CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(22 – 26 January 2024)

Podgorica, 31 January 2024

FX NEWS

EUR/USD

During the first two days of this reporting period, the **EUR/USD exchange rate** depreciated. The exchange rate depreciated after consumer confidence in the euro area fell from -15.1 in December to -16.1 in January compared to the forecasted slight improvement. In the middle of the week, the exchange rate appreciated sharply as the demand for risky assets increased due to the optimism after China introduced specific measures to ease monetary policy (the Central Bank of China reduced the reserve requirement rate by 50 bp, which will allow about 140 billion USD to be channelled as support to the banking system and the economy). On Thursday, this exchange rate depreciated sharply due to the ECB meeting. Namely, after the meeting, the ECB President's comments influenced investors to increase their expectations that the central bank could reduce the interest rate already in April or June. On Friday, the EUR/USD exchange rate appreciated, this time as the ECB Governing Council member, Boris Vujčić, asked for patience when evaluating the data and that it was necessary to ensure that inflation reached the target level of 2% before they decreased interest rates. During the week, the exchange rate recorded a weekly drop of about 0.40%.

EUR/GBP

The **EUR/GBP exchange rate** depreciated in this reporting week. Early this week, the depreciation resulted from the euro's depreciation awaiting the ECB meeting and the euro area's consumer confidence decline in January. Later this week, UK business activity, which includes services and manufacturing, hit a 7-month high in January, supporting the BoE interest rates to remain high for longer. It outperformed major European economies, particularly the euro area, where business activity continued to contract for the eighth consecutive month, causing the exchange rate to depreciate. Although it started to recover on the same day, the day after the ECB meeting, it depreciated to a 5-month low (0.85210). Namely, after the meeting, the euro depreciated after rising traders' expectations that the first reduction in the ECB's interest rate would occur in April. On Friday morning, the sterling was supported by data on the growth of British consumer confidence to the highest level in the last two years. However, after a report by internet portal Adzuna showed that the number of advertised vacancies in the UK fell by 6.95% in December, indicating labour market challenges, the EUR/GBP exchange rate recovered slightly.

EUR/JPY

The **EUR/JPY exchange rate** depreciated from Monday to Thursday. The decline was mild during the first three days of the week as speculation grew that the Bank of Japan might normalise monetary policy. On Thursday, the exchange rate depreciated sharply after the ECB meeting. On Friday, the exchange rate appreciated after the Tokyo CPI slowed to 1.6%, increasing expectations that the BoJ would not change its monetary policy shortly.

Table 1 - Exchange rates of the most important currencies

	22.01.2024[1]	26.01.2024[2]	% Change
EUR/USD	1.0898	1.0853	-0.41
EUR/GBP	0.85784	0.85440	-0.40
EUR/JPY	161.47	160.79	-0.42
EUR/AUD	1.65184	1.65087	-0.06
EUR/CHF	0.94611	0.93782	-0.88
USD/JPY	148.12	148.15	0.02
GBP/USD	1.2703	1.2703	0.00

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%	31 January 2024
Bank of Japan (BoJ)	Overnight Call Rate	-0.10%	19 March 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%	6 March 2024
Reserve Bank of Australia (RBA)	Cash Rate Target	4.35%	6 February 2024

The BoJ, the BoC and the ECB held meetings this week.
At its meeting, the BoJ decided to continue with ultra-expansive monetary policy. Its governor deeply believes that Japan will reach the inflation target (2%), pointing to stable price growth in the service sector associated with rising wages. While there is no confirmation of an exit from negative interest rates in March or April, his upbeat comments signalled a potential change.
The BoC kept the rates unchanged at its meeting. Although ruling out the possibility of its further increase, the BoC Governor said officials did not consider it necessary and turned from whether monetary policy is restrictive enough to how long they would maintain the current restrictive stance.
The ECB kept interest rates current. It reemphasised the dependence of future decisions on published data, focusing on earnings as a key factor that should be paid attention to when deciding on the interest rate cut timing. The Governing Council believed that the discussions on the rate reduction are premature at present, although President Lagarde "stood by" her previous comment that a reduction by the summer was "probable".

Table 3 – ESTR and Euribor

	22.01.2024.[1]	26.01.2024.[2]	Change in basis points
ESTR	3.904	3.904	0.00
Euribor 1W	3.858	3.895	3.70
Euribor 1M	3.854	3.871	1.70
Euribor 3M	3.958	3.887	-7.10
Euribor 6M	3.908	3.873	-3.50
Euribor 12M	3.655	3.597	-5.80

[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 slightly on Monday as consumer confidence in the euro area fell more than expected in January, and traders expected the ECB to cut interest rates by 132 bp this year instead of the previously expected 128 bp. Over the next two days, the return increased slightly as PMI data showed that the private sector's activity decreased in January, softening expectations regarding the interest rate reduction in 2024, and the investors focused on the ECB meeting outcome. The return on 10-year German government bonds fell on Thursday after the ECB's meeting and decision to keep interest rates current, and US jobless claims rose more than expected. After the ECB meeting, officials quickly dampened market enthusiasm for a rate cut as there remains a view among them that it is too early to ease policy, prompting the return to recover on Friday.

US GOVERNMENT BONDS MARKET

The return on 10-year US government bonds fluctuated this week, averaging 4.125%. In the first two days, the return grew as the auction of 2-year bonds of 60 billion USD was held in the USA, recording a return of 4.365%. On Wednesday, the return grew more expressive as PMI indexes in the US service and manufacturing sectors indicated companies' intense business activity at the beginning of the year (the S&P global composite PMI index rose from 50.9 to 52.3 in January). The return on the 10-year US government bond trended down the next day due to the released US economic data and the ECB meeting outcome. At the end of the week, the return recovered as market participants expected the Fed "not to rush" to reduce the interest rate but that the central bank would show "patience" before deciding to reduce the interest rate.

GOLD

The gold price fluctuated around 2,027 USD/oz.tr. during the first two days. On Wednesday, after an initial rise, it fell sharply after encouraging data on the US business activity. The gold price fluctuated around 2,018 USD/oz.tr during the last two days.

OIL

Early this week, the oil price rose as geopolitical tensions in the Middle East raised concerns about a possible disruption in the supply of this fuel globally. During the next two days, the oil price hovered around 80 USD/bbl. and it increased sharply from Thursday until the end of the week. The rise in oil prices in the last two days of this reporting period resulted from reports that US oil inventories fell more than expected and that rebels near Yemen attacked a fuel tanker.

Table 4 - Economic indicators (22 - 26 January 2024)

Country	Indicator	Period	Expected value	Current value	Previous value
Euro area	**Consumer Confidence** It measures consumer confidence in euro area countries. This figure is the result of a survey of euro area consumers in terms of their labour market finances, willingness to save, and expectations regarding the economy.	January Preliminary data	-14.3	-16.1	-15.1
	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.	January Preliminary data	44.7 49.0 48.0	46.6 48.4 47.9	44.4 48.8 47.6
Germany	**IFO Business climate** Monthly survey of companies in Germany (in production, construction, wholesale and retail), in terms of the current business climate and expectations for the next 6 months. Given that Germany "accounts for" a quarter of the total GDP of the euro area, this is a significant indicator of the economic health of the euro area as a whole.	January	86.6	85.2	86.3
	GfK Consumer Confidence This index measures the level of households' confidence in terms of economic performance.	February	-24.6	-29.7	-25.4
Great Britain	**S&P Global UK 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.	January Preliminary data	46.7 53.2 52.1	47.3 53.8 52.5	46.2 53.4 52.1
	GfK Consumer Confidence This index measures the level of households' confidence in terms of economic performance.	January	-21	-19	-22
USA	**S&P Global Euro Area 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.	January Preliminary data	47.6 51.5 51.0	50.3 52.9 52.3	47.9 51.4 50.9
	Gross domestic product (GDP) Measures the final market value of all products and services produced within the country. This is the most commonly used indicator of economic activity.	Q4 QoQ%	2.0%	3.3%	4.9%
	PCE Deflator The deflator of expenditures for personal consumption monitors on a monthly level the total price changes of goods and services purchased by consumers.	December MoM% YoY%	0.2% 2.6%	0.2% 2.6%	-0.1% 2.6%
Japan	**Tokyo CPI** This index measures the prices consumers pay for a basket of products and services.	January YoY%	2.0%	1.6%	2.4%
	Exports Products and services made in the UK sold or awaiting sale abroad.	December YoY%	9.2%	9.8%	-0.2%
	Imports Japan's demand for foreign products.	December YoY%	-5.4%	-6.8%	-11.9%