CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(1 – 5 January 2024)

Podgorica, 10 January 2024

FX NEWS

EUR/USD

The market was closed on Monday due to a holiday. On Tuesday, the **EUR/USD exchange rate** depreciated after the December PMI manufacturing index in the euro area was 44.4 (for the 18th consecutive month in contraction). The next day, the exchange rate depreciated as the minutes from the last Fed meeting showed that interest rates would remain at a restrictive level for a certain period. The exchange rate recovered slightly over the previous two days of this reporting period. It recovered because preliminary data showed that the consumer price index in France, Germany and the euro area increased in December. It indicates that the ECB will not start reducing interest rates in March, so the European currency gained support. However, mixed data from the other side of the Atlantic caused the exchange rate to fluctuate at the end of the week. The report on payrolls excluding agriculture led to the USD appreciation, but the service index data resulted in the USD depreciation.

EUR/GBP

The first week in 2024 was marked by the **EUR/GBP exchange rate** depreciation. The markets were closed on Monday. The next day, the exchange rate was supported by data on the production index for Great Britain, which weakened in December due to a sharper drop in production and employment compared to the previous month. However, the exchange rate depreciated on Wednesday after the unemployment rate in Germany increased from 5.8% to 5.9% in December. On Thursday, the exchange rate was stable with a slightly rising trend, but the decline continued on Friday as British economic data supported the sterling. Namely, the service index exceeded expectations, indicating the fastest growth in the last six months. Although the construction index remained in contractionary territory, it recorded growth to its peak level during the previous four months.

EUR/JPY

The market was closed on Monday due to a holiday. In the rest of the reporting period, the **EUR/JPY exchange rate** appreciated. The exchange rate appreciated as the powerful earthquake that hit Japan in the New Year period made it difficult for the BoJ to lift negative interest rates at its meeting this month.

Table 1 - Exchange rates of the most important currencies

	01.01.2024[1]	05.01.2024[2]	% Change
EUR/USD	1.1039	1.0943	-0.87
EUR/GBP	0.86691	0.86032	-0.76
EUR/JPY	155.72	158.25	1.62
EUR/AUD	1.62057	1.62986	0.57
EUR/CHF	0.92887	0.93031	0.16
USD/JPY	141.04	144.63	2.55
GBP/USD	1.2731	1.2720	-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	4.50%	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

	01.01.2024[1]	05.01.2024[2]	Change in basis points
ESTR	3.8820	3.9050	2.30
Euribor 1W	3.900	3.892	-0.80
Euribor 1M	3.845	3.878	3.30
Euribor 3M	3.909	3.936	2.70
Euribor 6M	3.861	3.912	5.10
Euribor 12M	3.513	3.584	7.10

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

EUROPEAN GOVERNMENT BONDS MARKET

The bond market was closed on Monday for the holiday. After the market opened, the return on 10-year German government bonds fluctuated slightly and averaged from 2.08% to decline the next day after inflation in the German state of Saarland increased by 0.1% in December monthly, lower than expected, while it fell by 0.1% in North Rhine-Westphalia in the same period. On Thursday, the return rose as traders “retracted” expectations that the ECB would reduce interest rates after December data on inflation in Germany and France, which were higher than the previous month. On Friday, the return first rose due to encouraging data from the US labour market to fall at the end of the day as the market was once again burdened by “bets” on the reduction of interest rates after weak US ISM service index data.

US GOVERNMENT BONDS MARKET

The bond market was closed on Monday for the holiday. On Tuesday, the return on 10-year US government bonds fluctuated slightly at an average of 3.93% to fall on Wednesday as the minutes of the last Fed meeting were expected to be released. The Minutes were published at the end of the day. They showed that its officials believed that interest rates must remain restrictive for a “certain period” and that inflation in November in the USA slowed to 2.6% simultaneously. The next day, the return rose due to the data from the US labour market (ADP employment report increased by 164 thousand in December; jobless initial claims fell by 202 thousand). At the end of the week, the return weakened due to the December data on the US ISM service index (50.6 vs 52.7) and its components, which did not meet expectations - they were worse than expected.

GOLD

The market was closed on Monday due to a holiday. Over the next two days, the gold price fell as the USD appreciated against a basket of currencies, dampening gold demand, and key Fed policymakers cut expectations for aggressive interest rate cuts early in 2024 by the central bank. The gold price saw its first significant change on Friday when it first rose sharply after weak data on the service index in the USA, but it soon returned to the previous level of around 2,045 USD/oz. tr.

OIL

The market was closed on Monday due to a holiday. On Tuesday, the oil price fell after concerns about escalating the conflict in the Red Sea area eased. However, the oil price rose on Wednesday. It returned to its previous level as Libya stopped oil production at the country's largest oil field, producing around 300,000 barrels per day. On Thursday, the oil price weakened again as US oil stocks increased, indicating unstable demand. On Friday, the oil price rose again as tensions in the Middle East rose.

Table 4 - Economic indicators (1 - 5 January 2024)

Country	Indicator	Period	Expected value	Current value	Previous value
Euro area	**HCOB Eurozone Manufacturing, Services, Composite PMI** PMI surveys tracks opinion among procurement managers at manufacturing, construction and/or services firms. The index was obtained from the results of questionnaires related to production, orders, stocks, employment, prices, etc.	December Final data	44.2 48.1 47.0	44.4 48.8 47.6	44.2 48.1 47.0
	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.	December YoY%	2.9%	2.9%	2.4%
Great Britain	**S&P Global UK Manufacturing, Services, Construction, Composite PMI** PMI surveys tracks opinion among procurement managers at manufacturing, construction and/or services firms. The index was obtained from the results of questionnaires related to production, orders, stocks, employment, prices, etc.	December Final data	46.4 52.7 46.1 51.7	46.2 53.4 46.8 52.1	46.4 52.7 45.5 51.7
USA	**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.	December K=1,000	175 K	216 K	173 K
	Unemployment Rate It shows the number of unemployed persons as a percentage of the total labour force.	December	3.8%	3.7%	3.7%
	Average Hourly Earnings This indicator monitors the average amount of money paid to employees per hour of work performed and its change.	December MoM% YoY%	0.3% 3.9%	0.4% 4.1%	0.4% 4.0%
	ISM Services Index This survey tracks opinion among procurement managers at manufacturing, construction and services firms. The index was obtained from the results of questionnaires related to production, orders, stocks, employment, prices, etc.	December	52.5	50.6	52.7
Japan	**Consumer Confidence Index** This index tracks confidence among households or consumers. The results are obtained by conducting surveys on a random sample of households.	December	36.5	37.2	36.1