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Financial and Banking Operations Department
- International Reserves Management Division -

International Financial Market Report

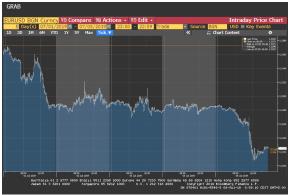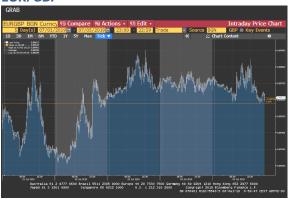## 1 - 5 July 2019

Podgorica, 11 July 2019

FX NEWS

EUR/USD

Source: *Bloomberg LP*

The EUR/USD exchange rate was on a downtrend on Monday after published data on US output showing better result than expected. Moreover, the negotiations between China and the USA had positive effect on investors' demand for US currency. The exchange rate did not change significantly from Tuesday to Thursday, and stood around 1.1288. On Friday, it depreciated again mostly due to economic data from the USA and Germany (payrolls in the USA increased in June, while industrial orders in Germany declined in May).
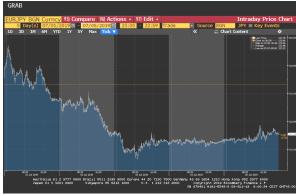
EUR/GBP

Source: *Bloomberg LP*

The EUR/GBP exchange rate had a volatile trend on Monday, while it was rather constant during the rest of the week. The campaign of Boris Johnson, and particularly how he would carry out the Brexit, was under due attention.

EUR/JPY

Source: *Bloomberg LP*

The EUR/JPY exchange rate depreciated early this week, after increased demand for safer funds due to concern that the global economic growth was slowing. As the week went on, the EUR/JPY exchange rate did not change significantly, but had a growing trend (average exchange rate was 121.65 from Wednesday to Friday).

Table 1 - Exchange rates of the most important currencies

	1 July 2019 [1]	5 July 2019 [2]	% Change
EUR/USD	1.1373	1.1225	1.301
EUR/GBP	0.89578	0.89627	-0.055
EUR/JPY	122.66	121.750	0.742
EUR/AUD	1.62007	1.60823	0.731
EUR/CHF	1.11039	1.11311	-0.245
USD/JPY	107.85	108.470	-0.575
GBP/USD	1.2696	1.2521	1.301

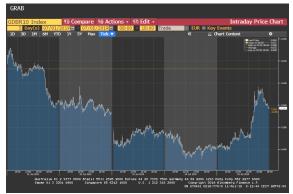**Table 2 - Overview of the reference interest rates of the leading central banks**

Central Bank	Reference interest rate	Reference interest rate level	Next meeting
European Central Bank	ECB Main Refinancing Rate	0.00%	25 July 2019
Federal Reserves	Federal Funds Target Rate	2.50%	31 July 2019
Bank of Japan	Overnight Call Rate	-0.10%	30 July 2019
Bank of England	Official Bank Rate	0.75%	1 August 2019
Swiss National Bank	Libor Target Rate	-0.75%	19 September 2019
Bank of Canada	Target Overnight Rate	1.75%	10 July 2019
Reserve Bank of Australia	Cash Rate Target	1.25%	2 July 2019

Table 3 - Eonia and Euribor

	1 July 2019[1]	5 July 2019[2]	Change in basis points
Eonia	-0.360	-0.367	-0.70
Euribor 1W	-0.403	-0.404	-0.10
Euribor 1M	-0.388	-0.394	-0.60
Euribor 3M	-0.345	-0.360	-1.50
Euribor 6M	-0.311	-0.344	-3.30
Euribor 12M	-0.214	-0.268	-5.40

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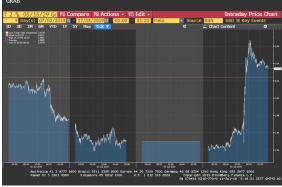[2]Closing market value on Friday

EUROPEAN GOVERNMENT BONDS MARKET

Source: *Bloomberg LP*

During the first three days, the yields on German government bonds declined due to growing expectations that the ECB would start the incentive measures. At the same time, the yields on Italian government bonds declined after Italy decreased the targeted deficit for the upcoming year from 2.4% to 2.04% to avoid disciplinary measures of the EU. The yields on German government bonds recovered mildly at the week-end following the recovery of yields on the USA market. The yields on 10-year German bonds ranged around -0.36% at the end of the reporting week.
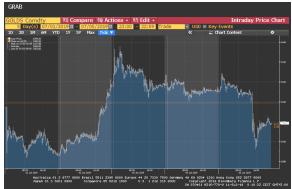
US GOVERNMENT BONDS MARKET

Source: *Bloomberg LP*

The yields on US bonds were declining for the almost whole week, due to expectations that the FED would reduce rates in the coming period. However, on the last day, they recorded a slightly higher increase after positive data from the US labour market. The yields on 10-year US bonds ranged around 2.06% at the end of the reporting week.
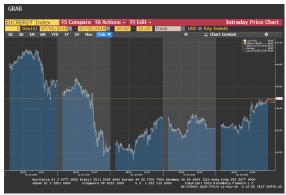
GOLD

Source: Bloomberg LP

On the first day of this reporting week, the price of gold was stable, but it achieved higher growth on Tuesday due to concerns over the slowdown in global economic growth and the expectation that the world's leading central banks would begin to loosen monetary policy. As the week went on, the price of this precious metal weakened slightly, with the more significant fall on the last day of this week after positive US labour market data, which diminished the possibility that the FED would aggressively reduce interest rates at its this month's meeting.

OIL

Source: Bloomberg LP

Concerns on slowed global economic growth led to a weakening of oil demand during the first two days of the week. During the remaining days, the price of oil increased mildly again as the oil stocks in the USA decreased and due to tensions over Iran.

Table 4 - Economic indicators (1 - 5 July 2019)

Country	Indicator	Period	Expected value	Current value	Previous value
Germany	**Factory Orders** Shows change in the number of orders with domestic producers. The data shows the demand for German industrial products. Factory orders are an early indicator of the overall consumption in the economy, which affects economic growth.	May MoM%	-0.2%	-2.2%	0.33%
	Retail Sales Measures changes in the Euro area retail trade.	May MoM%	0.5%	-0.6%	-2.0%
Euro Area	**Producer price index (PPI)** Assesses the average change in prices of certain manufacturers at all stages of production, but does not include imported goods, services and taxes. The index is seen as an indicator of future inflation.	May MoM% QoQ%	0.1% (1.7%)	-0.1% (1.6%)	-0.3% (2.6%)
	Retail Sales Measures changes in the Euro area retail trade.	May MoM%	0.3%	-0.3%	-0.4%
UK	**Mortgage Approvals** This indicator measures the number and/or value of mortgage loans approved by lenders.	May	49.5	48.0	49.4
Italy	**Consumer Confidence Index** Expectations (mood) of consumers. This household survey, designed to assess the individual's propensity for spending, is an attempt to measure consumer optimism.	May	10.3%	9.9%	10.2%
USA	**Initial Jobless Claims** Measures the number of people receiving unemployment allowances.	29 June K=1,000	223K	221K	227K
	Unemployment Rate It shows the total percentage of those considered unemployed in the United States. Given that the Fed has to keep unemployment under control, its high unemployment rate puts pressure on interest rates (in terms of their reduction), as the Fed will then seek ways to improve the situation on the labour market.	June	3.6%	3.7%	3.6%
	Change in nonfarm payrolls This report shows the total number of newly employed workers at the monthly level by branches of economy (health care, finance, mining, construction, production, wholesale, retail, transport and storage, IT sector). The report does not include civil servants, non-governmental organisations and the agricultural sector. It represents a strong signal of total economic trends in the country, and covers 80% of total number of employees whose income is included in GDP calculation.	June K=1,000	160 K	224 K	75 K

Source: Bloomberg