CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(15 – 19 January 2024)

Podgorica, 25 January 2024

FX NEWS

EUR/USD

The **EUR/USD exchange rate** depreciated in this reporting week. On Monday, the markets in the USA were closed, causing reduced trade volume, so the exchange rate did not change significantly. However, the next day saw its sharp depreciation. The USD appreciated that day after Fed board member Christopher Waller's statement increased concerns that the Fed would not cut rates as aggressively as markets expected. On the other hand, despite the ECB officials' comments that this central bank would not consider reducing the interest rate before the summer, the euro depreciated as the ECB survey showed that euro area consumers' inflation expectations hit their nadir in November over the last more than 18 months, while the ZEW index of investors' expectations regarding economic growth in the euro area declined. The exchange rate moved in a limited range for the rest of the week and recovered slightly. The USD depreciation due to solid US economic data (retail sales, industrial production) and the statement of the Atlanta Fed Chair Raphael Bostic that he did not expect the interest rate to reduce before Q3 caused occasional exchange rate depreciation. Over this period, the exchange rate appreciation resulted from the euro's appreciation due to the statements of ECB officials that the ECB was committed to reaching the inflation target of 2%, that decisions depended on the data, that the ECB achieved a lot, but that it should wait for more data before deciding on interest rate cuts, which weakened the market's expectations for a cut this year. The final data published this week confirmed that the euro area inflation rate in December was 2.9%.

EUR/GBP

The **EUR/GBP exchange rate** appreciated on Monday, awaiting UK earnings data. On Tuesday, the exchange rate rose in the morning as the sterling depreciated after average wages in the UK for the September-November period rose less than expected and fluctuated in the afternoon. The next day, the exchange rate depreciated sharply after better-than-expected December inflation data in the country supported the sterling and decreased expectations of the extent of BoE interest rate cuts expected this year. In December, the consumer price index grew by 0.4% monthly and 4.0% annually, higher than the market expectations of 0.2% and 3.8%, respectively, and higher prices of cigarettes and alcohol drove the growth. At the end of the week, EUR/GBP rallied as sterling depreciated after the announcement that December retail sales fell more than expected in Britain.

EUR/JPY

The **EUR/JPY exchange rate** appreciated this reporting week. The main reason for this trend was the expectation that the BoJ would maintain the current way of conducting monetary policy at the next meeting. These expectations were fuelled by Japan's producer price index December data that remained unchanged from the same period last year (the PPI did not increase for the first time since February 2021), in line with the BoJ's expectations that inflationary pressures would ease for a certain period after which they would rise again. At the end of the week, Japan's December inflation rate fell from 2.8% to 2.6%, which could be another reason for the BoJ to wait until one more meeting before abandoning the negative interest rates policy.

Table 1 - Exchange rates of the most important currencies

	15.01.2024[1]	19.01.2024[2]	% Change
EUR/USD	1.0951	1.0898	-0.48
EUR/GBP	0.85886	0.85784	-0.12
EUR/JPY	158.66	161.47	1.77
EUR/AUD	1.63798	1.65184	0.85
EUR/CHF	0.93359	0.94611	1.34
USD/JPY	144.88	148.12	2.24
GBP/USD	1.2753	1.2703	-0.39

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%	25 January 2024
Federal Reserves (Fed)	Federal Funds Target Rate	5.50%	31 January 2024
Bank of Japan (BoJ)	Overnight Call Rate	-0.10%	23 January 2024
Bank of England (BoE)	Official Bank Rate	5.25%	1 February 2024
Swiss National Bank (SNB)	Libor Target Rate	1.75%	21 March 2024
Bank of Canada (BoC)	Target Overnight Rate	5.00%	24 January 2024
Reserve Bank of Australia (RBA)	Cash Rate Target	4.35%	6 February 2024

Table 3 – ESTR and Euribor

	15.01.2024[1]	19.01.2024[2]	Change in basis points
ESTR	3.904	3.904	0.00
Euribor 1W	3.884	3.858	-2.60
Euribor 1M	3.893	3.854	-3.90
Euribor 3M	3.932	3.958	2.60
Euribor 6M	3.896	3.908	1.20
Euribor 12M	3.636	3.655	1.90

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

EUROPEAN GOVERNMENT BONDS MARKET

The return on 10-year German government bonds increased during this reporting period. On Monday, the return on these bonds was stable to jump on Tuesday afternoon as the Bank of Lithuania's Governor stated that investors had exceeded expectations that the ECB would cut an interest rate in the short term. The ECB President had similar comments confirming that the central bank would not be in a hurry to reduce interest rates. For the rest of the week, the return on German bonds rose as investors lowered expectations of an interest rate cut in the near future and regarding the amount by which the ECB will cut rates this year. The return on 10-year bonds stood at 2.34% at the end of the week.

US GOVERNMENT BONDS MARKET

On Monday, the bond market was closed in the US for a holiday. After markets opened on Tuesday, the return on 10-year US government bonds rose almost constantly. The growth of the return this week was influenced mainly by the statement of Fed's member of the Board of Governors Christopher Waller that the monetary institution would not reduce interest rates aggressively as the market now expected. Additionally, the return's growth was influenced by the weekly increase in initial jobless claims in the USA by 187 thousand compared to the expected 205 thousand. The return on 10-year bonds dropped only on Friday and stood at 4.12% at the end of the week (compared to around 3.98% at the beginning of the week).

GOLD

At the beginning of the week, the gold price was stable to record a constant decline during the next two days. The gold price drop came as the USD appreciated against a basket of currencies, reflected in the declining demand for gold and reduced expectations regarding an aggressive interest rate cut by the Fed. Over the past two days, the gold price rose as demand for safe-haven assets increased after rising tensions in the Middle East.

OIL

The oil price had a sharp drop at the beginning of the week, but the oil price quickly recovered the losses as the US Navy warned merchant ships to avoid the route through the Red Sea. The rise in the oil price continued until the middle of the next day after warmer weather was expected in the USA for the second half of this month, reflected in the drop in demand for this energy product and in the price drop that lasted until mid-Wednesday. A slightly sharper increase in the oil price started on Wednesday afternoon due to increased tensions in the Middle East after the US carried out airstrikes against the Houthis in Yemen and Pakistan also carried out airstrikes against Iran. On Friday, the oil price broke the upward trend after announcing that Libya would soon resume oil production at the country's largest oil field after a 3-week shutdown.

Table 4 - Economic indicators (15 - 19 January 2024)

Country	Indicator	Period	Expected value	Current value	Previous value
Euro area	**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.	December Final data MoM% YoY%	0.2% 2.9%	0.2% 2.9%	0.2% 2.9%
	Industrial output It measures the changes in output of production, service and mining sectors.	November	-0.3%	-0.3%	-0.7%
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.	December Final data MoM% YoY%	0.1% 3.7%	0.1% 3.7%	0.1% 3.7%
	Producer Price Index (PPI) This index measures changes in sale prices of goods and services used by producers.	December MoM% YoY%	-0.4% -8.0%	-1.2% -8.6%	-0.5% -7.9%
Great Britain	**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.	December MoM% YoY%	0.2% 3.8%	0.4% 4.0%	-0.2% 3.9%
	Retail Sales Inc Auto Fuel The indicator tracks sales of new and used goods to the general public. This concept is based on the volume of goods sold.	December MoM% YoY%	-0.5% 1.1%	-3.2% -2.4%	1.3% 0.1%
	Average Weekly Earnings 3M/YoY This concept monitors weekly compensation paid to employees in exchange for performed job (or paid leave).	November 3M/YoY%	6.8%	6.5%	7.2%
USA	**Industrial output** It measures the changes in output of production, service and mining sectors.	December MoM%	-0.1%	0.1%	0.22%
	Initial Jobless Claims It measures the number of people filing for unemployment benefits for the first time.	January 13 K=1,000	205 K	187 K	202 K
	Existing Home Sales The indicator shows records of sales in the US real estate sector and is revised monthly. This report provides a rather accurate assessment of housing market conditions. Due to its sensitivity to the business cycle, it can be an important indicator of overall housing conditions at a time when this is particularly important for the economy.	December MoM%	0.3%	-1.0%	0.8%
Japan	**Producer Price Index (PPI)** This index measures changes in sale prices of goods and services used by producers.	December MoM% YoY%	0.0% -0.3%	0.3% 0.0%	0.2% 0.3%