CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(2 – 6 September 2024)

Podgorica, 11 September 2024

Weekly overview of short news

- Most analysts do not expect the European Central Bank to accelerate the pace of interest rate cuts, despite the signs of economic weakness. The euro area economy is faltering, with Germany, its largest economy, acting as a restraint, while countries such as Spain are showing clear growth. Eurostat, the European statistical office, recently lowered its estimate for Q2. Economic growth in the euro area unexpectedly slowed in the spring, with gross domestic product increasing by only 0.2% compared to the previous quarter. Earlier, growth was estimated at 0.3%. The economy in the 20 countries of the common currency grew by 0.3% in Q1.

- At the upcoming ECB meeting, anything but a cut of 25 basis point in the deposit rate to 3.50% would be a surprise. Economists seem to agree on a gradual rate cut. According to Bloomberg research, a reduction of 25 basis points is expected in quarterly phases, until the rate of 2.50% is reached in September 2025.

- At its meeting this week, the Bank of Canada cut interest rates by 25bp, the third consecutive cut since June. The Governor, Tiff Macklem, citing weak economic growth, said a larger cut could be in order if the economy needs a boost. Total inflation fell to 2.5% in July, the lowest level in 40 months, but the economy looks weaker than the bank predicted just six weeks ago. Namely, the economic growth in Q2 was above expectations, 2.1% against 1.8%, but it remained unchanged in June, and it could be the same in July, therefore it could happen that the economic growth in Q3 does not meet the expectations of the Bank of Canada of 2.8%.

- U.S. job creation fell to the lowest level since early 2021 in July, and layoffs are on the rise, pointing to reduced demand for workers. The number of job vacancies fell to 7.67 million from the previously revised June downward figure of 7.91 million, data from the U.S. Department of Labour showed. Layoffs rose to 1.76 million, the highest level since March of the previous year. These data are in line with previous "softer" data from the labour market, which increases concerns among Fed officials ahead of the monetary institution's meeting and speculation by market participants that the Fed may cut the interest rate significantly after all. However, the crucial importance will be given by the inflation data expected during the next week, which may give more indications as to whether the Fed will reduce the interest rate by 25 or 50 basis points.

- Inflation rose in Tokyo in August, supporting the Bank of Japan's policy to continue raising interest rates at a moderate pace. Inflation, which excludes fresh food, rose 2.4% in August and was higher than July's 2.2%.

FX NEWS

EUR/USD

The EUR/USD exchange rate was stable during the first two days of this week. This exchange rate recorded an increase on Wednesday as the euro was supported by the release of the final data on the purchasing managers` index (PMI) in the euro area, which showed that there was an increase in this indicator. The exchange rate continued to rise the following day, this time as weaker-than-expected data on the ADP employment report in the U.S. was released. Data from the U.S. labour market was released on the last day of the week, indicating a limited slowdown in the labour market, which will probably support a gradual interest rate cut, therefore this had an impact on the exchange rate to fall.

EUR/GBP

The EUR/GBP exchange rate appreciated in this reporting week. The previous strengthening of the British currency encouraged investors to take profits, which led to a weakening of sterling early week, and thus an increase in the exchange rate. Although the exchange rate fell on mid-day on Tuesday, it soon resumed its growth. In mid-week, the euro was supported by the final data on the service PMI index of the euro area, and following the release of the same data for Great Britain, sterling strengthened, causing the exchange rate to fluctuate. The fluctuation continued the next day as it was announced that the retail sales of the euro zone in July were below expectations, as well as the construction PMI index of Great Britain in August (53.6 versus 54.5). However, the exchange rate registered an increase on Friday. Although the final data on the GDP of the euro area in Q2 and the industrial production of Germany in July, both below expectations, caused the euro to weaken, the exchange rate rose as, due to the fall in share prices on the stock exchanges and the increase in demand for safe assets, sterling generally weakened. On Friday, it was announced that real estate prices in Britain rose the most since end-2022 in August, by 4.3%, as a result of the August interest rate cut by the Bank of England.

EUR/JPY

The EUR/JPY exchange rate depreciated during this reporting week. The decline was constant from Tuesday until the end of the week. Namely, the drop in the exchange rate was mainly a result of the expectation that the Bank of Japan will be committed to increasing interest rates, which is contrary to the policy pursued by the ECB. This was supported by the data released this week, which showed that there was an increase in real earnings by 0.4% in Japan in July, while the expected decline was 0.6%.

Table 1 - Exchange rates of the most important currencies

	2-Sep-2024[1]	6-Sep-2024[2]	% Change
EUR/USD	1.1048	1.1084	0.33
EUR/GBP	0.84149	0.84418	0.32
EUR/JPY	161.49	157.77	-2.30
EUR/AUD	1.63320	1.66209	1.77
EUR/CHF	0.93902	0.93478	-0.45
USD/JPY	146.17	142.30	-2.65
GBP/USD	1.3127	1.3129	0.02

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	4.25%	12.09.2024.
Federal Reserves (Fed)	Federal Funds Target Rate	5.50%	18.09.2024.
Bank of Japan (BoJ)	Overnight Call Rate	0.25%	20-Sep-2024
Bank of England (BoE)	Official Bank Rate	5.00%	19.09.2024.
Swiss National Bank (SNB)	Libor Target Rate	1.25%	26.09.2024.
Bank of Canada (BoC)	Target Overnight Rate	4.25%	23.10.2024.
Reserve Bank of Australia (RBA)	Cash Rate Target	4.35%	24.09.2024.

Table 3 - ESTR and Euribor

	2-Sep-2024[1]	6-Sep-2024.[2]	Change in basis points
ESTR	3.6540	3.6630	0.90
Euribor 1W	3.623	3.608	-1.50
Euribor 1M	3.589	3.521	-6.80
Euribor 3M	3.490	3.468	-2.20
Euribor 6M	3.360	3.346	-1.40
Euribor 12M	3.088	3.025	-6.30

[1] Opening market value on Monday

[2] Closing market value on Friday

Table 4 - Economic indicators (2 - 6 September 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 in manufacturing and/or services sectors. The index was obtained from the results of questionnaires related to production, orders, stocks, employment, prices, etc. **Retail Sales** It measures the volume of sales of goods for personal and household spending. **GDP S.A.** 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.	August, Final July MoM% YoY% Q2 final data QoQ% YoY%	 45.6 53.3 51.2 0.2% 0.2% 0.3% 0.6%	 45.8 52.9 51.0 0.1% -0.1% 0.2% 0.6%	 45.6 53.3 51.2 -0.4% -0.4% 0.3% 0.6%
USA	**ISM Manufacturing** This indicator assesses the state of U.S. industry by questioning executors about their expectations in terms of production, new orders, employment, raw materials deliveries and inventory. **JOLTS Job Openings** This indicator tracks the number of job vacancies 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. **ADP Employment Change** This indicator measures the monthly change in the number of employees on the private sector payroll. **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. **Unemployment Rate** It shows the number of unemployed persons as a percentage of the total labour force.	August July K=1,000 August K=1,000 August K=1,000 August	 47.5 8100 K 145K 165K 4.2%	 47.2 7673k 99K 142K 4.2%	 46.8 7910k 111K 89K 4.3%
Germany	**Factory Orders** This index points to a change in the number of orders from domestic manufacturers and gives a picture of the demand for industrial products. Factory orders are an early indicator of the overall consumption in an economy, which affects economic growth. **Industrial Production** It measures the output in mining and quarrying, manufacturing and utilities (electricity, gas and water supply).	July MoM% YoY% July MoM% YoY%	 -1.7% -1.9% -0.5% -3.5%	 2.9% 3.7% -2.4% -5.3%	 4.6% -11.2% 1.7% -3.7%
Great Britain	**S&P Global UK Services PMI** This survey tracks the opinions of purchasing managers in the service sector. The index was obtained from the results of questionnaires related to production, orders, stocks, employment, prices, etc.	August	53.3	53.7	53.3
Japan	**Labour Cash Earnings** This indicator shows total payments to employees in exchange for performed work. **Household Spending** This indicator monitors all consumers' expenditures on products and services, and is adjusted with inflation.	July YoY% July YoY%	2.9% 1.2%	3.6% 0.1%	4.5% -1.4%

EUROPEAN GOVERNMENT BONDS MARKET

The yield on 10-year German government bonds reached a weekly high of 2.35% on the first day of this reporting week, as investors prepared for the upcoming Austrian and German bond auctions. The yield on these bonds had a downward trend in the rest of the week. The fall in yields was driven by rising expectations of the ECB interest rate cut next year, especially after U.S. labour market data renewed concerns about the U.S. economic growth outlook. The weekly minimum yield on 10-year German government bonds of 2.15% was recorded on Friday.

U.S. GOVERNMENT BONDS MARKET

On the first day of this reporting week, U.S. markets were closed for the Labour Day. By the end of the week, the yield on 10-year U.S. government bonds had a downward trend. Data on the U.S. manufacturing sector were published on Tuesday, which showed that there was a contraction in it and which increase the likelihood that the Fed will reduce the interest rate during this month. The drop in yields in the U.S. was additionally influenced by the release of the ADP employment report, which increased by 99 thousand, being significantly lower than the expected 145 thousand. On the last day of this reporting week, the yield on 10-year U.S. government bonds was at the level of 3.64%.

GOLD

During the first three days of this reporting week, the price of gold had a downward trend, only to find itself on Wednesday at a 2-week low of $2471.95 per ounce, as investors' expectations were in favour of a smaller Fed interest rate cut. Following the release of weaker-than-expected data from the U.S. labour market, the price of this precious metal rose. The price of gold rose as the dollar weakened against a basket of major currencies as investors expect the Fed to cut interest rates more significantly. The price of gold hit a weekly high of $2,529.24 an ounce on Friday, before falling again as the dollar strengthened.

OIL

At the very beginning of the week, the oil price rose, reaching a weekly high of $78.17 per barrel, as Libya's oil exports were cut in half. The price of this energy generating product had a downward trend in the rest of the week. Despite the delay of the production increase by OPEC+, from 24 September to 24 December, the market was dominated by concerns about the global weakening of demand for this energy generating product, which is why the price weakened and fluctuated around the lowest level since June last year. The price of oil was at the level of $70.88 per barrel on Friday.