CENTRALNA BANKA
CRNE GORE

Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(19 – 23 May 2025)

Podgorica, 28 May 2025

Weekly overview of short news

- The price of gold rose this week from $3,206.53 to $3,357.51 per ounce. This was mostly influenced by increased demand for safe assets as traders assessed trade tensions and the interest rates trend in the U.S., due to the weakening of the dollar exchange rate, as well as Trump's announcement that he would introduce higher tariffs on the E.U. and Apple.

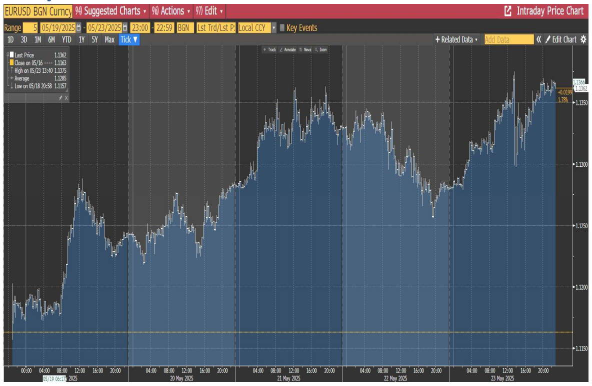
- The price of oil fell from $65,18 to $64.78 per barrel this week.

- The final data showed that the consumer price index in the euro area in April was 0.6% on a monthly basis, while it stood at 2.2% on an annual basis. Both data were in line with market expectations.

- The German economy grew by 0.4% in Q1 2025 - revised upwards from 0.2%, and the growth was driven by increased exports of 3.2% and household spending of 0.5% which occurred before the introduction of the U.S. tariffs. Analysts expect slower growth in Q2 2025, but see long-term optimism regarding the growth of real wages and the infrastructure fund of 500 billion euros.

FX NEWS

EUR/USD

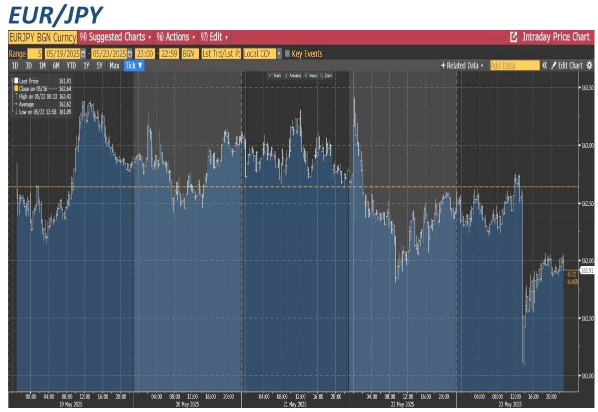


The EUR/JPY exchange rate appreciated during this reporting week. The news that Moody's reduced the U.S. credit rating by one level, from Aaa to Aa1, caused the euro to rise against the dollar at the very beginning of the week. The exchange rate rose in the rest of the week as concerns about the U.S. debt emerged, as the White House increased pressure to pass Donald Trump's tax bill. The exchange rate fell on Thursday as encouraging data from the U.S. was released. Namely, business activity in the U.S. improved in May, i.e. the composite PMI rose to 52.1, owing to growth in manufacturing and services during the temporary trade truce between the U.S. and China. On the last day of the week, the exchange rate rose again as Trump warned that he would introduce new tariffs on the E.U. The U.S. President has threatened to impose tariffs of 50% on goods from the E.U. as of 1 June.

EUR/GBP

The EUR/GBP exchange rate was stable at the very beginning of the week, only to increase during the rest of the week. The rise in the exchange rate came as the Bank of England's chief economist declared that his vote in May to keep the interest rate at the current level was a "skip" and not a break in the interest rate reduction policy. The BoE's chief economist added that the previous pace of interest rate cuts was too fast. The news that inflation in April in Great Britain was higher than expected, caused the exchange rate to drop on Thursday. Namely, higher-than-expected inflation increased the belief that the Bank of England will not reduce interest rates as expected so far. The exchange rate continued to weaken on Friday owing to unexpectedly good U.K. data on retail sales.

EUR/JPY



The EUR/JPY exchange rate recorded a slight drop this week. The exchange rate was stable during the first part of the week, only to record a slightly larger decline during the last two days of the week. The decline occurred as Japan's main inflation indicator rose to 3.5% in April, fuelled by rising food and energy prices. Energy prices rose by 9.3% as a result of removal of government subsidies, and the reintroduction of support is being considered as early as June to moderate fuel prices. This inflationary trend is influencing Bank of Japan policy, with the persistent presence of rising prices reinforcing the arguments for another increase in interest rates, even though officials worry about global risks and trade uncertainty.

Exchange rates of the most important currencies

	19-May-2025[1]	23-May-2025[2]	% Change
EUR/USD	1.1163	1.13618	1.78
EUR/GBP	0.84045	0.83957	-0.10
EUR/JPY	162.64	161.914	-0.45
EUR/AUD	1.74279	1.756535	0.79
EUR/CHF	0.93516	0.933095	-0.22
USD/JPY	145.70	142.55	-2.16
GBP/USD	1.3283	1.35373	1.91

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%	05.06.2025.
Federal Reserves (Fed)	Federal Funds Target Rate	4.50%	18.06.2025.
Bank of Japan (BoJ)	Overnight Call Rate	0.50%	17.06.2025.
Bank of England (BoE)	Official Bank Rate	4.25%	19.06.2025.
Swiss National Bank (SNB)	Libor Target Rate	0.25%	19.06.2025.
Bank of Canada (BoC)	Target Overnight Rate	2.75%	04.06.2025.
Reserve Bank of Australia (RBA)	Cash Rate Target	3.85%	08.07.2025.

The regular meeting of the Central Bank of Australia was held during the week, and the interest rate was reduced from 4.10% to 3.85%.

Table 3 - ESTR and Euribor

	19-May-2025[1]	23-May-2025.[2]	Change in basis points
ESTR	2.1700	2.1700	0.0
Euribor 1W	2.150	2.145	-0.5
Euribor 1M	2.089	2.089	0.0
Euribor 3M	2.101	2.040	-6.1
Euribor 6M	2.156	2.101	-5.5
Euribor 12M	2.142	2.096	-4.6

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

Table 4 - Economic Indicators 19 - 23 May 2025

Country	Indicator	Period	Expected value	Current value	Previous value
Euro area	**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 Final data MoM% YoY%	0.6% 2.2%	0.6% 2.2%	0.6% 2.2%
	Consumer Confident This index measures the level of households' confidence in terms of economic performance.	May Preliminary data	-16.0	-15.2	-16.7
	HCOB Eurozone Composite PMI The index is based on surveys of over 300 executives in production and service companies in the private sector. Each response is weighted according to the size of the company and its contribution to total production or service production.	May Preliminary data	50.6	49.5	50.4
Germany	**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% -0.6%	-0.6% -0.9%	-0.7% -0.2%
	Seasonally Unadjusted Gross Domestic Product (GDP NSA) Measures the final market value of all products and services produced within the country.	Q1 YoY%	-0.4%	-0.2%	-0.4%
	HCOB Germany Composite PMI The index is based on surveys of over 300 executives in production and service companies in the private sector. Each response is weighted according to the size of the company and its contribution to total production or service production.	May Preliminary data	50.3	48.6	50.1
USA	**New Home Sales** The indicator shows sales of newly built real estates in the U.S. This data represents a timely indicator of housing market conditions, counting house sales when housing contracts are signed.	April MoM%	-4.0%	10.9%	7.4%
Great Britain	**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%	1.0% 3.3%	1.2% 3.5%	0.3% 2.6%
France	**HCOB France Composite PMI** The index is based on surveys of over 300 executives in production and service companies in the private sector. Each response is weighted according to the size of the company and its contribution to total production or service production.	May Preliminary data	48.1	48.0	47.8
	Consumer Confident This index measures the level of households' confidence in terms of economic performance.	May	93	88	92

EUROPEAN GOVERNMENT BONDS MARKET

The yield on 10-year German government bonds recorded a slight decline from 2.59% to 2.56% in this reporting week. The yield fluctuated round 2.60% on average at the very beginning of the week. Government bond prices rose on Wednesday, largely following losses in the U.S. bond market, on a day when certain auctions were delayed due to technical problems. The U.K., E.U. and Portugal have delayed bond sales due to temporary disruptions caused by problems with Bloomberg LP software. According to Luis de Guindos, the ECB is not far from achieving its inflation target of 2%, helped by the stronger euro and falling energy costs. The yield on 10-year German government bonds fluctuated again on Thursday, but was up slightly on the daily level and followed a rise in U.S. bond yields that was caused by fiscal concerns. The yield on 10-year German government bonds fell on Friday as demand for safe assets increased once Trump announced he would impose new tariffs on the E.U., fuelling expectations that the ECB policymakers will have to cut interest rates further this year.

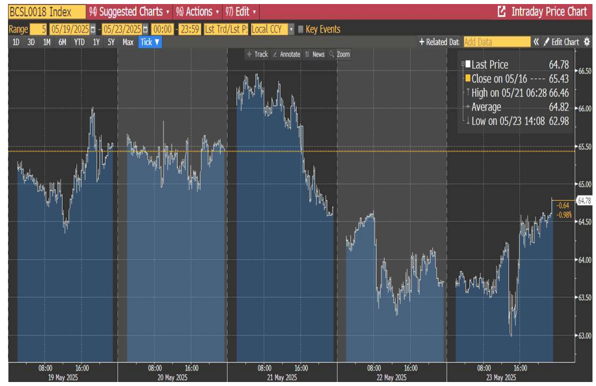
U.S. GOVERNMENT BONDS MARKET

The yield on 10-year U.S. government bonds slightly rose from 4.47% to 4.51% in this reporting week. The yield fluctuated on Monday and rose for the next two days. The growth was contributed by a large sale of Canadian bonds and new corporate bonds in the U.S., a tax cut bill being negotiated by the U.S. lawmakers, as well as an auction of 20-year bonds in the amount of 16 billion dollars. Earlier weakness in the European and Japanese government bond markets had impact on rising yields as well. The yield rose in the first half of the day on Thursday as investors questioned the ability of governments to cover massive fiscal deficits. Investors warn that governments cannot continue to borrow at the same pace as when interest rates were near zero, especially as trade tensions and persistent inflation have reduced the likelihood that central banks will significantly ease monetary policy. As for the U.S., investors were worried that the tax bill, a key project of the President Donald Trump that hardly passed the House of Representatives, could further increase the country's already growing fiscal deficit. The yield fell at the very end of the week following Trump`s threats to the E.U. and Apple Inc. with new tariffs.

GOLD

The price of gold rose this week from $3.206,53 to $3.357,51 per ounce. The price of gold did not record major changes on Monday, but had an upward trend due to increased demand for safe assets as traders assessed trade tensions and the interest rates trend in the U.S., as well as due to the weakening of the dollar exchange rate. The price of this precious metal rose at the very end of the week once Donald Trump threatened to impose higher tariffs on the E.U. and Apple. Trump has threatened with 50% tariffs on the E.U. goods and at least 25% on Apple if it doesn't manufacture iPhones in the U.S.

OIL



The price of oil fell from $65.18 to $64.78 per barrel this week. Oil price weakened on Monday as the market focused on negotiations over the war in Ukraine and the downgrade of the U.S. credit rating by the Moody's. It fluctuated on Tuesday after Iran's supreme leader expressed scepticism about nuclear negotiations with the U.S., diminishing hopes for reaching the deal. The price of oil fell in mid-week as a result of increased global risks and a larger than expected increase in crude oil stocks in the U.S. (oil stocks rose 1.33 million barrels last week). The price also weakened after the announcement that OPEC+ is considering another significant production increase in July, which could be the third consecutive month of increased production. A proposed increase of 411,000 barrels per day (triple the initial plan) is under consideration, but not yet finalised. Saudi Arabia has warned overproducing members of further policy changes if conditions are not met. The price recovered on Friday.