CENTRALNA BANKA
CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(17 – 21 June 2024)

Podgorica, 26 June 2024

Weekly overview of short news

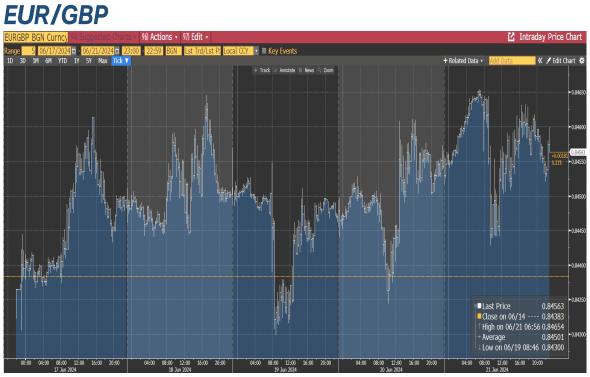
- Reducing the interest rate in September would require improving the ECB's inflationary outlook, said the ECB Governing Council's member Boris Vujčić. Although a decrease in July is not entirely ruled out, more data and a new set of forecasts will be available two months later. "To do more, we have to more results," Vujčić said at the economic conference in Dubrovnik. Mārtiņš Kazāks, also an ECB Governing Council member, said in Dubrovnik that he thought that inflation was on the way to reaching the targeted level in the second half of next year and that he believes that it would happen.
- The RBA kept the interest rate at the level of 4.35% for the fifth time in a row but suggested that the next moves could be in both directions, either a rate increase or decrease.
- The inflation rate in Great Britain fell to the target level in May for the first time in the last three years. Namely, the CPI dropped from 2.3% to 2.0%, which should leave the BoE on the path of reducing the interest rate this year, but service inflation remained "sticky", increasing the caution regarding the reduction. The inflation rate in the service sector was reduced from 5.9% to 5.7% and is expected to be 5.5%.
- At its meeting, the BoE the kept interest rate at the existing level of 5.25%, and this decision was said to be "finely balanced" for some of the total nine members of the BoE's Monetary Policy Committee, after which expectations for an interest rate cut in August strengthened.
- The SNB unexpectedly reduced the interest rate by 25bp to 1.25%, and reduced the 2026 inflation forecast to 1%.
- Inflation in Japan accelerated due to rising energy costs, which supports a potential increase in the BoJ's interest rate. Consumer prices excluding fresh food products rose at an annual rate of 2.5% in May, after April's growth of 2.2% and the expected growth of 2.6%.

FX NEWS

EUR/USD

The **EUR/USD exchange rate** appreciated during the first three days of the reporting week. It appreciated as Marine Le Pen declared that she would respect political institutions if she won the upcoming elections. The EUR/USD exchange rate also appreciated after the final May data on euro area inflation and US retail sales. Inflation data followed the expectations (annual rate of 2.6%), while retail sales were below expectations (0.1% vs. 0.3% monthly). Several Fed officials also indicated the need for patience when lowering interest rates. On Wednesday, US markets were closed for the “Juneteenth” holiday. The next day, the EUR/USD exchange rate depreciated as the euro depreciated due to political events in France and the comments of DNB President that the ECB’s interest rate could be reduced twice this year. The USD appreciated against other major currencies on Friday, driven by good data on the US economy and the Fed’s patient approach to interest rate cuts.

EUR/GBP



On Friday, the **EUR/GBP exchange rate** had a volatile trend. On Monday, the EUR/GBP exchange rate first appreciated until the middle of the day to depreciate slightly from the middle of the day. The next day, the exchange rate first appreciated due to the sterling’s appreciation expecting the UK inflation data and the BoE meeting, and the euro retreated due to the pressures on the French political scene by the end of the day. On Wednesday, volatility was caused by the announcement that inflation in Britain's services sector was higher than expected in May, dampening expectations that the BoE will cut interest rates in the coming months. The exchange rate started to appreciate after the BoE meeting on Thursday, as sterling depreciated after increased expectations that UK interest rates could be cut in August. The pound appreciated briefly on Friday after data showed retail sales beat expectations in May, offering some comfort on British consumer resilience a day after the BoE opened the way for a possible rate cut in August.

EUR/JPY

The **EUR/GBP exchange rate** appreciated this reporting week. Early this week, the BoJ governor stated that prices in the service sector continued to increase moderately, primarily due to rising wages, and that the impact of exchange rate changes on import prices will be closely monitored. On Wednesday, Bloomberg reported that Japan’s Ministry of Finance was considering increasing the issuance of short-term debt as the BoJ reduced its purchases of government bonds. Masato Kanda, a senior Japanese official, said at the end of the week that authorities would take appropriate action if there were excessive movements in currency rates and that adding Japan to the US Treasury watch list would not limit their actions.

Table 1 - Exchange rates of the most important currencies

	17.06.2024[1]	21.06.2024[2]	% Change
EUR/USD	1.0703	1.0693	-0.09
EUR/GBP	0.84383	0.84564	0.21
EUR/JPY	168.43	170.77	1.39
EUR/AUD	1.61768	1.60990	-0.48
EUR/CHF	0.95288	0.95615	0.34
USD/JPY	157.40	159.80	1.52
GBP/USD	1.2687	1.2645	-0.33

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	4.25%	18 July 2024
Federal Reserves (Fed)	Federal Funds Target Rate	5.50%	31 July 2024
Bank of Japan (BoJ)	Overnight Call Rate	0.00%	31 July 2024
Bank of England (BoE)	Official Bank Rate	5.25%	1 August 2024
Swiss National Bank (SNB)	Libor Target Rate	1.25%	26 September 2024
Bank of Canada (BoC)	Target Overnight Rate	4.75%	24 July 2024
Reserve Bank of Australia (RBA)	Cash Rate Target	4.35%	6 August 2024

Table 3 – ESTR and Euribor

	17.06.2024[1]	21.06.2024.[2]	Change in basis points
ESTR	3.662	3.664	0.20
Euribor 1W	3.626	3.622	-0.40
Euribor 1M	3.579	3.600	2.10
Euribor 3M	3.715	3.686	-2.90
Euribor 6M	3.735	3.691	-4.40
Euribor 12M	3.672	3.622	-5.00

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

Table 4 - Economic indicators (17 – 21 June 2024)

Country	Indicator	Period	Expected value	Current value	Previous value
Euro area	**HCOB Composite PMI** Index is based on survey of over 300 managers in production and service companies in the private sector. Each response is weighted by the company size and its contribution to total output or service output.	June Preliminary data	52.5	50.8	52.2
	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.	May Final data MoM% YoY%	0.2% 2.6%	0.2% 2.6%	0.2% 2.6%
Germany	**HCOB Composite PMI** Index is based on survey of over 300 managers in production and service companies in the private sector. Each response is weighted by the company size and its contribution to total output or service output.	June Preliminary data	52.7	50.6	52.4
	Producer Price Index (PPI) The index measures the average price change that domestic producers receive for their production.	May MoM% YoY%	0.1% -2.0%	0.0% -2.2%	0.2% -3.3%
France	**HCOB Composite PMI** Index is based on survey of over 300 managers in production and service companies in the private sector. Each response is weighted by the company size and its contribution to total output or service output.	June Preliminary data	49.4	48.2	48.9
Great Britain	**S&P Global UK Services PMI** The index is compiled based on responses to questionnaires sent as panel to 650 companies from the services sector. Sectors covered include retail (except retail), transportation, information, communications, finance, insurance, real estate and business services. Answers are collected in the second half of each month and indicate the direction of changes compared to the previous month. A score above 50 indicates that the services sector is generally expanding, while a score below 50 indicates its general decrease.	June Preliminary data	53.0	51.7	53.0
	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.	May MoM% YoY%	0.4% 2.0%	0.3% 2.0%	0.3% 2.3%
USA	**S&P Global US Composite PMI** PMI surveys tracks opinion among procurement managers at manufacturing, construction and/or services firms. The index was obtained from the results of questionnaires related to production, orders, stocks, employment, prices, etc.	May	53.5	54.6	54.5
	Initial Jobless Claims It measures the number of people first time applying for receiving compensation.	15 June K=1,000	235k	238k	242k
Japan	**Exports** Products and services produced in Japan, sold or pending for sale outside of Japan.	May YoY%	12.7%	13.5%	8.3%
	Imports Japan's demand for foreign products. The value of exports and imports is an important input in the calculations of the trade balance, current account and GDP.	May YoY%	9.5%	9.5%	8.3%
	Natl CPI ex Fresh Food, Energy It estimates changes in the cost of living, measuring changes in the goods and services' prices, excluding fresh food and energy. This index measures the change in prices from the consumer's perspective. It is a key way of measuring changes in buying trends and inflation.	May YoY%	2.2%	2.1%	2.4%

EUROPEAN GOVERNMENT BONDS MARKET

The return on 10-year German government bonds rose early this week, and the spread between French and German bonds narrowed as Marine Le Pen said she would cooperate with the French president if she wins the next election, which brought some stability to investors who invest in French bonds. The return on these bonds fell the next day, following a drop in the return on US bonds. The return on these bonds increased from the middle of the week until the end of Thursday. The increase in the return was due to the increase in supply because of the auctions of German and French government bonds amounting to 1,629 and 10,495 billion euros. On Friday, the return sharply declined as the demand for safe assets increased after weaker-than-expected data on the PMI manufacturing and services index in Europe's two largest economies. The return on 10-year bonds stood at 2.35% at the beginning of the week and 2.40% at the end.

US GOVERNMENT BONDS MARKET

Early this week, the return on 10-year US government bonds rose slightly due to the increase in the supply of bonds in the USA. Namely, $22 billion of corporate bonds were issued in the USA on that day. The next day, the return fell sharply after weaker-than-expected US retail sales data. In the middle of the week, the bond market was closed for holidays, while the yield on 10-year bonds recorded large fluctuations during the remaining two days. At the very end of the week, before the market closed, the return recovered after encouraging data on the US economy. The return on 10-year bonds stood at 4.22% at the beginning of the week and 4.25% at the end.

GOLD

The price of gold fell in this reporting week from 2,333.04 to 2,321.98 USD/oz.tr. During the first three days, the gold price did not register a significant change. The gold price recorded a higher jump only on Thursday after weaker-than-expected economic data in the USA. However, the gold price fell sharply on Friday, as demand for the haven decreased after upbeat data on the US economy, which led traders to reassess the path that interest rates will follow in the USA.

OIL

This reporting week, the oil price rose from 82.84 to 85.09 USD/bbl. The increase in the oil price was significant in the first part of the week, after which the oil price stabilised around 85 and 86 USD/bbl. The increase in the oil price in the first part of the week was due to optimism that there would be an increased demand for oil during the summer season in the northern hemisphere and concerns about the further escalation of the conflict in the Middle East. During the last three days of this week, the gold price did not change significantly.