CENTRALNA BANKA
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Financial and Banking Operations Department

- International Reserves Management Division -

International Financial Market Report

(21 – 25 October 2024)

Podgorica, 30 October 2024

Weekly overview of short news

- The price of gold continued to rise, from $2721.46 to $2747.56 per ounce, due to growing geopolitical tensions and uncertainty regarding the outcome of the U.S. presidential elections.

- The price of oil rose from $72.99 to $75.84 per barrel, as a result of tensions in the Middle East.

- The ECB officials have different views on the size of the rate cut in December - while some favour a cut of more than 25bp, others believe it would not be justified.

- At its regular meeting, the Bank of Canada accelerated interest rate cuts and indicated that the post-pandemic era of high inflation is over. Monetary policymakers, led by the Governor, Tiff Macklem, cut the benchmark interest rate by 50bp to 3.75%, representing the highest reduction in borrowing costs since March 2020. This significant cut, which was expected by the market, aims to stimulate economic growth and keep inflation close to the 2% target. The consumer price index fell to 1.6% on an annual basis in Canada in September.

FX NEWS

EUR/USD

The EUR/USD exchange rate depreciated during the first three days of this week. The exchange rate fell as demand for safe assets increased due to rising tensions in the Middle East. Additionally, the fall of the euro was influenced by the announcement that production prices in Germany fell more than expected in September. The exchange rate rose on Thursday as the drop in U.S. bond yields caused the dollar to weaken. It was reported on the last day of the week that durable goods orders in the U.S. fell in September less than expected, whereas consumer confidence rose more than expected, which caused the exchange rate to fall again.

EUR/GBP

The EUR/GBP exchange rate fluctuated between 0.83035 and 0.83521 in this reporting week. A slight uptrend prevailed on Monday as sterling weakened due to economic pressures Great Britain is facing, including challenges arising from high inflation and the cost of living. Britain's public borrowing in the first six months was higher than the official forecasts, data showed on Tuesday, highlighting the challenge Rachel Reeves, Chancellor of the Exchequer is facing, which weakened the sterling. Analysts had expected the British budget to tighten spending, a move that could weaken the economy and put the Bank of England in a position to cut rates more than markets are currently pricing in. The exchange rate reached its maximum value (0.83521) on Wednesday, as traders were focused on possible outcomes of the presidential elections in the U.S., decisions by the central banks, as well as the pace of interest rate cuts, which overall kept them on guard. The EUR/GBP exchange rate fell in the first half of the day on Thursday as traders lowered expectations that the BoE will cut interest rates due to the U.K. Chancellor's plan to change fiscal rules that could allow additional lending for investments. However, in the second part of the day the exchange rate returned to its previous level as it was announced that the composite PMI fell to an 11-month low in October. Exchequer Secretary, James Murray, dismissed concerns that the Chancellor's budget could negatively impact the market and raise mortgage rates. Murray said the budget would "give confidence to the markets", highlighting the Chancellor's commitment to reducing debt and putting "safeguards" around public investments, which he believes will promote investment, growth, and keep mortgages and prices low. The government has confirmed changes to fiscal rules to allow for increased borrowing, and Rachel Reeves aims to secure an extra £20 billion a year for investments.

EUR/JPY

During this week, **the EUR/JPY exchange rate** recorded growth, with most of it occurring in the first half of the reporting period. The main reason was the expectation that the Bank of Japan will not raise interest rates at this month's meeting, but that it will happen only in December or January. Additional pressure on the Japanese currency was exerted by the approaching parliamentary elections in Japan, which further weakened the yen against the euro. The EUR/JPY exchange rate was stable in the last two days of the week, having no significant changes.

Table 1 - Exchange rates of the most important currencies

	21-Oct-2024[1]	25-Oct-2024[2]	% Change
EUR/USD	1.0867	1.0796	-0.65
EUR/GBP	0.83271	0.83288	0.02
EUR/JPY	162.48	164.43	1.20
EUR/AUD	1.62027	1.63423	0.86
EUR/CHF	0.93990	0.93575	-0.44
USD/JPY	149.53	152.31	1.86
GBP/USD	1.3052	1.2962	-0.69

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	3.40%	12-Dec-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	3.75%	11-Dec-2024
Reserve Bank of Australia (RBA)	Cash Rate Target	4.35%	5-Nov-2024

Table 3 - ESTR and Euribor

	21-Oct-2024[1]	25-Oct-2024.[2]	Change in basis points
ESTR	3.415	3.166	-24.90
Euribor 1W	3.339	3.149	-19.00
Euribor 1M	3.147	3.127	-2.00
Euribor 3M	3.201	3.059	-14.20
Euribor 6M	3.028	2.894	-13.40
Euribor 12M	2.709	2.565	-14.40

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

Table 4 - Economic indicators (21 - 25 Oct 2024)

Country	Indicator	Period	Expected value	Current value	Previous value
Euro area	**HCOB 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.	October Preliminary data	49.7	49.7	49.6
Germany	**Producer Price Index (PPI)** This indicator measures the change in the price paid by domestic producers. The indicator rise is an early inflation indicator.	September MoM% YoY%	-0.2% -1.1%	-0.5% -1.4%	0.2% -0.8%
	HCOB 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.	October Preliminary data	47.6	48.4	47.5
	IFO Business climate It refers to a survey of German companies on the current conditions (state) of business in Germany, and their expectations for the next six months.	October	85.6	86.5	85.4
Great Britain	**S&P Global Composite PMI** PMI surveys tracks opinion among procurement managers in manufacturing, construction and/or services sectors. The index was obtained from the results of questionnaires related to production, orders, stocks, employment, prices, etc.	October Preliminary data	52.5	51.7	52.6
	GfK Consumer Confident This index measures the level of households' confidence in terms of economic performance.	October	-20	-21	-20
USA	**S&P Global Composite PMI** PMI surveys tracks opinion among procurement managers in manufacturing, construction and/or services sectors. The index was obtained from the results of questionnaires related to production, orders, stocks, employment, prices, etc.	October Preliminary data	53.8	54.3	54.0
	Initial Jobless Claims This indicator measures the number of people receiving unemployment allowances. Similar to the applicant, the growing number of jobs is accompanied by an economic expansion that could influence inflationary pressures.	19 October K=1,000	242K	227K	241K
Japan	**Tokyo CPI YoY** Consumer prices (CPI) are a measure of the prices consumers pay for a consumer basket of goods and services. The annual (monthly) growth rate represents the inflation rate.	October YoY%	1.8%	1.8%	2.1%

EUROPEAN GOVERNMENT BONDS MARKET

The yield on 10-year German government bonds rose from 2.19% to 2.29% in this reporting week. The yield rose sharply on Monday as investors sold bonds to take advantage of previous price gains in order to make profits. The yield growth continued the next day, due to the weakening of expectations that there could be a greater than 25bp reduction in interest rates in December, therefore on that day it reached 2.33%, the highest level in the last two months. The yield fluctuated in the rest of the week due to the statements of the ECB officials, some of whom claim that a higher rate increase is possible in December, while others believe that this is not justified. The ECB President, Christine Lagarde, expressed her satisfaction with the progress in reducing the inflation rate, adding that the central bank will remain cautious and without hasty conclusions. The yields fell on Thursday, as expectations began to strengthen that the ECB could reduce interest rates by 50bp in December, so the yield stood at 2.24% at the end of the day. It was announced the same day that the euro area private sector activity was in the contraction zone for the second month due to the weakening of the activity of the two largest regional economies. A recovery followed on Friday, as oil prices rose as a result of events in the Middle East, and the German IFO business climate index rose to its highest level since June.

U.S. GOVERNMENT BONDS MARKET

The yield on 10-year U.S. government bonds rose from 4.09% to 4.24% in this reporting week, its development during the week being similar to the trend in the German market. The yield had a constant upward trend in the first half of the week, reaching a weekly maximum of almost 4.26% on Wednesday, which is also the highest level since July. The U.S. economic data, especially the latest data on the inflation rate, supports the Fed's gradual rate cut, which has caused yields to rise. The increase in yield is also caused by the increase in the price of oil. The data on the unexpected drop in the number of new applications of the unemployed for receiving social assistance in the U.S. in the previous week, caused a weakening of the yield on Thursday. However, the yield approached the previously reached level the very next day, partly due to the rise in oil prices, but also as a result of the release of better-than-expected preliminary data on durable goods orders in the U.S.

GOLD

The price of gold increased this week from $2721.46 to $2747.56, which represents an increase of 0.96%. This growth was particularly pronounced in the first half of the reporting period, when the price jumped from the initial value to $2758.49 on Wednesday mid-day. The rise in the price of gold in that period was caused by the growth of geopolitical uncertainty. An additional factor that led to the rise in the price of gold is the presidential elections in the USA and the uncertainty regarding the outcome of the elections. On Wednesday, after reaching a record value in this period, the price of gold recorded a sharp decline mainly due to the strengthening of the dollar against a basket of currencies. The price of gold once again had an upward trend in the rest of the week, fuelled by the rise in geopolitical tensions in the Middle East.

OIL

The price of oil increased in this reporting week by 3.90%, from $72.99 to $75.84 per barrel. The rise in the price of oil was pronounced during the first two days of the week due to the tensions that existed between Iran and Israel. The price of oil slightly dropped in mid-week as crude oil supplies in the USA increased during the previous week by 5.47 million barrels. On Thursday, after the initial increase in the price of oil on a daily basis, there were signals that U.S. refineries are processing oil at the highest level in the past six years. The price of oil rose again on Friday due to concerns about the events in the Middle East.