



USD

12/12/2012



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RESEARCH PRODUCTS



Market Research





Dominant Events for the U.S. Dollar

Yellow Area

December 5

08:00 - 17:00

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

Turquoise Area

December 6

12:00 - 17:00

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

Blue Area

December 7

08:00 - 17:00

- U.S. Non-Farm Employment Change [\[link\]](#)
- U.S. Unemployment Rate [\[link\]](#)
- Preliminary UoM Consumer Sentiment [\[link\]](#)

Purple Area

December 10

08:00 - 16:00

- Eurozone Sentix Investor Confidence [\[link\]](#)
- French Industrial Production [\[link\]](#)

Orange Area

December 11

03:00 - 17:00

- German ZEW Economic Sentiment [\[link\]](#)
- U.S. Trade Balance [\[link\]](#)

USD Currency Index Range

0.15%

0.41%

0.18%

0.22%

0.33%

Average EUR/USD Volatility Index

0.95

1.56

1.63

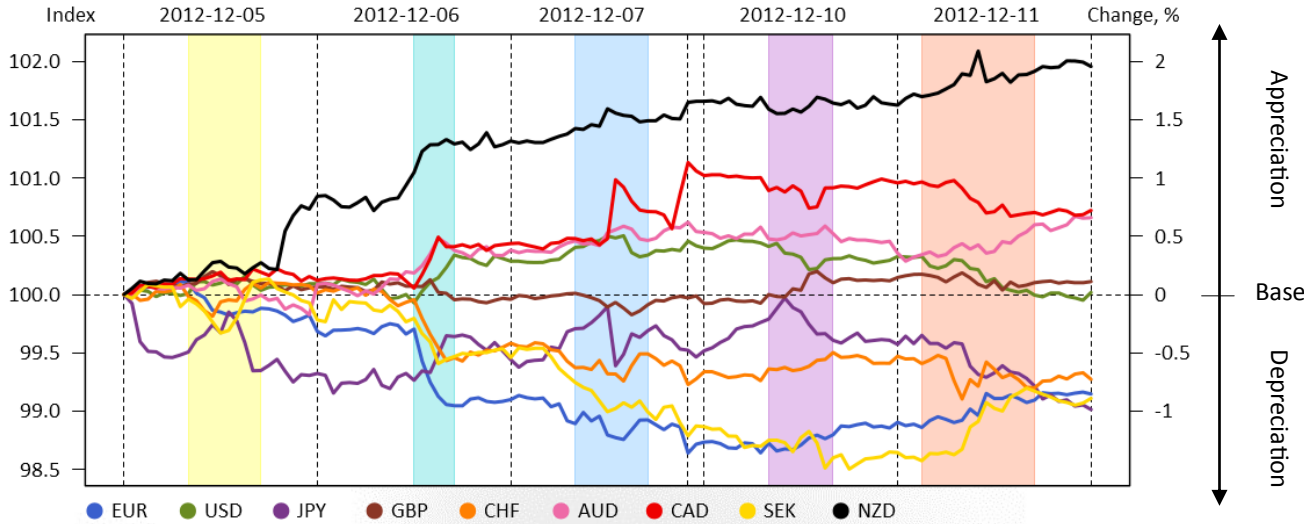
1.04

1.04



Relative Currency Strength

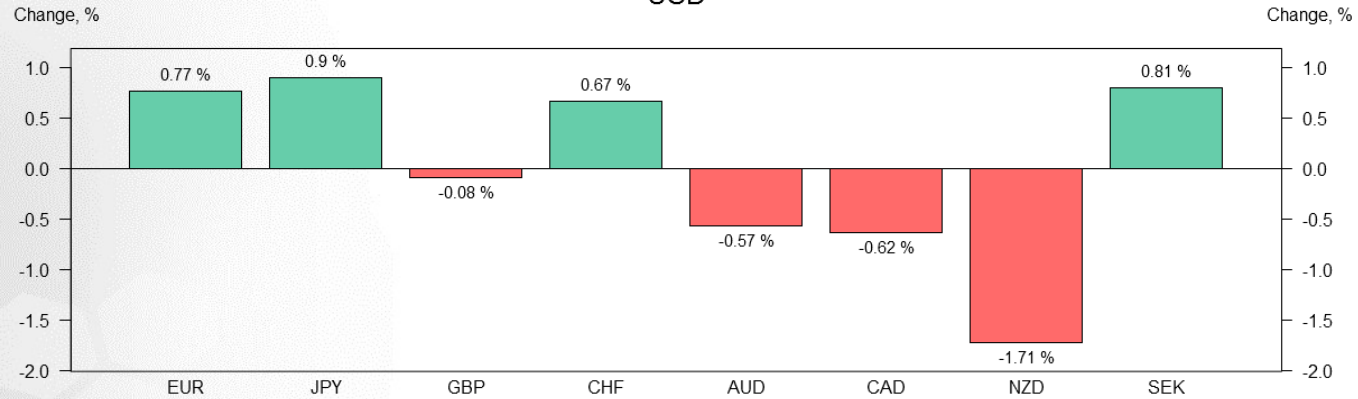
Currency Indices



Last week resurfacing Eurozone problems, brought to light by the most recent data on contracting bloc's retail sales and languishing German industrial production, allowed the U.S. Dollar, being a safe haven currency, to benefit from the increasing flow to quality assets. Appreciation of the greenback at the expense of the Euro was also reinforced by a more dovish than previously stance of the ECB, members of which are becoming increasingly skewed towards a lower policy rate. However, following eventless and calm Monday there is virtually nothing left of the buck's rally at the moment, as gains were pared amid substantially improved economic sentiment in the monetary union.

USD

Data on the U.S. economy, on the other hand, only fortifies conviction that there are seemingly no dangers to a recovery and no reasons for any additional stimulus. One of the main goals of the Federal Reserve, specifically low unemployment rate, is gradually materialising, while the overall price level remains stable, which in turn enables the central bank not to stop there and continue success, since the desired level of employment is yet to be achieved. Moreover, a risk of an external shock, a threat that mainly emanates from the Eurozone, is still palpable. Such a possibility appears to be factored in by the market that anticipates supplementary injections of money into the system, which is still perceived to be quite brittle, resulting in a cheaper Dollar in the end.



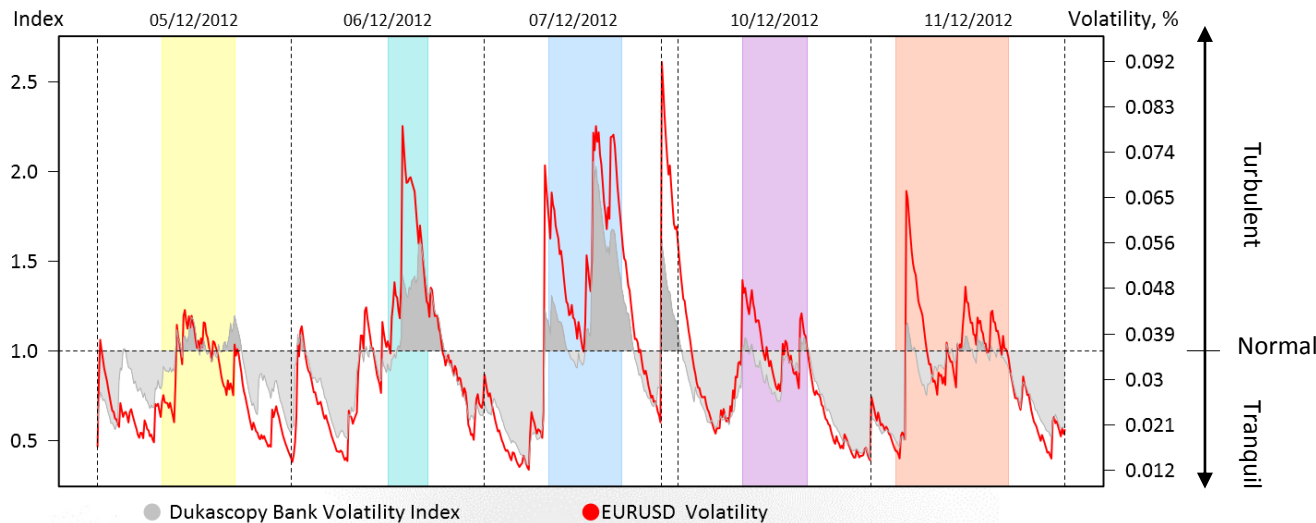
Currency Index Change

Days	EUR	USD	JPY	GBP	CHF	AUD	CAD	SEK	NZD
5	-0.85%	0.02%	-0.99%	0.11%	-0.73%	0.66%	0.72%	-0.89%	1.96%
20	1.49%	-1.09%	-5.57%	0.58%	0.65%	-0.13%	0.68%	1.27%	1.92%
130	0.62%	-3.76%	-7.98%	0.06%	-0.46%	2.56%	0.68%	3.20%	4.83%



Volatility

Volatility



High levels of volatility recorded in the second part of the past week were not carried into the current one. During Monday and Tuesday Dukascopy Bank Volatility Index has hardly exceeded a value of 1, which represents historical turbulence, whereas last Friday, when important news were in abundance, it attained 2.1. EUR/USD was even more volatile and was maximally 2.6 times as variable as it usually is due to a bearish gap that appeared after the weekend. Nonetheless, USD crosses were generally tranquil, judging by the fact that none of them were more than 40% of the time volatile, which was not the case for EUR/CHF, volatility index of which was above 1 in 56% of observations.

The start of the week, however, seems to be largely misleading and overly calm because of dearth of significant news and thus should not be viewed as defining volatility of the remaining until the weekend days. FOMC statement is potentially a game-changing event, therefore regardless of the decision of the committee the market is expected to shift, although this is not the only happening investors look forward to. Dec 13 will be marked with releases on U.S. retail sales, unemployment claims and producer price index. The day after that will be more focused on the state of the Eurozone economy and, according to expectations, should reinforce positive outlook that is currently emerging, though the market participants are considerably more cautious than before and will require substantial improvement in the date for the sentiment to remain risk-on.

Elevated Volatility (% of the observed period)

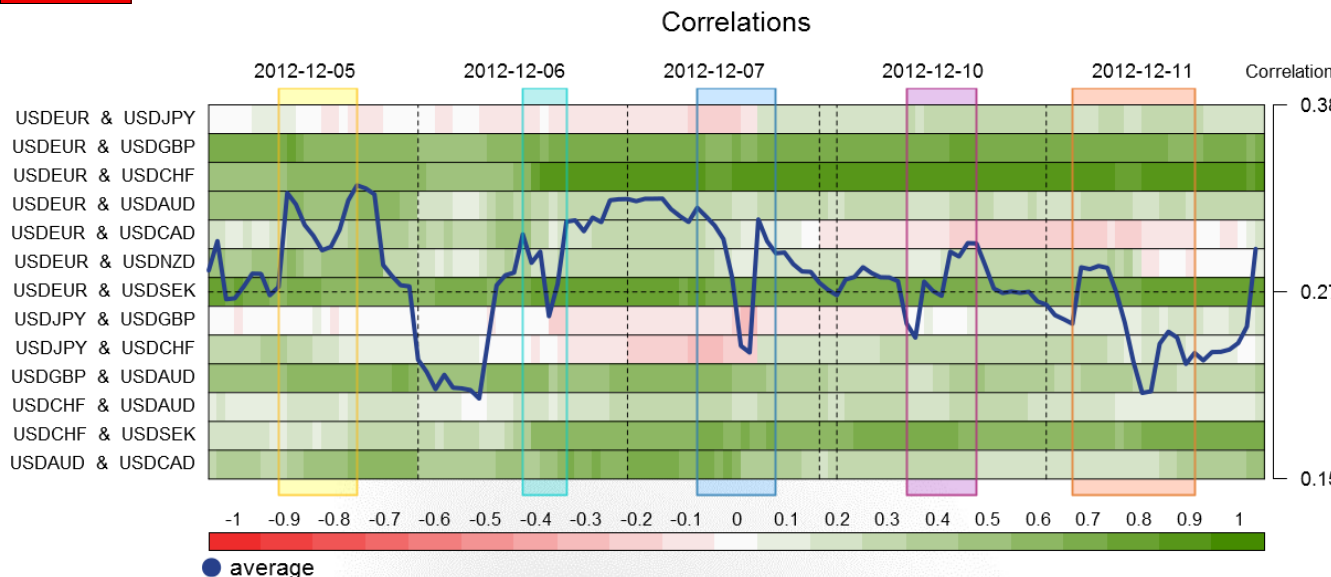
Market	EUR/ USD	USD/ JPY	GBP/ USD	AUD/ USD	USD/ CAD	USD/ CHF	EUR/ JPY	EUR/ GBP	EUR/ CHF	USD/ SEK	NZD/ USD
28	36	15	26	19	24	40	21	35	56	32	19

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	2.6	3.4	1.6	3.1	4.8	2.5	2.5	3	3.7	1.9	2.8
Min	0.4	0.3	0.3	0.2	0.4	0.3	0.3	0.2	0.3	0.3	0.3	0.4
Average	0.9	0.9	0.8	0.8	0.8	0.8	1	0.8	0.9	1.3	0.8	0.8



Currency Significance

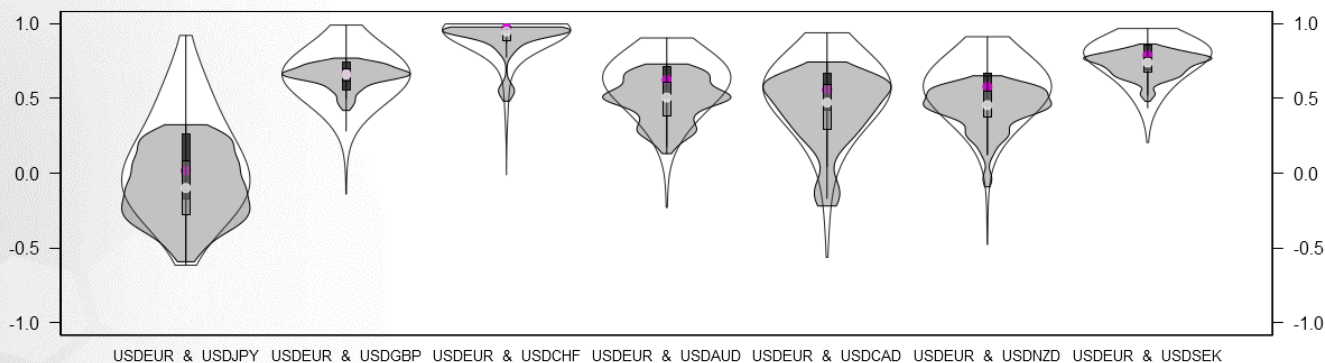


While the average correlation coefficient for the U.S. Dollar was unstable, it fluctuated within a 0.13 corridor with the centre at 0.27, meaning that despite a great deal of significant news released from Dec 5 to Dec 11 on the U.S. economy, importance of the U.S. Dollar was not a subject to noticeable changes and remained at low levels. This implies that the Dollar was not sensitive to the recent news, which could be explained by the uncertainty with respect to whether the FRS is planning to enhance asset purchase programme or not and this deters investors from actively responding for now.

Soon enough, when the FOMC reveals its intentions, then the market should have a better understanding of how to interpret subsequent news and thus will have more incentives to adjust exposure with each new update, behaviour which was not observed for more than last five days. This should eventually restore lately lost influence of the USD, i.e. increase correlations between its crosses.

Those interrelations that are least likely to change are USD/EUR & USD/GBP, USD/EUR & USD/CHF and USD/EUR & USD/SEK, since they are already strong and proved to be reliable over a period of at least 130 days.

Correlations (20 vs 130 days)

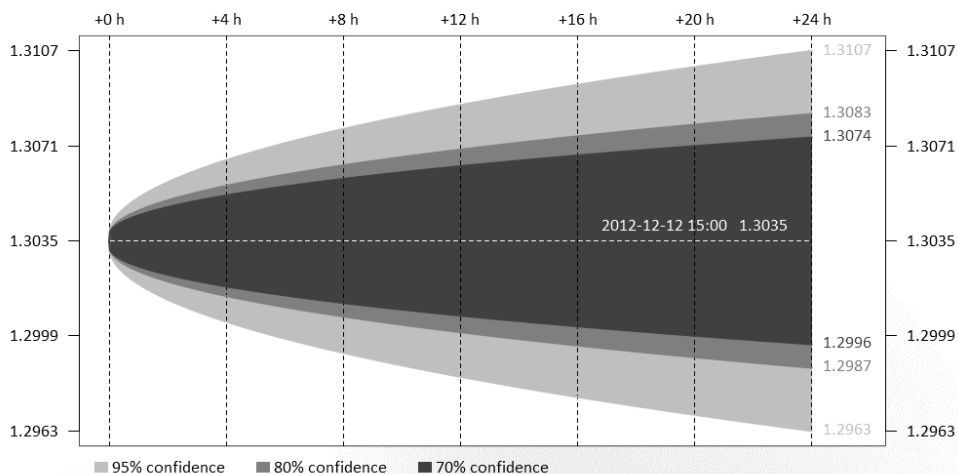


Mean Correlation Coefficient (with USDEUR)

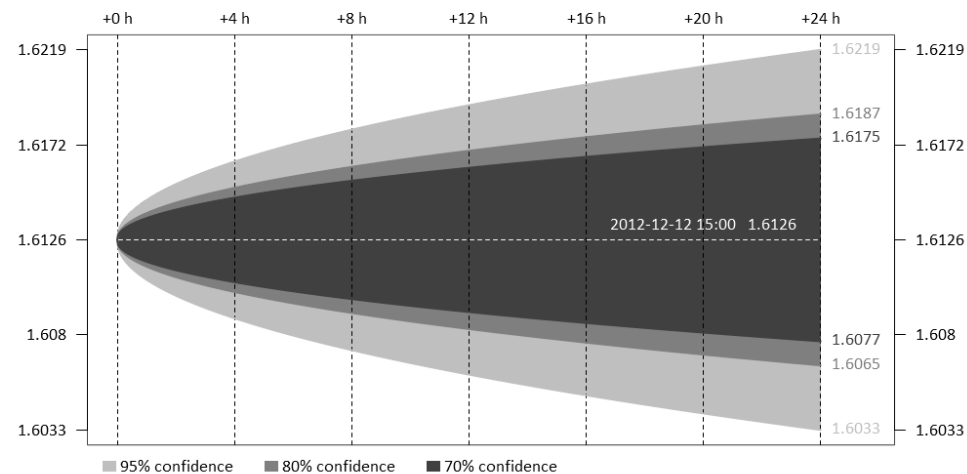
Days	USDJPY	USDGBP	USDCHF	USDAUD	USDCAD	USDNZD	USDSEK
5	0.1	0.67	0.84	0.27	0.06	0.2	0.71
20	-0.1	0.65	0.89	0.49	0.41	0.43	0.72
130	-0.05	0.64	0.94	0.58	0.5	0.52	0.68

Confidence Intervals for Next 24 Hours

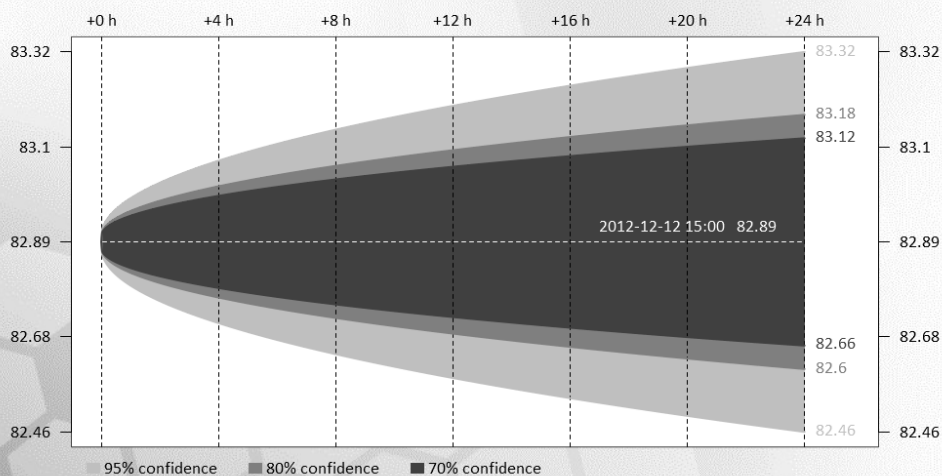
EURUSD Potential Rates



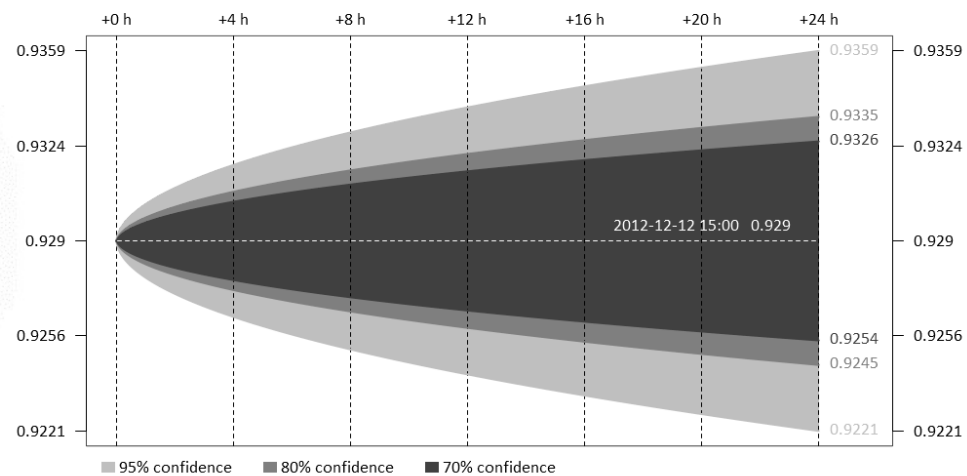
GBPUSD Potential Rates



USDJPY Potential Rates



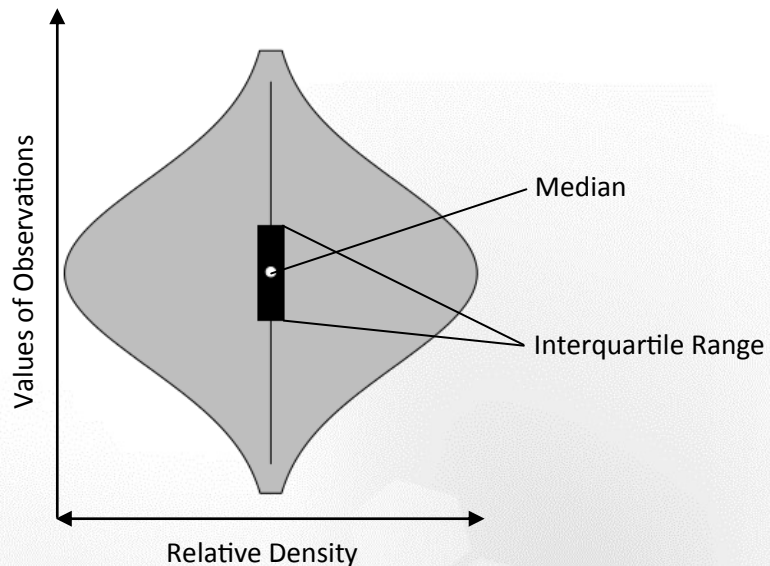
USDCHF Potential Rates



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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