CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(25 - 29 November 2024)

Podgorica, 4 December 2024

Weekly overview of short news

- Credit rating agency S&P maintained France's AA- credit rating, keeping a "stable" outlook despite the country's rising debt and political instability. Although the Agency acknowledged delays in fiscal reforms, it expressed confidence in France's ability to consolidate its public finances. The Agency said it expects France to comply, belatedly, with the EU's fiscal framework and to gradually consolidate public finances in medium term.
- Preliminary data showed that inflation in Germany in November was 2.2% on an annual basis, while it was expected to be 2.3%. The inflation was 2.0% in October.
- The newly elected U.S. President, Donald Trump, threatened to introduce additional tariffs on trade with Mexico and Canada (25%) and China (10%), which stirred the market.
- Calming tensions in the Middle East, the appointment of Scott Bessent as the new U.S. Treasury Secretary, as well as expectations that OPEC+ will not lift existing output cuts at the upcoming meeting due to increased supply by the U.S. oil industry, were the main causes of the weakening of gold and oil prices. Namely, the price of gold fell from $2,698.89 to $2,643.15 per ounce, whereas the price of oil also fell from $75.30 to $72.28 per barrel.

FX NEWS

EUR/USD

After three consecutive weeks of decline, **the EUR/USD exchange rate** recovered this week. The yield fluctuated for the first two days. The dollar weakened following the news that President Trump has appointed Scott Bessent as the U.S. Treasury Secretary, who is expected to take a cautious approach to the introduction of trade restrictions and be open to negotiations regarding the exact tariffs. However, once the President Trump threatened to impose additional tariffs on trade with Mexico and Canada (25%) and an additional 10% on China, and consumer confidence in the U.S exceeded expectations due to optimism about the economy and the labour market, the dollar recovered. Relief that Trump did not mention Europe regarding trade tariffs provided support for the European currency. The exchange rate rose sharply on Wednesday after Isabelle Schnabel, a member of the ECB's Executive Board, warned of the risks of excessive interest rate cuts, which had the effect of weakening market expectations for further interest rate cuts. Released data on inflation in Germany and the political crisis in France caused a slight weakening of the euro on Thursday. However, on the last day of the week the exchange rate recovered as trading volume was reduced for the U.S. Thanksgiving holiday, although it showed signs of weakening in mid-day following the release of mixed preliminary data on euro area inflation in November.

EUR/GBP

The EUR/GBP exchange rate had a sharp rise on the first day of the week as a result of fears that the U.K. is facing economic challenges. Namely, Great Britain's decision to increase taxes by 25 billion pounds has influenced British employers to reduce investment, training and businesses, which can threaten economic growth. The exchange rate constantly weakened in the rest of the week. This decline occurred as expectations increased that the Bank of England would not cut interest rates at its December meeting. The Bank of England's Deputy Governor, Clare Lombardelli, needs further evidence of easing price pressures before backing another rate cut.

EUR/JPY

The EUR/JPY exchange rate depreciated during this reporting week. The exchange rate did not change significantly on Monday, but it had a downward trend for the next two days. Namely, the yen strengthened due to the expectation that the Bank of Japan will take a more restrictive position in 2025 in order to suppress inflation, so the interest rate could increase to 1% by July next year. The exchange rate did not register a significant change on Thursday, and continued to fall on Friday, as a higher than expected inflation rate for Tokyo was announced, 2.6% against 2.2%, which increases the probability that the Bank of Japan will increase interest rates at the next meeting. The yen also strengthened against the dollar this week due to concerns about U.S. tariffs, lower U.S. government bond yields and a weaker dollar, as well as traders' expectations that the yield gap between the U.S. and Japan will continue to narrow in December.

Table 1 - Exchange rates of the most important currencies

	25-Nov-2024[1]	29-Nov-2024[2]	% Change
EUR/USD	1.0418	1.0577	1.53
EUR/GBP	0.83132	0.83059	-0.09
EUR/JPY	161.24	158.41	-1.76
EUR/AUD	1.60255	1.62461	1.38
EUR/CHF	0.93114	0.93203	0.10
USD/JPY	154.78	149.77	-3.24
GBP/USD	1.2530	1.2735	1.64

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	3.40%	12-Dec-2024
Federal Reserves (Fed)	Federal Funds Target Rate	4.75%	18-Dec-2024
Bank of Japan (BoJ)	Overnight Call Rate	0.25%	19-Dec-2024
Bank of England (BoE)	Official Bank Rate	4.75%	19-Dec-2024
Swiss National Bank (SNB)	Libor Target Rate	1.00%	12-Dec-2024
Bank of Canada (BoC)	Target Overnight Rate	3.75%	11-Dec-2024
Reserve Bank of Australia (RBA)	Cash Rate Target	4.35%	10-Dec-2024

Table 3 - ESTR and Euribor

	25-Nov-2024.[1]	29-Nov-2024.[2]	Change in basis points
ESTR	3.168	3.163	-0.50
Euribor 1W	3.138	3.128	-1.00
Euribor 1M	3.075	3.004	-7.10
Euribor 3M	3.022	2.934	-8.80
Euribor 6M	2.770	2.695	-7.50
Euribor 12M	2.489	2.461	-2.80

[1] Opening market value on Monday

[2] Closing market value on Friday

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

Country	Indicator	Period	Expected value	Current value	Previous value
Euro area	**Consumer price index (CPI)** This indicator estimates the changes in the cost of living, by measuring changes in the price level of the basket of consumer goods and services purchased by an average household. Therefore, it is a key measure of euro area inflation.	November Preliminary data MoM% YoY%	 -0.2% 2.3%	 -0.3% 2.3%	 0.3% 2.0%
	CPI Core This index tracks price changes in the basket of consumer goods and services used by the average household, but excludes items subject to frequent price changes - food, energy, alcohol and cigarettes.	November Preliminary data YoY%	 2.8%	 2.7%	 2.7%
	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.	November	95.2	95.8	95.6
Germany	**Consumer price index (CPI)** This indicator estimates the changes in the cost of living, by measuring changes in the price level of the basket of consumer goods and services purchased by an average household. Therefore, it is a key measure of euro area inflation.	November Preliminary data MoM% YoY%	 -0.2% 2.3%	 -0.2% 2.2%	 0.4% 2.0%
	Retail Sales This indicator measures the volume of sales of goods for personal and household spending.	October MoM% YoY%	 -0.5% 3.3%	 -1.5% 3.6%	 1.2% 0.9%
USA	**PCE Price Index** This is an indicator that measures changes in the prices of goods and services purchased by consumers in the United States. This index is important because it shows inflation (or deflation) across a wide range of consumer spending and reflects changes in consumer behaviour.	October MoM% YoY%	 0.2% 2.3%	 0.2% 2.3%	 0.2% 2.1%
	Personal Spending The value of goods and services purchased by or on behalf of U.S. residents.	October MoM%	 0.4%	 0.4%	 0.5%
	Initial Jobless Claims Number of inhabitants receiving unemployment benefits.	23 November K=1,000	215 K	213 K	213 K
France	**Consumer Confidence** This indicator is the result of a survey of euro area consumers regarding their finances, labour market, willingness to save, as well as expectations regarding the economy.	November	94	90	94
	G3DP One of the fundamental macroeconomic indicators, which represents the calculated value in the market prices of products and services produced within the country, but excludes the income of citizens and corporations working abroad. The GDP calculation uses the following four components: consumption, investments, government expenditure, and net exports.	Q3 QoQ% YoY%	 0.4% 1.3%	 0.4% 1.2%	 0.4% 1.3%
	New Home Sales The indicator shows the sale of newly built properties in the U.S. This data represents a timely indicator of housing market conditions, counting house sales when housing contracts are signed.	October K=1,000	 725 K	 610 K	 738 K
Italy	**Consumer Confidence** This indicator is the result of a survey of euro area consumers regarding their finances, labour market, willingness to save, as well as expectations regarding the economy.	November	97.4	96.6	97.4

EUROPEAN GOVERNMENT BONDS MARKET

The yield on 10-year German government bonds fell from 2.22% to 2.09% in this reporting week. At the beginning of the week, the yield weakened due to the expectation that the ECB will reduce the interest rate in December (the market is still estimating by how many basis points the interest rate will be reduced - either 25bp or 50bp). The spread between German and French bonds continued to widen due to disagreements over the budget, which threatens the stability of the French government. The Governor of the Central Bank of France, François Villeroy de Gaulle, called for more details to be provided on the plans for the recovery of state finances, indicating that confusion would lead to higher borrowing costs. The yield on 10-year German bonds fluctuated slightly on Wednesday. The yield on French 10-year government bonds continued to rise, as the sale of these bonds continued due to fears that the government would not "survive" the budget, and was the same as the yield on Greek bonds of the mentioned maturity. The spread between 10-year French and German bonds reached 90bp on Wednesday - the highest level since the European debt crisis in 2012. The yield on 10-year German government bonds also weakened at the end of the week, as a result of increased demand for safe assets. France's finance minister said he would not accept artificial budget deadlines set by Marine Le Pen, which could prolong budget negotiations. Marine Le Pen's party (National Front) is considering the possibility of voting against the budget of the Prime Minister, Michel Barnier, which would not only overthrow his fragile coalition government that is in France in power for less than three months, but would already shake the financial markets and cause a shock throughout Europe.

U.S. GOVERNMENT BONDS MARKET

The yields on 10-year U.S. government bonds fell from 4.33% to 4.16% in this reporting week. This yield weakened earlier in the week following the announcement that Trump had appointed Scott Bessent as the new Treasury Secretary. Bessent is expected to either soften or ease the scope of tariffs on imports, as well as bring a pragmatic influence to Trump's decision-making. The yield on the 10-year U.S. government bonds recovered briefly on Tuesday once President-elect Donald Trump threatened to impose additional tariffs on Mexico and Canada (25% each) and China (10%). The yield did not register major changes on Wednesday, whereas the market in the USA was closed on Thursday for the holiday. The yield on the 10-year U.S. bond continued to weaken after the market opened after the holiday. Investors will monitor the release of upcoming data, on the basis of which they will try to determine the direction of U.S. monetary policy.

GOLD

The price of gold fell from $2,698.89 to $2,643.15 per ounce in this reporting week. There was a sharp drop in the price of this precious metal on Monday. Reports that Israel is heading closer to a ceasefire with Hezbollah and the appointment of Scott Bessant as the new U.S. Treasury Secretary reduced demand for gold as a safe haven, which, along with increased selling by investors due to the previous price rise, caused the aforementioned decline in price that day. The price fluctuated within a limited interval of $2,605 to $2,666 per ounce during rest of the week. The U.S. President's tariff threats to Canada, Mexico and China, the weakening of the dollar, and the drop in yields on U.S. government bonds supported the price of gold. The price fell slightly in mid-week, as optimism over reaching an agreement between Israel and Hezbollah on a 60-day ceasefire reduced the appeal of gold as a safe haven. Geopolitical tensions came to the fore again at the end of the week, after the President of Russia warned that his forces could hit the "decision-making centres" in Kiev with new ballistic missiles, which influenced the rise in the price of gold. Despite this, Monday's decline caused the price of gold to fall on a weekly basis.

OIL

The price of oil decreased from $75.30 to $72.28 per barrel in this reporting week. The sharp drop in prices on Monday confirmed the market's sensitivity to geopolitical developments and concerns about global oil demand, as it was driven by reports of a potential cease-fire deal between Israel and Lebanon and expectations that OPEC+ would not lift existing output reductions at its upcoming meeting due to increased supply by the U.S. oil industry. The price fluctuated in the rest of the week, which was caused by a number of factors: the U.S. President's proposed trade tariffs for Mexico, Canada and China; truce between Israel and Hezbollah; data from the U.S. government on the increase in fuel stocks in the U.S. last week by 3.3 million barrels, and the drop in oil supplies by 1.8 million barrels; reduced trade volume due to U.S. holidays; the announcement that the OPEC+ meeting has been postponed from 1 to 5 December, and the uncertainty concerning the production plans of this organization.