



EUR

10/12/2012



DUKASCOPY
RESEARCH PRODUCTS



Market Research





Dominant Events for the Euro

Yellow Area

December 3

11:00 - 17:00

- Eurogroup Meeting [\[link\]](#)
- Eurozone Manufacturing PMI [\[link\]](#)
- U.S. ISM Manufacturing PMI [\[link\]](#)

Turquoise Area

December 4

07:00 - 16:00

- Spanish Unemployment Change [\[link\]](#)
- BoC Rate Statement [\[link\]](#)
- ECOFIN Meeting [\[link\]](#)

Blue Area

December 5

08:00 - 13:00

- Eurozone Final Services PMI [\[link\]](#)
- Eurozone Retail Sales [\[link\]](#)
- U.S. ADP Non-Farm Employment Change [\[link\]](#)

Purple Area

December 6

12:00 - 16:00

- ECB Minimum Bid Rate [\[link\]](#)
- U.S. Unemployment Claims [\[link\]](#)

Orange Area

December 7

06:00 - 16:00

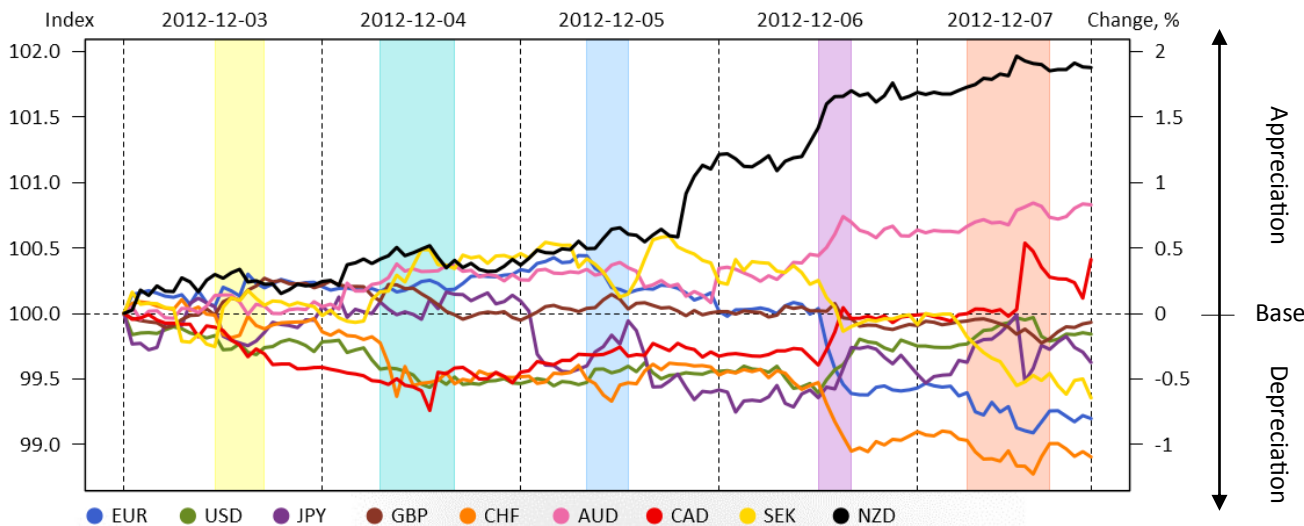
- German Industrial Production [\[link\]](#)
- US Non-Farm Employment Change [\[link\]](#)
- US Unemployment Rate [\[link\]](#)

EUR Currency Index Range	0.24%	0.09%	0.28%	0.65%	0.31%
Average EUR/USD Volatility Index	1.11	0.86	0.96	1.6	1.46



Relative Currency Strength

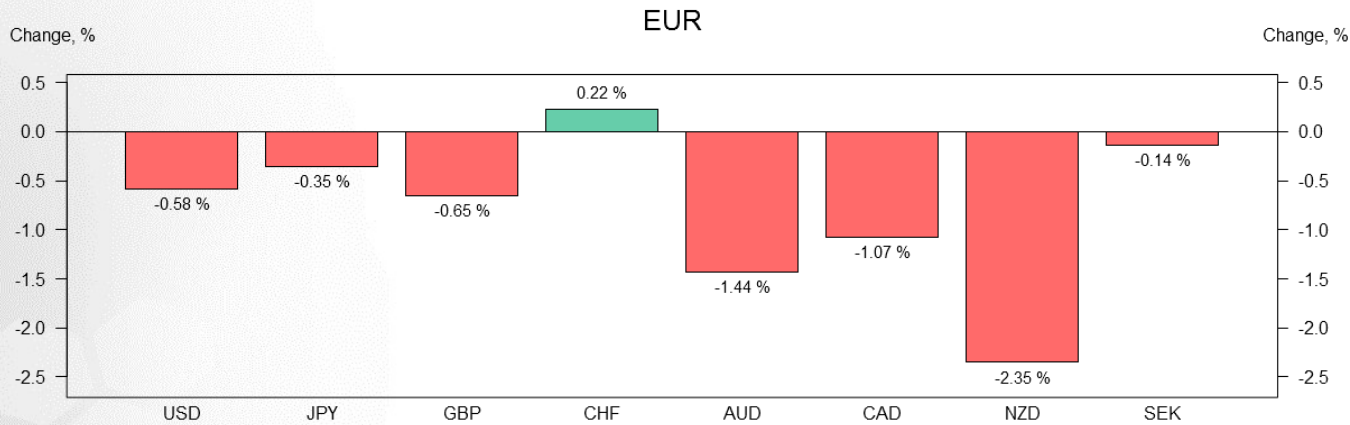
Currency Indices



Resilience of the common European currency was overpowered by a flow of negative on the state of the Eurozone economy news that soured sentiment and brought value of the Euro down by 0.8% in the course of the last week. While the main drag on was a bleak outlook of the European Central Bank on the bloc, resulting in a 0.65% dip in four hours, falling retail sales and contracting volume of industrial production in Germany added to the sell off and did not let bulls to recollect themselves until the weekend. The Swiss Franc was impaired even more, losing more than 1% of its worth on average.

A sharp decline in Euro's index was not only due to diminishing demand for the currency itself, but also because of growing amount of reasons to acquire alternatives, such as commodity currencies. The effect was particularly strong for the New Zealand Dollar—a surge of 1.88%, which emerged amid unwillingness of the country's central bank to jump on the bandwagon of loose monetary policy. On the other hand, RBA's decision to lower the policy rate muted the effect, allowing AUD to appreciate by 0.83% since Dec 3.

Direction of the Euro this week will be largely decided by the European Economic Summit, but it is noteworthy to say that the mood of market participants is quite depressed at the moment, especially towards the Euro, imposing significant barriers to the upside potential.



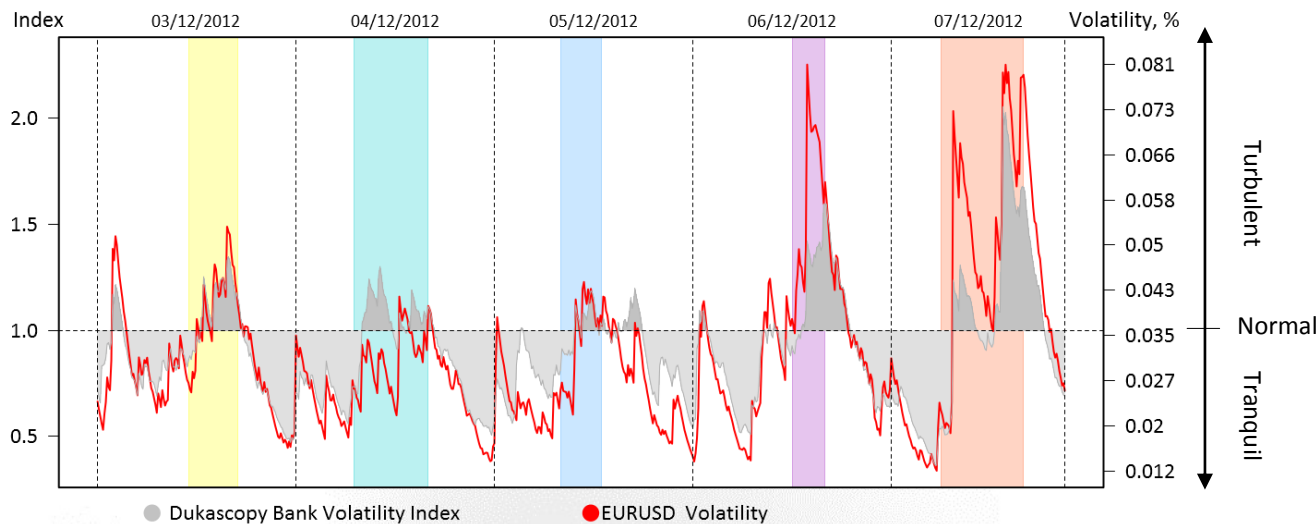
Currency Index Change

Days	EUR	USD	JPY	GBP	CHF	AUD	CAD	SEK	NZD
5	-0.80%	-0.16%	-0.37%	-0.07%	-1.09%	0.83%	0.41%	-0.64%	1.88%
20	1.20%	-0.70%	-5.08%	0.28%	0.97%	0.35%	0.69%	0.31%	1.70%
130	-0.06%	-3.79%	-7.99%	0.35%	-0.74%	2.66%	0.76%	3.60%	5.04%



Volatility

Volatility



Ending of the previous week was associated with strongly elevated volatility that was initially triggered on Thursday by the ECB's statement on the minimum bid rate and on prospects of the economy overall, dampening remnants of optimism in the market. Subsequently on Dec 7 turbulence was reinforced by positive data on labour market both in Canada and in the United States, taking most of investors by surprise. As a result, Dukascopy Bank Volatility Index, a gauge of market volatility, was more than twice as big as it usually is in a normal state. The impact on EUR/USD was stronger than on the market on average, as its measure of variability reached 2.3.

Still, EUR/USD was not the most sensitive currency pair. EUR/CHF and USD/CAD proved to be much more exposed to changes, since their volatility indices soared to 6.4 and 4.8, respectively. However, they are highly unlikely to remain primary drivers of volatility in the coming days.

EUR/CHF is moving back towards the floor of 1.2, which in turn should continue to contain fluctuations of the price from below. At the same time a lack of news on Canada, with potential to influence the price to such extent as seen last Friday, should take away reasons for USD/CAD to stay turbulent for a prolonged period of time.

Elevated Volatility (% of the observed period)

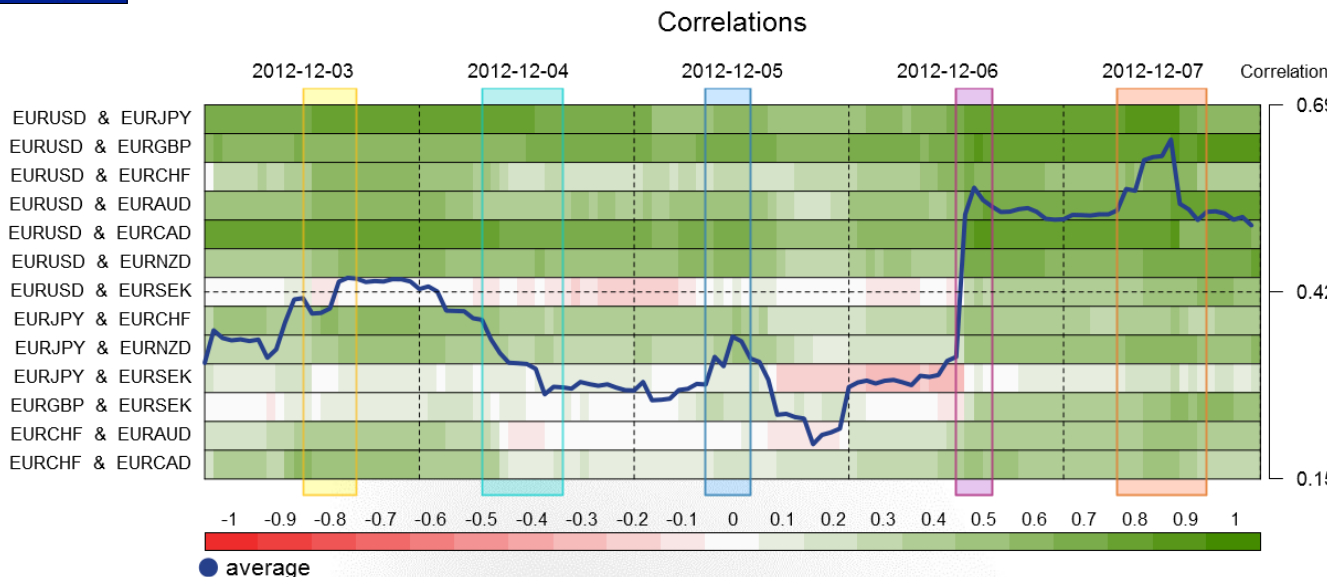
Market	EUR/USD	USD/JPY	GBP/USD	AUD/USD	USD/CAD	USD/CHF	EUR/JPY	EUR/GBP	EUR/CHF	USD/SEK	NZD/USD
32	30	22	33	29	28	37	22	30	79	28	25

Volatility Index (for the observed period)

	Market	EUR/USD	USD/JPY	GBP/USD	AUD/USD	USD/CAD	USD/CHF	EUR/JPY	EUR/GBP	EUR/CHF	USD/SEK	NZD/USD
Max	2.1	2.3	3.4	1.8	3.1	4.8	2.1	2.5	2.3	6.4	1.9	2.8
Min	0.4	0.3	0.3	0.2	0.4	0.3	0.3	0.3	0.3	0.6	0.3	0.4
Average	0.9	0.9	0.9	0.8	0.9	0.9	0.9	0.8	0.9	1.8	0.8	0.9



Currency Significance

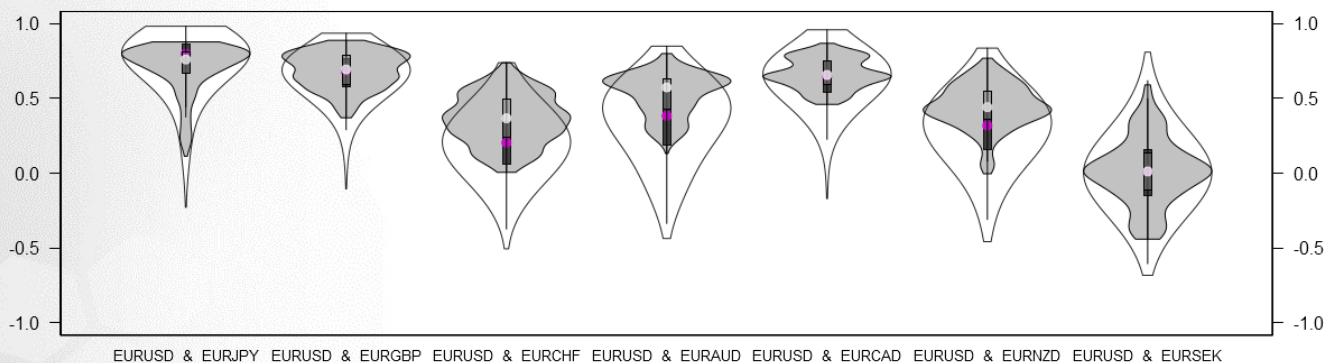


Judging by behaviour of the average correlation coefficient, which imitates significance of a specific currency, the Euro demonstrated decreased ability to impact the exchange rates until the time of the ECB press conference. Thereafter the single currency enjoyed undivided attention of the market, exhibiting strong influence over its crosses, as the average coefficient rocketed from 0.32 up to 0.53 in just two hours and remained heightened for the rest of the week. Given proximity of the EU economic summit, this level of importance could be maintained by the Euro during the next five days.

Nevertheless, it is imperative to remember that EUR, as any other currency, influences its crosses to a varying degree, making some of the pairs more and some of the pairs less desirable to possess in a portfolio depending on a strategy pursued. For example, being long both on EUR/USD and EUR/SEK currency pairs simultaneously historically proved to be much more beneficial in terms of correlation (0.11 for the last 130 days), as their moves appeared to be generally independent.

A different pattern was observed with respect to EUR/USD and EUR/JPY, co-movement of which was spotted in 77 cases out of 100, implying potentially low benefits of diversification, an approach that allows reduction of risk while preserving the same expected profit.

Correlations (20 vs 130 days)

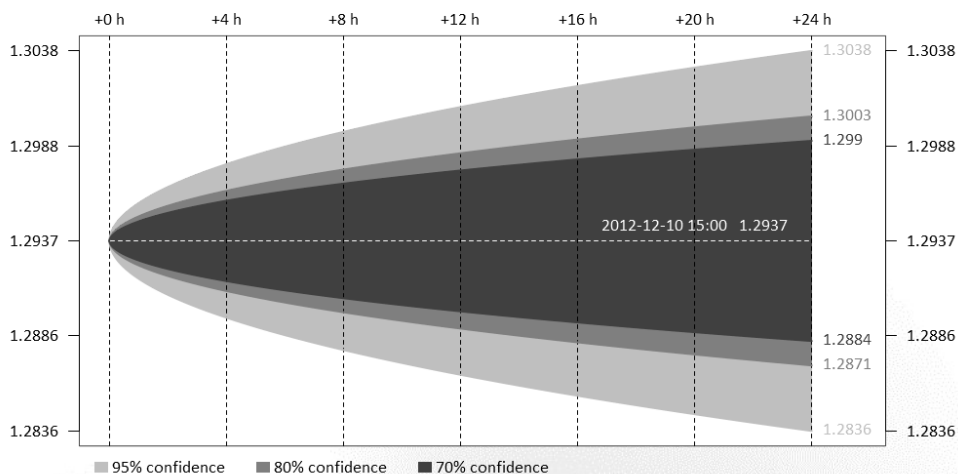


Average Correlation Coefficient (with EURUSD)

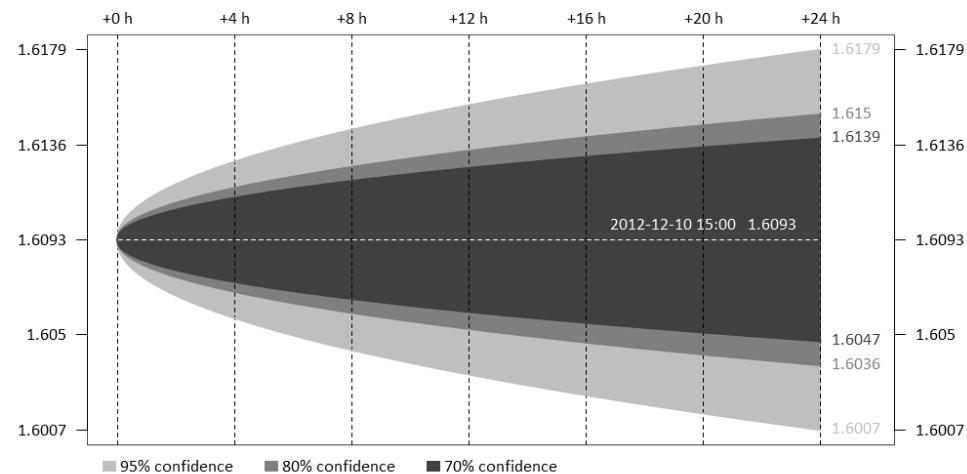
Days	EURJPY	EURGBP	EURCHF	EURAUD	EURCAD	EURNZD	EURSEK
5	0.7	0.7	0.4	0.54	0.71	0.54	0.09
20	0.7	0.68	0.36	0.53	0.66	0.44	0.01
130	0.77	0.67	0.25	0.42	0.65	0.35	0.11

Confidence Intervals for Next 24 Hours

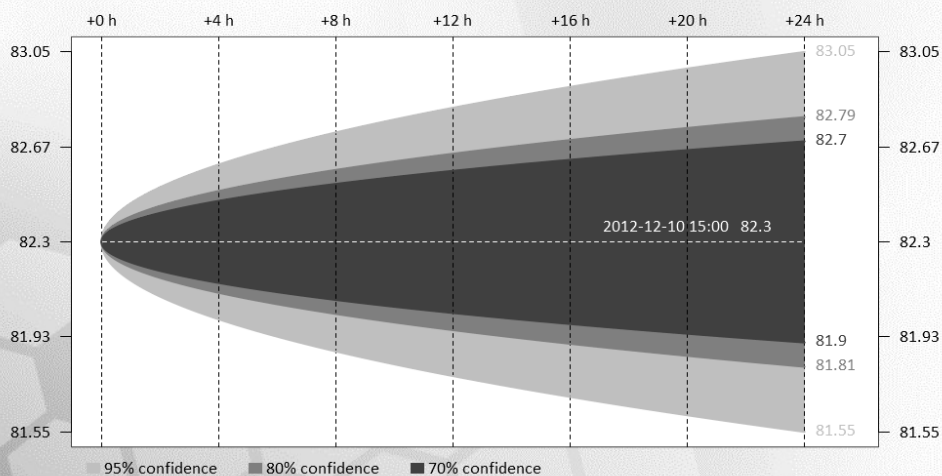
EURUSD Potential Rates



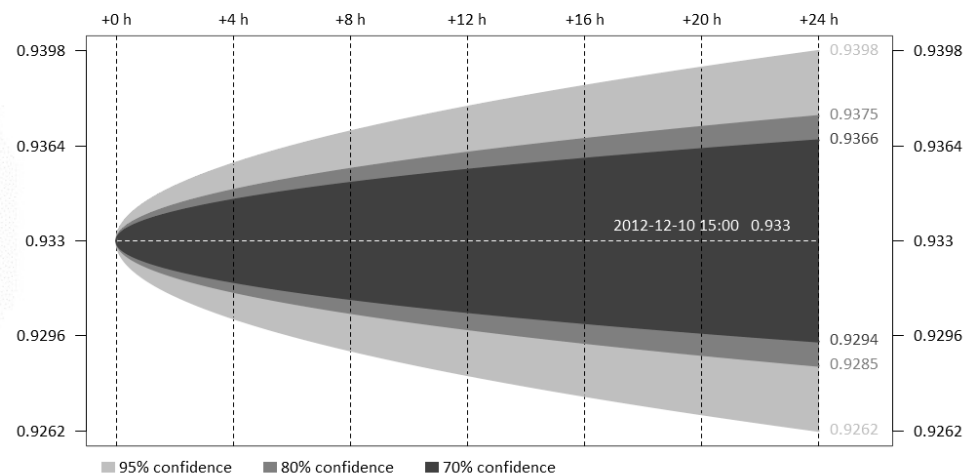
GBPUSD Potential Rates



USDJPY Potential Rates



USDCHF Potential Rates



EXPLANATIONS

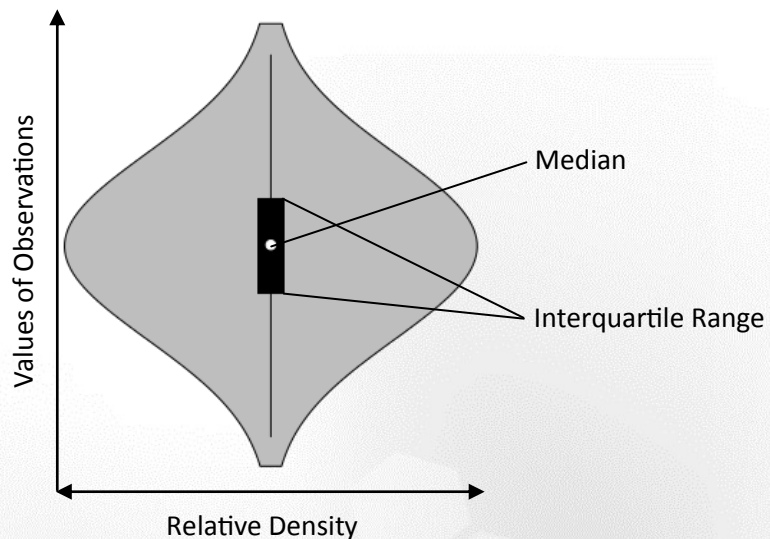
Violin Plot

Violin Plot is a combination of a Box Plot and rotated Kernel Density Plot

Methodologies

Volatility Index

Confidence Interval





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