CENTRALNA BANKA
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Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(15 - 19 April 2024)

Podgorica, 24 April 2024

FX NEWS

EUR/USD

The EUR/USD exchange rate recorded a decline on the first day of this week as good data on U.S. retail sales was published. The exchange rate began to recover on Tuesday, but the Fed chairman`s statement that there is a "lack of progress" in terms of inflation this year and that, as a result, rates will be at an elevated level for longer than originally expected, had the effect on the daily exchange rate to record a decline. There was a sharp rise in the exchange rate in mid-week as one of the ECB Governing Council members, Robert Holtzman, stated he is still "not completely" convinced that the interest rates should be reduced in June. The statements by the Fed officials caused this rate to decline on Thursday. Namely, the New York FED president said that there is no rush to lower interest rates, while his colleague, the Minneapolis FED president, said that the Fed could potentially keep rates at the current level until the end of this year. The exchange rate recovered on the last day of the week as demand for safe assets eased as market participants reduced expectations of an escalation of the Middle East conflict.

EUR/GBP

The EUR/GBP exchange rate recorded an increase of 0.78% in this reporting week. The exchange rate was stable for most of the week, and the only two significant changes occurred on Wednesday and Friday. It rose on Wednesday when the Bank of England Governor said that Great Britain and the rest of Europe are exposed to lower inflationary risks compared to the USA, which supports the expectation that the Bank of England will reduce the interest rate ahead of the Fed. The sharp rise in the exchange rate on Friday came as the Bank of England deputy governor signalled that the risk of rising inflation is diminishing, further fuelling expectations that the BoE will cut interest rates.

EUR/JPY

The EUR/JPY exchange rate recorded a growth of 0.96% this week. This exchange rate has been rising almost constantly this week due to the ultra-expansive policy pursued by the Bank of Japan. The yen also weakened against the dollar and this decline in the Japanese currency against leading global currencies has fuelled speculation that the Bank of Japan may intervene to prevent its currency's drop. There was a sharp drop in the exchange rate only in the early hours of Friday as Israel fired missiles at Iran, which increased the demand for safe assets. However, this decline was short-term and the exchange rate quickly returned to its previous level as market participants eased concerns about further escalation of geo-political conflicts in the Middle East.

Table 1 - Exchange rates of the most important currencies

	15 April 2024[1]	19 April 2024[2]	% Change
EUR/USD	1.0643	1.0656	0.12
EUR/GBP	0.85474	0.86142	0.78
EUR/JPY	163.13	164.70	0.96
EUR/AUD	1.64316	1.66008	1.03
EUR/CHF	0.97295	0.97033	-0.27
USD/JPY	153.23	154.64	0.92
GBP/USD	1.2453	1.2370	-0.67

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%	1 May 2024
Bank of Japan (BoJ)	Overnight Call Rate	0.00%	25 April 2024
Bank of England (BoE)	Official Bank Rate	5.25%	9 May 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%	7 May 2024

Table 3 – ESTR and Euribor

	15-Apr-2024[1]	19.04.2024.[2]	Change in basis points
ESTR	3.910	3.910	0.0
Euribor 1W	3.880	3.891	1.1
Euribor 1M	3.836	3.837	0.1
Euribor 3M	3.923	3.892	-3.1
Euribor 6M	3.865	3.846	-1.9
Euribor 12M	3.748	3.732	-1.6

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

EUROPEAN GOVERNMENT BONDS MARKET

The yield on German 10-year bonds rose over the first two days of the week as market participants lowered expectations for the level at which the ECB will cut interest rates by the end of the year by 5bp, therefore the ECB is now widely expected to cut interest rates by 78bp by the year-end. The yield on these bonds fell slightly in the mid-week, while it recorded growth during the remaining two days following the recovery of the yields on the U.S. bonds.

U.S. GOVERNMENT BONDS MARKET

The yield on U.S. 10-year bonds weakened during the first two days of this week. The rise in yields came as better-than-expected U.S. retail sales data was released and the Fed signalled it would not rush to cut interest rates. Namely, the Fed president stated that additional time will be needed in order to gain confidence that inflation is heading in the right direction. The yield on these bonds fell in mid-week, recording the growth again on Thursday. The yield on 10-year U.S. treasuries rose on Thursday as comments from Fed officials fuelled expectations that the Fed will keep rates high for some time to come. The Atlanta Fed president noted that he does not think it will be appropriate to ease rates until end-2024 as inflation remains too high. The Minneapolis Fed president said that the Fed could "potentially" hold rates steady throughout the year. After an initial decline, as investors turned their focus to the inflation outlook in the U.S. (good economic data coming from the U.S. in the previous period lowered expectations of an interest rate cut by the Fed), and the president of the Chicago Fed stated that the inflationary trend is such that "it makes sense to wait" for another period before reducing the interest rate.

GOLD

The gold price rose in this reporting week. Concerns about developments in the Middle East and uncertainty over whether the conflict between Israel and Iran will escalate have fuelled demand for gold as a safe investment, leading prices to rise in the first half of the week, while the Fed's hint that interest rates in the U.S. will remain high longer than expected had almost no effect on its trend. The price weakened on Wednesday afternoon, due to the expectation that Israel will refrain from responding to the recent missile attacks by Iran, which reduced the demand for gold, and one of the reasons for the price drop was profit taking by investors. On Thursday, the price continued to rise mainly due to the weakening of the dollar. The price rose sharply on the last day of the week, to $2417.89, as tensions in the Middle East increased. Israel launched a missile at Iran a week after Tehran's missile at Israel, and the explosion was heard on Friday in the Iranian city of Isfahan, where nuclear facilities are located. The price soon retreated from this level, and ended the week at the level of $2391.93 per ounce.

OIL

The oil price fell in this reporting week. The oil price fluctuated on Monday due to tensions in the Middle East, but also the Iranian government's statement that it does not plan further attacks on Israel unless there are further provocations. It fell in the rest of the week, as concerns about the spread of conflict between Israel and Iran eased. The price drop was also caused by the release of a U.S. Government report which showed that oil stocks in the U.S. increased by 2.74 million barrels last week, and that they are at the highest level since June 2023. The price fluctuated again on Thursday, due to the news that after a 6-month break, the USA will reimpose sanctions on Venezuela's oil. Venezuela has lost a key U.S. license that allowed it to export oil to markets around the world, which could "hit" the volume and quality of its crude oil and fuel sales, Reuters reported. However, there was a sharp increase in the price of this energy generating product on Friday, as it was reported that explosions were heard in Iran and Syria, which fuelled fears of an escalation of the crisis in the Middle East. Soon the price fell sharply as Israel's attack had limited consequences and as Iran declared that it did not intend to retaliate against this attack.

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

Country	Indicator	Period	Expected value	Current value	Previous value
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.	March MoM% YoY%	 0.4% 3.1%	 0.6% 3.2%	 0.6% 3.4%
Germany	**Producer Price Index (PPI)** This index measures changes in sale prices of goods and services used by producers in Germany. Producers transfer higher costs to consumers through retail prices, thus PPI is important as an early inflation indicator.	March MoM% YoY%	 0.1% -3.3%	 0.2% -2.9%	 -0.4% -4.1%
Euro area	**Industrial production** It measures the changes in output of production, service and mining sectors. **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% March MoM% YoY%	 0.8% -5.5% 0.8% 2.4%	 0.8% -6.4% 0.8% 2.4%	 -3.2% -6.7% 0.8% 2.4%
USA	**Initial Jobless Claims** This indicator measures the number of people receiving unemployment allowances. **Retail Sales** This indicator measures the volume of sales of goods for personal and household spending. **Industrial production** It measures the changes in output of production, service and mining sectors.	13 April K=1,000 March MoM% March MoM%	215 K 0.4% 0.4%	212 K 0.7% 0.4%	211 K 0.6% 0.1%