



EUR

17/12/2012



DUKASCOPY
RESEARCH PRODUCTS



Market Research





Dominant Events for the Euro

Yellow Area

December 10

07:00 - 16:00

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

Turquoise Area

December 11

04:00 - 16:00

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

Blue Area

December 12

08:00 - 21:00

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

Purple Area

December 13

06:00 - 18:00

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

Orange Area

December 14

06:00 - 18:00

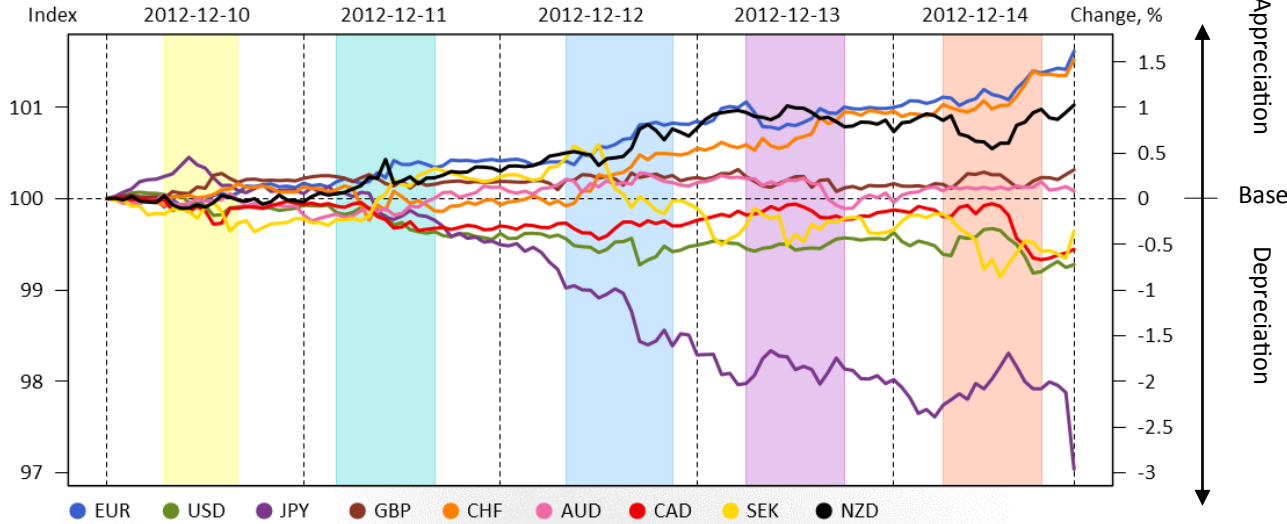
- Eurozone Manufacturing PMI [\[link\]](#)
- Eurozone CPI [\[link\]](#)
- U.S. CPI [\[link\]](#)

EUR Currency Index Range	0.16%	0.25%	0.46%	0.29%	0.38%
Average EUR/USD Volatility Index	1.02	1.1	1.01	1.37	1.42



Relative Currency Strength

Currency Indices

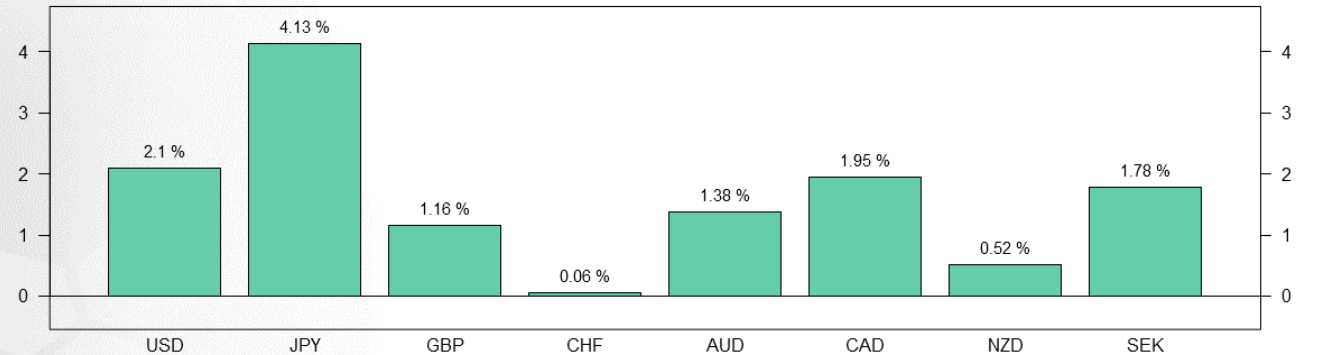


The single European currency has outperformed all of its major peers over the past week, on average rising by 1.62% across the board. With each new day the currency has been adding to gains regardless of the news published, as observed on Monday and Wednesday, when investor confidence and industrial production, respectively, in the bloc declined, but the Euro continued to increase in price despite apparently unfavourable data. Positive readings on manufacturing and services PMIs later on in turn accelerated appreciation of the EUR, while the outcome of the meeting of European leaders is deemed to be successful as well.

While Greece remains in relative safety and there are periodic reminders that some parts of the monetary union are still normally functioning and even improving (PMIs), the common currency is poised for a rally, even though GDP growth forecast for the next year has been lowered, which implies that previously held beliefs with respect to recovery of the Eurozone were overconfident and thus it should keep us wary of fragility of the up-trend we are currently observing.

Moreover, it may seem as if investors are now more confident and risk-seeking, whereas the sentiment is largely unchanged, but there are new variables added to the equation represented by the additional easing by the Fed and primarily the probable change of the approach to governing the Bank of Japan.

Change, %



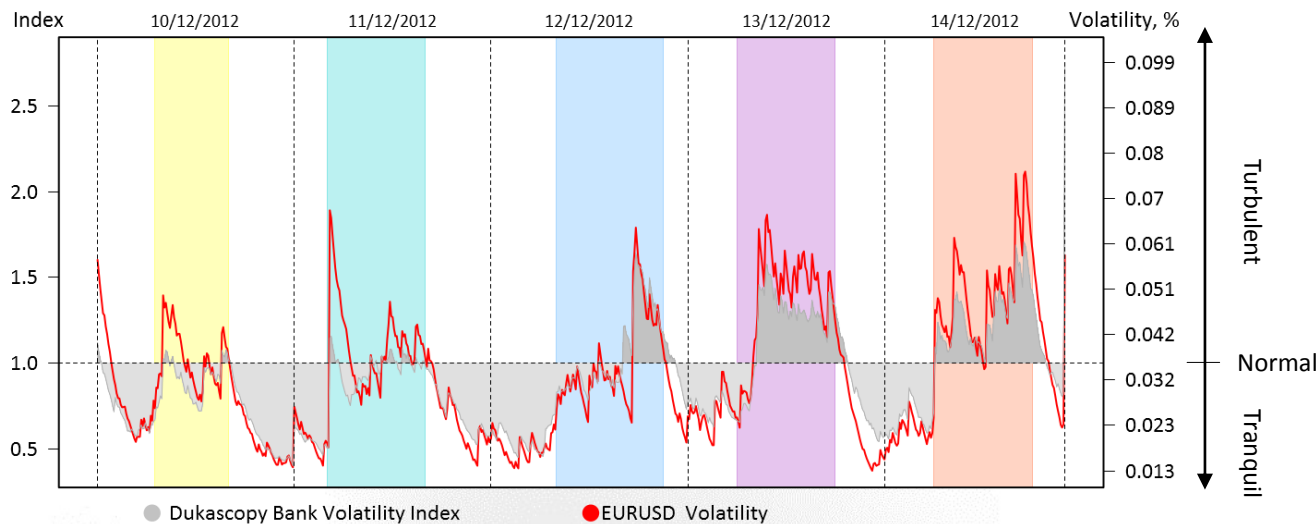
Currency Index Change

Days	EUR	USD	JPY	GBP	CHF	AUD	CAD	SEK	NZD
5	1.62%	-0.72%	-2.96%	0.32%	1.52%	0.08%	-0.55%	-0.35%	1.03%
20	1.90%	-1.80%	-5.63%	0.18%	1.58%	0.36%	-0.12%	0.40%	2.70%
130	1.61%	-2.96%	-10.56%	0.40%	0.92%	2.18%	1.13%	2.15%	4.92%



Volatility

Volatility



As evidenced by the volatility chart, EUR/USD volatility index was nearly the same as Dukascopy Bank Volatility Index throughout the last five trading days, thereby making the currency pair a good proxy of variability in the whole market. The former and the latter measures were 0.9 on average and stayed elevated for 38 and 34 per cent of the time, accordingly. The difference in the maximum (2.1 and 2.8) values was only due to the last observation on Friday, when the market started to demonstrate increased sensitivity to elections to the Lower House, results of which re expected to greatly alter policy of the Japanese central bank in near future.

Accordingly, the strongest response from the market is expected to appear once the promised by the leader of the victorious party measures will be in fact implemented in pursuit of reflation, namely an attempt to reach a formerly set inflation level at 1% and finally veer the struggling economy away from the deflationary spiral.

The changes, however, are unlikely to be announced as soon as in the next monetary policy assessment scheduled to be released on Dec 20. The government will be formed only on Dec 26, after which it will be engaged into shaping a more aggressive and energetic policy against lacklustre growth.

Elevated Volatility (% of the observed period)

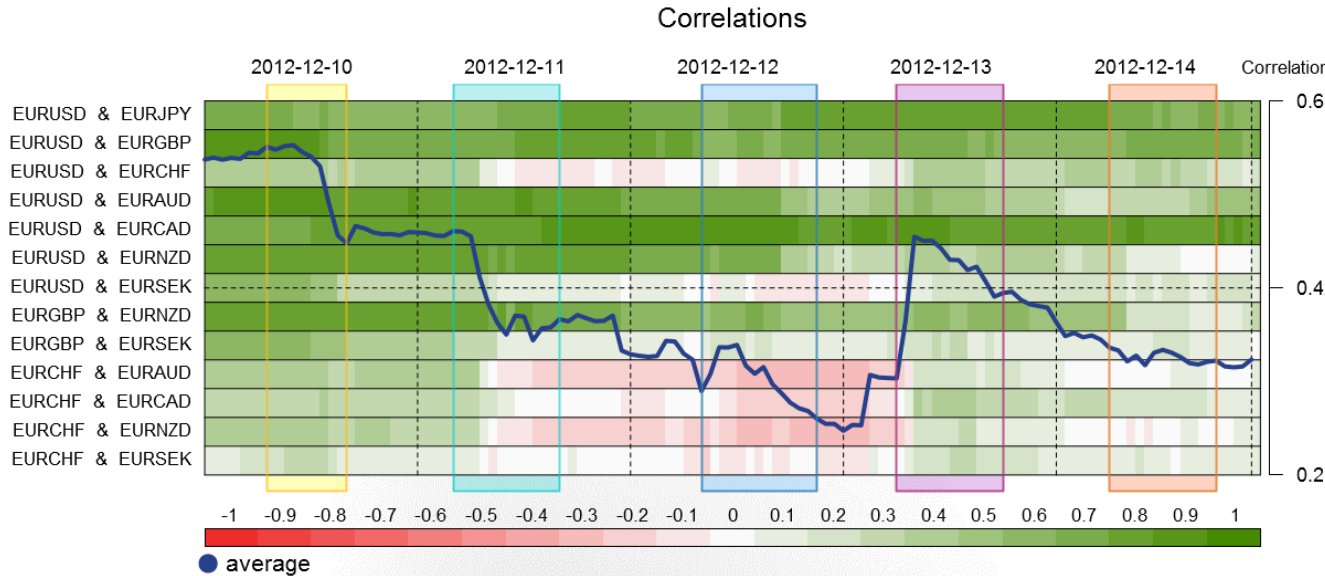
Market	EUR/ USD	USD/ JPY	GBP/ USD	AUD/ USD	USD/ CAD	USD/ CHF	EUR/ JPY	EUR/ GBP	EUR/ CHF	USD/ SEK	NZD/ USD
34	38	30	40	21	22	39	30	36	34	44	26

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	2.8	2.1	6.9	3.5	2.1	1.6	2.3	6.1	2.3	3.1	2.3	2.1
Min	0.4	0.4	0.4	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	0.8	0.9	0.9	0.9	1	1	0.9



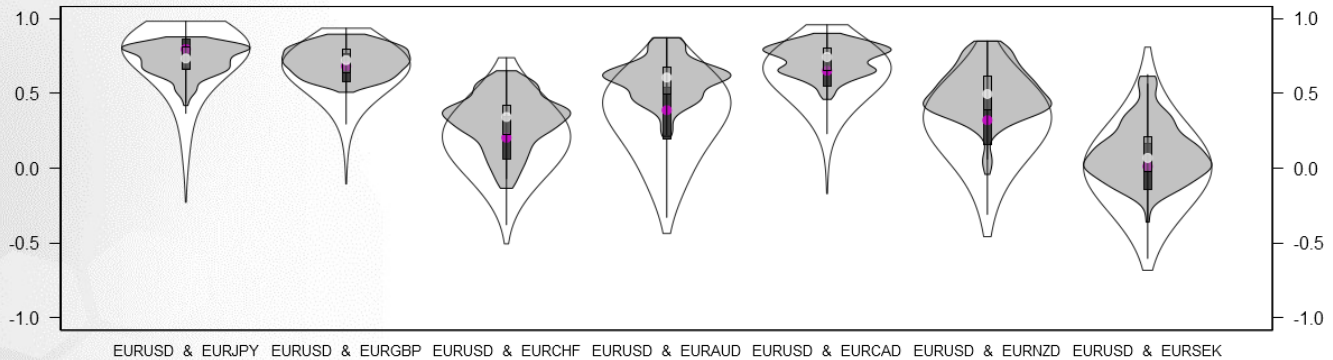
Currency Significance



The importance of the Euro as a driver in the foreign exchange market has substantially declined over the course of the week, as suggested by a dip of the average correlation coefficient, from 0.56 down to 0.34. At some point, on Dec 13, the coefficient started to move upwards amid unity of the region on the topic of making the European Central Bank a single supervisory entity of the largest financial institutions among the member states. Still, it was insufficient to reverse the overall trend and significance of the Euro continued to gradually melt.

Nevertheless, as it turns out, the average coefficient has been heightened relatively to its usual values and is returning back to normality, since most measures of central tendency for its constituents, namely median and mode, were above their usual levels this week. In this way interrelations of EUR/USD with EUR/AUD, EUR/CAD and EUR/NZD were stronger on average if we compare samples for the last 5 and 130 days. A similar picture is observed when we collate samples for the last 20 and 130 days. Consequently, there are no notable changes expected from the last observation during the next week.

Correlations (20 vs 130 days)

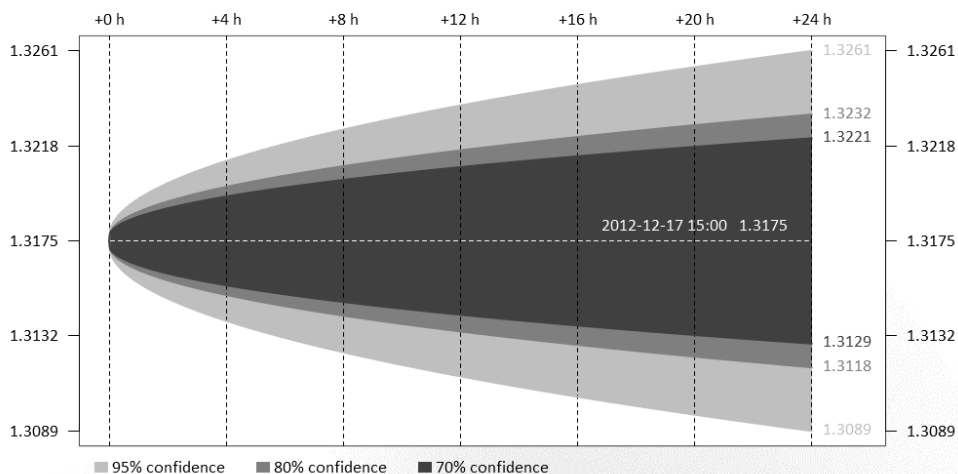


Average Correlation Coefficient (with EURUSD)

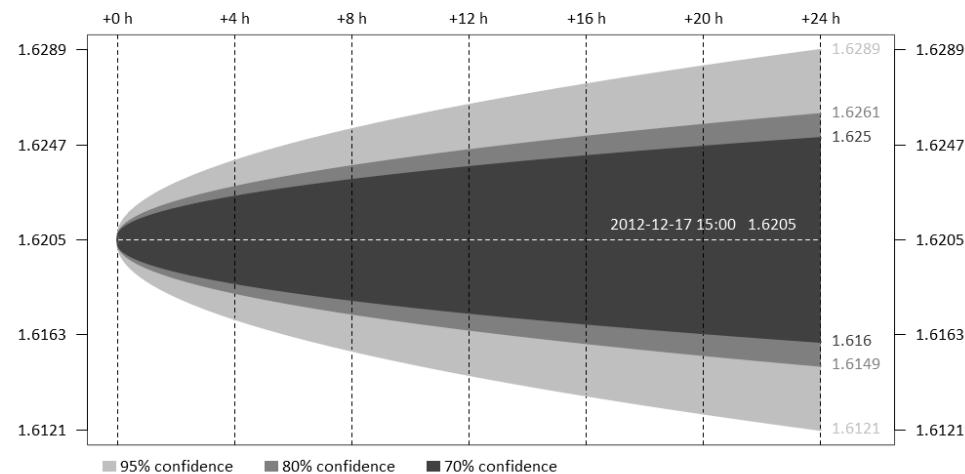
Days	EURJPY	EURGBP	EURCHF	EURAUD	EURCAD	EURNZD	EURSEK
5	0.71	0.71	0.2	0.62	0.82	0.53	0.18
20	0.73	0.72	0.31	0.59	0.73	0.51	0.1
130	0.76	0.67	0.25	0.43	0.66	0.36	0.12

Confidence Intervals for Next 24 Hours

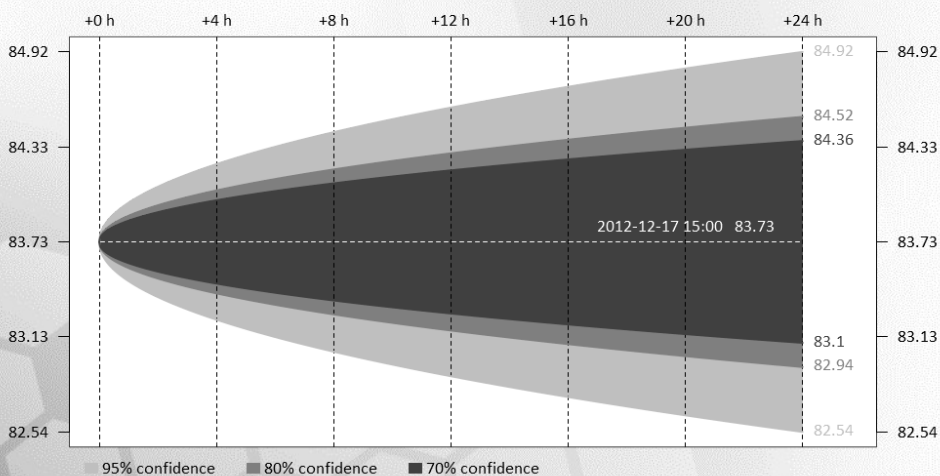
EURUSD Potential Rates



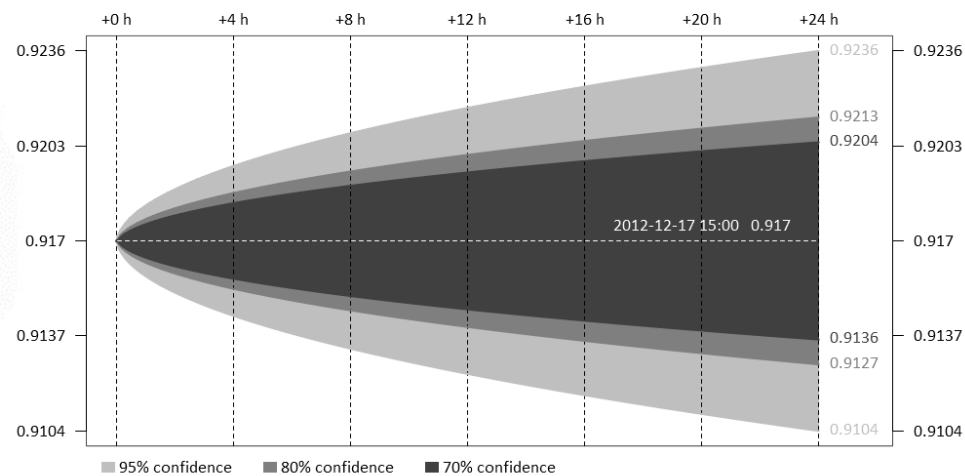
GBPUSD Potential Rates



USDJPY Potential Rates



USDCHF Potential Rates



EXPLANATIONS

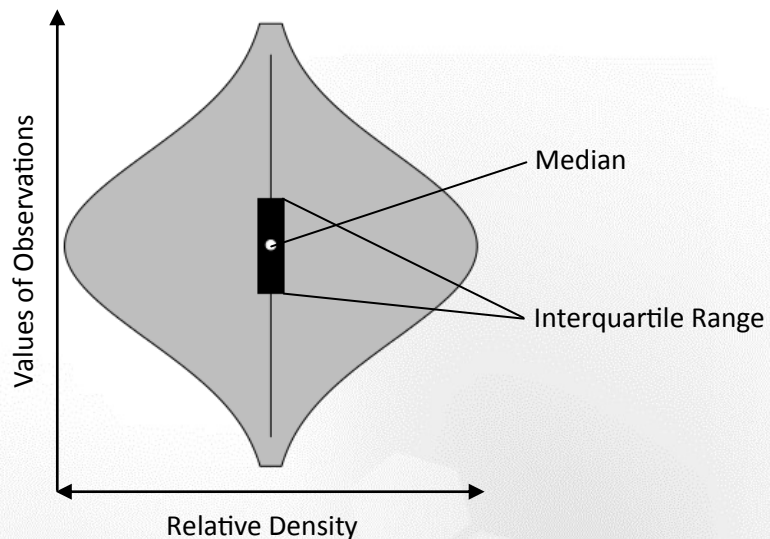
Violin Plot

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

Methodologies

Volatility Index

Confidence Interval





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