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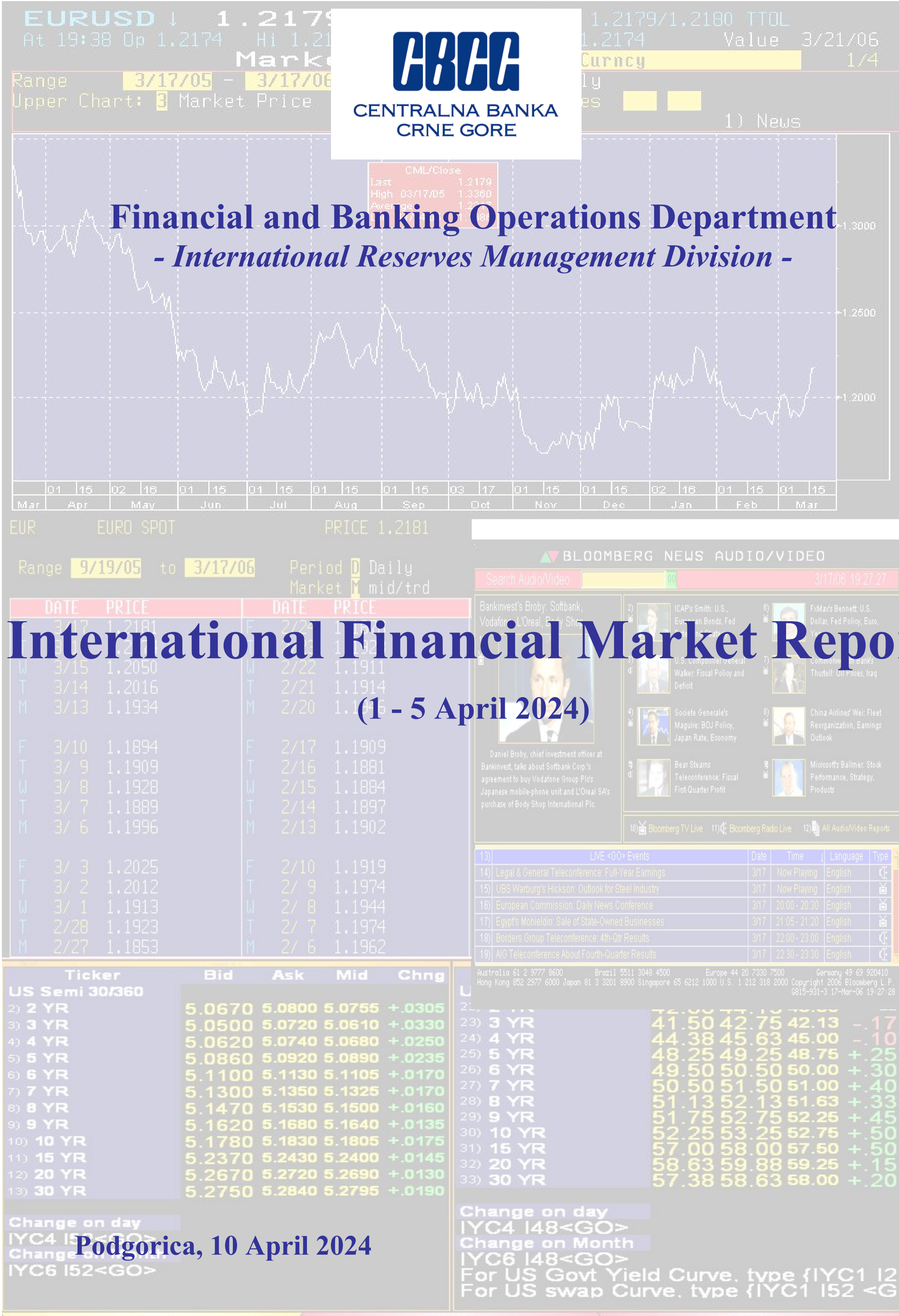

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(1 - 5 April 2024)

Podgorica, 10 April 2024

FX NEWS

EUR/USD

The EUR/USD exchange rate was stable during most of the day on Monday, but fell at the very end of the day once the U.S. production data were released (they were better than expected). The volume of trade was reduced on Monday, due to holiday. Economists are divided about the extent of interest rate cuts in 2024, i.e. most of them predict a decrease, but they are not sure by how many basis points the rates will be cut in total. The ECB President, Christine Lagarde, emphasized that the bank's approach depends on the data and that inflation is still above the target of 2%. The exchange rate rose as better-than-expected data on the euro area production index were released in the rest of the week, and later due to an unexpected slowdown in the activity in the U.S. service sector, after which expectations that the Fed will reduce interest rates in June increased. The exchange rate fluctuated on the last day. The dollar, as a safe haven, rose in the first part of the day due to rising tensions in the Middle East and falling stock prices on the stock exchanges. The exchange rate also fell as a surprisingly good report on payrolls in the U.S. non-manufacturing sector was released. However, by the end of the day, the exchange rate returned to the level from the beginning of the day.

EUR/GBP

The EUR/GBP exchange rate appreciated this reporting week. The exchange rate rose as speculation emerged that the Bank of England would follow the Fed and cut interest rates in June. In addition, positive data from the euro area influenced this exchange rate to grow (growth of the euro area production index). During the last two days, the EUR/GBP exchange rate had an upward trend along with fluctuations, and it is expected that the Bank of England will reduce interest rates more aggressively compared to the ECB.

EUR/JPY

The EUR/JPY exchange rate weakened at the very beginning of the week, only to have an upward trend for three days afterwards. The release of data on the euro area production index strengthened the euro and increased investors' risk appetite, while the yen weakened as a result of the rather cautious stance of the Bank of Japan regarding further tightening of monetary policy. Japanese officials have reiterated that they are ready to intervene in the currency market to limit the weakening of the yen. The EUR/JPY exchange rate fell sharply at the end of the week once the comments from the BoJ governor fuelled speculation about another interest rate hike "sooner rather than later" this year. Traders were also cautious when investing due to increased tensions in the Middle East, so riskier assets remained in the shadows. The exchange rate rose on the last day, as the yen weakened following the announcement that real earnings of Japanese workers fell 1.3% year-on-year in February, while consumer price growth accelerated.

Table 1 - Exchange rates of the most important currencies

	1-Apr-2024[1]	5-Apr-2024[2]	% Change
EUR/USD	1.0790	1.0837	0.44
EUR/GBP	0.85486	0.85747	0.31
EUR/JPY	163.30	164.32	0.62
EUR/AUD	1.65530	1.64755	-0.47
EUR/CHF	0.97307	0.97711	0.42
USD/JPY	151.35	151.62	0.18
GBP/USD	1.2623	1.2638	0.12

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%	11 April 2024
Federal Reserves (Fed)	Federal Funds Target Rate	5.50%	1 May 2024
Bank of Japan (BoJ)	Overnight Call Rate	0.00%	25 April 2024
Bank of England (BoE)	Official Bank Rate	5.25%	9 May 2024
Swiss National Bank (SNB)	Libor Target Rate	1.50%	20 June 2024
Bank of Canada (BoC)	Target Overnight Rate	5.00%	10 April 2024
Reserve Bank of Australia (RBA)	Cash Rate Target	4.35%	7 May 2024

Table 3 – ESTR and Euribor

	28-Mar-2024[1]	5-Apr-2024.[2]	Change in basis points
ESTR	3.899	3.907	0.8
Euribor 1W	3.853	3.890	3.7
Euribor 1M	3.855	3.888	3.3
Euribor 3M	3.892	3.885	-0.7
Euribor 6M	3.851	3.834	-1.7
Euribor 12M	3.669	3.656	-1.3

*markets were closed on Friday, 29 March and Monday, 1 April 2024

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

EUROPEAN GOVERNMENT BONDS MARKET

The European government bonds market was closed on Monday, 1 April, due to a holiday, and at the opening of the market, on Tuesday, the yield on 10-year German government bonds was at the level of around 2.36%. The yield fluctuated for the rest of the week, recording a slight increase by about 4bp on the weekly level. This yield mostly went up on Tuesday and Wednesday, to the level of 2.435%, following the trends on the American bond market. The yield had a downward trend on Wednesday morning due to weaker than expected preliminary data on the inflation rate of the euro area in March, but later in the day the growth of the yield continued as a more detailed report pointed to relatively high service inflation (4% mainly due to steady earnings growth). The yield weakened the following day, as it was announced that the euro area production price index fell more than expected in February compared to January, and the Minutes from the ECB meeting in March indicated a strengthening of the conditions for lowering the interest rate. This yield had an upward trend again on the last day of the week, once again following the trend in yields on the other side of the Atlantic.

U.S. GOVERNMENT BONDS MARKET

Unlike the European one, the U.S. government bonds market was open on Monday. The yield on 10-year bonds increased from 4.19% to 4.40% during the week. The yield mostly rose in the first half of the week, largely as a result of the release of better-than-expected U.S. economic data (manufacturing sector activity; private sector payrolls; job creation; factory orders). These data pointed to the resilience of the economy and traders tempered expectations regarding the Fed's interest rate cut, therefore the yield approached the level of 4.43% on Wednesday. However, the yield started down trending the same day, following the announcement that the activity of the U.S. service sector slowed down in March. The weakening of yields occurred on Thursday as well, as the strengthening of tensions between Israel and Iran caused an increase in the demand for safe assets, but also due to the statement of the Fed President that the recent economic data do not change the "picture" and that it is "appropriate" to start reducing in this year. Yields rose on Friday as stronger-than-expected U.S. non-farm payrolls data tempered expectations of a June Fed rate cut.

GOLD

The price of gold recorded an increase in this reporting period. The price of gold fluctuated on Monday, only to have a significant rising trend the following day, as the data on the euro area economy were released, which influenced the euro to be stronger compared to the dollar. The price of gold continued increasing in the second part of the day on Wednesday, due to increased geopolitical tensions and economic uncertainty, which led to an increase in the demand for safe investments. The price fell slightly the following day, before rising sharply on the final day to hit a record high this week of USD 2,330 an ounce owing to speculative buying and persistent tensions in the Middle East, which overshadowed Friday's strong U.S. payrolls data.

OIL

The price of oil had an upward trend in the first week of April. For the first two days, the price of oil rose as a result of forecasts that there will be a "tightening" of the market in terms of crude oil stocks, as well as the release of encouraging data on the production in the U.S. and China. The price of oil did not register significant changes, only to find itself at a 5-month maximum in the late afternoon on Thursday, as OPEC+ confirmed at the meeting that it will maintain the existing supply reductions until end-June, which put pressure on the market. The escalation of tensions in the Middle East at the end of the week led to a dramatic change in the assessment of geopolitical risks. Fears that the conflict will spread to the region are growing, and Israel is intensifying preparations for an attack by Iran in retaliation for its attack on the country's diplomatic complex in Syria. One of the analysts stated that the market knows that some kind of Iranian retaliation is likely to come, but does not know when, where and what, and this creates great discomfort and nervousness. Oil price went up in 2024 as conflicts in the Middle East and Ukraine's attacks on Russian energy infrastructure increased risk premiums.

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

Country	Indicator	Period	Expected value	Current value	Previous value
Euro area	**Consumer price index (CPI)** It estimates the changes in the cost of living, by measuring changes in the price level of market basket of consumer goods and services purchased by an average household.	March - Preliminary MoM% YoY%	 0.9% 2.5%	 0.8% 2.4%	 0.6% 2.6%
	Unemployment Rate The percentage of individuals on the labour market and unemployed, but actively looking for a job. In general, higher unemployment rate weakens the economy and results in lower personal spending.	February	6.4%	6.5%	6.4%
Germany	**Consumer price index (CPI)** It estimates the changes in the cost of living, by measuring changes in the price level of market basket of consumer goods and services purchased by an average household.	March - Preliminary MoM% YoY%	 0.5% 2.2%	 0.4% 2.2%	 0.4% 2.5%
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.	February K=1,000	8730 K	8756 K	8763 K
	ADP Employment Change This indicator measures the number of employees on the private sector payroll.	March K=1,000	150 K	184 K	140 K
	Factory Orders This index points to a change in the number of orders from domestic manufacturers. Factory orders are an early indicator of the overall consumption in an economy, which affects economic growth.	February	1.0%	1.4%	-3.6%
	Change in nonfarm 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 non-profit organisations. It serves as the basis for tailoring economic policy and forecasting future economic trends.	March K=1,000	214 K	303 K	275 K