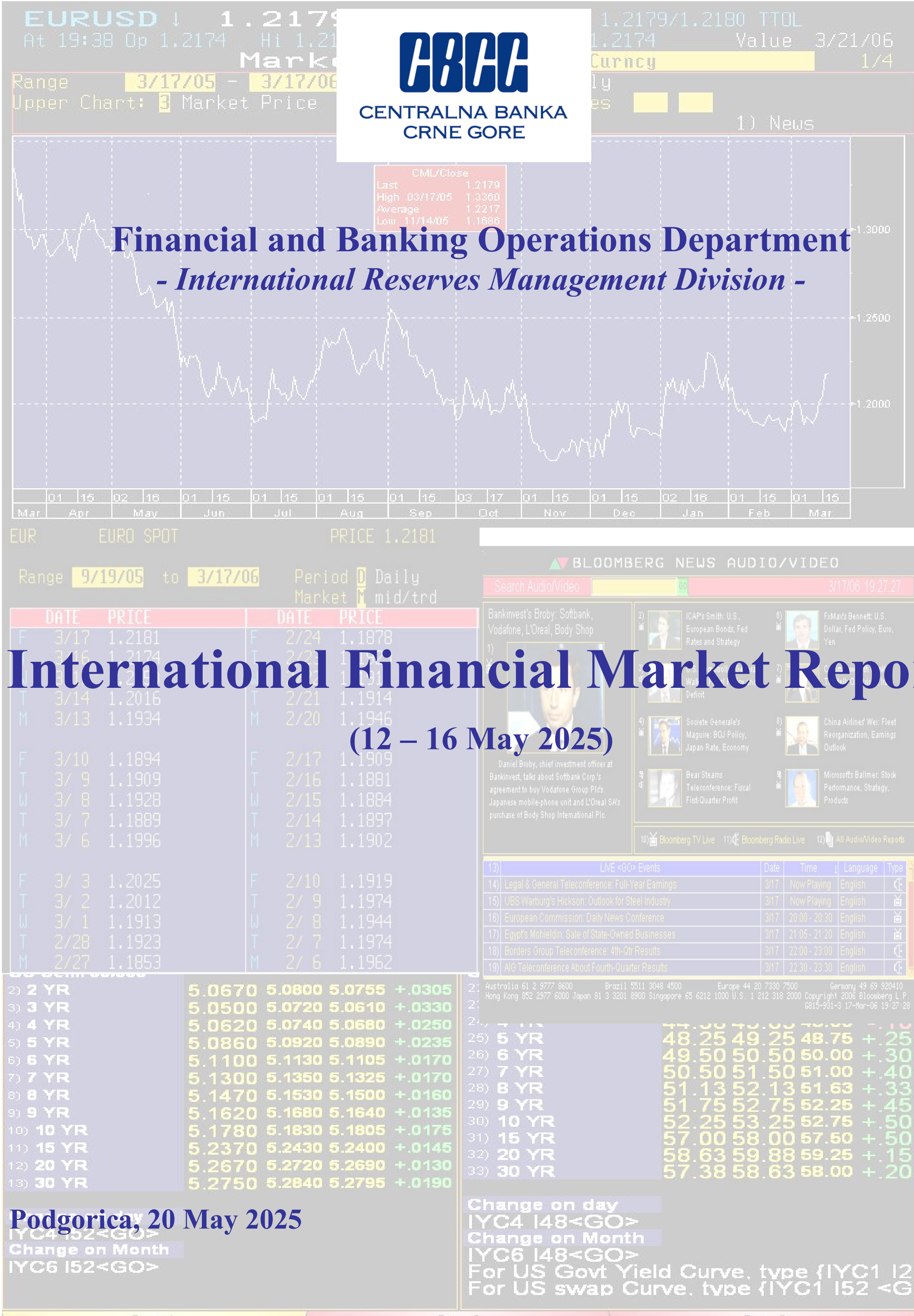

CENTRALNA BANKA CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(12 – 16 May 2025)

Podgorica, 20 May 2025

Weekly overview of short news

- The price of gold fell from $3,301.25 to $3,203,65 per ounce in this reporting week. This was mostly influenced by the growth of investors' risk appetite, and after China and the USA reached an agreement to temporarily reduce tariffs on each other's products.

- The price of oil rose this week from $64.32 to $65.43 per barrel.

- The confidence of German investors increased significantly in May - the value of the ZEW economic confidence index increased from -14.0 to 25.2. The ZEW President Achim Wambach attributed the recovery to the new government, when it comes to tariffs and stabilization of inflation. The current economic situation index fell slightly from -81.2 to -82.0.

- Moody's lowered the USA credit rating by one level on Friday, from Aaa to Aa1, in line with other credit rating agencies. The credit agency cited financing challenges related to the growing fiscal deficit of the federal government and the effects of refinancing existing debt in conditions of high borrowing costs as the reasons. Scott Bessent dismissed the importance of the credit rating agency, calling Moody`s a "lagging indicator".

- The annual inflation rate in Germany for April was confirmed at 2.1%, which is a slight decrease compared to 2.2% in March, according to the final data of the German Federal Statistical Office.

FX NEWS

EUR/USD

The EUR/USD exchange rate depreciated in this reporting week. The constructive negotiations between the USA and China, held over the weekend, reduced concerns about the trade relations of these countries, therefore the dollar already recorded a sharp growth on Monday, whereas the exchange rate fell. However, the exchange rate had an upward trend for the next two days, mainly due to the weakening of the dollar once the worse than expected inflation data in the USA were announced. The exchange rate fluctuated as of Wednesday afternoon, but a downward trend prevailed for the rest of the week. The fluctuation of the exchange rate was caused by the anticipation, and later the release of somewhat weaker than expected U.S. economic data, which fuelled expectations regarding the reduction of the Fed's interest rate. On the other hand, the euro weakened once the euro area GDP for Q1 2025 was revised downwards. However, at the very end of the week, data on inflation expectations in the U.S. indicated concerns about inflation caused by the U.S. tariffs, thus the dollar strengthened again.

EUR/GBP

The EUR/GBP exchange rate depreciated in this reporting week. The downward trend was particularly pronounced on Monday, as sterling strengthened due to developments in trade relations between the U.S. and the U.K., but also as a result of the Bank of England's cautious approach to easing monetary policy. On the other hand, growing expectations regarding the reduction of the ECB interest rates had a negative impact on the European currency. The exchange rate recovered slightly in mid-week, mainly as the sterling weakened. Data for April from the British labour market indicated its weakening - the number of employees on payrolls decreased and average weekly earnings rose at the slowest rate since November last year, which somewhat eased concerns about inflation. The downward trend of this exchange rate prevailed in the last two days of the week, as sterling strengthened, supported by the release of better-than-expected data on the economic growth of Great Britain.

EUR/JPY

The EUR/JPY exchange rate had an upward trend for the first two days of this week, mainly as a result of weakening of the yen. The yen weakened as the USA-China trade agreement reduced demand for safe assets, and it was also reported that the growth of producer prices in Japan had slowed. The exchange rate also grew as the euro was supported by data on the confidence of German investors. However, the exchange rate had a downward trend in the rest of the week, which caused it to fall at the weekly level as well. A decrease in investors' risk appetite has again fuelled the demand for safe assets, which had impact on the strengthening of the Japanese currency.

Exchange rates of the most important currencies

	12-May-2025[1]	16-May-2025[2]	% Change
EUR/USD	1.1250	1.1163	-0.77
EUR/GBP	0.84582	0.84045	-0.63
EUR/JPY	163.53	162.64	-0.54
EUR/AUD	1.75415	1.74279	-0.65
EUR/CHF	0.93529	0.93516	-0.01
USD/JPY	145.37	145.70	0.23
GBP/USD	1.3306	1.3283	-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	2.25%	5-Jun-2025
Federal Reserves (Fed)	Federal Funds Target Rate	4.50%	18-Jun-2025
Bank of Japan (BoJ)	Overnight Call Rate	0.50%	17-Jun-2025
Bank of England (BoE)	Official Bank Rate	4.25%	19-Jun-2025
Swiss National Bank (SNB)	Libor Target Rate	0.25%	19-Jun-2025
Bank of Canada (BoC)	Target Overnight Rate	2.75%	4-Jun-2025
Reserve Bank of Australia (RBA)	Cash Rate Target	4.10%	20-May-2025

Table 3 - ESTR and Euribor

	12-May-2025[1]	16-May-2025.[2]	Change in basis points
ESTR	2.1690	2.1700	0.1
Euribor 1W	2.156	2.150	-0.6
Euribor 1M	2.114	2.089	-2.5
Euribor 3M	2.124	2.101	-2.3
Euribor 6M	2.111	2.156	4.5
Euribor 12M	2.024	2.142	11.8

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

Table 4 - Economic indicators (12 - 16 May 2025)

Country	Indicator	Period	Expected value	Current value	Previous value
Euro area	**GDP S.A.** Measures the final market value of all products and services produced within the country. GDP is the most commonly used indicator of economic activity.	Q1 QoQ% YoY%	0.4% 1.2%	0.3% 1.2%	0.4% 1.2%
Germany	**ZEW Survey Expectations** This survey measures expectations regarding the economic growth for the next six months. Experts are surveyed on whether they expect an improvement or deterioration, thus the difference between the number of positive and negative responses represents the indicator value.	May	11.3	25.2	-14.0
	ZEW Survey Current Situation This indicator measures the current health of the economy. Experts are surveyed whether the current situation is improving, worsening or remaining unchanged, so the value of the indicator is obtained as the difference between the number of positive and negative responses. The higher value points to strengthening of the economy and a better business climate.	May	-77.0	-82.0	-81.2
USA	**Consumer price index (CPI)** Estimates changes in the cost of living by measuring changes in the prices of certain items for which the consumers allocate their money.	April MoM% YoY%	0.3% 2.4%	0.2% 2.3%	-0.1% 2.4%
	Empire Manufacturing This survey, conducted monthly by the New York Fed, tracks New York producers' confidence.	May	-8.0	-9.2	-8.1
	Producer Price Index (PPI Final Demand) It measures the change in producer prices from the moment they leave the production site. Those are the prices the domestic producers receive for their output either at local or foreign market.	April MoM% YoY%	0.2% 2.5%	-0.5% 2.4%	0.0% 3.4%
	University of Michigan One-Year Inflation Expectations (U. of Mich. 1 Yr Inflation) Inflation expectations measure the percentage by which consumers expect the price of products and services to change over the next 12 months.	May Preliminary data	6.5%	7.3%	6.5%
Great Britain	**BRC Sales Like-For-Like** This indicator tracks the sale of new and used products to the general public, for personal or household spending, and is based on the value of the products sold.	April	2.3%	6.8%	0.9%
	Weekly Earnings Excluding Bonus 3M This indicator shows total weekly payments to employees in exchange for performed work, excluding bonuses.	March YoY%	5.7%	5.6%	5.9%
	Payrolled Employees Monthly Change This indicator measures the change in the number of employees on the payroll.	April k=thousand	-32K	-33k	-47k
	Gross domestic product (GDP) Measures the final market value of all products and services produced within the country. GDP is the most commonly used indicator of economic activity.	Q1 Preliminary data QoQ% YoY%	0.6% 1.2%	0.7% 1.3%	0.1% 1.5%
Japan	**Producer Price Index (PPI)** It measures changes in the selling prices of goods and services used by producers. Producers transfer higher costs to consumers through retail prices, thus PPI is important as an early inflation indicator.	April MoM% YoY%	0.3% 4.0%	0.2% 4.0%	0.4% 4.3%
	GDP S.A. Measures the final market value of all products and services produced within the country. GDP is the most commonly used indicator of economic activity.	Q1 Preliminary data QoQ%	-0.1%	-0.2%	0.6%

EUROPEAN GOVERNMENT BONDS MARKET

The yield on 10-year German government bonds rose from 2.580% to 2.588% in this reporting week. The yield increased during the first three days of the week, reaching the maximum level of this week of 2.69% in this period. The rise in yields in the first half of the week occurred as the demand for safe assets decreased, and once the U.S. and China announced a reduction in tariffs for a period of 90 days. Additionally, the growth of yields was influenced by Isabel Schnabel's comment, which reduced expectations regarding the ECB's interest rate cut for this year by a couple of basis points. Namely, she opposed the further reduction of interest rates, warning of the risk that inflation could exceed the target of 2% in the mid-term due to the growth of fiscal expenditure and fragmentation of trade. Although short-term inflation may decline, she warned that tariffs and higher costs could push up prices. Schnabel called for maintaining interest rates in order to preserve the flexibility of monetary policy in conditions of economic uncertainty. However, over the past two days, the yield on these bonds fell sharply following the fall in yields on the U.S. government bonds.

U.S. GOVERNMENT BONDS MARKET

The yield on 10-year U.S. government bonds rose from 4.41% to 4.47% in this reporting week. The yield rose during the first three days of the week as demand for risk ventures increased once the U.S. and China reached an agreement to reduce tariffs for a period of 90 days. A slightly higher increase in the trend of this yield occurred in mid-week as the data on inflation in the U.S. affected the drop in expectations that the Fed will reduce the interest rate more than once this year. Yields fell sharply on Thursday as it was reported that retail sales growth slowed in the U.S., which again raised expectations about the number of Fed rate cuts this year. The yield rose again on Friday mostly because one-year inflation expectations were higher than expected, negative 7.3% compared to the expected 6.5% in the USA.

GOLD

The price of gold fell from $3,301.25 to $3,203,65 per ounce in this reporting week. It trended downwards during the first three days of the week. This was influenced by the growth of investors' risk appetite, and once China and the USA reached an agreement to temporarily reduce tariffs on each other's products - the USA will reduce tariffs from 145% to 30%, and China from 125% to 10%. The release of the U.S. data influenced the price of gold to rise on Thursday. Namely, the released data in the USA (unexpected reduction in production prices and lower than expected growth in retail sales) support expectations that the Fed will continue to reduce the interest rate. The price of gold weakened again on Friday, as the dollar rose against a basket of currencies, making gold more expensive for investors in other currencies.

OIL

The price of oil rose this week from $64.32 to $65.43 per barrel. The oil prices trend was very volatile during the week. Therefore, it first rose sharply at the very beginning of the week when China and the U.S. reached an agreement on reducing tariffs for a period of 90 days, only to return to the previous level on the same day. An increase in the price of oil was again recorded on Tuesday due to expectations of increased demand during the summer season in the USA. A sharp drop in the price of oil was recorded on Wednesday and Thursday as it was announced that Iran is ready to give up nuclear weapons in exchange for the lifting of the U.S. sanctions. However, the price of oil rose again on Friday as Iran expressed doubts about the nuclear negotiations. The comments of the Iranian foreign minister reduced the earlier optimism of the U.S. President Donald Trump about a possible agreement.