CENTRALNA BANKA CRNE GORE

## Financial and Banking Operations Department

### *- International Reserves Management Division -*

# International Financial Market Report

## (24 – 28 June 2024)

**Podgorica, 3 July 2024**

**Weekly overview of short news**

- The French National Rally has topped the polls regarding parliamentary elections in France with 36%, while the left-wing New Popular Front and Emmanuel Macron's centrists trailed behind with 27% and 20%, respectively. Macron explained his decision to dissolve parliament in an introduction to regional newspapers, citing the need to recognise the European elections and prevent more turmoil.
- The member of the ECB Governing Council, Isabel Schnabel, emphasised the need for flexibility in interest rates due to potential new inflationary shocks, stating that the ECB was on standby and had not committed to a fixed rate path in advance. The ECB recently lowered borrowing costs and hinted at further cuts, although officials stressed long-term inflationary risks and advocated a cautious approach.
- Lisa D. Cook, a Fed's Board of Governors member, said it would be appropriate to cut interest rates "at some point," adding that she expected inflation to improve gradually this year before a faster advance expected in 2025. She said the Fed was on track to cut rates if the economy's performance met its expectations but declined to say when the Fed would be able to act. According to her, the Fed's current policy is well-positioned to respond should there be a need for any changes in the economic outlook. Another Fed's Board of Governors member, Michelle Bowman, noted that she did not expect a rate cut this year. Another Fed's Board of Governors member, Michelle Bowman, noted that she did not expect a rate cut this year. Bowman reiterated her view that keeping the benchmark interest rate at its current level "for some time" will probably be enough to bring inflation "under control" but added her readiness to increase borrowing costs if necessary. Inflation in the USA remains elevated, and Bowman still sees many inflation risks affecting its estimates.
- The three leading political groups in the European Parliament (PPE, S&D and RE) have reached an agreement on the candidates to fill some of the highest positions in the European Union: Ursula von der Leyen will remain the President of the European Commission, the former Prime Minister of Portugal will be appointed President of the European Council, and the former Prime Minister of Estonia will be appointed as the High Representative of the Union for Foreign Affairs and Security Policy. These nominations must be approved by the EU Council (the heads of state and government of the 27 member states) at a summit at the end of the week in Brussels. This agreement was reached without the participation of Giorgia Meloni, from the far-right group ECR, and Viktor Orbán. After that, the European Parliament will have to elect these candidates to confirm their nomination.
- ECB policymakers have indicated that the bank could gradually cut interest rates if inflation declines as predicted. The ECB cut rates in June for the first time this year, and further cuts are expected, although the timing remains uncertain. The governor of the Bank of Italy, Fabio Panetta, and his Finnish counterpart, Olli Rehn, share this opinion, pointing to the "normalisation of the monetary system". Panetta emphasised data-driven decision-making and advised against speculating on the timing of the next move, while Rehn thinks two more cuts in 2024 would be reasonable. He also mentioned that policymakers must be prepared to deal with the consequences of political risks amid heightened uncertainty, days before French voters go to the polls for the first round of elections for a new parliament. The ECB's chief economist, Philip Lane, said there would be more interest rate cuts if the baseline was maintained, while Mārtiņš Kazāks said the ECB would cut rates "step by step".
- The next President of the Swiss National Bank will be Martin Schlegel, who will replace the long-time governor (12 years), Thomas Jordan, when he resigns at the end of September. After his promotion as vice governor of the Swiss Central Bank was announced, Schlegel emphasised his commitment to the central bank's mandate to ensure price stability, defined by an inflation rate of 0-2%.
- Atlanta Federal Reserve President Rafael Bostic still expects one rate cut this year in the fourth quarter as inflation progresses.

## *FX NEWS*

### *EUR/USD*

The **EUR/USD exchange rate** fluctuated during the last week but recorded weekly appreciation. Since the beginning of the week, the main focus has been on data on US inflation (PCE), so on Monday, the dollar depreciated, which caused the exchange rate to appreciate sharply. In the following two days, the exchange rate depreciated due to the USD appreciation. A member of the Fed's board of governors, Michelle Bowman, warned of the risk of an increase in inflation and stated that she did not expect an interest rate cut in the US this year. After her statement, speculations that the Fed would break with other central banks by keeping interest rates at elevated levels grew, which could encourage global investors to transfer funds to the US in search of higher returns. The euro's depreciation due to the intensified concerns about the elections in France partly caused the exchange rate depreciation. However, the exchange rate recovered part of the previous loss in the last two days as investor caution increased in response to inflation data. After it was announced on Friday that the US inflation rate slowed down in May, expectations that the Fed will still cut interest rates this year increased, which caused the dollar to depreciate.

### *EUR/GBP*

The **EUR/GBP exchange rate** started the week with an appreciation to depreciate quickly after the UK production orders index improved from the previous -33 to -18 in June. The next day, the exchange rate depreciated after concerns about political uncertainty in France. However, this exchange rate was appreciating from Wednesday until the end of the week. The exchange rate appreciated after worse-than-expected retail sales data in the UK. The EUR/GBP exchange rate appreciated during this reporting week.

### *EUR/JPY*

The **EUR/JPY exchange rate** remained in the spotlight last week. The Japanese currency continued to depreciate, hitting a 38-year low against the USD and the worst-performing currency for the week. This significant depreciation heightened concerns and prompted Japanese authorities to step up verbal interventions. The finance minister expressed a "great sense of urgency" in monitoring the yen's trend. Despite the strong words, Japan still refrains from directly intervening in the currency market. In any case, increased threats from interventions and large differences in yields between Japan, on the one hand, and the USA and Europe, on the other, kept traders on guard. At the end of the week, it was reported that inflation in Tokyo rose in June, which could prompt the BoJ to raise interest rates at its July meeting. On Friday, the Japanese government appointed Atsushi Mimura as the new top currency diplomat, replacing Masato Kanda, who will hold the position until the end of July.

**Table 1 - Exchange rates of the most important currencies**

| | 24.06.2024[1] | 28.06.2024[2] | % Change |
|---|---|---|---|
| EUR/USD | 1.0693 | 1.0713 | 0.19 |
| EUR/GBP | 0.84564 | 0.84727 | 0.19 |
| EUR/JPY | 170.77 | 172.39 | 0.95 |
| EUR/AUD | 1.60990 | 1.60638 | -0.22 |
| EUR/CHF | 0.95615 | 0.96282 | 0.70 |
| USD/JPY | 159.80 | 160.88 | 0.68 |
| GBP/USD | 1.2645 | 1.2645 | 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 | 4.25% | 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**

| | 24.06.2024.[1] | 28.06.2024[2] | Change in basis points |
|---|---|---|---|
| ESTR | 3.664 | 3.656 | -0.8 |
| Euribor 1W | 3.622 | 3.612 | -1.0 |
| Euribor 1M | 3.600 | 3.632 | 3.2 |
| Euribor 3M | 3.686 | 3.711 | 2.5 |
| Euribor 6M | 3.691 | 3.682 | -0.9 |
| Euribor 12M | 3.622 | 3.578 | -4.4 |

[1] Opening market value on Monday

[2] Closing market value on Friday

## Table 4 - Economic indicators (24 – 28 June 2024)

| Country | Indicator | Period | Expected value | Current value | Previous value |
|---|---|---|---|---|---|
| **Euro area** | **Economic Confidence** Monthly economic sentiment indicator reflects the general economic activity in the euro area. This indicator combines the assessments and expectations arising from surveying companies and consumers, whereas these surveys include different components of economy: industry, consumers, construction, and retail trade. | June | 96.1 | 95.9 | 96.0 |
| **Great Britain** | **Exports**<br>Products and services made in the UK that have been sold or are awaiting sale abroad**.** | Q1<br>QoQ% | -1.0% | -1.0% | -1.0% |
| | **Imports**<br>UK'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. | Q1<br>QoQ% | -2.3% | -2.7% | -2.3% |
| | **Gross domestic product (GDP)**<br>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. | Q1<br>QoQ%<br>YoY% | 0.6%<br>0.2% | 0.7%<br>0.3% | 0.6%<br>0.2% |
| **France** | **Consumer price index (CPI)**<br>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. | June<br>Preliminary data<br>MoM%<br>YoY% | 0.1%<br>2.2% | 0.1%<br>2.1% | 0.0%<br>2.3% |
| **Germany** | **GfK Consumer Confidence**<br>This index measures the level of households' confidence in terms of economic performance. | July | -19.5 | -21.8 | -20.9 |
| **USA** | **Initial Jobless Claims**<br>It measures the number of people first time applying for receiving compensation. | 22 June<br>K=1,000 | 235k | 233K | 238k |
| | **PCE Core Index**<br>An economic indicator measures inflation by tracking changes in the prices of goods and services purchased by US consumers, excluding food and energy costs. | May<br>MoM%<br>YoY% | 0.1%<br>2.6% | 0.1%<br>2.6% | 0.3%<br>2.7% |
| **Japan** | **Industrial output**<br>It measures the output in mining and quarrying, manufacturing and utilities (electricity, gas and water supply). | May<br>Preliminary data<br>MoM%<br>YoY% | 2.0%<br>0.0% | 2.8%<br>0.3% | -0.9%<br>-1.9% |
| | **Retail Sales**<br>This indicator measures the volume of sales of personal and household goods. | May<br>MoM%<br>YoY% | 2.0%<br>0.8% | 3.0%<br>1.7% | 3.6%<br>2.4% |

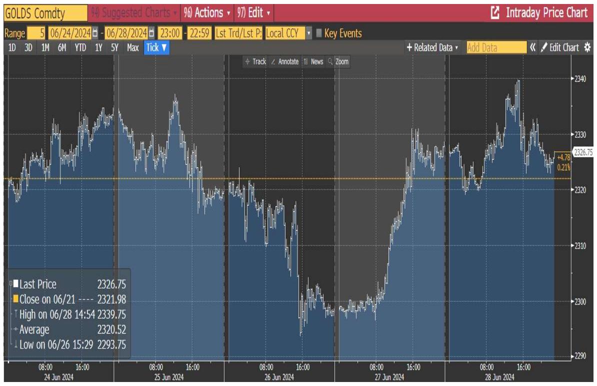
## *EUROPEAN GOVERNMENT BONDS MARKET*


The return on 10-year German government bonds fluctuated for the first two days and averaged 2.40% to rise on Wednesday as traders expected interest rates to be at a higher level for a more extended period. The next day, the return on German government bonds dropped slightly, while the return on French government bonds rose, awaiting the final TV debate of the three leading parties in France as the first round of elections approached. The spread between German and French bonds widened and amounted to around 85bp. On Thursday, German Finance Minister Christian Lindner said it could be illegal for the ECB to intervene if French legislative elections trigger a dangerous sell-off in the country's government bonds. According to him, a decisive intervention by the ECB would raise some economic and constitutional issues. The return on 10-year German government bonds rose on Friday following the trend of the return on US bonds. Early this week, the return stood at 2.40% compared to 2.49% at the end of the week.

## *US GOVERNMENT BONDS MARKET*

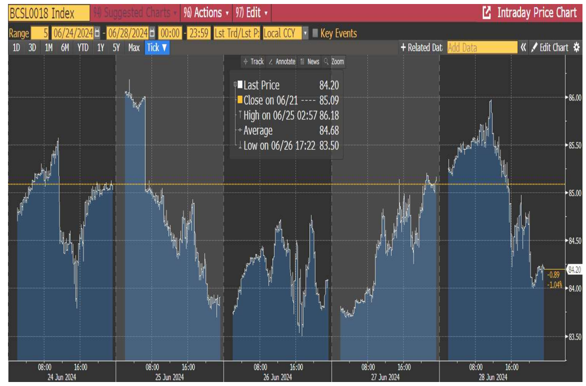

The return on 10-year US government bonds did not show significant changes at the beginning of the week, but it rose on Wednesday, awaiting US economic data. The return on 10-year US government bonds fluctuated again at the end of the week, rising on Friday due to concerns about potential inflationary policies expected to be implemented by Trump if he became President again. At the beginning of the week, the return stood at 4.25%, to end the week at 4.38%.

## GOLD




The gold price rose slightly in this reporting week from 2,318.60 to 2,326.75 USD/oz.tr. The rise in this precious metal's price on Monday was caused by the USD depreciation, which increased the demand for precious metals. Over the next two days, the price declined. Investors looked to comments from Fed officials to gauge the potential timing of interest rate cuts by the monetary institution, and some comments lowered expectations for monetary policy easing. The Fed Board of Governors member, Michelle Bowman, reiterated that inflation is expected to remain elevated for some time and that it was not yet time to reduce the interest rate. In the last two days, this precious metal's price has mostly been rising. The main reason was the awaiting of US inflation data. On Friday, their release increased expectations regarding the Fed's interest rate cut, further supporting gold's price.

## OIL




The gold price fluctuated throughout the week. Early this week, it stood at 84.72 USD/bbl., and to 84.20 USD/bbl. at the end of the week. Although it showed recovered at the beginning of the week due to heightened geopolitical tensions, it fell on Tuesday due to the USD appreciation. The next day, the price showed no significant changes, as data from the American Petroleum Institute (API) indicated an increase in oil stocks in the US last week by 0.9 million barrels, and on the same day, data from the US government showed the same trend. According to data from the US government, stocks unexpectedly increased by 3.59 million barrels, reaching the highest level since April. On Thursday, the price rose as optimism prevailed regarding the demand for this fuel during the summer driving season in the USA. In addition, the continuous escalation of cross-border tensions between Israel and Hezbollah is fuelling fears about the spread of the conflict, which could also include Iran, which additionally influenced the price increase. However, the price fell on Friday as the US government's monthly report showed that demand for fuel decreased in April, while key inflation data in the US boosted the chances of an interest rate cut.