CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(4 - 8 March 2024)

Podgorica, 13 March 2024

FX NEWS

EUR/USD

The EUR/USD exchange rate was stable during the first two days of this reporting week. As of mid-week until the rest of the week, the exchange rate had an upward trend. The increase in the exchange rate occurred after the presentation given by the Fed President in the U.S. Congress, which suggested that the central bank is approaching a scenario of reducing interest rates, as well as the released data that private companies in the U.S. employed 140 thousand people in February, which was 150 thousand less than the expected. In addition, the ECB's decision not to change the interest rate at its regular session also had an impact on the exchange rate increase. During the last day, the exchange rate was stable even as mixed data were released in the U.S. Namely, payrolls that do not include farm workers in the U.S. recorded a growth of 275 thousand, which was 200 thousand more than the expected, but at the same time the unemployment rate rose to a 2-year high of 3.9%.

EUR/GBP

The EUR/GBP exchange rate depreciated in this reporting week. The decline is generally caused by uncertainty about when the ECB and the Bank of England will cut interest rates. Traders expect the ECB to cut the rates in June and the BoE to start reducing them in August, with the chance of a 50% cut in June providing support for sterling against the euro. Sterling also strengthened due to the announcement that the composite PMI in Great Britain recorded a slight increase to 53.0 in February, which is the best result since May last year. The exchange rate went up mid-week, but in anticipation of the ECB meeting, the downward trend continued on Thursday. Although it recovered on the same day, the exchange rate fell sharply on Friday as, after the ECB's inflation forecasts were cut, markets expected the ECB to move closer to cutting rates. This British Chancellor of the Exchequer, Jeremy Hunt, presented the 2024 spring budget this week, which was not a surprise for the market.

EUR/JPY

The EUR/JPY exchange rate achieved a slight growth on the first day of this week as market participants believed that the Bank of Japan will wait for confirmation that the earnings and price cycle will begin to "turn around" before changing its current expansionary monetary policy. The next day, the exchange rate began to weaken, and the decline lasted until the regular ECB meeting. The drop in the exchange rate occurred when one of the creators of the monetary policy of the Bank of Japan, Junko Nakagawa, stated that the prospects for sustainably achieving the targeted inflation are gradually increasing, which increased expectations among market participants that the Bank of Japan could change the existing monetary policy. On Thursday, after the ECB meeting, the exchange rate recorded a sharp growth, only to experience a fall again on Friday, as Reuters reported that the Bank of Japan will exit the policy of negative interest rates in March.

Table 1 - Exchange rates of the most important currencies

	4-Mar-2024[1]	8-Mar-2024[2]	% Change
EUR/USD	1.0837	1.0939	0.94
EUR/GBP	0.85650	0.85084	-0.66
EUR/JPY	162.68	160.86	-1.12
EUR/AUD	1.66076	1.65147	-0.56
EUR/CHF	0.95747	0.95998	0.26
USD/JPY	150.12	147.06	-2.04
GBP/USD	1.2655	1.2858	1.60

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%	20 March 2024
Bank of Japan (BoJ)	Overnight Call Rate	-0.10%	19 March 2024
Bank of England (BoE)	Official Bank Rate	5.25%	21 March 2024
Swiss National Bank (SNB)	Libor Target Rate	1.75%	21 March 2024
Bank of Canada (BoC)	Target Overnight Rate	5.00%	10 April 2024
Reserve Bank of Australia (RBA)	Cash Rate Target	4.35%	19 March 2024

At the Central Bank of Canada meeting held on 6 March, the interest rate remained at the existing level, and the governor of this monetary institution stated that it is still too early to consider reducing rates.

A day later, at the ECB meeting, the level of interest rates also remained unchanged. The ECB president stated at the press conference that they did not consider reducing them, but that they are waiting for the data that will be released in April, whereas the June data will be of particular importance. Forecasted total inflation for 2024 was reduced from 2.7% to 2.3%; from 2.1% to 2% in 2025; remaining unchanged at 1.9% in 2026. And the projected core inflation was reduced from 2.7% to 2.6% (2024); from 2.3% to 2.1% (2025); from 2.1% to 2% (2026). GDP growth was reduced from 0.8% to 0.6% in 2024; remaining unchanged at 1.5% for 2025; while it was improved from 1.5% to 1.6% for 2026.

Table 3 – ESTR and Euribor

	4-Mar-2024.[1]	8-Mar-2024.[2]	Change in basis points
ESTR	3.904	3.9070	0.30
Euribor 1W	3.872	3.880	0.80
Euribor 1M	3.817	3.878	6.10
Euribor 3M	3.938	3.940	0.20
Euribor 6M	3.912	3.902	-1.00
Euribor 12M	3.744	3.745	0.10

[1] Opening market value on Monday

[2] Closing market value on Friday

EUROPEAN GOVERNMENT BONDS MARKET

The yield on 10-year German government bonds had a downward trend throughout the week (the yield dropped from 2.42% to 2.23%). At the beginning of the week, the yield on 10-year German government bonds weakened as market participants believed that high inflation had stopped in Europe, and they took positions in anticipation of the ECB meeting, where they expect the bank to revise downward inflation projections. European government bond yields weakened on Thursday, after the ECB President Christine Lagarde indicated that the bank may be in a position to cut interest rates in June, and inflation forecasts were revised downwards, which was in in line with expectations from the beginning of the week. The Bundesbank Governor, Joachim Nagel, said that the ECB could consider cutting interest rates before the summer break, depending on the data that will be released by then. Nagel emphasized the challenges of the "last mile" in monetary policy, warning against premature euphoria about overcoming inflation. At the very end of the week the yield fell slightly as some ECB officials indicated that they will reduce interest rates this year, and data on unemployment in the U.S. were also released, which were higher than expected.

U.S. GOVERNMENT BONDS MARKET

The yield on 10-year U.S. bonds rose on Monday as Atlanta Fed Governor Rafael Bostick said he expects to cut interest rate in Q3, followed by a pause (he thinks it would be appropriate to wait and see the effect of that reductions before the bank continues with the next one). The yield on 10-year U.S. bonds weakened for the rest of the week as the index measuring activity in the U.S. service sector in February was weaker than expected. The yield was also weakening as the Fed president signalled that he expects to reduce the interest rate this year, although the strong economy "keeps officials on hold" for now. The yield on 10-year U.S. government bonds fell with less volatility on Friday, however, due to increased expectations that the Fed will cut interest rates in June. On the same day, data on payrolls that do not include farm workers in the U.S. were also released, which showed that they increased by 275 thousand - more than expected (200 thousand). The unemployment rate in the U.S. increased from 3.7% to 3.9%.

GOLD

The gold price decreased during this reporting week. The price of gold achieved a sharp growth on the first day due to the signal that the Fed is getting closer to cutting interest rates. The following day, the price of gold rose as weaker than expected data from the U.S. was released (the U.S. service sector was weaker than expected in February). In the rest of the week, the price of gold rose as the dollar weakened, while on the last day the price increase was caused by the release of U.S. employment data, which confirmed the expectations of market participants that the Fed will reduce the interest rate.

OIL

The price of oil weakened during the first two days due to concerns about China's economic growth (the Chinese President called on local government bodies to develop "new productive forces" to meet local conditions and avoid creating "bubbles in certain industries"). The price of oil rose in mid-week due to geopolitical tensions caused by events in the Middle East. During Thursday, oil prices did not make a major change on a daily level, while they recorded a sharp drop on Friday as investors assessed the newly released U.S. employment data, as well as the announcement that the National Chinese Offshore Corporation has discovered new oil fields in the South Sea.

Table 4 - Economic indicators (4 - 8 March 2024)

Country	Indicator	Period	Expected value	Current value	Previous value
Euro area	**HCOB Eurozone Services, Composite PMI** PMI survey 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.	February P	50.0 48.9	50.2 49.2	50.0 48.9
	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.	January MoM% YoY%	-0.1% -8.1%	-0.9% -8.6%	-0.9% -10.7%
	Retail Sales This indicator measures the volume of sales of personal and household goods.	January MoM% YoY%	0.2% -1.3%	0.1% -1.0%	-0.6% -0.5%
Germany	**Trade Balance SA** The difference between exports and imports of goods and services in Germany.	January b=bill.	21.0b	27.5b	23.3b
	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.	January MoM% YoY%	-6.0% -6.0%	-11.3% -6.0%	12.0% 6.6%
USA	**Factory Orders** This indicator tracks the value of new orders in the respective period.	January MoM%	-2.9%	-3.6%	-0.3%
	ISM Services Index This survey tracks opinion among procurement managers at manufacturing, construction and services sectors. The index was obtained from the results of questionnaires related to production, orders, stocks, employment, prices, etc.	February	53.0	52.6	53.4