CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(13 – 17 May 2024)

Podgorica, 24 May 2024

Weekly overview of short news

- Following the increase in price pressure during February and March in the USA, April saw a slight slowdown in the consumer price index, which decreased from 3.5% to 3.4% on an annual basis. A slight decline was also recorded in the service sector in April. U.S. analysts observe the current economic situation with cautious relief, which could lead to a Fed rate cut. While the Fed, on the other hand, does not draw concrete conclusions, as it is too early to make conclusions based on data from just one month, and for now these economic indicators will be viewed only as an isolated case.
- The Richmond Fed chairman said that additional time will be needed to bring inflation down to 2% and that rates must remain elevated for a longer period of time to affect inflation.
- The consumer price index in the euro area remained the same in April at the monthly level of 0.6%, and the same is the case with the index at the annual level, being 2.4%.
- Banque de France Governor stated that the probability that the ECB's interest rate will be reduced at the next meeting on 6 June is high. At the same time, Banco de España Governor stated that every indicator points out that the interest rate will be reduced during June.
- The ECB member Pierre Wunsch warned against rushing to further reduce the interest rate after it is most likely to be reduced, referring primarily to the reduction that is speculated to happen in July. He was joined in commenting that June is probably the appropriate period for a rate cut by another ECB decision maker, Klaas Knot.
- The ECB Governing Council member, Isabel Schnabel, indicated caution regarding successive interest rate cuts in June and July, emphasizing the risk of premature easing, stating that the interest rate cut in July does not seem justified based on current data. Similarly, Robert Holzmann expressed concern about early interest rate trends that could potentially reboot inflation.
- The First Deputy Managing Director of the IMF, Gita Gopinath, warns of the risk of "deglobalisation", as geopolitical crises and the fragmentation of global trade represent the greatest threat to the integration of the global economy. The fragmentation of global trade has accelerated since the outbreak of war in Ukraine.

FX NEWS

EUR/USD

The EUR/USD exchange rate had an upward trend for the first three days as the dollar weakened due to the fall in yields on U.S. government bonds and as the Fed President stated that he does not think the Fed's next move will be an interest rate increase. The dollar also weakened due to the publication of U.S. inflation data, which fuelled expectations that the disinflation process, which began at end-2023, has now continued. The euro weakened on Thursday as Fed officials' comments affected the rise in U.S. bond yields. Comments indicated that the Fed will not rush to cut interest rates, as additional time is needed to bring inflation down to the target level. The dollar weakening was recorded at the end of the week as the data on weaker leading indicators in the U.S. was released.

EUR/GBP

The EUR/GBP exchange rate recorded a decline on the weekly level, which was more pronounced on the last day of the week. At the very beginning of the week, the exchange rate fluctuated as data from the U.K. labour market was expected. Data on earnings growth and increased unemployment influenced the exchange rate to continue having a mixed trend. British wages rose more than expected, but other figures suggested the labour market was losing some of its "inflationary heat", keeping the Bank of England on alert when it comes to cutting interest rates. The next day's decline was caused by sterling strengthening as markets increased their risk appetite on rising expectations that the Fed will cut interest rates in September. The next day's decline was caused by sterling strengthening as markets increased their risk appetite on rising expectations that the Fed will cut interest rates in September. The EUR/GBP exchange rate fell on Friday as traders expect key data to be released next week that could indicate how quickly the BoE could cut interest rates. The British government has expressed concern over the growing alliance between Russia and China, naming it a threat to Western countries and calling on European countries to step up aid to Ukraine.

EUR/JPY

The EUR/JPY exchange rate rose for the first two days of the reporting week as the yen weakened due to rising commodity prices and weakening expectations that interventions by Japanese officials in the currency market were inevitable. The yen also weakened due to the difference in yields between Japan, on the one hand, and the euro area and the USA, on the other. The IMF warned against the Bank of Japan's use of monetary policy to stop the yen's weakening and suggested that any increase in short-term interest rates should be gradual and data-driven. The exchange rate fell on Wednesday as the yen was stronger against the euro, as the spread between U.S. and Japanese government bonds narrowed, and investors raised expectations for an interest rate increase by the Bank of Japan. Data released on Thursday showed that Japan's economy shrank more than expected in Q1, partly as the cost of living rose, exports weakened and a weak yen threatened spending. The oil price fluctuated slightly at the end of the week.

Table 1 - Exchange rates of the most important currencies

	13-May-2024[1]	17-May-2024[2]	% Change
EUR/USD	1.0771	1.0869	0.91
EUR/GBP	0.86002	0.85575	-0.50
EUR/JPY	167.76	169.17	0.84
EUR/AUD	1.63128	1.62417	-0.44
EUR/CHF	0.97625	0.98823	1.23
USD/JPY	155.78	155.65	-0.08
GBP/USD	1.2525	1.2701	1.41

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%	12 June 2024
Bank of Japan (BoJ)	Overnight Call Rate	0.00%	14 June 2024
Bank of England (BoE)	Official Bank Rate	5.25%	20 June 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%	18 June 2024

Table 3 - ESTR and Euribor

	13-May-2024[1]	17-May-2024.[2]	Change in basis points
ESTR	3.9060	3.9010	-0.50
Euribor 1W	3.892	3.875	-1.70
Euribor 1M	3.856	3.799	-5.70
Euribor 3M	3.818	3.830	1.20
Euribor 6M	3.789	3.791	0.20
Euribor 12M	3.629	3.645	1.60

[1] Opening market value on Monday

[2] Closing market value on Friday

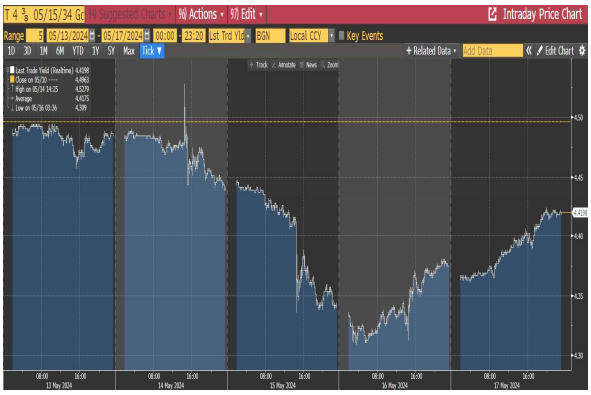
Table 4 - Economic indicators (13 - 17 May 2024)

Country	Indicator	Period	Expected value	Current value	Previous value
Euro area	**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 households.	April Finally MoM% YoY%	 0.6% 2.4%	 0.6% 2.4%	 0.6% 2.4%
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 households. **ZEW Survey** Experts provide qualitative assessments regarding the inflation trend, interest rates, exchange rates and prices on the stock market in the next six months.	April Final data MoM% YoY% May	 0.5% 2.2% 46.4	 0.5% 2.2% 47.1	 0.5% 2.2% 42.9
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.	April Final data MoM% YoY%	 0.5% 2.2%	 0.5% 2.2%	 0.5% 2.2%
USA	**Initial Jobless Claims** It measures the number of people first time applying for receiving compensation. **Leading indicators** Leading indicators represent a complex index intended for predicting trends in the economy. The index is based on 10 main indicators that detect changes in the economy. **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.	May 11 K=1,000 April April MoM% YoY%	220K -0.3% 0.4% 3.4%	222K -0.6% 0.3% 3.4%	231K -0.3% 0.4% 3.5%
Great Britain	**Average Weekly Earnings 3M/YoY** This concept monitors total weekly compensation paid to employees in exchange for performed job (or paid leave). **ILO Unemployment Rate 3Mths** Unemployment, defined by the International Labour Organization (ILO), represents a situation where people are unemployed but actively looking for a job.	March March	5.5% 4.3%	5.7% 4.3%	5.6% 4.2%
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.	Q1 Preliminary data	-1.2%	-2.0%	0.4%

EUROPEAN GOVERNMENT BONDS MARKET

The yield on 10-year German government bonds fluctuated on Monday, only to rise the next day to the level of 2.555%, which is the maximum in the reporting period. The rise in yields was caused by indications that the German economy is recovering, as the ZEW index rose from 42.9 to 47.1 in May. This yield fell sharply on Wednesday, after data on inflation in the U.S. caused a rise in expectations regarding the reduction of interest rates by the Fed, which also spilled over into the European bond market. At the opening of the market on Thursday, the yield on 10-year German government bonds stood at 2.40%, which is the lowest level this week. The yield started to rise on the same day, this being the trend on the last day of the week. The yield grew following the developments on the American bond market, but also due to the warning of the ECB Executive Board member, Isabelle Schnabel, on two successive reductions in the interest rate, in June and July. Similar to her statement, the Central Bank of Austria Governor, Robert Holzmann, expressed concern about premature rate cuts that could fuel inflation again. The yield on 10-year German government bonds stood at 2.515% at the very end of the week, which is approximately at the level from the beginning of the week.

U.S. GOVERNMENT BONDS MARKET

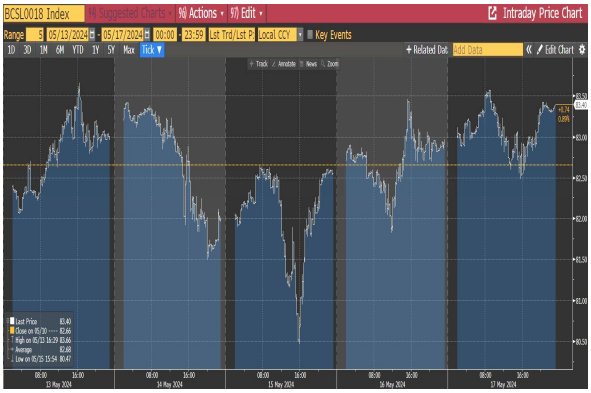


The return on 10-year U.S. government bonds fell from 4.49% to 4.42% in this reporting week. For the first two days, the yield had a slightly downward trend for the first two days, and there were no significant developments in this market, except for the Fed President's statement that "by many measures, the level of the interest rate is restrictive" and that he does not believe that the next move of the central bank will be to increase the interest rate. A more significant decline was recorded on Wednesday, by around 10bp, as the U.S. inflation data raised expectations for a Fed rate cut. The annual inflation rate was reduced in April in line with expectations, from 3.5% to 3.4%, while the monthly inflation rate was reduced from 0.4% to 0.3%, which was expected to be 0.4%. After Fed officials reiterated that U.S. inflation must weaken further to justify a rate cut, yields started to rise on Thursday. Namely, the Richmond Fed President stated that the interest rate must remain at the current level for a longer period of time in order for inflation to return to the target level, pointing to continuous price pressures in the service sector. His counterpart in New York said that the latest inflation data confirmed that price pressures were gradually easing, but more evidence was needed before adjusting interest rates.

GOLD

The gold price rose in this reporting week. The price weakened on Monday, as investors sold this precious metal to take advantage of the previous growth of 2.5% at the level of the week preceding the reporting one. The price also weakened due to growing expectations that the Fed will keep the interest rate at the existing level for a longer period of time. Over the next two days, the price had an upward trend, mainly due to the weakening of the dollar and the expectation of data on the inflation rate in the USA. After their announcement, expectations of a Fed interest rate cut increased, which further boosted the price of this precious metal. However, on Thursday, the price weakened on Thursday due to strengthening of the dollar caused by the comments of the Fed officials who do not suggest an immediate interest rate reduction in the U.S. Despite this, rising geopolitical tensions following the news of a helicopter crash carrying the Iranian President on the last day of the reporting week caused gold prices to rise to nearly $2,423 an ounce, bringing the price closer to April's record high ($2,431.52).

OIL



The oil price rose in this reporting week. The price had an upward trend on Monday, as a result of the still present geopolitical tensions in the Middle East. A cease-fire in the conflict between Israel and Hamas is a difficult task, and Israeli forces have continued to push into Palestinian territory, not accepting a cease-fire agreement. Over the next two days, the price of this energy generating product was mostly declining, mainly due to concerns that persistent inflation in the USA could negatively affect the demand for oil, thus it was at a 2-month low on Wednesday. On the same day, after the U.S. Government's report on the balance of stocks in the U.S. in the previous week indicated their reduction by 2.5 million barrels, the price of oil rose. The price also increased due to release of inflation data in the USA. The rising trend prevailed until the end of the period, as economic indicators from China reinforced hopes for higher demand for this energy generating product (higher-than-expected growth in industrial production in April).