CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(9 – 13 September 2024)

Podgorica, 18 September 2024

Weekly overview of short news

- The ECB cut interest rates at this week's meeting. Namely, the ECB reduced the two interest rates at which banks borrow money from the ECB by 60bp each, which is part of a long-term strategic adjustment, while the deposit interest rate, in line with expectations and with the support of all creator of monetary policy, decreased by 25bp. The rate on main refinancing operations is now at the level of 3.65% (the rate at which banks can borrow money from the ECB for a period of up to 7 days with collateral), the rate on loan facilities at the level of 3.90% (the rate at which banks can borrow money from the ECB overnight), while the deposit interest rate is at the level of 3.50%. President Lagarde stated that it is obvious that interest rates are trending downwards, but that the speed and amount of reduction are not predetermined, but will continue with a data-driven approach and interest rates will be decided upon on a meeting-by-meeting basis. According to the latest ECB forecasts, the economic growth of the euro area will amount to 0.8% this year, and 1.3% in the next, which is 0.1% lower than the June projections. These projections for core inflation have been revised upwards by 0.1% each, therefore a level of 2.9% this year and 2.3% next year is expected, while the projections for total inflation remained the same, 2.5% this year and 2.2% in 2025. Although the ECB has not ruled out an October interest rate cut, the previous statement, according to analysts, suggests that the ECB will wait until December for the next cut, thus after the press conference, market expectations for an October cut fell from 40% to 20%.

- During the last week it was reported that the inflation rate in the U.S. rose by 2.5% in August on an annual basis and was in line with the expectations. However, data on core inflation caused concern, which increased in the U.S. in August by 0.3% on a monthly basis, while the expected growth was 0.2%. This information reduces the probability that the Fed will reduce the interest rate by 50bp at the next meeting.

FX NEWS

EUR/USD

The EUR/USD exchange rate had a downward trend for most of the week. The approaching ECB meeting and a certain reduction in interest rates caused the demand for the European currency to weaken early week, while expectations regarding the amount of the Fed's interest rate reduction by the end of the year slightly weakened, which supported the American currency. In mid-week, ahead of the inflation data release in the U.S. in August, the exchange rate had an upward trend, only to continue to weaken after their release. Total inflation was in line with forecasts, but monthly core inflation exceeded these. The exchange rate had an upward trend throughout the day on Thursday. At the ECB meeting, interest rates were reduced, and President Lagarde said that economic data will "dictate" the next move, so expectations that the monetary policy will be eased again in October were reduced, which caused the euro to strengthen. The exchange rate did not show any significant changes on Friday, but the growth from the previous day compensated almost all the losses incurred during the week.

EUR/GBP

The EUR/GBP exchange rate fluctuated slightly on Monday and averaged 0.8441. The exchange rate had a mixed trend on the following day, but it fell on the day's level as sterling strengthened as a result of released data on employment and earnings in Great Britain, which did not indicate a worrying deterioration in the labour market. Average weekly earnings in the U.K. for the three months including July rose at the slowest rate of 4% in two years, compared to expectations of 4.1%, while weekly earnings excluding bonuses rose by 5.1%, which was expected. These data, together with growing employment, are in favour of the British economy resting on solid foundations, therefore the Bank of England could leave the interest rate at the same level next week. The exchange rate rose on Wednesday as it was announced that the GDP of Great Britain unexpectedly stagnated in July, while it was expected to grow by 0.2%. The euro briefly strengthened against sterling the day after the ECB meeting. At the very end of the week, the EUR/GBP exchange rate fluctuated again, and the British pound strengthened during the day, as investors focused on next week, the Bank of England meeting and the inflation data.

EUR/JPY

The EUR/JPY exchange rate depreciated during this reporting week. Although it was announced at the very beginning of the week that the final data on Japan's GDP was lower than the preliminary estimate, expectations regarding the Bank of Japan's interest rate increase by the end of the year were not shaken, so the yen strengthened. Yen also strengthened due to the statement of Bank of Japan board member Junko Nakagawa that the Bank of Japan will continue to adjust monetary policy if the performance of the economy is in line with their projections. The exchange rate recovered in mid-week, as U.S. inflation data boosted investors' risk appetite, so the yen weakened, and the euro strengthened after the ECB meeting. The exchange rate had a downward trend once again on Friday, due to expectations that the Bank of Japan will continue to tighten monetary policy until the end of the year.

Table 1 - Exchange rates of the most important currencies

	9-Sep-2024[1]	13-Sep-2024[2]	% Change
EUR/USD	1.1084	1.1075	-0.08
EUR/GBP	0.84418	0.84391	-0.03
EUR/JPY	157.77	156.00	-1.12
EUR/AUD	1.66209	1.65201	-0.61
EUR/CHF	0.93478	0.94014	0.57
USD/JPY	142.30	140.85	-1.02
GBP/USD	1.3129	1.3124	-0.04

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	3.65%	17-Oct-2024
Federal Reserves (Fed)	Federal Funds Target Rate	5.50%	18-Sep-2024
Bank of Japan (BoJ)	Overnight Call Rate	0.25%	20-Sep-2024
Bank of England (BoE)	Official Bank Rate	5.00%	19-Sep-2024
Swiss National Bank (SNB)	Libor Target Rate	1.25%	26-Sep-2024
Bank of Canada (BoC)	Target Overnight Rate	4.25%	23-Oct-2024
Reserve Bank of Australia (RBA)	Cash Rate Target	4.35%	24-Sep-2024

Table 3 - ESTR and Euribor

	9-Sep-2024.[1]	13-Sep-2024.[2]	Change in basis points
ESTR	3.6630	3.6544	-0.86
Euribor 1W	3.608	3.518	-9.00
Euribor 1M	3.521	3.405	-11.60
Euribor 3M	3.468	3.472	0.40
Euribor 6M	3.346	3.271	-7.50
Euribor 12M	3.025	2.948	-7.70

[1] Opening market value on Monday

[2] Closing market value on Friday

Table 4 - Economic indicators (9 - 13 September 2024)

Country	Indicator	Period	Expected value	Current value	Previous value
Euro area	**Sentix Investor Confidence** A monthly survey that shows the market's opinion on the current economic situation and expectations for the next semester. Above 0.0 indicates to optimism, below to pessimism.	September	-12.2	-15.4	-13.9
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.	August Final data MoM% YoY%	 -0.1% 1.9%	 -0.1% 1.9%	 -0.1% 1.9%
France	**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.	August Final data MoM% YoY%	 0.6% 1.9%	 0.5% 1.8%	 0.6% 1.9%
Spain	**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.	August Final data MoM% YoY%	 0.0% 2.2%	 0.0% 2.3%	 0.0% 2.2%
Great Britain	**Employment Change 3m/3m** The data represent a three-month average compared to the previous period in the number of employees over the age of 16. **ILO Unemployment Rate** Unemployment, defined by the International Labour Organization (ILO), represents a situation where people are unemployed but actively looking for a job. The unemployment rate measures the size of unemployment and is obtained as a percentage when the number of unemployed individuals is divided by all.	July K=1,000 July	123 K 4.1%	265K 4.1%	97k 4.2%
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. **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.	7 September K=1,000 August MoM% YoY%	226K 0.2% 2.5%	230K 0.2% 2.5%	227K 0.2% 2.9%
Japan	**GDP Annualized** GDP measures the annual change in the inflation-adjusted value of all goods and services produced by the economy. It is the broadest measure of economic activity and the primary indicator of the economy's health. **Producer Price Index (PPI)** This index measures changes in sale prices of goods and services used by producers. A falling PPI may indicate an economic slowdown.	2Q Final data August MoM% YoY%	3.2% 0.0% 2.8%	2.9% -0.2% 2.5%	3.1% 0.3% 3.0%

EUROPEAN GOVERNMENT BONDS MARKET

The yields on 10-year German government bonds fell from 2.23% to 2.14% in this reporting week. During the first day of the week, the yield fell as the ECB was expected to cut interest rates at the regular ECB meeting. In the rest of the week, until the regular ECB meeting, the yield on these bonds weakened as the decision of the central bank was awaited. After the meeting on Thursday and as the decision was made to cut interest rates in line with the expectations of market participants, and as traders reduced expectations regarding the possibility that interest rates will be cut again in October, the yield rose. The same reason influenced the yield to recover slightly during the last day of this week.

U.S. GOVERNMENT BONDS MARKET

During this reporting week, the yield on 10-year U.S. government bonds dropped from 3.76% to 3.65%. During the first two days of the week, the decline was most pronounced as investors were cautious since the release of U.S. inflation data was expected. However, once the data was released in mid-week and the core inflation rate in the U.S. was higher than expected, the yield on the 10-year bond rose. This information had the effect that the yield on these bonds rose slightly on Thursday, however, the yield fell again on Friday, but this time as there were speculations that the Fed could reduce the interest rate by 50bp at the next meeting.

GOLD

The price of gold increased from about $2497 to $2577.70 per ounce in this reporting week. During most of the week, it had a slightly rising trend within the interval from $2485.66 to $2528.99 per ounce. However, the price started to rise more sharply as of Thursday afternoon, reaching a new record high level of $2586.10 at the end of the week. The main reason for this trend in the price of gold is the approach of the Fed meeting (18 September), and the expectation that this institution will begin easing monetary policy after four years, although expectations regarding the amount of reduction (25bp or 50bp) changed during the week. At the end of the week, the former Fed official Bill Dudley said there were "strong grounds" for a 50bp cut in U.S. interest rates.

OIL

In this reporting week, the price of oil recorded a slight increase from around $72 to $72.56 per barrel. The price showed no significant changes in early week. However, it fell sharply to $69.70 on Tuesday to its lowest level since December 2021, as OPEC+ revised downwards its forecasts for oil demand for this and the next year. This market recorded growth already from Wednesday, which replaced all the losses from the previous day by the end of the week. The approach of Hurricane Francine to the Gulf of Mexico, which is the main U.S. energy producing region, has increased concerns about oil supply disruptions, which is the main reason for the price increase. Data from the American Petroleum Institute on an unexpected drop in U.S. oil supplies last week, along with speculation that OPEC+ could cut production further, contributed to this trend. The price weakened slightly on Friday, as storm Francine passed, and production in the Gulf of Mexico continued.