CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(30 September – 4 October 2024)

Podgorica, 10 October 2024

Weekly overview of short news

- Inflation in Germany was below the ECB's target level in September for the first time since February 2021, which could support another interest rate cut as early as October. According to released preliminary data, the harmonized index of consumer prices slowed down from 2% to 1.8%.
- Inflation slowed in the euro area below 2% for the first time since 2021, fuelling market participants' expectations that the ECB will cut interest rates earlier than previously expected. The consumer price index fell to 1.8% in September from the previous 2.2%, which was in line with expectations, as energy costs fell sharply, Eurostat announced. Core inflation fell from 2.8% to 2.7% on an annual basis in September.
- The unemployment rate in the U.S. fell from 4.2% to 4.1% in September. Payrolls in the non-manufacturing sector were revised for the better in August - they rose from 142,000 to 159,000, rising again last month by 254,000, while average hourly earnings were also revised for the better in August, rising from 0.4% to 0.5 %, while they fell slightly by 0.4% in September.
- The ECB policy makers Mário Centeno and Luis de Guindos expressed concern about the "cooling" of the European labour market and its impact on investment and growth. Centeno noted a significant decline in job openings and new hires since Q2 2022 and emphasized the need for effective communication in order to achieve 2% inflation. De Guindos indicated that inflation is heading towards the 2% target with stable prices expected until end-2025. With inflation below 2% and the Euro area heading into recession, markets expect the ECB to accelerate interest rate cuts, likely from 17 October.
- The French Prime Minister, Michel Barnier, has confirmed that the government deficit will exceed 6% of GDP this year. He announced that he plans to reduce the deficit to 5% in 2025 and to 3% by 2029, so that two-thirds of the debt reduction in 2025 will come from reducing consumption and one-third through tax increases.

FX NEWS

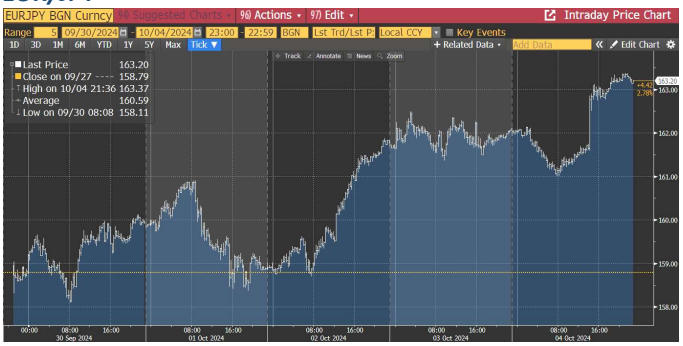
EUR/USD

The EUR/USD exchange rate exceeded 1.1200 on Monday, only to start weakening on the same day, and maintained this trend until the end of the reporting period. After preliminary data on inflation in France and Spain, data on inflation in Germany and the euro area were released at the beginning of this week, which confirmed the slowing trend. These data reinforced investors' expectations that the ECB must speed up the process of easing monetary policy, which caused the euro to weaken against the dollar this week. The ECB officials expressed concern about a cooling European labour market and the impact on investment and economic growth at the end of the week, fuelling expectations that rate cuts will continue at the ECB's October meeting. The dollar, on the other hand, strengthened, as the Fed President's comments reduced expectations that the Fed will continue with aggressive easing of monetary policy. President Powell said that smaller cuts are preferred, and that the September decision is an exception. During this week, the dollar was supported by strong September data from the labour market and from the services sector. The U.S. payrolls expanded more than expected, while the unemployment rate fell and service activity hit its highest level in 18 months. Increasing geopolitical tensions contributed to the strengthening of the dollar, so at the very end of the week the EUR/USD exchange rate was at a 7-week low of 1.0951.

EUR/GBP

The EUR/GBP exchange rate first rose on Monday, only to fall after the release of German inflation data and the ECB President's statement. Lagarde stated in the European Parliament that the inflation data of the largest European economies inspires trust that the inflation of the euro area will be at the targeted level in a timely manner, which will be taken into account on 17 October. The following day, the British currency weakened as Iran launched missiles at Israel, escalating tensions in the Middle East and increasing demand for safer assets. On Thursday, sterling was weaker against the euro and the dollar as the risk appetite was reduced and as the Bank of England Governor stated in an interview with "The Guardian" that he sees the possibility of a more aggressive reduction in interest rates if the inflation news continues to move in the desired direction. The British pound recovered in the final day of the week as the Bank of England`s Chief Economist, Hugh Peel, called for a more cautious approach to cutting interest rates. Peel's statement came just a day after BoE Governor Andrew Bailey was quoted as saying the BoE may move more aggressively to lower borrowing costs. Namely, according to Peel, the Bank of England should gradually reduce interest rates.

EUR/JPY



The EUR/JPY exchange rate appreciated in this reporting week. The growth of the exchange rate was largely caused by the weakening of the yen due to the comments of the new Prime Minister of Japan, Shigeru Ishiba, in which he expressed concern about the economic recovery, which made a new increase in the Bank of Japan's interest rate far away. Namely, Ishiba said the BoJ's monetary policy must remain accommodative to support economic recovery, which puts pressure on the Bank of Japan to keep interest rates at their current level. Although towards the end of the week he tried to alleviate his previous comments by saying that the specifics of monetary policy should be left to the central bank, the exchange rate had an upward trend until the end of the week. During the week, both the Governor of the BoJ and one of the Board members of the BoJ signalled caution regarding the increase of interest rates, so that, due to the global economic uncertainty and instability in the financial markets, no damage would be caused to the economy.

Table 1 - Exchange rates of the most important currencies

	30-Sep-2024[1]	4-Oct-2024[2]	% Change
EUR/USD	1.1162	1.0974	-1.68
EUR/GBP	0.83467	0.83618	0.18
EUR/JPY	158.79	163.26	2.82
EUR/AUD	1.61765	1.61561	-0.13
EUR/CHF	0.93832	0.94180	0.37
USD/JPY	142.21	148.70	4.56
GBP/USD	1.3374	1.3122	-1.88

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	3.65%	17-Oct-2024
Federal Reserves (Fed)	Federal Funds Target Rate	5.00%	7-Nov-2024
Bank of Japan (BoJ)	Overnight Call Rate	0.25%	31-Oct-2024
Bank of England (BoE)	Official Bank Rate	5.00%	7-Nov-2024
Swiss National Bank (SNB)	Libor Target Rate	1.00%	12-Dec-2024
Bank of Canada (BoC)	Target Overnight Rate	4.25%	23-Oct-2024
Reserve Bank of Australia (RBA)	Cash Rate Target	4.35%	5-Nov-2024

Table 3 - ESTR and Euribor

	30-Sep-2024[1]	4-Oct-2024.[2]	Change in basis points
ESTR	3.415	3.414	-0.10
Euribor 1W	3.369	3.395	2.60
Euribor 1M	3.365	3.270	-9.50
Euribor 3M	3.326	3.250	-7.60
Euribor 6M	3.152	3.046	-10.60
Euribor 12M	2.771	2.688	-8.30

Table 4 - Economic indicators (30-Sep to 4-Oct-2024)

[1] Opening market value on Monday

[2] Closing market value on Friday

Country	Indicator	Period	Expected value	Current value	Previous value
Euro area	**CPI estimate** This index uses available data comparable to a historical trend to anticipate changes in consumer prices. The consumer price index, by itself, measures changes in the cost of living, tracking price changes in a basket of consumer goods and services purchased by the average household, and is therefore a key measure of euro area inflation. Positive CPI points to price increase	September YoY%	1.8%	1.8%	2.2%
	HCOB Composite PMI PMI surveys tracks opinion among procurement managers in manufacturing and/or services sectors. The index was obtained from the results of questionnaires related to production, orders, stocks, employment, prices, etc.	September Final data	48.9	49.6	48.9
Germany	**HCOB Composite PMI** PMI surveys tracks opinion among procurement managers in manufacturing and/or services sectors. The index was obtained from the results of questionnaires related to production, orders, stocks, employment, prices, etc.	September Final data	47.2	47.5	47.2
	Consumer price index (CPI) It estimates changes in the cost of living, by measuring price changes in the basket of consumer goods and services used by the average German household.	September Preliminary data	0.1% 1.7%	0.0% 1.6%	-0.1% 1.9%
Great Britain	**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.	2Q Final data QoQ% YoY%	0.6% 0.9%	0.5% 0.7%	0.6% 0.9%
USA	**Job Openings and Labour Turnover - JOLTS** JOLTS defines all vacant (unfilled) positions on the last working day of the month.	August K=1,000	7693k	8040k	7673k
	Initial Jobless Claims Number of inhabitants receiving unemployment benefits.	28 September K=1,000	221K	225K	218 K
	Change in nonfarm payrolls This is a report that shows the total number of newly employed workers on a monthly basis by branch of the economy. This report does not include employees in government services, non-governmental organizations and the agricultural sector. The most important data in this report is the change in the total number of employees compared to the previous month.	September K=1,000	150 K	254K	142K
	Unemployment Rate The percentage of individuals who are in the labour market and who are unemployed, but who are actively looking for a job. In general, higher unemployment rate weakens the economy and results in lower personal spending.	September	4.2%	4.1%	4.2%
	Average Hourly Earnings This indicator monitors the average amount of money paid to employees per hour of work performed and its change.	September MoM% YoY%	0.3% 3.8%	0.4% 4.0%	0.5% 3.9%
Japan	**Unemployment Rate** The percentage of individuals who are in the labour market and who are unemployed, but who are actively looking for a job. In general, higher unemployment rate weakens the economy and results in lower personal spending.	August	2.6%	2.5%	2.7%
	Retail Sales This indicator measures changes in retail sales in Japan.	August MoM% YoY%	0.5% 2.6%	0.8% 2.8%	0.2% 2.6%

EUROPEAN GOVERNMENT BONDS MARKET

The yield on German 10-year bonds rose from 2.13% to 2.20% this week. During the first two days of the week, the yield weakened as it was announced that inflation in Germany was below the ECB target (for the first time since February 2021, inflation was below the 2% target, being 1.8% in September), as well as due to the growing demand for safe assets following the deterioration of the situation in the Middle East. The yield increased from Wednesday until the end of this period. The yield grew due to pressure from the rise in oil prices. In addition, yields on these bonds grew following the growth of yields on American bonds.

U.S. GOVERNMENT BONDS MARKET

The yield on the 10-year U.S. government bonds rose in this reporting week from 3.75% to 3.96%. A slight increase in yields was recorded on Monday, as expectations for the next cut in interest rates by the Fed were reduced. However, the yield weakened the following day due to the escalation of conflict in the Middle East between Iran and Israel. The yield recorded a constant growth during the rest of the week, which was caused by better-than-expected data in the USA. Namely, better-than-expected data on employment in the U.S., as well as the growth of the U.S. service sector index, were released. Such positive data had the effect of reducing expectations regarding the next interest rate reduction by the Fed, so it is expected that the next reduction will not be a large amount, but probably 25bp.

GOLD

The price of gold fell from $2663.45 to $2653.60 per ounce in this reporting week. The price of gold fell on Monday due to the strengthening of the dollar caused by the comments of the FED President, who emphasized that he plans to gradually reduce interest rates while ensuring economic stability. Powell added he believes that inflation will return to the targeted level, stressing that future decisions will depend on the data. The very next day, the price made up for the losses from the previous day, due to events in the Middle East. Iran's missile attacks on Israel, following Israeli troop movements into southern Lebanon against Hezbollah, have heightened concerns about the spread of the conflict. The price was fluctuating in the rest of the week. Strong U.S. economic data released in this period and the strengthening of the dollar caused the price of gold to weaken. On the other hand, geopolitical tensions caused an increase in the demand for gold as a safe investment, which prevented a larger price drop.

OIL

In this reporting week, the price of oil recorded the highest growth in more than a year. At the beginning of the week, the price stood at $72.44, and at the very end of the week it was $78.75 per barrel. The price weakened at the beginning of the week due to concerns about the demand for this energy generating product. However, the price had an upward trend in the rest of the week, due to increasing concerns about the spread of the conflict in the Middle East. The escalation of the conflict came after Iran fired nearly 200 ballistic missiles at Israel, increasing the risks related to crude oil deliveries from the region. In mid-week, data from the U.S Government showed that oil stocks in the U.S. increased last week, therefore concerns about potential supply disruptions from the Middle East were reduced, which briefly halted the rising trend. Still, concerns that Israel might attack Iran's oil industry, in response to Iran's previous missile attack, caused oil prices to rise by the end of the week. Iran produces 3 million barrels of oil per day and any disruption would have significant global consequences.

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