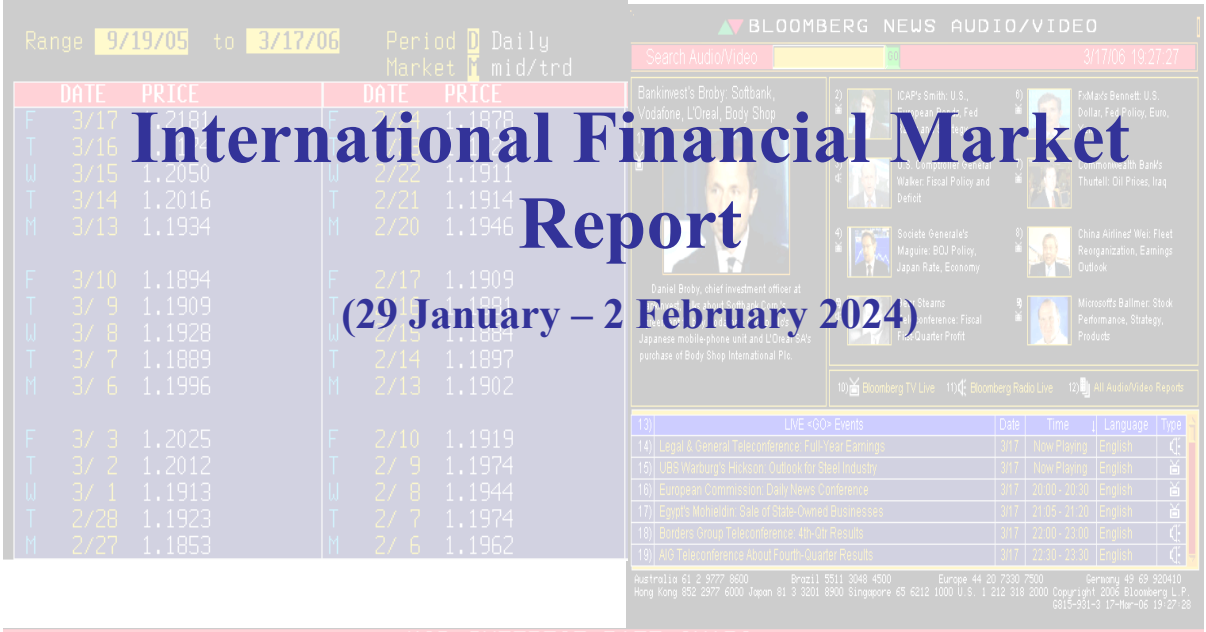
CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(29 January – 2 February 2024)



Podgorica, 7 February 2024

FX NEWS

EUR/USD

The **EUR/USD exchange rate** depreciated early this week after increased expectations for an ECB interest rate cut in March reduced. On Tuesday, the exchange rate fluctuated slightly. The euro appreciated in the morning after better-than-expected euro area GDP data. The euro area unexpectedly avoided recession. In the afternoon, the exchange rate depreciated after the Fed meeting, as the Fed Chair said it was unlikely that the central bank would lower the interest rate at the March meeting. On Thursday, the EUR/USD exchange rate had a more pronounced appreciation as the euro appreciated after the euro area's inflation rate was above expectations. At the same time, the USD depreciated after new jobless initial claims in the USA rose last week. On Friday, the EUR/USD exchange rate depreciated as the USD appreciated after the US payroll data beat expectations. The Fed Chair reinforced the idea that a March rate cut is unlikely despite ongoing market speculation. Accordingly, he stated that the bank would monitor new economic data to determine when the rate could be reduced.

EUR/GBP

Despite large fluctuations during the reporting period, the **EUR/GBP exchange rate** remained almost unchanged during the week (a -0.04% mere change). Thus, the exchange rate depreciated on Monday after expectations that the BoE would take a more cautious approach at this week's meeting and not indicate the interest rate cuts timing supported the sterling. On Tuesday, the exchange rate appreciated sharply after encouraging data on the euro area's GDP. During the next two days, the exchange rate depreciated with short-term jumps, as the BoE pointed out after the regular meeting that monetary policymakers would need more evidence that inflation was slowing down before any interest rate cut. On Friday, the exchange rate appreciated slightly.

EUR/JPY

The **EUR/JPY exchange rate** mainly depreciated until Thursday, to appreciate later in the week. The EUR/JPY exchange rate depreciated as the yen appreciated due to investors' risk aversion. On the other hand, the euro depreciated due to expectations of an ECB interest rate cut. On Tuesday, the euro recovered after upbeat euro area's GDP data (recession was avoided). Soon, it began to depreciate again after the BoJ's overall opinion from last January's meeting sparked speculation that it would lift negative interest rates already in March or April. At the end of the week, the euro and the exchange rate appreciated after the euro area's inflation data.

Table 1 - Exchange rates of the most important currencies

	29.01.2024[1]	02.02.2024[2]	% Change
EUR/USD	1.0853	1.073	-1.13
EUR/GBP	0.85440	0.85405	-0.04
EUR/JPY	160.79	160.07	-0.45
EUR/AUD	1.65087	1.65653	0.34
EUR/CHF	0.93782	0.93517	-0.28
USD/JPY	148.15	148.38	0.16
GBP/USD	1.2703	1.2631	-0.57

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%	6 February 2024

The Fed and the BoE held regular meetings this week.
Fed kept the interest rate at the current levels from 5.25% to 5.50%. The Fed cautioned that its officials found it appropriate to cut the interest rate once there was greater confidence that inflation was moving significantly toward 2%. If any change is noticed to the target, the Committee will carefully assess the data, outlook, and risks. The Fed Chair rejected the possibility of an interest rate cut in March.
The **BoE** kept the interest rate existing. As for the Monetary Policy Committee, 9 members voted, of which 6 voted to keep rates current, and 1 was of a 25bp reduction. At the same time, to the market's surprise, even 2 of them advocated a 25bp increase. The BoE omitted a sentence that signals a further tightening of monetary policy if inflationary pressures continue to rise. The Governor said things are moving in the right direction, but it still needs time to cut rates.

Table 3 – ESTR and Euribor

	29.01.2024[1]	02.02.2024[2]	Change in basis points
ESTR	3.904	3.906	0.2
Euribor 1W	3.895	3.877	-1.8
Euribor 1M	3.871	3.864	-0.7
Euribor 3M	3.887	3.900	1.3
Euribor 6M	3.873	3.837	-3.6
Euribor 12M	3.597	3.537	-6.0

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

EUROPEAN GOVERNMENT BONDS MARKET

This reporting week, the return on 10-year German government bonds declined slightly from around 2.26% to 2.24%. It showed signs of falling after growing traders' expectations that the ECB would cut interest rates by 25bp in April. However, some officials pointed to caution, including the Central Bank of Slovakia's Governor, who noted that the upcoming data and March economic projections of the ECB will guide this monetary institution's decisions. On Tuesday, the return trended up to 2.30%, as the abovementioned expectations eased, and due to better-than-expected data on the euro area's GDP data for Q4 - standstill compared to the previous quarter, as opposed to the expected contraction. Over the next two days, a downward trend prevailed in this market, so the return on 10-year German government bonds hit its nadir in the last month at 2.12% on Thursday. The weakening of the return was mainly due to the decline of the regional banking index in the USA, which increased the demand for safe assets. However, the euro area's inflation data released that day and strong US labour market data released the next day caused market expectations for an ECB interest rate cut to weaken at the end of the week. The weakening of these expectations also followed the outcome of the Fed and the BoE meetings.

US GOVERNMENT BONDS MARKET

The return on 10-year US government bonds fell from 4.13% to 4.02% in this reporting week. Early this week, the demand for safe funds grew. The US Department of the Treasury published estimates related to borrowing in Q1, which were reduced to 760 billion USD, compared to the October estimate of 815 billion USD, which attracted the investors' attention due to concerns about the widening of the budget deficit in the last few months. Although the return recovered on Tuesday, the downward trend continued. The Fed's meeting, which ended on Wednesday, left the interest rate on hold, and it was said that a rate cut in March was unlikely. Still, Chair Powell's tone was reassuring about progress in moving inflation towards the target, which caused traders' expectations of cuts this year to rise. In the rest of the week, the yield continued to weaken, as due to concerns about the regional banking sector, traders began to take into account the faster pace of the Fed's interest rate reduction, and the demand for safe assets increased, so on Thursday the yield was at the lowest level of 3.82% since the beginning of the year. On Friday, the return recorded the most significant daily increase since September 2022, as better-than-expected data from the US labour market strengthened the Fed's case for delaying interest rate cuts at least until the end of the second quarter.

GOLD

The gold price trended up trend during most of the week. It rose due to falling returns on US government bonds, and tensions in the Middle East fuelled demand for safe assets. This week, the Fed meeting was expected, specifically whether it will start lowering rates in March. After the meeting, the Fed Chair said that the bank wanted to keep all options open instead of rushing to cut interest rates. On Thursday, the gold price hit a 1-month high of 2,065.48 USD/oz. tr. as the USD depreciated and the return on US bonds fell, while labour market data showed that initial jobless in the USA increased in the week ending 27 January. At the end of the week, the gold price fell after the publication of new encouraging data from the US labour market that supported the "wait and see" approach regarding the conduct of the Fed's monetary policy. The substantial payroll numbers depict the resilience of the US labour market, which is likely to support healthy economic growth in the coming months, meaning the Fed may not need to cut interest rates anytime soon.

OIL

Oil prices trended down this week as a deepening crisis in China's property market raised concerns about demand for the energy product, and a Hong Kong court ordered the liquidation of real estate company China Evergrande Group. On Tuesday afternoon, the oil price recovered slightly as increased attacks in the Red Sea prompted the diversion of tankers and increased fears of a spreading conflict in the Middle East. On Thursday, progress was made in an agreement to pause the conflict between Israel and Hamas and release civilians, which led to a drop in prices. The EIA data showed that oil inventories rose by 1.2 million barrels in the USA last week. On Friday, the oil price recorded a sharp drop. Economic problems have primarily affected the crude oil market this week. On Friday, a report on unexpectedly strong payroll data in the USA further dampened hopes that the Fed will start cutting interest rates. Continuously high-interest rates threaten to reduce the oil demand.

Table 4 - Economic indicators (29 January – 2 February 2024)

Country	Indicator	Period	Expected value	Current value	Previous value
Euro area	**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 QoQ% YoY%	 -0.10% 0.10%	 0.00% 0.10%	 -0.10% 0.00%
	Consumer price index (CPI) Estimates changes in the cost of living by measuring changes in the prices of certain items for which the consumers allocates their money.	January Preliminary data MoM% YoY%	 -0.40% 2.70%	 -0.40% 2.80%	 0.20% 2.90%
	Unemployment Rate The percentage of individuals on the labour market and unemployed, but actively looking for a job.	December	6.40%	6.40%	6.40%
Germany	**Retail Sales** This indicator measures changes in retail sales in Japan.	December MoM% YoY%	 0.60% -1.90%	 -1.60% -4.40%	 -2.50% -2.00%
	Consumer price index (CPI) Estimates changes in the cost of living by measuring changes in the prices of certain items for which the consumers allocates their money.	January Preliminary data MoM% YoY%	 0.10% 3.00%	 0.20% 2.90%	 0.10% 3.70%
USA	**Unemployment Rate** The percentage of individuals on the labour market and unemployed, but actively looking for a job.	January	3.80%	3.70%	3.70%
	Initial Jobless Claims This indicator measures the number of people receiving unemployment allowances.	January 27 k=1000	 212 K	 214 K	 215 K
	Change in non-farm payrolls The report shows the total number of newly employed workers on a monthly basis by economy industries. It does not include employees in farms, some government agencies, self-employed individuals and NGOs. It serves as the basis for tailoring economic policy and forecasting future economic trends.	January k=1000	 185 K	 353 K	 216 K
France	**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 Preliminary data QoQ% YoY%	 -0.00% 0.70%	 0.00% 0.70%	 -0.10% 0.60%
	Consumer price index (CPI) Estimates changes in the cost of living by measuring changes in the prices of certain items for which the consumers allocates their money.	January Preliminary data MoM% YoY%	 0.00% 3.30%	 -0.20% 3.10%	 0.10% 3.70%