated due to growing demand for safe-haven assets, mainly due to uncertainty about reaching an agreement on US debt limit raising. In this period, Japan's unemployment rate fell in April for the first time in the last three months, from 2.8% to 2.6%, compared to the expected 2.7% drop. Yen received support from the Minister of Finance of Japan's statement after the BoJ and the Financial Services Agency meeting that the Government would continue to monitor currency market trends closely and take appropriate actions if necessary. On Wednesday, it was announced that capital spending in Japan in the first quarter grew at an annual rate of 11% compared to the expected 6% while the production index rose from 49.5 to 50.6 in May, all pointing to the economy's recovery from the pandemic. The euro depreciated due to weaker-than-expected inflation data from individual European economies and the whole euro area. Towards the end of the week, the exchange rate recovered as the final agreement on the US debt limit caused the demand for safe assets to decrease, so the Japanese currency depreciated.

Table 1 - Exchange rates of the most important currencies

	29.05.2023[1]	02.06.2023[2]	% Change
EUR/USD	1.0723	1.0708	-0.14
EUR/GBP	0.8865	0.86001	-0.99
EUR/JPY	150.84	149.76	-0.72
EUR/AUD	1.64547	1.62059	-1.51
EUR/CHF	0.97075	0.97316	0.25
USD/JPY	140.60	139.92	-0.48
GBP/USD	1.2344	1.2453	0.88

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	3.75%	15 June 2023
Federal Reserves (Fed)	Federal Funds Target Rate	5.25%	14 June 2023
Bank of Japan (BoJ)	Overnight Call Rate	-0.10%	16 June 2023
Bank of England (BoE)	Official Bank Rate	4.50%	22 June 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	3.85%	6 June 2023

Table 3 – ESTR and Euribor

	29.05.2023[1]	02.06.2023[2]	Change in basis points
ESTR	3.1520	3.1480	-0.40
Euribor 1W	3.125	3.121	-0.40
Euribor 1M	3.199	3.218	1.90
Euribor 3M	3.462	3.490	2.80
Euribor 6M	3.760	3.728	-3.20
Euribor 12M	3.955	3.875	-8.00

[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 a slight decline early this week. The return on Spanish government bonds dropped as Spain's prime minister, Pedro Sanchez, called snap elections for 23 July after heavy losses in regional and local elections. It was a surprising move by the Prime Minister. The following day, the downward trend in the return continued after published lower-than-expected Spanish inflation data. The exchange rate fluctuated in the middle of the week. The return's weakening was caused by the announcement that inflation in France and Germany had slowed significantly, and weaker Chinese economic data highlighted concerns about global economic growth. The release of weaker-than-expected preliminary data on the euro area inflation rate in May caused the fall in the return on Thursday. On Friday, the return recovered as investors' risk appetite increased and good US payroll data was released.

US GOVERNMENT BONDS MARKET

Markets were closed on Monday for the Memorial Day holiday. After the market opened, the return on 10-year US Government Bonds fell as concerns about a possible technical failure of the US debt ceiling eased even if signs of persistent inflation left third parties weighing whether the Fed would raise interest rate in June. On Wednesday, the daily return also fell after some Fed officials suggested that the central bank could skip raising interest rates at its June meeting, and a vote on the US debt limit was expected, causing higher demand for safe assets. On Friday, share prices in the USA rose, and good data from the US labour market were published, which caused the return to rise.

GOLD

The gold price did not register significant changes on Monday due to the US holiday. After the market opening, the gold price increased due to the fall in the return on US bonds, and investors were assessing the possible impact of the US debt limit agreement on the already fragile economy. The price fluctuated in the middle of the week to rise again on Thursday due to the USD depreciation, weaker-than-expected data on the US manufacturing index in May (ISM index) and mild comments from Fed official Harker, who did not favour a June rate hike. The gold price trended down on Friday due to the publication of stronger-than-expected payroll data in the US non-manufacturing sector.

OIL

Oil prices fell on Monday. Concerns about the recovery of the Chinese economy caused the oil prices to drop. The price weakening continued the next day, awaiting the OPEC+ meeting. Tensions between Russia and Saudi Arabia did not cease as Russia pumped ever-increasing amounts of cheap heavy crude oil into world markets, undermining Saudi Arabia's efforts to raise prices. Concerns about the borrowing agreement in the US put additional pressure on the price. A private report showed that oil stocks in the USA increased by 5.2 million barrels last week, which was also why the price of this energy product weakened. At the end of the week, the oil price rose due to the progress concerning the debt limit of the USA, whose influence prevailed concerning the report on growing stocks (data from the US Government showed that oil stocks increased by 4.5 million barrels last week). On Friday, oil prices rose on improved risk appetite after the Senate passed a debt proposal, and after the meeting, Saudi Arabia said it would cut production by an additional 1 million bbl./day from 1 July. Russia has not committed to "deeper" production cuts, while the UAE has secured a higher production quota for 2024. The rest of the OPEC+ group has pledged to maintain existing reductions until the end of 2024.

Table 4 - Economic indicators (29 May – 2 June 2023)

Country	Indicator	Period	Expected value	Current value	Previous value
Euro area	**CPI estimate** This is an early euro area estimate. This index uses available data comparable to a historical trend to anticipate changes in consumer prices. By itself, CPI monitors the consumer price changes by measuring price changes of market basket of consumer goods and services purchased by an average household. Therefore, it is the key inflation measure. Positive CPI points to price increase.	May YoY%	6.3%	6.1%	7%
	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.	May YoY% Preliminary data	5.5%	5.3%	5.6%
USA	**JOLTS Job Openings** This concept tracks the number of specific jobs in the economy. Vacancies generally include either newly created or unfilled positions (or soon-to-be-vacant positions) that the employer is taking particular action to fill.	April K=1,000	9400k	10103k	9745k
	ADP Employment Change This indicator measures the number of employees on the private sector payroll. It is sometimes called the institution's employment survey to distinguish it from the household survey employment measure.	May K=1,000	170k	278k	291k
	Change in non-farm payrolls The report shows the total number of newly employed workers on a monthly basis by economy industries. It does not include employees in farms, some government agencies, self-employed individuals and NGOs. It serves as the basis for tailoring economic policy and forecasting future economic trends.	May K=1,000	195k	339k	294k
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.	April MoM% YoY%	0.5% 7.1%	-1.2% 5.0%	0.3% 6.9%
	Housing Starts It shows the change in the number of new construction objects during the reference period.	April YoY%	-0.8%	-11.9%	-3.2%
Great Britain	**Mortgage Approvals** This indicator measures the number and/or value of mortgage loans approved by lenders.	April K=1,000	53.5k	48.7k	51.5k
	S&P Global/CIPS UK Manufacturing PMI This survey tracks opinion among procurement managers at manufacturing. The index was obtained from the results of questionnaires related to production, orders, stocks, employment, prices, etc.	May Final data	46.9	47.1	46.9