CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(3 - 7 June 2024)

Podgorica, 12 June 2024

Weekly overview of short news

- The Bank of Canada became the first G-7 central bank to begin the easing cycle this week, as monetary policymakers led by Tiff Macklem cut interest rates by 25bp to 4.75%, in line with the market expectations. Officials said they were more confident that inflation was moving toward the 2% target and that it was "reasonable to expect further reductions" if progress continued. Macklem stated that he does not want monetary policy to be more restrictive than necessary to bring inflation back to the target and added that if interest rates are lowered too quickly, the progress that has been achieved could be jeopardized. The Governor also said that future rate cuts will be data-driven and gradual. He emphasized that the Bank of Canada should not align its monetary policy with the Fed's policy.
- As expected, the ECB cut all three interest rates by 25bp each at its meeting on 6 June, therefore the main refinancing operations rate stood at 4.25%, the deposit rate at 3.75%, and the lending rate at 4.50%. The ECB stated that the nine-month keeping the key deposit rate at a record high level significantly improved the inflationary outlook, although price forecasts were raised. According to the ECB's latest quarterly projections, the forecast inflation rate for this and the next year has been increased compared to the March projections, i.e. from 2.3% to 2.5% for this year, from 2.0% to 2.2% for 2025, while it remained the same, 1.9% for 2026. Economic growth will amount to 0.9% in 2024 (previous projection being 0.6%), 1.4% in 2025 (previous projection being 1.5%), and in 1.6% in 2026 (remained unchanged). The board of this monetary institution will continue to be managed by a data-driven approach, and the appropriate level of the interest rate and the length of the restrictive period will be decided on a meeting-by-meeting basis. "Specifically, decisions on interest rates will be based on an assessment of inflationary prospects in the light of received economic and financial data, the dynamics of core inflation and the strength of monetary policy transmission." The Governing Council does not commit itself in advance to a specific path of the interest rate" - stated in the ECB announcement.
- The ECB President, Lagarde, said that the cycle of restrictive monetary policy has not yet ended and that it must continue until inflation returns to 2%. There are different phases of the monetary policy cycle. Lagarde said that the appropriate decision was made, but that this does not mean that interest rates are on a linear downward path. There may be periods where rates will be held at certain levels again. More data is needed, including ones on wages, on how profits grow and absorb some of labour costs, and on productivity. These are important drivers of service inflation, which is our weak point, said the ECB President.
- The Fitch agency confirmed Slovakia's "stable" outlook and A- credit rating.
- The European Parliament announced the preliminary results of the European elections, held on 6-9 June, according to which the strongest party is the European People's Party (EPP) with 184 mandates. Hundreds of millions of EU citizens voted to elect 720 members of the European Parliament in 27 countries, and one of the main impressions of the election day was that the growing support for the extreme right led the French President Emmanuel Macron to call early elections in the country. Some 362 million voters had the right to vote.

FX NEWS

EUR/USD

The EUR/USD exchange rate achieved a sharp growth at the very beginning of this week as it was announced that manufacturing activity in the USA fell in May. The exchange rate fell the next day as weaker-than-expected data from the German labour market was released. Namely, the number of unemployed persons increased by 25 thousand in May, while the expected number was 7 thousand. The exchange rate was stable over the next two days, even during Thursday when the ECB cut interest rates in line with expectations. The exchange rate fell sharply on Friday once the more favourable U.S. payrolls data was released, which fuelled expectations that the Fed could delay cutting interest rates until September. In May, payrolls were expanded by 272 thousand against the expected 185 thousand.

EUR/GBP

The EUR/GBP exchange rate depreciated in this reporting week. The exchange rate rose on Monday following the announcement that the manufacturing PMI index in the euro area in May rose to the highest level since March last year, and then, after the announcement that the same index for Great Britain also reached the highest level since July in May in 2022, returned to the level from the beginning of the day. The exchange rate fluctuated the next day. Investors were looking forward to the ECB meeting, not so much because of the outcome itself, which was almost certain, but because of the hints regarding the path of monetary policy after June. Sterling also strengthened due to the announcement that the composite PMI in Great Britain was above expectations, which is the best result since May last year. The next day saw an increase in the exchange rate, as the euro strengthened in anticipation of the ECB meeting and afterwards. Although the interest rate has been cut, officials did not offer details on future steps, instead saying that decisions will be made on a meeting-by-meeting basis. The exchange rate fell on Friday. Market attention shifted to the Bank of England, with speculation that a rate cut could be pushed back to later in the year, and support sterling. Namely, the steady growth of earnings in Great Britain is preventing this monetary institution from turning towards the normalisation of monetary policy.

EUR/JPY

The EUR/JPY exchange rate was stable at the opening of this reporting week. The highest change in the exchange rate occurred on Tuesday, when it recorded a sharp decline as Bank of Japan officials warned that they are closely monitoring the yen and other currencies development, and Bloomberg reported that the central bank could consider reducing its bond purchases as early as the next meeting. The exchange rate recovered part of the losses from the previous day in mid-week being in the range of 168.98 to 170.46 by the end of the week. Neither the holding of the regular ECB meeting on Thursday nor the decision to reduce the interest rate had the effect on developing this exchange rate significantly in the mentioned period.

Table 1 - Exchange rates of the most important currencies

	3-Jun-2024[1]	7-Jun-2024[2]	% Change
EUR/USD	1.0848	1.0801	-0.43
EUR/GBP	0.85149	0.84923	-0.27
EUR/JPY	170.62	169.33	-0.76
EUR/AUD	1.63085	1.64110	0.63
EUR/CHF	0.97889	0.96847	-1.06
USD/JPY	157.31	156.75	-0.36
GBP/USD	1.2742	1.2719	-0.18

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	4.25%	18 July 2024
Federal Reserves (Fed)	Federal Funds Target Rate	5.50%	12 June 2024
Bank of Japan (BoJ)	Overnight Call Rate	0.00%	14 June 2024
Bank of England (BoE)	Official Bank Rate	5.25%	20 June 2024
Swiss National Bank (SNB)	Libor Target Rate	1.50%	20 June 2024
Bank of Canada (BoC)	Target Overnight Rate	4.75%	24 July 2024
Reserve Bank of Australia (RBA)	Cash Rate Target	4.35%	18 June 2024

Table 3 - ESTR and Euribor

	3-Jun-2024[1]	7-Jun-2024.[2]	Change in basis points
ESTR	3.892	3.912	2.00
Euribor 1W	3.889	3.794	-9.50
Euribor 1M	3.717	3.679	-3.80
Euribor 3M	3.785	3.759	-2.60
Euribor 6M	3.745	3.735	-1.00
Euribor 12M	3.711	3.701	-1.00

[1] Opening market value on Monday

[2] Closing market value on Friday

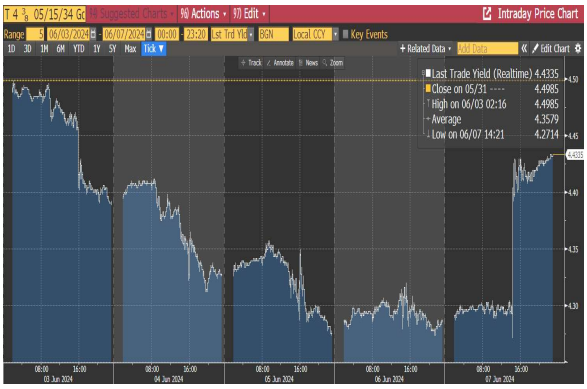
Table 4 - Economic indicators (3 - 7 June 2024)

Country	Indicator	Period	Expected value	Current value	Previous value
Great Britain	**S&P Global UK Manufacturing, Services, Construction, Composite PMI** PMI surveys tracks opinion among procurement managers in manufacturing, construction and/or services sectors. The index was obtained from the results of questionnaires related to production, orders, stocks, employment, prices, etc. **BRC Sales Like-For-Like** This indicator tracks the sale of new and used products to the general public, for personal or household spending, and is based on the value of the products sold.	May Final data May YoY%	51.3 52.9 52.5 52.8 1.2%	51.2 52.9 54.7 53.0 0.4%	51.3 52.9 53.0 52.8 -4.4%
Euro area	**HCOB Eurozone Manufacturing, Services, Composite PMI** PMI surveys tracks opinion among procurement managers in manufacturing, construction and/or services sectors. The index was obtained from the results of questionnaires related to production, orders, stocks, employment, prices, etc. **Producer Price Index (PPI)** This index measures changes in sale prices of goods and services used by producers in the euro area. Producers transfer higher costs to consumers through retail prices thus PPI is important as an early inflation indicator. **Retail Sales** This indicator measures the volume of sales of personal and household goods.	May Final data April MoM% YoY% April MoM% YoY%	47.4 53.3 52.3 -0.7% -5.3% -0.3% 0.2%	47.3 53.2 52.2 -1.0% -5.7% -0.5% 0.0%	47.4 53.3 52.3 -0.5% -7.8% 0.7% 0.7%
Germany	**Factory Orders** This index points to a change in the number of orders from domestic manufacturers. The data shows the demand for German industrial products. Factory orders are an early indicator of the overall consumption in an economy, which affects economic growth **Trade Balance** The difference between exports and imports of goods and services.	April MoM% YoY% April b=bill.	0.6% 0.3% 22.7b	-0.2% -1.6% 22.1b	-0.8% -2.4% 22.2b
USA	**ISM Manufacturing** This indicator assesses the state of US industry by questioning executors about their expectations in terms of production, new orders, employment, raw materials deliveries and inventory. **JOLTS Job Openings** This concept tracks the number of free 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. **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. **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.	May 49.5 April K=1,000 8350k May K=1,000 175K May K=1,000 180 K	48.7 8059k 152K 272k	49.2 8355k 188 K 165K
Japan	**Labour Cash Earnings** This indicator shows total payments to employees in exchange for performed work.	April YoY%	1.8%	2.1%	1.0%

EUROPEAN GOVERNMENT BONDS MARKET

The yield on 10-year German government bonds trended downwards for the first two days of the reporting week. The yield on 10-year German government bonds moved lower as weaker than expected U.S. manufacturing data was released. French bond yields remained steady even as credit rating agency S&P downgraded France from AA to AA-, citing concerns over its fiscal deficit as a reason. However, S&P changed the country's rating outlook from "negative" to "stable", indicating that no further downgrades are expected. The yield also weakened as expectations for the ECB interest rate cut at the upcoming meeting grew. The yield on 10-year German government bonds rose on Thursday even though the ECB cut interest rates, with no obligation to lower them further, and at the same time increased projections for the inflation rate this year and next one. For this reason, traders did not expect another reduction in July, and expectations for September were also reduced. The yield rose at the very end of the week due to data from the U.S. labour market which showed that this market held up better than expected, which strengthened the opinion of market participants that the Fed will not be in a hurry to reduce the interest rate.

U.S. GOVERNMENT BONDS MARKET



The yield on 10-year U.S. government bonds weakened at the beginning of the week and had a similar trend as 10-year German government bonds. The yield weakened as weaker than expected U.S. economic data was released. The yield also weakened due to signs of a cooling labour market in the U.S., which triggered speculation that the Fed will be able to reduce interest rates this year. The yield on the 10-year bond fluctuated slightly on Thursday, whereas recording a sharp growth and reached the level of 4.43% on Friday as encouraging data from the U.S. labour market was released (payrolls in the non-manufacturing and private sectors increased), which caused traders to withdraw their expectations for an imminent U.S. interest rate cut.

GOLD

The exchange rate fluctuated on the last day of this reporting week. The increase in the price of gold occurred when weaker than expected production data in the USA was released. The price of gold fell slightly the following day as the dollar rose against a basket of currencies, and this was reflected in the drop in demand for this precious metal. As of mid-week until the morning hours on Friday, the price of gold rose as the ADP report showed that the number of jobs in the U.S. increased by 152 thousand, which is less compared to April's 188 thousand. The price increase was also caused by data which showed that the new jobless claims in the U. S. last week exceeded expectations. The price of gold made a sharp decline on the last day of the week, erasing all the growth recorded this week, as it was announced that the number of employees increased by 272,000 in the non-manufacturing sector in the U.S instead of the expected 180,000, while it increased by 229,000 instead of 165,000 in the private sector.

OIL

The price of oil fell sharply at the beginning of the week as OPEC+ launched a plan over the weekend to start returning part of the production to the market as of October, which is earlier than many of the market participants expected. The next day, the price of oil continued to weaken due to data from the American Petroleum Institute, which showed an unexpected increase in oil stocks in the U.S. last week. As of the mid-week until almost the end of the day on Friday, the price of oil recorded an increase. The recovery in oil prices came as Saudi Arabia expressed concern over the outlook for demand after Saudi Aramco cut the price of all oil for Asia, which will take effect next month. The increase in oil prices was additionally influenced by the expectation that OPEC+ would not allow the market to be oversupplied with oil. At the very end of the day on Friday, the price of oil decreased slightly.