CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

19 - 23 February 2024

Podgorica, 28 February 2024

FX NEWS

EUR/USD

The EUR/USD exchange rate was fluctuating between 1.0762 and 1.0789 at the very beginning of the week, as the volume of trade was reduced due to the holiday in the U.S. On Tuesday, the dollar weakened against the euro as the rise in share prices in China reduced the demand for safe assets, and the optimism that central banks will soon reduce interest rates "faded". On the same day, the ECB announced that earnings growth in the euro area slowed down in Q4 2023 (contracted earnings in the euro area grew by 4.5% at end-2023). Although the figure is still high, this growth rate is down slightly from the previous quarter's record of 4.7% and marked the first slowdown in 18 months. The following day, the EUR/USD exchange rate rose as consumer confidence in the euro area improved in February (consumer confidence rose from -16.1 to -15.5). The Minutes of the latest Fed meeting were also released on the mentioned day, which showed that the majority of the officials of the monetary institution were concerned about the risk of a premature reduction of the interest rate. On Thursday, various data were released on Purchasing Managers` Indices (PMI) for the euro area and Germany (improvement in activity in the service sector, and deterioration in the manufacturing sector). At the end of the day, the euro weakened as the dollar strengthened due to release of good data from the U.S. labour market. The EUR/USD exchange rate fluctuated during the first three days, averaging at 1.0824.

EUR/GBP

The EUR/GBP exchange rate rose during Monday and mid-day Tuesday. The rise in the exchange rate came as the Bank of England Governor stated that inflation should not fall to 2% in order for BoE monetary policymakers to cut interest rates and added that investors were right to expect a turnaround in monetary policy this year. However, in the second half of the day on Tuesday, the exchange rate fell as a member of the BoE's Monetary Policy Committee warned that earnings growth poses a risk to inflation growth and added that additional evidence is needed before voting to cut the interest rates. The exchange rate was stable in mid-week, but from Thursday until the end of Friday, the exchange rate recorded a decline. The exchange rate fell during the last two days as positive data on Great Britain were released**.**

EUR/JPY

The EUR/JPY exchange rate fluctuated slightly on Monday, having an upward trend for the rest of the week. The Japanese government downgraded the outlook for its economy in its monthly report, citing signs of weakness in private consumption and manufacturing. It also mentioned that the economy is recovering at a moderate pace, although some components are showing slowness. At the end of the week, the EUR/JPY exchange rate reached the highest level since November 2023, being 163.47, in the first part of the day, before a downward trend prevailed in the afternoon. In general, investors are looking for higher yields, which cannot be found in Japan, therefore the yen is weakening. The EUR/JPY exchange rate fluctuated on Friday**.**

Table 1 - Exchange rates of the most important currencies

	19 February 2024[1]	23 February 2024[2]	% Change
EUR/USD	1.0777	1.0821	0.41
EUR/GBP	0.85525	0.85391	-0.16
EUR/JPY	161.82	162.86	0.64
EUR/AUD	1.64944	1.64918	-0.02
EUR/CHF	0.94932	0.95344	0.43
USD/JPY	150.21	150.51	0.20
GBP/USD	1.2602	1.2672	0.56

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

Table 3 – ESTR and Euribor

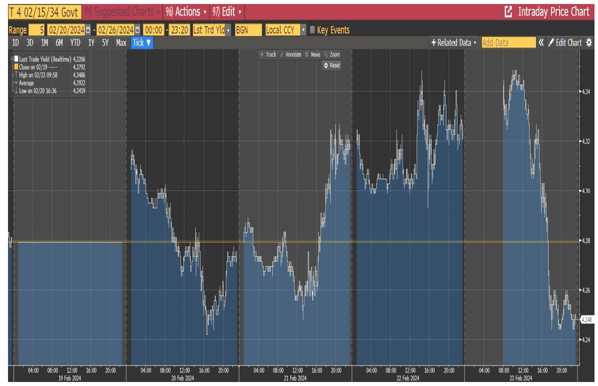
	19.02.2024.[1]	23.02.2024.[2]	Change in basis points
ESTR	3.909	3.907	-0.2
Euribor 1W	3.882	3.899	1.7
Euribor 1M	3.881	3.851	-3.0
Euribor 3M	3.933	3.933	0.0
Euribor 6M	3.895	3.914	1.9
Euribor 12M	3.648	3.738	9.0

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

EUROPEAN GOVERNMENT BONDS MARKET

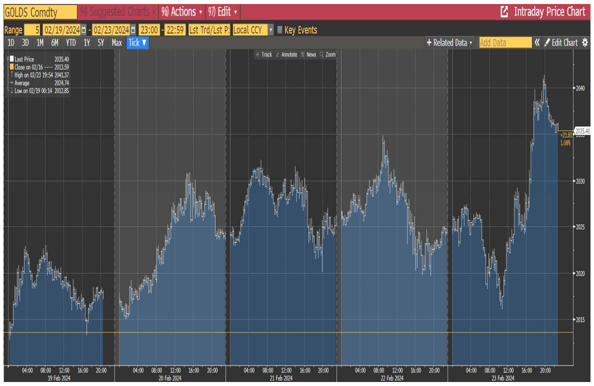
The return on 10-year German government bonds fell from 2.65% to 2.36% in this reporting week. In the first half of the week, the yield fluctuated within an interval of 2.36% to 2.42%, but generally trended downwards. In this period, the ECB announced that contracted earnings grew by 4.5% in Q4, which is lower than in the previous quarter, when they grew at a record high rate of 4.7%. The first major change came in the second half of the day on Wednesday, when yields started to rise, once the Central Bank of Belgium Governor, Pierre Wunsch, warned of excessive expectations regarding the easing of monetary policy by the ECB, which softened market participants' expectations in terms of reducing interest rates. At the beginning of the day on Thursday, the yield continued to rise, but soon started to decline. This trend, with a short deviation, was current until the end of the week, as traders increased expectations regarding the reduction of interest rates, following the statements of some ECB officials. A member of the ECB Governing Council, Mario Centeno, said that the ECB should be open to the idea of an interest rate cut as early as March, even if it is unlikely. Earlier, his colleague, Isabelle Schnabel, said it looked like inflationary expectations were under control and that companies in the euro area were starting to absorb high earnings growth. The ECB President, Christine Lagarde, mentioned that the data from the euro area labour market are encouraging, but that more data are needed to show that inflation is under control. The aforementioned deviation from the downward trend of yields was caused by the release of the purchasing managers` index (PMI), which indicated the resilience of a large part of the euro area.

US GOVERNMENT BONDS MARKET



The U.S. markets were closed on Monday. The yield on 10-year U.S. government bonds was at 4.31% at the market opening on Tuesday, but fell on the same day, as concerns about China's economic health increased demand for safe assets. The yields were mostly rising for the next two days. The growth on Wednesday was caused by a weak auction of $16 billion of 20-year U.S. bonds and the release of the Minutes from the Fed latest meeting, which indicated a cautious approach in reducing interest rates. On Thursday, the news of higher earnings from Nvidia (the leading company in the chip manufacturing market) caused a decrease in the demand for safe assets, which is another reason for the increase in yields. The growth was current due to the statements of certain Fed officials as well, which softened the market's expectations regarding the reduction of the interest rate in the U.S. Fed Vice President Philip Jefferson did not specify when the reduction might occur, but said it would be more appropriate for it to happen at the year end, if the economy develops as expected in the meantime. Patrick Harker, President of the Federal Reserve Bank of Philadelphia, warned that excessive reduction could jeopardize progress in reducing prices. He added that interest rate cuts will probably start this year, but he would "warn everyone not to ask for it right away." Christopher Waller, the Fed Governor, said that after stronger-than-expected consumer and producer price data for January, the Fed will need more evidence of slowing inflation before cutting interest rates. However, there was a sharp drop in yields on Friday, as, despite previous statements, the market was dominated by uncertainty about the future trend of interest rates in the U.S., thus at the end of the day, the yield on 10-year U.S. government bonds stood at 4.25%.

GOLD



The price of gold fluctuated slightly at the beginning of the week due to a holiday in the U.S., and rose the next day in anticipation of the release of the Minutes from the Fed latest meeting, which was expected to provide more data on monetary easing. The price of gold fluctuated on Wednesday as investors looked at the latest Fed Minutes, which showed that officials are in no rush to cut interest rates. Policymakers remained cautious about inflation developments, with some being worried that progress toward the central bank's 2% target could be delayed. These positions reinforce the Fed's preference for more evidence to show that inflation is firmly downwarding before the bank takes action. At the beginning of the next day, the price of gold had an upward trend, and then began to weaken, as a result of the increase in the yield on American government bonds, which caused its slight drop during the day. The price of gold rose on Friday.

OIL

Oil prices rose on Monday due to heightened tensions in the Middle East, before falling the next day as the U.S. traders returned to the market after holiday and as worries about global demand outweighed continued turmoil in the Middle East as Houthi rebels, backed by Iran, continued to attack cargo ships. The price of oil fluctuated on Thursday. Data from the U.S. Government showed that oil stocks in the U.S. rose less than expected last week, while fuel and distillate stocks fell. Oil prices weakened throughout the day after some Fed officials signalled that interest rate cuts could come later this year. The OPEC+ alliance will decide at the beginning of next month whether, after March, it will continue to limit production to around 2 million barrels per day in order to prevent a surplus and increase the price. The U.S. has imposed sanctions on the Russian oil giant Sovkomflot and oil tankers (14) identified as being linked to this company.

Table 4 - Economic indicators (19 - 23 February 2024)

Country	Indicator	Period	Expected value	Current value	Previous value
Euro area	**HCOB Eurozone Manufacturing, Services, Composite PMI** This survey 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.	February Preliminary data	47.0 48.8 48.4	46.1 50.0 48.9	46.6 48.4 47.9
	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.	January Final data MoM% YoY%	-0.40% 2.80%	-0.40% 2.80%	-0.40% 2.80%
Germany	**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 2023 Final data QoQ% YoY%	-0.30% -0.40%	-0.30% -0.40%	-0.30% -0.40%
Japan	**Exports** Products and services made in one country, sold or awaiting sale abroad.	January YoY%	9.50%	11.90%	9.80%
	Imports Japan's demand for foreign products.	January YoY%	-8.70%	9.60%	-6.78%
France	**HCOB Eurozone Manufacturing, Services, 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.	February Preliminary data	43.5 45.6 45.0	46.6 48.0 47.7	43.1 45.4 44.6
Great Britain	**S&P Global/CIPS UK Manufacturing, Services, Composite PMI** This survey 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.	February Preliminary data	47.5 54.1 52.9	47.1 54.3 53.3	47.0 54.4 52.9
USA	**Initial Jobless Claims** It measures the number of people first time applying for receiving compensation.	17 February K=1,000	216 K	201 K	212 K