



GBP

14/12/2012



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RESEARCH PRODUCTS



Market Research





Dominant Events for the British Pound

Yellow Area

December 7

07:00 - 17:00

- U.K. Manufacturing Production [[link](#)]
- U.S. Non-Farm Employment Change [[link](#)]
- U.S. Unemployment Rate [[link](#)]

Turquoise Area

December 10

07:00 - 16:00

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

Blue Area

December 11

08:00 - 16:00

- German ZEW Economic Sentiment [[link](#)]
- U.K. CB Leading Index [[link](#)]
- U.S. Trade Balance [[link](#)]

Purple Area

December 12

07:00 - 19:00

- U.K. Unemployment Rate [[link](#)]
- Eurozone Industrial Production [[link](#)]
- FOMC Statement [[link](#)]

Orange Area

December 13

05:00 - 18:00

- EU Economic Summit [[link](#)]
- S&P Lowers U.K. Credit Rating Outlook [[link](#)]
- U.S. Retail Sales [[link](#)]
- U.S. Unemployment Claims [[link](#)]

GBP Currency Index Range

0.18%

0.27%

0.15%

0.18%

0.24%

Average GBP/USD
Volatility Index

1.17

0.99

0.85

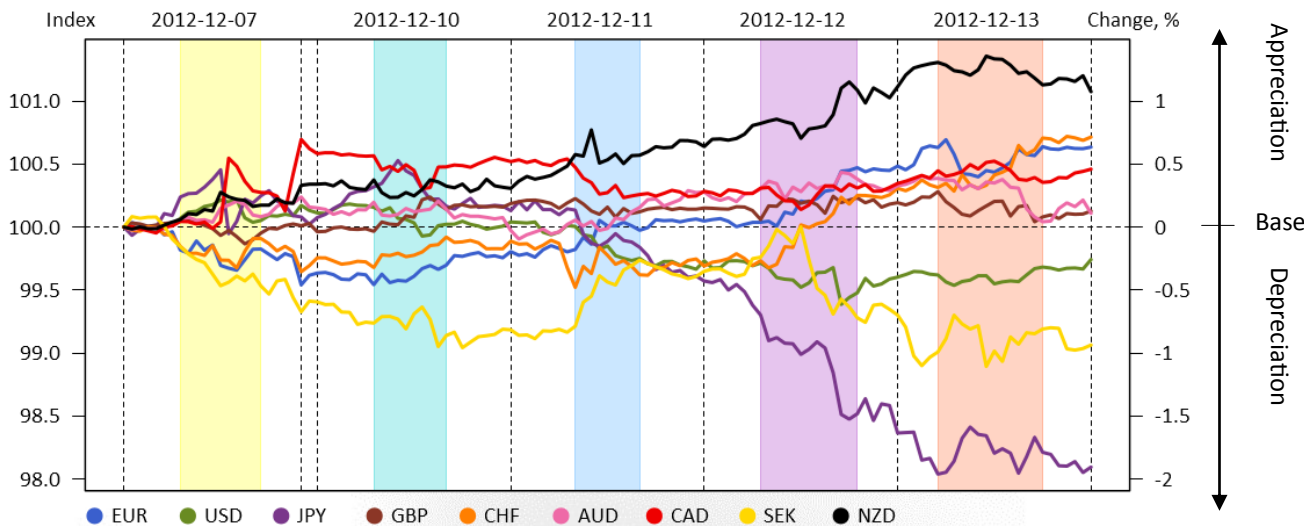
1.17

1.31



Relative Currency Strength

Currency Indices

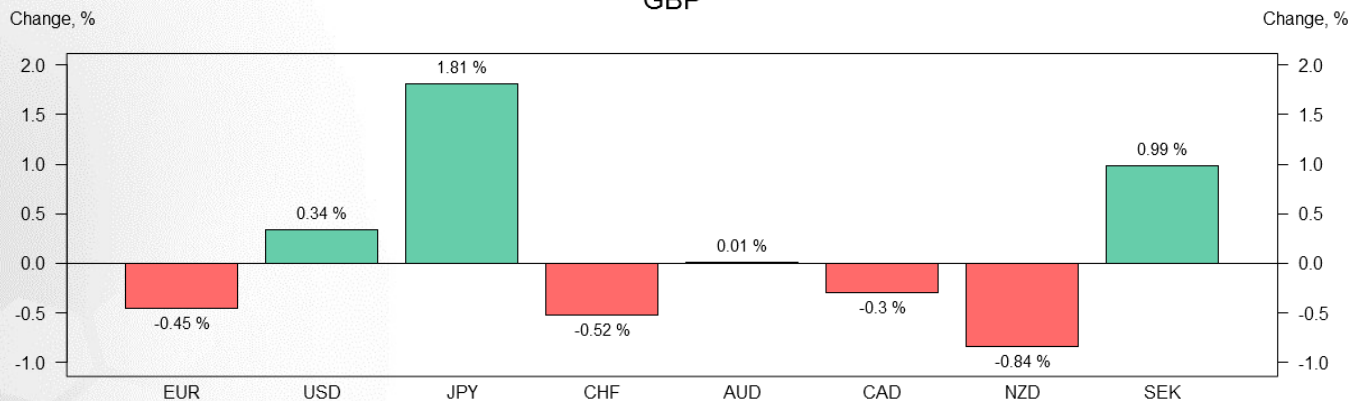


For now the value of the Great Britain Pound appears to be largely detached from all the permutations in the foreign exchange market. During the whole week the Sterling gained on average 0.13% and did not wander off more than 0.28% away from its base value, which in turn serves as an evidence of its overall neutrality, resulting in relative stability of the price and its resilience to all the events over the last five trading days. For a comparison, during the same time period the New Zealand Dollar index rallied more than 1% and the Japanese Yen index plunged nearly 2%.

Temporary immovability of the British Pound is best explained by a lack of news on the U.K. economy. Moreover, those data releases that took place recently did not show substantial to such extent deviations that would either considerably improve or worsen the already existing outlook, thus the necessity for the investors to alter their positioning was removed.

This current feature of the Sterling gives us a good opportunity to delineate effects of the events on specific currencies, since a 1.8% move in GBP/JPY to the most part should be attributed to debasement of the Japanese Yen rather than to increased demand for the Pound. Consequently, it makes identification of drivers in changes for GBP crosses more accurate.

GBP



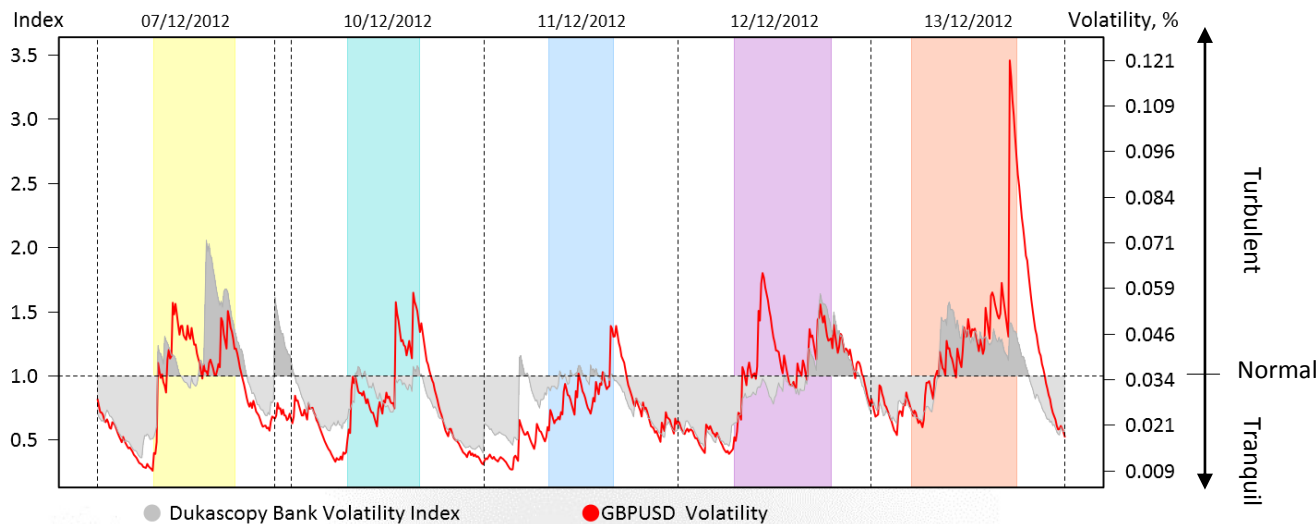
Currency Index Change

Days	EUR	USD	JPY	GBP	CHF	AUD	CAD	SEK	NZD
5	0.64%	-0.26%	-1.91%	0.13%	0.72%	0.11%	0.46%	-0.94%	1.07%
20	1.20%	-1.40%	-5.10%	0.33%	0.87%	0.54%	0.40%	0.00%	2.84%
130	0.68%	-3.18%	-9.11%	0.74%	0.03%	2.20%	1.11%	2.24%	5.03%



Volatility

Volatility



According to volatility demonstrated by GBP/USD, the Sterling, as predicated earlier, remained generally unaffected by the news, only slightly elevating its turbulence during the European session trading hours. During the time interval from Dec 7 until Dec 13 there was not even a single occasion when the distance covered by the currency pair over one sixth of an hour was two or more times larger than it was on average for the last 2,000 10-minute intervals.

Against the background of the usual behaviour of GBP/USD Dec 13 proved to be an outlier, as the measure of variability soared up to 3.5, just when S&P broke the informational silence by raising the chance of the United Kingdom being downgraded.

If this topic finds its continuation through the increased amount of mass media coverage the U.K. economy will receive in the future, it may put under danger present detachment of the Sterling and by that take away the mentioned benefits this situation provided in the past.

Furthermore, the next week will have more news on the well-being of the U.K. economy, such as MPC meeting minutes. The latest readings of consumer price index, retail sales and current account, all being coincident indicators, will also be announced, giving a better understanding of the current state of the economy and whether the decision of the credit rating agency was sufficiently justified.

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
31	37	23	36	16	25	39	29	39	40	40	16

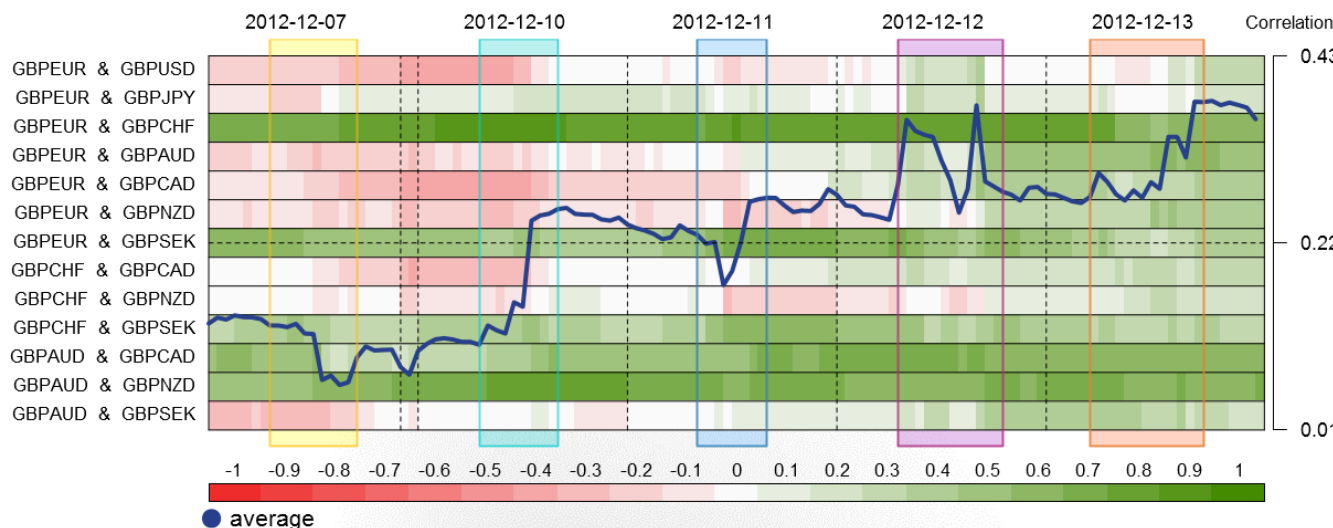
Volatility Index (for the observed period)

	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	3.5	2.1	4.8	2.5	2.5	3	3.1	2.3	2
Min	0.4	0.3	0.3	0.3	0.4	0.3	0.3	0.2	0.3	0.3	0.3	0.4
Average	0.9	0.9	0.9	0.9	0.8	0.9	0.9	0.9	0.9	1	0.9	0.8



Currency Significance

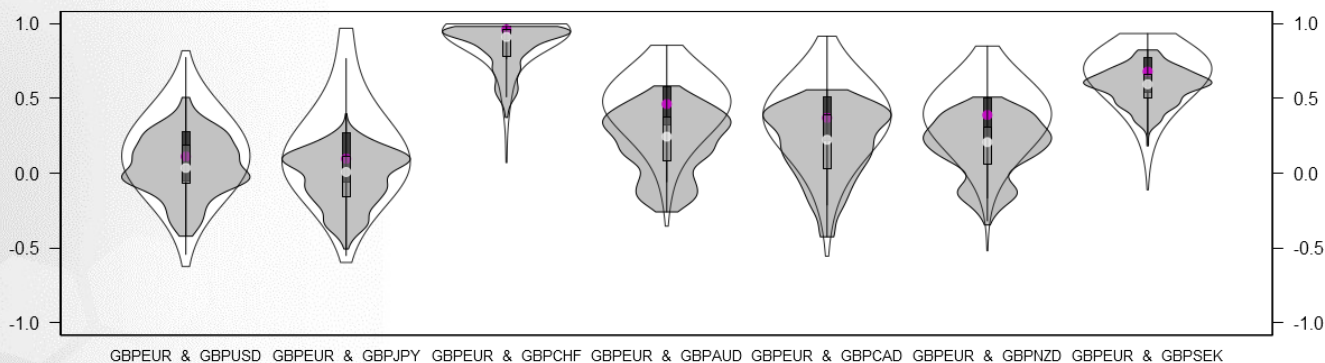
Correlations



Propensity of the average correlation coefficient to increase reinforces our view that the Sterling is starting to occupy a more significant position in the market and is exhibiting more influence on its major peers. The coefficient has already risen from 0.13 to 0.36 and has not yet reached its limit, as both means and medians of samples of 50-hour rolling correlation samples for a 130-day period are materially higher than the same statistics of smaller and more recent samples—for the last 5 and 20 days.

During the ending of the last week and the beginning of the current one many of the correlations between GBP crosses were negative, but are gradually becoming positive, even though they are still rather weak at the moment. A few exceptions are linkages of EUR/USD with GBP/CHF and GBP/SEK that stay strong and unsusceptible to changes despite the shift in the context of the market. While co-movement of the latter pair (GBP/USD and GBP/SEK) is observed in 55% of cases, GBP/USD and GBP/CHF are unidirectional 91% of the time, making presence of these two combinations in a portfolio undesirable, as potential benefits of diversification are lost in that case.

Correlations (20 vs 130 days)

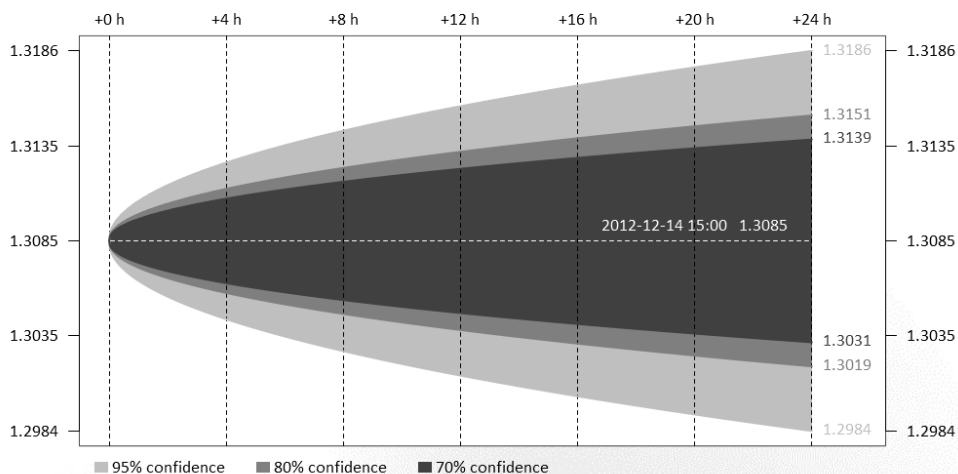


Mean Correlation Coefficient (with GBPUSD)

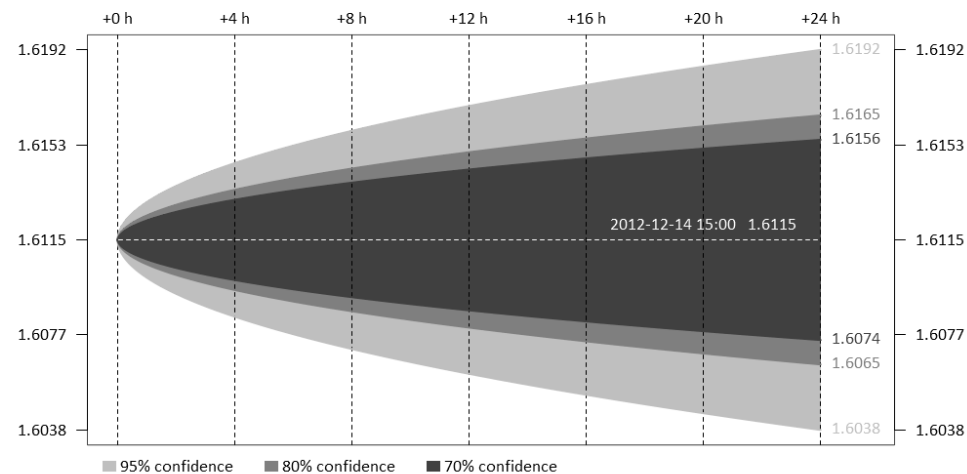
Days	GBPEUR	GBPJPY	GBPCHF	GBPAUD	GBPCAD	GBPNZD	GBPSEK
5	-0.03	0.13	0.79	0.17	0.05	0.02	0.49
20	0.05	-0.03	0.84	0.21	0.19	0.17	0.58
130	0.1	0.01	0.91	0.37	0.29	0.3	0.55

Confidence Intervals for Next 24 Hours

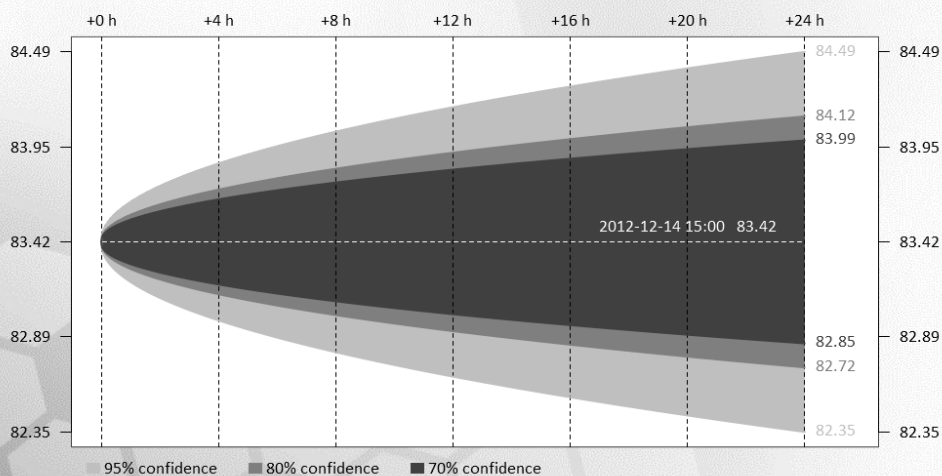
EURUSD Potential Rates



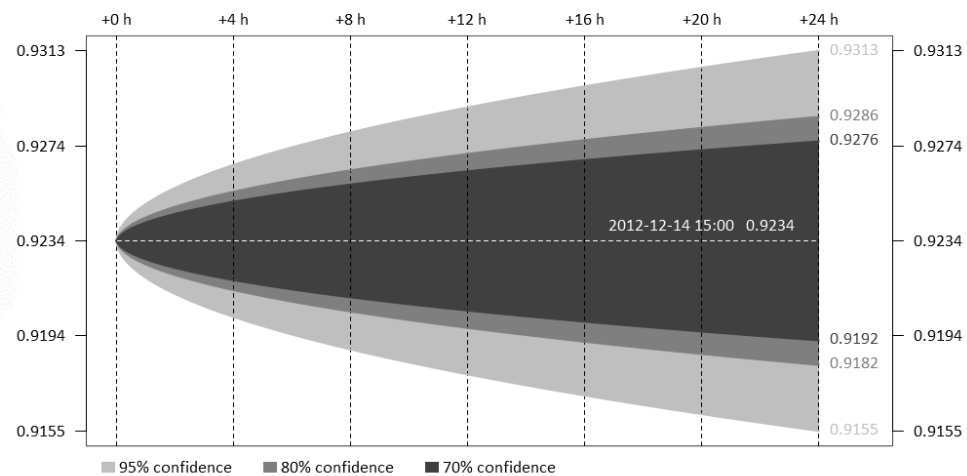
GBPUSD Potential Rates



USDJPY Potential Rates



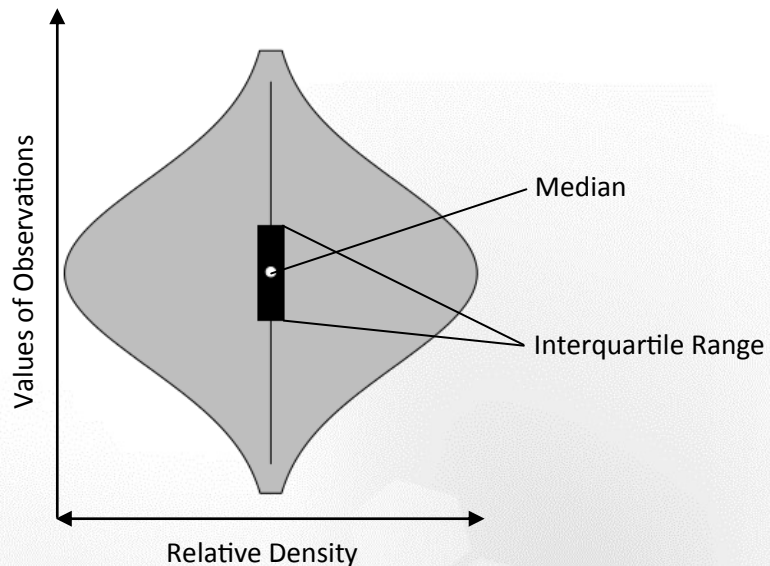
USDCHF Potential Rates



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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