CENTRALNA BANKA
CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(11 - 15 March 2024)

Podgorica, 20 March 2024

FX NEWS

EUR/USD

The EUR/USD exchange rate fluctuated slightly for the first three days, averaging at 1.0933 as the U.S. inflation data was awaited, which later showed that it accelerated in February, compared to the previous month. Data on German inflation were also released in this period, but they did not have a significant impact on market dynamics. EUR/USD exchange rate traded lower on Thursday as the dollar strengthened following the release of better-than-expected U.S. labour market data and the U.S. manufacturing price index, which boosted expectations that the Fed will reduce interest rates during this year at a slower pace. On the last day, the EUR/USD exchange rate weakened in the second part of the day as some ECB officials indicated that the bank could cut rates already in June. Namely, the Central Bank of Spain Governor stated that he expects the first reduction to take place in June if inflation continues to slow down. In addition, the Central Bank of Ireland Governor stated that the upcoming data will give more confidence in whether the ECB will start reducing interest rates in June.

EUR/GBP

The EUR/GBP exchange rate had a significant upward trend until mid-week. The strengthening of the exchange rate occurred when weaker-than-expected data from Great Britain were released (increase in the unemployment rate from 3.8% to 3.9%, and earnings growth by 5.6%, while the expected figure was 5.7%), which supports expectations that the Bank of England will reduce the interest rate during this year. The exchange rate fell on Thursday as the member of the ECB Governing Council, Klass Knot, stated that he is leaning towards the ECB starting to cut interest rates from June. On Friday, data from the Bank of England, that inflationary expectations in Great Britain fell for the period of the next 12 months from 3.3% to 3%, had the effect of increasing expectations that the Bank will reduce the interest rate before the ECB and the Fed, and this led to the increase of this exchange rate.

EUR/JPY

EUR/JPY exchange rate started the week by weakening, as the yen strengthened after it was announced that the final data on Japan's GDP in Q4 was better than the preliminary ones. Yen also strengthened due to the expectation that the Bank of Japan will "exit" the policy of negative interest rates next week. On Tuesday and Wednesday, the exchange rate rose as Japan's finance minister suggested that now was not the right time for the Bank of Japan to tighten monetary policy, while the their Governor said that an exit from negative interest rates would be considered once the achievement of the inflation target was stable and sustainable. At the end of the week, the yen showed signs of strengthening due to renewed speculation that the BoJ will raise interest rates next week, while it rose at the very end of the reporting period.

Table 1 - Exchange rates of the most important currencies

	11-Mar-2024[1]	15-Mar-2024[2]	% Change
EUR/USD	1.0939	1.0889	-0.46
EUR/GBP	0.85084	0.85498	0.49
EUR/JPY	160.86	162.31	0.90
EUR/AUD	1.65147	1.66005	0.52
EUR/CHF	0.95998	0.96220	0.23
USD/JPY	147.06	149.04	1.35
GBP/USD	1.2858	1.2736	-0.95

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

Table 3 – ESTR and Euribor

	11-Mar-2024[1]	15.03.2024.[2]	Change in basis points
ESTR	3.9070	3.9090	0.2
Euribor 1W	3.880	3.890	1.0
Euribor 1M	3.878	3.862	-1.6
Euribor 3M	3.940	3.928	-1.2
Euribor 6M	3.902	3.908	0.6
Euribor 12M	3.745	3.709	-3.6

[1] Opening market value on Monday

[2] Closing market value on Friday

EUROPEAN GOVERNMENT BONDS MARKET

The return on 10-year German government bonds rose from 2.27% to 2.44% in this reporting week. There were no significant developments on the market in this period. Despite the comments of certain ECB officials, who indicated a possible reduction in interest rates in June, investors' expectations regarding the reduction were weakening. At the week level, these expectations were reduced by 20bp, therefore at the very end of the week, traders expected that this year the ECB will reduce the interest rate by 85bp. The yields also followed the developments on the U.S. bond market, where stronger than expected February inflation data in the U.S. reduced expectations regarding the Fed's interest rate cut in June.

U.S. GOVERNMENT BONDS MARKET

The return on 10-year US government bonds rose from 4.08% to 4.31% in this reporting week. Data released this week pointed to the persistence of inflation in the U.S. Namely, it was announced on Tuesday that consumer prices in the U.S. rose more than expected in February (3.2% against 3.1%), and two days later it was announced that producer prices for the same period were also higher than expected (1.6% against 1.2%). Such data lowered expectations for a June Fed interest rate cut, and by the end of the week, expectations for the first cut were shifted from June to the July Fed meeting.

GOLD

The price of gold was fairly stable on Monday, only to record a sharp decline on Tuesday as U.S. inflation data, which was expected to give a clearer picture of when the U.S. interest rate cut will come, was awaited, and strengthened and the USD exchange rate. The dollar weakened on the following day, therefore the price of gold recovered. In the last two days, the price of this precious metal weakened mainly due to the renewed strengthening of the dollar as it was announced that the U.S. producer price index remained at a higher level in February compared to expectations, which influenced traders to shift expectations regarding "timing" when the Fed will cut the interest rate.

OIL

The price of oil fluctuated slightly during the first two days, to record growth on Wednesday and Thursday as the industry report (American Petroleum Institute) showed that crude oil stocks in the U.S. were reduced (stocks fell by 5.5 million barrels the previous week). This was the first drop in seven weeks, which was later confirmed by government data. The growing concern about supply after the attack of Ukrainian drones on Russian refineries also influenced the price of this energy generating product to rise. The International Energy Agency announced that the global oil market is facing a supply shortfall this year, as OPEC continues to cut production, and warned of supply difficulties in 2024. The price of oil fluctuated slightly on the last day. The increase in the price of oil was supported on the mentioned day by the announcement of the U.S. President administration that they will buy oil in order to increase oil reserves during the summer season.

Table 4 - Economic indicators (11 - 15 March 2024)

Country	Indicator	Period	Expected value	Current value	Previous value
USA	**Consumer price index (CPI)** It estimates the cost of living changes by measuring changes in the price level of market basket of consumer goods and services purchased by an average household. Therefore, it is the key inflation measure.	February MoM% YoY%	0.40% 3.10%	0.40% 3.20%	0.40% 3.10%
	Producer Price Index (PPI) This index measures changes in sale prices of goods and services used by producers.	February MoM% YoY%	0.30% 1.20	0.60% 1.60%	0.30% 0.90%
Germany	**Consumer price index (CPI)** It estimates the cost of living changes by measuring changes in the price level of market basket of consumer goods and services purchased by an average household. Therefore, it is the key inflation measure.	February MoM% YoY%	0.20% 2.50%	0.20% 2.50%	0.20% 2.50%
Euro area	**Industrial Production** It measures the output in mining and quarrying, manufacturing and utilities (electricity, gas and water supply).	January MoM% YoY%	-1.80% -3.00%	-3.20% -6.70	2.60% 1.20
Great Britain	**Unemployment rate** The percentage of unemployed individuals actively looking for a job.	January	3.80%	3.90%	3.80%
	Industrial Production It measures the output in mining and quarrying, manufacturing and utilities (electricity, gas and water supply).	January MoM% YoY%	0.00% 0.70%	-0.20% 0.50%	0.60% 0.60%
Japan	**Gross domestic product (GDP)** 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.	Q4 QoQ% YoY%	0.30% 1.10%	0.10% 0.40%	-0.10% -0.40%
	Producer Price Index (PPI) This index measures changes in sale prices of goods and services used by producers.	February MoM% YoY%	0.10% 0.50%	0.20% 0.60%	0.00% 0.20%