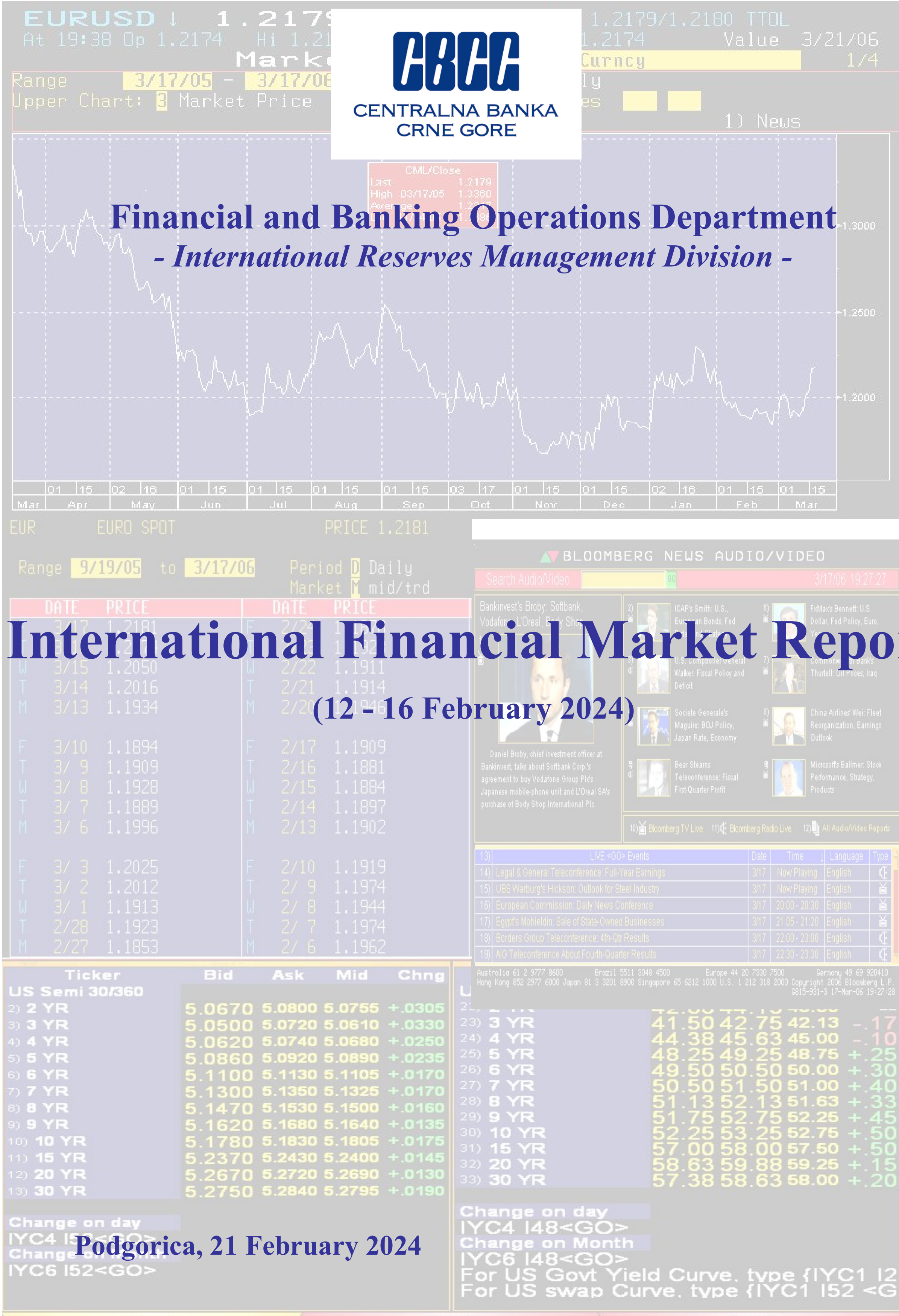

CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(12 - 16 February 2024)

Podgorica, 21 February 2024

FX NEWS

EUR/USD

The EUR/USD exchange rate weakened slightly from the start of the week until mid-Tuesday, recording a sharp decline onwards. This drop came as it was announced that the January inflation rate in the U.S. was higher than expected. Thus, the inflation rate in January recorded a growth of 3.1% compared to the same period of the previous year, while the expected growth amounted to 2.9%. The monthly level reached 0.3%, whereas the expected growth equalled 0.2%. Such data had impact on investors to shift their expectations regarding the moment when the Fed will start reducing interest rates. From Wednesday until the end of the week, the exchange rate recorded growth, therefore at the very end of the week it was at a similar level as it was in the beginning. The growth of the exchange rate in the second part of the week was influenced by the release of several negative data from the U.S. Therefore, it was announced that producer prices in the U.S. were revised downward from -0.1% to -0.2% for December, that retail sales in January fell by 0.8% compared to December and that industrial production unexpectedly fell by 0.1% in the same period. The ECB President's statement that there is still not enough evidence that inflation will sustainably fall to 2% and that she is against the rush to reduce interest rates had an additional effect on the exchange rate increase at the end of the week.

EUR/GBP

The EUR/GBP exchange rate recorded a slight increase in this reporting week. The exchange rate trended downward for the first two days as sterling strengthened following the release of better-than-expected British economic data. The three-month unemployment rate in the U.K. ending in December was reduced from 3.9% to 3.8% (expected growth to 4%). The growth of weekly earnings without bonuses, for the period October-December as well, slowed down, but less than expected. However, once the lower-than-expected British inflation data for January were released on Wednesday, the exchange rate started to rise. The consumer price index was 4% on an annual basis, and it was expected to reach 4.2%, while the core inflation was 5.1% against the expected 5.2%. The growth of the exchange rate was also caused by the announcement that the British economy fell into a technical recession in H2 2023, after GDP fell in both third and fourth quarter, so expectations that the Bank of England will reduce the interest rate three times this year have increased. Regarding the euro area, stronger that expected data on industrial production were published on Wednesday. The exchange rate fluctuated as of Thursday afternoon. At the very end of the week, it was reported that U.K. retail sales rose more than expected in January, providing some support to sterling.

EUR/JPY

The EUR/JPY exchange rate appreciated this reporting week. The rise in the exchange rate came as recent economic indicators in Japan, including earnings, consumption and the Tokyo CPI, were unexpectedly weaker than expected, raising concerns about whether the Bank of Japan will meet its 2% inflation target and affecting shifts in expectations regarding the period in which the Bank of Japan will increase interest rates.

Table 1 - Exchange rates of the most important currencies

	12-Feb-2024.[1]	16-Feb-2024.[2]	% Change
EUR/USD	1.0784	1.0777	-0.06
EUR/GBP	0.85399	0.85525	0.15
EUR/JPY	161.00	161.82	0.51
EUR/AUD	1.65332	1.64944	-0.23
EUR/CHF	0.94337	0.94932	0.63
USD/JPY	149.29	150.21	0.62
GBP/USD	1.2628	1.2602	-0.21

Table 2 - 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%	7-Mar-2024
Federal Reserves (Fed)	Federal Funds Target Rate	5.50%	20-Mar-2024
Bank of Japan (BoJ)	Overnight Call Rate	-0.10%	19-Mar-2024
Bank of England (BoE)	Official Bank Rate	5.25%	21-Mar-2024
Swiss National Bank (SNB)	Libor Target Rate	1.75%	21-Mar-2024
Bank of Canada (BoC)	Target Overnight Rate	5.00%	6-Mar-2024
Reserve Bank of Australia (RBA)	Cash Rate Target	4.35%	19-Mar-2024

Table 3 – ESTR and Euribor

	12-Feb-2024.[1]	16-Feb-2024.[2]	Change in basis points
ESTR	3.910	3.909	-0.10
Euribor 1W	3.884	3.882	-0.20
Euribor 1M	3.835	3.881	4.60
Euribor 3M	3.891	3.933	4.20
Euribor 6M	3.898	3.895	-0.30
Euribor 12M	3.658	3.648	-1.00

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

EUROPEAN GOVERNMENT BONDS MARKET

The return on 10-year German government bonds fluctuated slightly on Friday, averaging at 2.35%. The governor of the Banca d`Italia Governor, Fabio Panetta, said at the weekend that the ECB's March projections will provide useful data for assessing the next move of monetary policy, adding that the central bank must balance between cutting interest rates "quickly and gradually" in relation to "later and more aggressive". Recent comments have ranged from Oesterreichische Nationalbank Governor, Robert Holzmann, who said the interest rate cut may not come this year, to the ECB's Chief Economist, Philip Lein, who added there was a risk of excessive tightening. The ECB Governing Council member Pierre Wunsch said the ECB may not wait until it has "absolute certainty" regarding date on wages before cutting interest rates. The following day, U.S. inflation data caused European bond prices to fall, as traders lowered expectations for interest rate cuts this year. The yield fell on Wednesday. According to traders, the chances of four and five interest rate cuts this year were evenly split, and the first cut should be in June. Over the past two days, yields rose as economic data fuelled speculation that the Fed would wait longer before it "turns" to cutting interest rates.

U.S. GOVERNMENT BONDS MARKET

The yield on 10-year U.S. government bonds fluctuated slightly at the beginning of the week, only to rise in the second part of the day on Tuesday as market participants expected a slower and smaller decline in interest rates after the publication of inflation data in the U.S. The yields weakened on Wednesday as traders considered whether the trend from the previous day was excessive, and the Chicago Fed President, stated that although inflation will be a little higher during the next few months, that it would still be in line with the Fed's target (back to 2%), noting that it is important not to judge the inflationary trend based on one month alone. At the end of the week, yields rose as President of the Federal Reserve Bank of Atlanta, Bostick said there was no need to rush to cut rates and that the labour market and economy were still strong.

GOLD

The price of gold was stable on the first day of the week, recording a sharp drop on Tuesday. This decline was caused by the release of data on inflation in the U.S., being above the expected level. Such data influenced market participants to shift their expectations regarding the reduction of the interest rate by the Fed. From Wednesday until the rest of the week, this precious metal saw a slight upward trend. The price of gold rose as the dollar weakened against most currencies, effecting the recovery of demand for gold. Also, the rise in the price of gold was influenced by the release of negative data about the U.S. which stimulated the demand for safe assets.

OIL

The price of oil fell slightly on the first day of this week due to concerns about global demand for this energy generating product. The very next day, the price of oil rose as tensions escalated in the Middle East, increasing concerns that there could be disruptions in oil supply in the upcoming period. The price of oil dropped sharply in mid-week as it was announced that oil stocks in the U.S. increased by 12 million barrels last week, which was above expectations. During the last two days, the price of oil rose as tensions in the Red Sea rose again, which were caused by the escalation of the conflict between Hezbollah and Israel.

Table 4 - Economic indicators (12 - 16 February 2024)

Country	Indicator	Period	Expected value	Current value	Previous value
Euro area	**Industrial Production** It measures the output in mining and quarrying, manufacturing and public utilities (electricity, gas and water supply).	December MoM% YoY%	 -0.2% -4.0%	 2.6% 1.2%	 0.4% -5.4%
	Trade Balance SA The difference between exports and imports of euro area products and services. This is one of the most represented components of Europe's Balance of Payments, so it gives a valid insight into the pressures to which the European currency is exposed.	December b=bill.	15.6b	13.0b	15.1b
Germany	**ZEW Survey Current Situation** This indicator focuses on the results of the research on the current soundness of the German economy. It is obtained by collecting estimates of experts on whether the current situation is improving, worsening or remaining unchanged, as the difference between the number of positive and the number of negative responses. The higher value points to strengthening of the economy and a better business climate.	February	-79.0	-81.7	-77.3
	ZEW Survey Expectations This survey measures expectations regarding the economic growth for the next six months. Experts are surveyed on whether they expect an improvement or deterioration, thus the difference between the number of positive and negative responses represents the indicator value.	February	17.3	19.9	15.2
Japan	**GDP S.A.** It measures the final market value of all products and services produced within the country.	Q4 Preliminary data QoQ% YoY%	 0.2% 1.1%	 -0.1% -0.4%	 -0.8% -3.3%
Great Britain	**Weekly Earnings Ex Bonus 3M** This indicator tracks total weekly payments to employees in exchange for work performed, excluding bonus payments.	December YoY%	6.0%	6.2%	6.8%
	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 Preliminary data QoQ% YoY%	 -0.1% 0.1%	 -0.3% -0.2%	 -0.1% 0.2%
	Retail Sales Ex Auto Fuel Retail, also known as retail trade, follows the sale of new and used products to the general public, for personal or household consumption. This concept is based on the volume of goods sold.	January MoM% YoY%	 1.7% -1.5%	 3.2% 0.7%	 -3.5% -2.1%
USA	**Consumer price index (CPI)** Estimates changes in the cost of living by measuring changes in the prices of certain items for which the consumers allocates their money.	January MoM% YoY%	 0.2% 2.9%	 0.3% 3.1%	 0.2% 3.4%
	Producer Price Index (PPI Final Demand) It measures the change in producer prices from the moment they leave the production place. Those are the prices the domestic producers received for their output either at local or foreign market.	January MoM% YoY%	 0.1% 0.6%	 0.3% 0.9%	 -0.1% 1.0%