CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(25 - 29 March 2024)

Podgorica, 3 April 2024

FX NEWS

EUR/USD

During this reporting period, the EUR/USD exchange rate fell by 0.17%. The exchange rate recorded an increase on Monday as it was announced that sales of new real estate fell in the U.S. during February. However, this rate has started to appreciate from Tuesday. The drop in the exchange rate came as the ECB officials suggested that the interest rate cut could happen in June. On the other hand, the Fed Governor said he would not rush to cut interest rates, highlighting that recent economic data justified a delay and adding that recent inflation data was "disappointing" as he wanted to see "at least a few months of better inflation data before the rate cut". On the last day, the fall of the EUR/USD exchange rate was interrupted by the fact that the PCE index in the U.S rose slightly in February compared to the January data.

EUR/GBP

The EUR/GBP exchange rate depreciated in this reporting week. The exchange rate showed signs of weakening on Monday, due to release of better-than-expected data on British retail sales in March, but in general, the exchange rate did not record significant changes in the first two days. The exchange rate began to weaken on Wednesday, as the statement of the member of the Bank of England's Monetary Policy Committee, Catherine L Mann, caused the strengthening of sterling. She said markets expect too many interest rate cuts this year, and the BoE is unlikely to make a move before the Fed. In the rest of the week, the weakening of the exchange rate was caused by the weakening of the European currency, due to increasingly frequent speculations about the June reduction of the ECB's interest rate. Although data on U.K. economic growth in Q4 pointed to a technical recession in the H2 2023, the statement by Jonathan Haskel, one of the creators of BoE monetary policy, that the reduction of the interest rate is still far away, prevented the weakening of sterling, therefore the exchange rate continued trending downwards. At the very end of the week, the exchange rate fluctuated, market activity was reduced, and most markets were closed for Easter.

EUR/JPY

The EUR/JPY exchange rate had an almost identical trend as the EUR/USD exchange rate. This exchange rate fell by 0.23% on a weekly level. The exchange rate rose on the first day of the week, trending down for the rest of the week. It fell during this period as speculation arose that the Japanese authorities might intervene to support their currency. It was also announced this week that the inflation rate in Japan in March reached a growth of 2.6%, which is in favour of the fact that the Bank of Japan could continue to tighten monetary policy.

Table 1 - Exchange rates of the most important currencies

	25-Mar-2024[1]	29-Mar-2024[2]	% Change
EUR/USD	1.0808	1.0790	-0.17
EUR/GBP	0.85774	0.85486	-0.34
EUR/JPY	163.67	163.30	-0.23
EUR/AUD	1.65959	1.65530	-0.26
EUR/CHF	0.96991	0.97307	0.33
USD/JPY	151.41	151.35	-0.04
GBP/USD	1.2601	1.2623	0.17

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%	11 April 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%	10 April 2024
Reserve Bank of Australia (RBA)	Cash Rate Target	4.35%	7 May 2024

Table 3 – ESTR and Euribor

	25-Mar-2024[1]	*28-Mar-2024.[2]	Change in basis points
ESTR	3.909	3.899	-1.00
Euribor 1W	3.875	3.853	-2.20
Euribor 1M	3.853	3.855	0.20
Euribor 3M	3.903	3.892	-1.10
Euribor 6M	3.874	3.851	-2.30
Euribor 12M	3.682	3.669	-1.30

*considering that the markets were closed on Friday (29 March) due to a holiday, the displayed values are from the previous business day

[1] Opening market value on Monday

[2] Closing market value on Friday

EUROPEAN GOVERNMENT BONDS MARKET

The yield on 10-year German government bonds rose on Monday as auctions of bonds maturing in 2033 and 2029 were expected. The yield on 10-year German government bonds had a downward trend for the rest of the week generally, while the markets were closed on Friday for the holiday. A member of the ECB Governing Council and the Governor of the Central Bank of Greece, Yannis Stournaras, stated at the weekend that it is feasible for there to be four reductions in interest rates by the year-end (each reduction of 25bp), if inflation develops in accordance with the March forecast and if the current trend continues until the end of the year. At the beginning of the week, the yield stood at 2.31%, reaching 2.29% at the end of the week.

U.S. GOVERNMENT BONDS MARKET

The yield on 10-year U.S. government bonds rose on Monday due to the comments made by the Atlanta Fed President and due to the increased supply of U.S. bonds as a result of the planned auctions (the planned auction of 2-year, 5-year and 7-year bonds in the amount of 66 billion, 67 billion and 43 billion dollars respectively). The Atlanta Fed President stated that he sees the need for only one interest rate cut this year, as inflation data in the previous period was disappointing. Over the next two days, the yield first rose as a result of the release of better-than-expected U.S. durable goods orders data, which pointed to the economy's resilience, before falling after strong demand at auctions of 5-year and 7-year bonds held in the U.S. The markets were closed on Monday for the holidays. The Fed President, Jerome Powell, said on the mentioned day that the bank is not in a rush to cut interest rates.

GOLD

The price of gold increased during this period, with the fact that the price was stable in the first half of the week, and that a slightly more pronounced growth began in mid-week. The increase in the price of gold this week occurred as geopolitical tensions increased, and it is expected that the Fed will reduce the interest rate this year. The market was closed on Friday for the holidays.

OIL

The price of oil rose on the first day of this week due to the rise in geopolitical tensions, but fell the next day, as it was announced there was a significant increase in crude oil stocks of as much as 9.3 million barrels in the U.S in the previous week. During the remaining two days the price of oil increased (the markets were closed on Friday for the holiday). The price of oil rose due to the signal that cuts in production by OPEC (oil production has been reduced by about two million barrels per day, and this reduction agreement will last until the end of the year) will affect the drop in supplies of this energy generating product at the global level.

Table 4 - Economic indicators (25 - 29 March 2024)

Country	Indicator	Period	Expected value	Current value	Previous value
Euro area	**Economic Confidence** The monthly confidence indicator reflects general economic activity in the euro area. This indicator combines estimates and expectations derived from surveys of companies and consumers, which include various components of the economy: industry, consumers, construction and retail.	March	96.2	96.3	95.5
Spain	**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.	March - Preliminary MoM% YoY%	0.6% 3.1%	0.8% 3.2%	0.4% 2.8%
Germany	**GfK Consumer Confidence** This index tracks confidence among households or consumers. The results are obtained by conducting surveys on a random sample of households.	April	-28.0	-27.4	-28.8
	Retail Sales This indicator measures the volume of sales of personal and household goods.	February MoM%	0.4%	-1.9%	-0.3%
Great Britain	**CBI Retailing Reported Sales** This concept tracks business sentiment within the distribution industry (retail, wholesale, motor sales). The results are based on a survey conducted among a representative sample of companies in the distribution sector, and show the balance of retail sales as the difference between positive and negative responses in terms of trade volume.	March	-14	2	-7
	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 Final QoQ% YoY%	-0.3% -0.2%	-0.3% -0.2%	-0.3% -0.2%
USA	**Gross domestic product (GDP)** Measures the final market value of all products and services produced within the country, and is the most commonly used indicator of economic activity.	Q4 YoY%	3.2%	3.4%	3.2%
	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.	February MoM% YoY%	0.4% 2.5%	0.3% 2.5%	0.4% 2.4%
Japan	**Tokyo CPI** Measures the prices that consumers pay for a market basket of products and services.	March YoY%	2.5%	2.6%	2.5%