



USD

19/12/2012



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Market Research





Dominant Events for the U.S. Dollar

Yellow Area

December 12

15:00 - 20:00

- U.S. Crude Oil Inventories [[link](#)]
- FOMC Statement [[link](#)]

Turquoise Area

December 13

07:00 - 18:00

- EU Economic Summit [[link](#)]
- U.S. PPI [[link](#)]
- U.S. Retail Sales [[link](#)]
- U.S. Unemployment Claims [[link](#)]

Blue Area

December 14 07:00 -

December 16 23:00

- Eurozone CPI [[link](#)]
- U.S. CPI [[link](#)]
- U.S. Industrial Production [[link](#)]
- Elections to the Lower House of Parliament in Japan [[link](#)]

Purple Area

December 17

06:00 - 16:00

- Eurozone Trade Balance [[link](#)]
- U.S. Empire State manufacturing Index [[link](#)]

Orange Area

December 18

07:00 - 17:00

- U.K. CPI [[link](#)]
- U.S. Current Account [[link](#)]

USD Currency Index Range

0.29%

0.15%

0.49%

0.26%

0.24%

Average EUR/USD Volatility Index

1.16

1.42

1.39

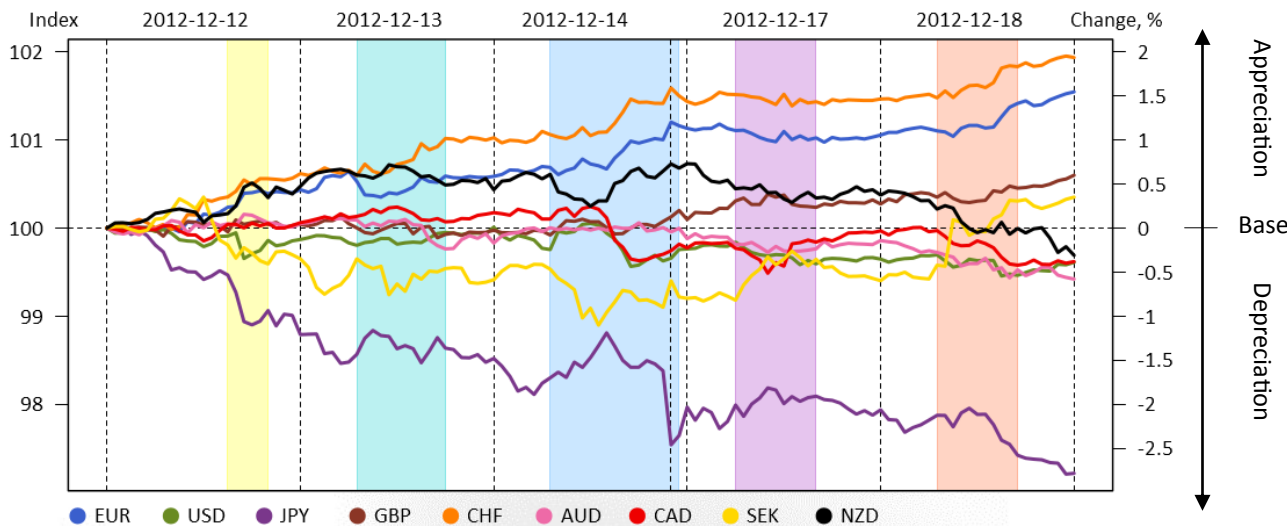
0.88

0.81



Relative Currency Strength

Currency Indices

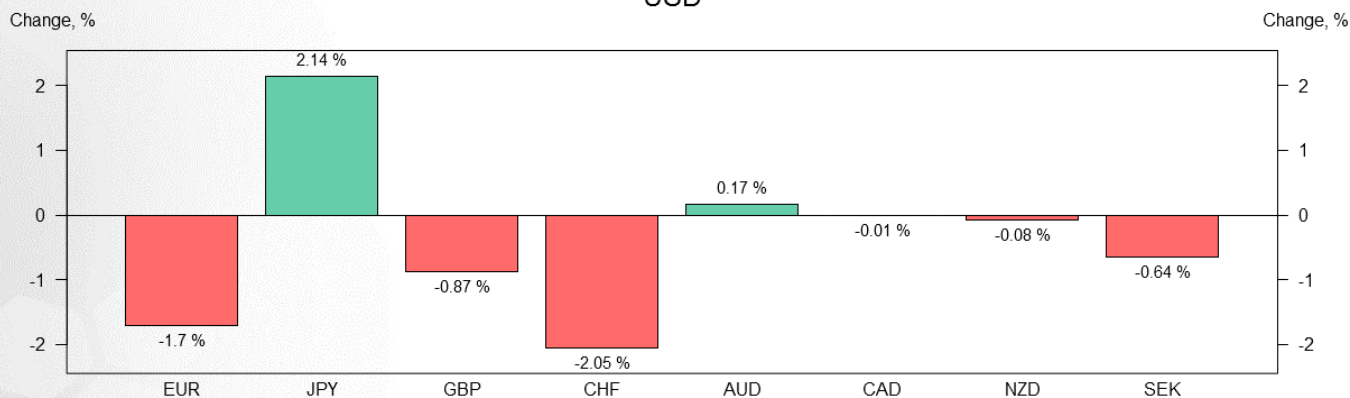


The value of the U.S. Dollar largely remained relatively stable throughout the last five trading days, as its currency index lost only 0.39%. Even the statement of the Federal Open Market Committee did not introduce any notable changes on Dec 12, meaning that action of the U.S. central bank did not anyhow surprise the market and thus was widely anticipated. On the other hand, news outside the United States, such as Eurozone industrial production, U.K inflation and parliamentary elections in Japan, elicited an even weaker response from the greenback, which thereby appears to be isolated from external influence.

The only data that managed to weigh on the Dollar was consumer price index, decrease of which may unleash additional stimulus, since the Fed has one issue less to be concerned about. Furthermore, it is actually likely to prompt a looser monetary policy than it is at the moment, as Japan's struggle with deflation is a prominent example how dangerous the falling prices may be to the well-being of the economy.

The only two major currencies the U.S. Dollar outperformed were the Japanese Yen and Australian Dollar, which retreated 2.14 and 0.17 per cent relatively to it, respectively. The reason of such results primarily lies in victory of the party in Japan that favours more decisive actions in order to rekindle economic activity in the country, using every available tool.

USD



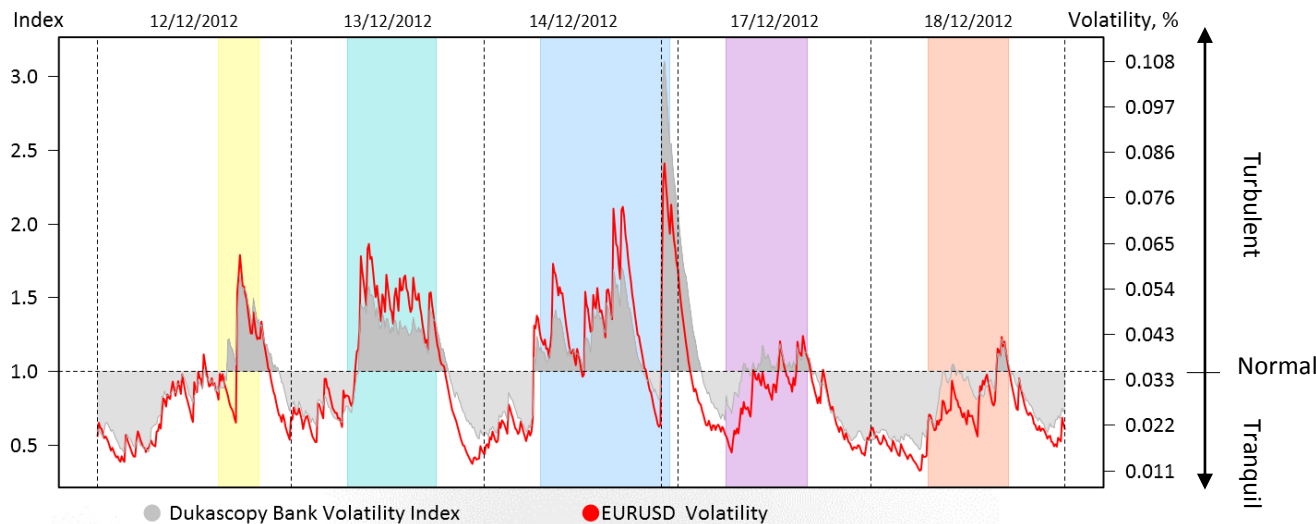
Currency Index Change

Days	EUR	USD	JPY	GBP	CHF	AUD	CAD	SEK	NZD
5	1.55%	-0.39%	-2.78%	0.60%	1.93%	-0.58%	-0.38%	0.35%	-0.31%
20	2.03%	-1.61%	-5.20%	0.70%	1.70%	-0.16%	-0.39%	1.11%	1.51%
130	2.04%	-2.64%	-10.07%	1.05%	1.34%	0.82%	0.89%	3.29%	2.99%



Volatility

Volatility



As we usually observe, turbulence of the market is strongly skewed towards the second part of the week, while Mondays and Tuesdays are calm as an eye of a storm, thus being somewhat deceiving, lulling attention of market participants.

Over the studied period the greatest variability was noted right after the weekend because of wide gaps in a few currency pairs. USD/JPY for example, opened 80 pips higher late Sunday than its close price on Friday. Prior to that U.S. unemployment claims, retail sales, consumer prices, U.K. inflation and some of the other news kept investor on their toes, as DBVI constantly exceeded a level of 1.5 from Dec 12 to Dec 14.

The currencies most susceptible to changes were JPY crosses. USD/JPY and EUR/JPY volatility indices soared as high as 7 and 6.4, accordingly, well above any of the achievements of the rest currency pairs. The highest value reached by DBVI was 3.1, whereas volatility index of the cable was maximally 3.5.

However, USD/JPY and EUR/JPY were not as frequently turbulent as GBP/USD and USD/SEK, which in turn exceeded the historical pace of change in more than 45% of cases since Dec 12. The same indicator for the market was 39%, while the least changeable pair, according to both measures, proved to be USD/CAD.

Elevated Volatility (% of the observed period)

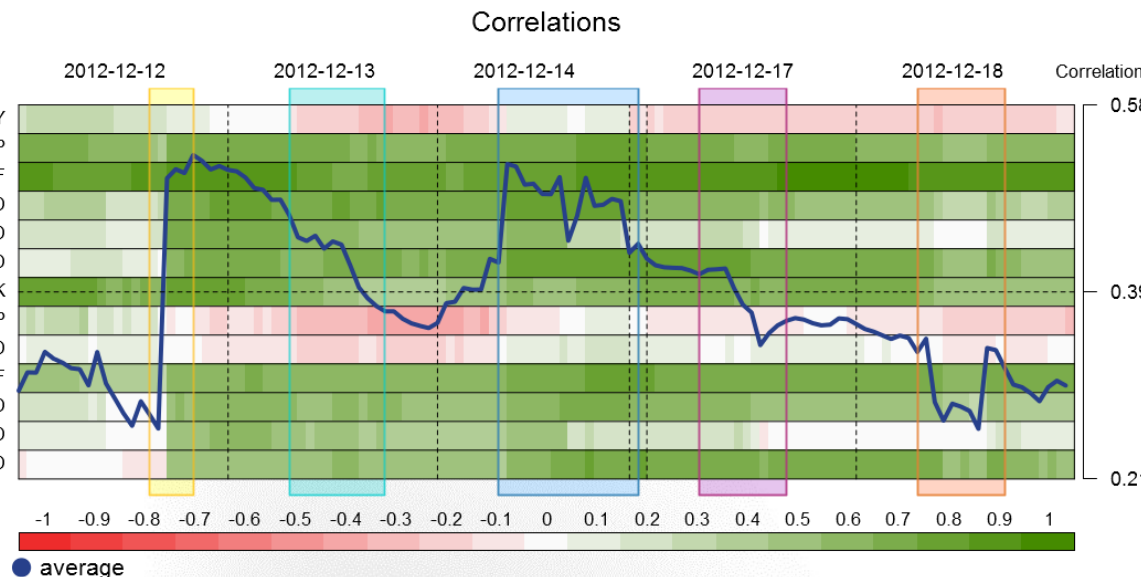
Market	EUR/ USD	USD/ JPY	GBP/ USD	AUD/ USD	USD/ CAD	USD/ CHF	EUR/ JPY	EUR/ GBP	EUR/ CHF	USD/ SEK	NZD/ USD	
	39	31	41	45	35	24	38	39	36	27	48	37

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	3.1	2.4	7	3.5	2.6	1.9	2.3	6.4	2.3	2.5	2.3	2.1
Min	0.4	0.3	0.3	0.4	0.4	0.2	0.3	0.3	0.3	0.3	0.3	0.4
Average	1	0.9	1.1	1	0.9	0.8	0.9	1	0.9	0.9	1	1



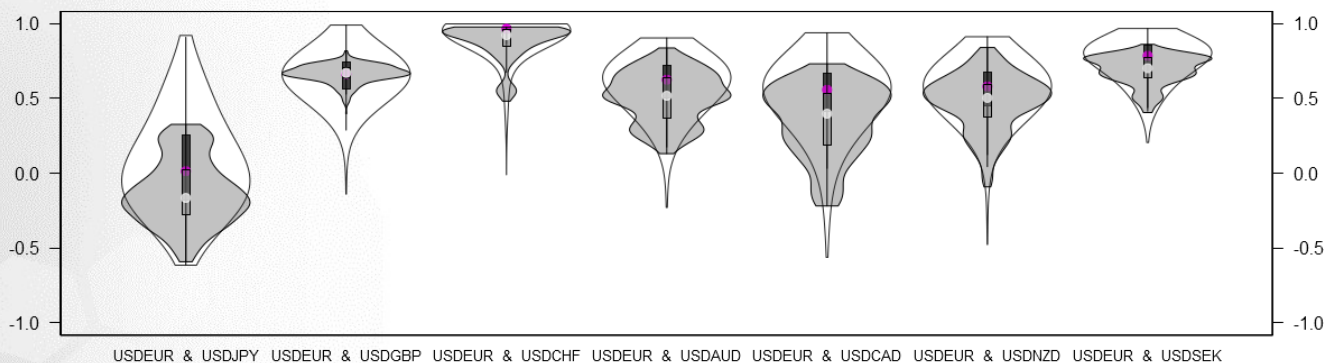
Currency Significance



Two main conclusions may be derived from values of 50-hour rolling correlations for the period from Dec 12 to Dec 18 presented in the figure to the left. Firstly, the U.S. Dollar stays one of the major forces in the FX market, regardless of the fact that its significance has diminished lately—the average correlation coefficient is beneath 0.4 for the most part of the time. This is demonstrated by a surge of the average coefficient from 0.26 up to 0.51 on publication of the FOMC statement last Wednesday. Releases on Friday had a similar effect on importance of the buck, lifting it up.

Secondly, influence of the Dollar is inferior to the influence exhibited by the Japanese Yen, which in fact remains the leading driver of changes in the exchange rates. As we see, most of correlations between USD crosses strengthened instantly at 5 pm GMT on Dec 12, while the only ones to turn negative at that time were USD/EUR with USD/JPY, USD/GBP with USD/JPY and other currency pairs with USD/JPY. This means that direction of USD/JPY does not coincide with the general direction of the rest of USD crosses, as the Yen appears to be more responsive to world events than the Dollar, while the latter is only catching up, even if the news directly relate to the United States.

Correlations (20 vs 130 days)

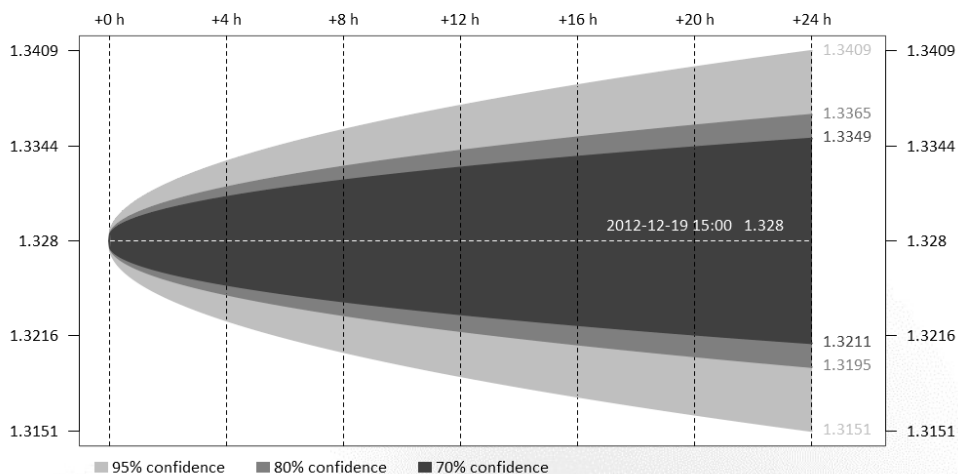


Mean Correlation Coefficient (with USDEUR)

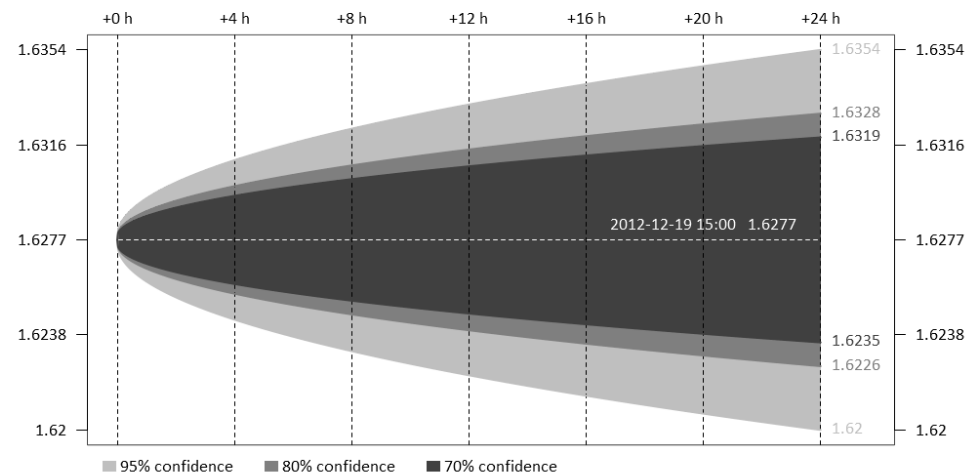
Days	USDJPY	USDGBP	USDCHF	USDAUD	USDCAD	USDNZD	USDSEK
5	-0.15	0.67	0.87	0.62	0.32	0.68	0.57
20	-0.13	0.66	0.87	0.51	0.35	0.47	0.69
130	-0.05	0.65	0.93	0.58	0.49	0.52	0.67

Confidence Intervals for Next 24 Hours

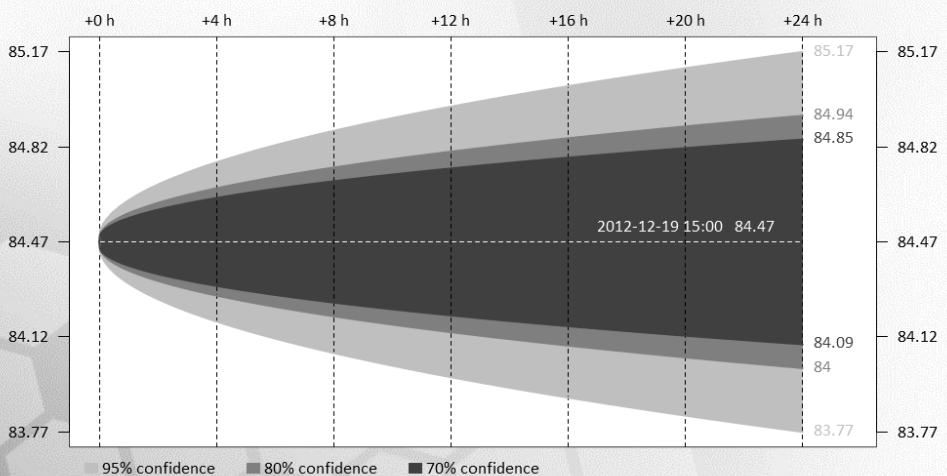
EURUSD Potential Rates



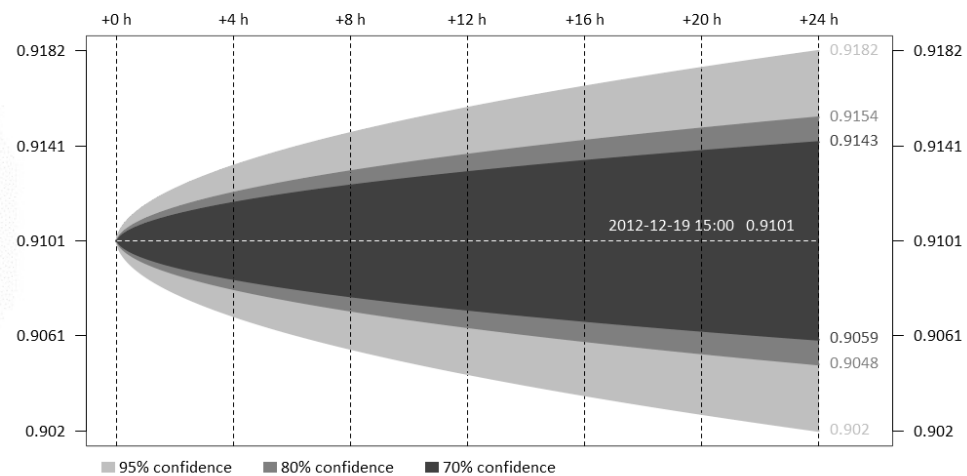
GBPUSD Potential Rates



USDJPY Potential Rates



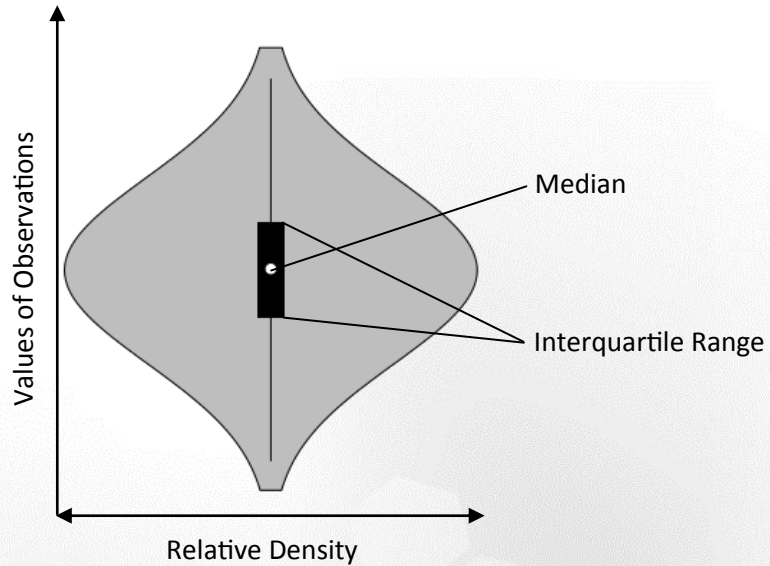
USDCHF Potential Rates



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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