CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(29 April - 3 May 2024)

Podgorica, 09 May 2024

Weekly overview of short news

- According to preliminary data, the rate of total inflation in the euro area in April remained stable and in line with forecasts, amounting to 2.4%. The rate of core inflation, which excludes energy, food, alcohol and cigarettes, was reduced from 2.9% to 2.7%, but was still above forecasts (2.6%). However, in the April inflation report, service inflation deserves the most attention. After five months of persisting at the level of 4%, the inflation rate of the price of services finally fell to 3.7%, and final data will be necessary to determine the key causes of its decrease, the publication of which is expected in the second half of the month. Analysts believe that the reduction of service inflation is what is necessary for the European Central Bank to start reducing interest rates, which, in the absence of shocks in terms of earnings or a jump in commodity prices, could happen as early as June.
- The significantly higher than expected growth of the gross domestic product of the euro area in Q1 shows that the economy is "coping" with high interest rates quite well. In relation to the previous quarter, GDP increased by 0.3%, and compared to the same period of the previous year by 0.4%, while the expected growth is 0.1% and 0.2%, respectively. After the decrease in GDP in H2 2023, growth in Q1 2024 followed as the GDP of the leading European economies, Germany, France, Italy and Spain, exceeded expectations. The ECB believes that the rest of the year will see a recovery, as inflation will decrease, household income will recover and foreign demand will strengthen, predicting growth of 0.6% this year and 1.5% in the next one.
- At the two-day meeting of the Federal Reserve, the interest rate was kept in the range of 5.25% to 5.50% by a unanimous decision. The Fed's board stated that it was not appropriate to reduce this range until they had a greater degree of confidence that inflation was trending sustainably towards the 2% target, which the data released since the beginning of the year did not provide. The Fed President suggested at the press conference that there will be no increase in the interest rate, but the next move will be either a reduction or keeping it at the current level. Regarding the Fed's balance sheet, the Board decided to slow the pace of outflows from securities in accordance with previously announced plans. Specifically, the monthly outflow for government securities will amount to 25 billion dollars instead of the current 60 billion as of 1 June. In accordance with the board's intention to hold primarily government securities in the long term, the upper limit for agencies and mortgage-backed securities per month remains the same, 35 billion dollars, and amounts due that exceed this limit will be reinvested in government securities.
- Reducing the amount of Fed assets restores the stimulus to economic growth. Monetary policy makers want to be careful with this quantitative tightening and there is a possibility that this process could continue until mid-2025. The Fed President, Jerome Powell, repeated in his speech before the Congress that the Fed is in no rush to reduce interest rates until it is sure that it has tamed inflation. With a strong economy and labour market, the Fed has the flexibility to see if inflation returns to policymakers' 2% target before cutting rates.

FX NEWS

EUR/USD

The EUR/USD exchange rate was stable on the first day of this week. The next day, the exchange rate fell following the data coming from the USA. Namely, the costs for employees in the U.S. increased more than expected, which does not support expectations that there will be a reduction in the interest rate by the Fed. The index that monitors the expenses for employees increased in Q1 2024 by 1.2% and indicates the growth of inflationary pressures. As of the mid-week, the upward trend of the EUR/USD exchange rate began. The recovery of the exchange rate in the mentioned period was influenced by the news that the number of newly created jobs fell in March in the USA to a 3-year minimum. At the very end of the week, the announcement that payrolls in the U.S., which do not include employees in agriculture and the non-governmental sector, were weaker than expected, caused the exchange rate to rise further.

EUR/GBP

The EUR/GBP exchange rate fell on the first day of this week, trending upwards in the rest of the week, which was most pronounced at the very end of the week. The EUR/GBP exchange rate rose this week as it was announced that the GDP of the euro area in Q1 recovered from a mild recession. Namely, in Q1 this year, GDP recorded a growth of 0.4% in relation to the same period of the previous year. Additionally, the growth of the exchange rate was influenced by the news that the real estate market experienced the highest decline in the last eight months in Great Britain as a result of the rise in interest rates on mortgage loans. The exchange rate achieved the largest increase on the last day of this week due to the news that one of the funds plans to sell some 2.7 billion shares of companies from Great Britain.

EUR/JPY

The EUR/JPY exchange rate fell at the beginning of the week, as the yen strengthened as a result of speculation about interventions in the currency market. The Wall Street Journal reported earlier this week that Japanese financial authorities had intervened in the market. Japan's top currency diplomat, Masato Kanda, declined to comment when asked if the authorities had intervened, but said current developments in the currency market were "speculative, rapid and abnormal" and could not be ignored. During the next two days, this exchange rate did not register a major change. The EUR/JPY exchange rate weakened on Thursday due to speculation that Japan is intervening again to support its currency, but the country's officials are still refusing to comment on the speculation. The exchange rate stabilised on the last day of the week, to reach the level of 164.72.

Table 1 - Exchange rates of the most important currencies

	29-Apr-2024[1]	3-May-2024[2]	% Change
EUR/USD	1.0693	1.0761	0.64
EUR/GBP	0.85599	0.85778	0.21
EUR/JPY	169.31	164.72	-2.71
EUR/AUD	1.63674	1.62826	-0.52
EUR/CHF	0.97033	0.97405	0.38
USD/JPY	158.33	153.05	-3.33
GBP/USD	1.2493	1.2547	0.43

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%	6 June 2024
Federal Reserves (Fed)	Federal Funds Target Rate	5.50%	12 June 2024
Bank of Japan (BoJ)	Overnight Call Rate	0.00%	14 June 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%	5 June 2024
Reserve Bank of Australia (RBA)	Cash Rate Target	4.35%	7 May 2024

During this period, RBA held its regular meeting and decided to keep the interest rate unchanged. The Fed President announced at the press conference following the meeting that an interest rate increase is not to be expected as the next move.

Table 3 - ESTR and Euribor

	29-Apr-2024.[1]	3-May-2024.[2]	Change in basis points
ESTR	3.9070	3.9080	0.1
Euribor 1W	3.883	3.893	1.0
Euribor 1M	3.848	3.865	1.7
Euribor 3M	3.865	3.827	-3.8
Euribor 6M	3.835	3.802	-3.3
Euribor 12M	3.724	3.693	-3.1

[1] Opening market value on Monday

[2] Closing market value on Friday

Table 4 - Economic indicators (29 April- 3 May 2024)

Country	Indicator	Period	Expected value	Current value	Previous value
Germany	**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 an average household.	April Preliminary MoM% YoY%	 0.6% 2.3%	 0.5% 2.2%	 0.4% 2.2%
Euro area	**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 an average household.	April Preliminary MoM% YoY%	 0.6% 2.4%	 0.6% 2.4%	 0.8% 2.4%
	Unemployment Rate The percentage of individuals on the labour market and unemployed, but actively looking for a job. In general, higher unemployment rate weakens the economy and results in lower personal spending.	March	6.5%	6.5%	6.5%
USA	**JOLTS Job Openings** This concept tracks the number of specific jobs in the economy. Vacancies generally include either newly created or unfilled positions (or soon-to-be-vacant positions) that the employer is taking particular action to fill.	March K=1,000	8680 K	8488 K	8756 K
	ADP Employment Change This indicator measures the number of employees on the private sector payroll.				
	Factory Orders It points to a change in the number of orders from domestic manufacturers. Factory orders are an early indicator of the overall consumption in an economy, which affects economic growth.	April K=1,000 March	183 K 1.6%	192 K 1.6%	184 K 1.6%
	Change in nonfarm 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 non-profit organisations. It serves as the basis for tailoring economic policy and forecasting future economic trends.	April K=1,000	240 K	175 K	303 K
Japan	**Unemployment Rate** The percentage of individuals on the labour market and unemployed, but actively looking for a job. In general, higher unemployment rate weakens the economy and results in lower personal spending.	March	7.5%	7.2%	7.5%

EUROPEAN GOVERNMENT BONDS MARKET

The return on 10-year German government bonds fell in this reporting week. A downward trend was already present on the market on Monday, despite preliminary data showing that the inflation rate in Germany in April was above expectations (2.4% against 2.3%). Nevertheless, growth of almost 2.60% followed on Tuesday owing to the publication of better-than-expected data on the euro area GDP in Q1, which increased by 0.4% compared to the same period of the previous year, and the expected 0.2%. In addition, preliminary data on euro area inflation in April caused expectations for an ECB interest rate cut this year to weaken. This market was closed on Wednesday for the holiday, and a downward trend prevailed for the last two days, thus the yield ended the reporting week at 2.495% (being 2.57% at the very beginning of the week). The yield followed the U.S. bond market trends, where yields fell due to the statement by the Fed president that the next move of this monetary institution will not be an interest rate increase, but also due to the publication of weaker than expected data from the U.S. labour market.

U.S. GOVERNMENT BONDS MARKET

The return on 10-year U.S. government bonds fell in this reporting week. This yield fell by about 5bp already on Monday. However, growth followed the next day, so the yield rose to 4.69% on Wednesday morning, which is the highest level this week. The aforementioned growth was caused by data that showed that labour costs for companies rose in Q1 at the highest rate in the last more than a year, but also by anticipation of the Fed meeting outcome. The interest rate remained at the same level, and President Powell indicated that the next move would not be to increase it despite persistent inflation in Q1. After the press conference, expectations regarding the reduction of the Fed's interest rate increased slightly, therefore the yield started to fall, and maintained that trend until the end of the reporting week. The U.S. non-farm payrolls report and rising unemployment increased the likelihood that a rate cut cycle in the U.S. will begin before the end of the year. The yield on 10-year U.S. government bonds was around 4.51% at the very end of the week, being 4.65% at the beginning.

GOLD

The price of gold dropped in this reporting week, ranging between $2277 and $2347. The price fluctuated on Monday, whereas the next day it fell sharply, due to the strengthening of the dollar. The dollar strengthened as the two-day meeting of the Federal Reserve began on Tuesday, but also as data indicated a rise in employment costs in the U.S., which points to persistent inflationary pressures and puts additional pressure on the Fed. However, the price of gold rose after the Fed meeting, as the president of this monetary institution said that the Fed's next move will probably not be an increase, but that the Fed is aiming for possible reductions. The price fell on Thursday, as markets began to expect the Fed's interest rates to remain at their current level for a longer period of time due to the statement by the Fed President that inflation is high and that there is uncertain progress in lowering it. The price of gold fluctuated on the last day of the week, being slightly above $2300 at the closing of the market.

OIL

The price of oil fell in this reporting week, and it was at an almost 7-week low at the end of the week. The drop in price was largely caused by the reduced geopolitical concerns and the increase in stocks in the USA. Namely, the ceasefire negotiations between Israel and Hamas eased concerns about the spread of the conflict in the Middle East, and the potential disruption in the global supply of oil. The American Petroleum Institute announced an increase in stocks of this energy generating product, in the week preceding the reporting one, by 4.9 million barrels, contrary to expectations that stocks would be reduced by 1.5 million barrels. Later in the week, the U.S. Department of Energy announced a significant increase in oil and production in the U.S. Contrary to forecasts of a decrease of 2.5 million barrels, weekly oil stocks increased by 7.3 million barrels, and February oil production recorded the highest monthly growth in the last three years.