CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(8 - 12 April 2024)

Podgorica, 17 April 2024

FX NEWS

EUR/USD

In this reporting week, **the EUR/USD exchange rate** recorded the largest drop on a weekly basis in the previous more than 18 months. The exchange rate had a slightly rising trend in the first half of the week, as the dollar weakened in response to U.S. inflation data and the release of the Minutes from the Fed's March meeting, while solid data on German industrial production supported the euro. However, once it was announced that consumer prices in the U.S. rose more than expected in March, the exchange rate fell sharply from 1.0860 to 1.0730. The consumer price index rose from 3.2% to 3.5%, while it was expected to reach 3.4%, and persistently high inflation may complicate the Fed's decisions on interest rates. Fed officials expressed concern at their March meeting that inflation is not coming down quickly enough, but still expect to cut interest rates at some point this year, the Minutes showed. The ECB meeting was held on Thursday, after which the exchange rate continued to weaken. The ECB believes that it is on track to achieve its inflation target, and it has been signalled that the interest rate cut could happen as early as June, while the Fed is expected to do so later in the year. At the very end of the week, the exchange rate was at its lowest level since November, being 1.0623, as the demand for dollars as a safe investment increased following the news that Israel was preparing for an attack by Iran.

EUR/GBP

The EUR/GBP exchange rate was stable on Monday, and mostly weakened during the rest of the week. Sterling strengthened against the euro following the announcement that British retail sales in March rose more than expected, 3.2% against 1.8% One of the BoE's decision-makers, Megan Green, said there should be no rush to cut interest rates in the U.K., which continued to strengthen sterling. Sterling continued to rise following the ECB meeting on Thursday. The Governor of the Central Bank of Greece said the ECB should not be afraid to change its position on interest rates from that of the Fed, which is now not expected to cut rates before September. This deviation may put pressure on the euro. The exchange rate weakened on the last day of the week as a result of the increased expectations regarding the June ECB interest rate cut and the announcement that the U.K. economy recorded a growth of 0.1% in February, while the initial estimate for January growth was revised upwards (0.3%). The exchange rate recovered in the second part of the day.

EUR/JPY

The EUR/JPY exchange rate depreciated during this reporting week. In the first half of the week, it generally had a slightly upward trend. Japan's finance minister announced on Tuesday that developments on the currency market are being closely monitored and that the possibility of interventions to limit excessive currency jumps, which briefly caused the exchange rate to fall, has not been ruled out. A similar statement was made on Wednesday by the Deputy Minister of Finance, causing the exchange rate to fall on the same day. The exchange rate was fluctuating on Thursday, only to fall on the last day of the week, as expectations rose after the ECB meeting that there will be the first reduction in interest rates in June, therefore the euro weakened, while the yen strengthened as the demand for safe assets rose due to geopolitical tensions. The Governor of the Bank of Japan stated this week in his semi-annual report to the Parliament that the BoJ remains open to further withdrawal of stimulus measures, which will depend on price development and economic prospects. Responding to questions, the governor said that currency fluctuations or changes in import prices caused by a weak yen will not be responded to by a direct adjustment of monetary policy, rejecting market speculation that a sudden fall in the yen could lead to an increase in interest rates.

Table 1 - Exchange rates of the most important currencies

	8-Apr-2024[1]	12-Apr-2024[2]	% Change
EUR/USD	1.0837	1.0643	-1.79
EUR/GBP	0.85747	0.85474	-0.32
EUR/JPY	164.32	163.13	-0.72
EUR/AUD	1.64755	1.64316	-0.27
EUR/CHF	0.97711	0.97295	-0.43
USD/JPY	151.62	153.23	1.06
GBP/USD	1.2638	1.2453	-1.46

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%	6 June 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%	5 June 2024
Reserve Bank of Australia (RBA)	Cash Rate Target	4.35%	7 May 2024

The ECB kept interest rates at their current levels on Thursday. If there is no change in the inflationary outlook, the ECB believes that "it would be acceptable" to cut the interest rate in June. The Fed's delay in cutting interest rates does not worry the ECB too much, but exchange rate developments will be one of the inputs to be monitored for the June inflation projection, and the ECB President said at the post-meeting conference that "the ECB is dependent on data, and not from the Fed".
The Central Bank of Canada did not change interest rate at its regular meeting.

Table 3 – ESTR and Euribor

	8-Apr-2024[1]	12-Apr-2024.[2]	Change in basis points
ESTR	3.907	3.910	0.30
Euribor 1W	3.890	3.880	-1.00
Euribor 1M	3.888	3.836	-5.20
Euribor 3M	3.885	3.923	3.80
Euribor 6M	3.834	3.865	3.10
Euribor 12M	3.656	3.748	9.20

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

EUROPEAN GOVERNMENT BONDS MARKET

The yield on German 10-year bonds weakened during the first two days of this week. The fall in yields in the mentioned period occurred as it was announced that earnings growth in the euro area slowed down in March to 3.33% on an annual basis, from 3.68% in February. There was a sharp rise in the yields trend on these bonds in mid-week and once the March data on U.S. inflation was released. The yield on German bonds was almost unchanged on Thursday despite the ECB meeting, while it fell sharply on Friday, which led to the yield on 10-year bonds at end-week being at a lower level (2.35%) than at the beginning of the week (2.42%). The yield fell the last day of the week as demand for safe assets increased due to rising tensions in the Middle East.

U.S. GOVERNMENT BONDS MARKET

The yield on U.S. 10-year bonds weakened during the first two days of this week. The fall in yields occurred as comments by Fed officials, Kashkari and Bullard, were in favour of lowering interest rates, with Bullard stating that he believes the Fed will cut interest rates three times this year. There was a sharp increases in yields on these bonds as the data on inflation in the U.S. were released, being higher than expected. The yield on these bonds rose slightly on Thursday, recording a drop on Friday. The yield weakened on the last day of the week as result of the conflict escalation in the Middle East. The yield on 10-year bonds stood at 4.42% at the beginning of the week, being 4.52% at the end of the week.

GOLD

The rise in the price of gold continued in this reporting period, therefore it recorded a new record high value almost every day. Uncertainty regarding the interest rates development, geopolitical tensions, anticipation of inflation data in the U.S. and Minutes from the Fed's March meeting, supported the price of this precious metal in the first half of the week. The price of gold weakened on Wednesday afternoon, following the release of higher-than-expected data on U.S. inflation in March, which indicated that inflationary pressures still exist, and that interest rate cuts are likely to be delayed until later in the year, as signalled by the Fed Minutes. The upward trend in the price of this precious metal continued as of Thursday afternoon, and the price rose as high as $2431.52 on Friday, as growing geopolitical concerns fuelled the demand for safe assets. Despite tensions in the Middle East, the price of gold fell sharply at the end of the day, by about $100 per ounce, as investors "reaped" profits from previously reached levels.

OIL

The price of oil fluctuated throughout the week, remaining almost the same at the weekly level. This market saw an uptrend on Monday as a result of conflict intensification between Israel and Iran. This trend was interrupted the next day once the industry report was released, according to which oil stocks in the U.S. increased by 3.3 million barrels last week. However, tensions in the Middle East over potential attacks by Iran or its allies on Israel, and production restrictions by OPEC+ limited its decline, therefore the price rose on Wednesday afternoon. There was a drop again on Thursday, as data from the U.S. Government indicated an increase in oil stocks by 5.84 million barrels last week. On Friday, the price rose to its highest level since October, because of the news that Israel is preparing for a possible attack by Iran, which could cause significant disruption in the region, which is the third largest oil supplier. The price fell sharply at the end of the day, due to uncertainty regarding the timing of the Fed's interest rate cut.

Table 4 - Economic indicators (8 - 12 April 2024)

Country	Indicator	Period	Expected value	Current value	Previous value
Euro area	**ECB Main Refinancing Rate** Regular ECB meeting in April.	11 April	4.50%	4.50%	4.50%
Germany	**Industrial production** It measures the changes in output of production, service and mining sectors.	February MoM%	0.5%	2.1%	1.0%
Great Britain	**Industrial production** It measures the changes in output of production, service and mining sectors.	February MoM% YoY%	0.0% 0.6%	1.1% 1.4%	-0.2% 0.5%
USA	**Initial Jobless Claims** This indicator measures the number of people receiving unemployment allowances. Similar to the applicant, the growing number of jobs is accompanied by an economic expansion that could influence inflationary pressures.	6 April K=1,000	215 K	211 K	221 K
	Michigan Consumer Sentiment Index Monthly survey of U.S. consumer confidence levels conducted by the University of Michigan. The survey is based on telephone interviews collecting information about consumer expectations from the economy.	Preliminary data – April	78.0	77.0	77.4