

JPY

21/12/2012



DUKASCOPY
RESEARCH PRODUCTS



Market Research





Dominant Events for the Japanese Yen

Yellow Area

December 14 13:00 -

December 16 23:00

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

Turquoise Area

December 17

04:00 - 11:00

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

Blue Area

December 18

13:00 - 23:00

- U.S. Current Account [[link](#)]
- Japanese Trade Balance [[link](#)]

Purple Area

December 19

13:00 - 23:00

- U.S. Building Permits [[link](#)]
- New Zealand GDP [[link](#)]

Orange Area

December 20

04:00 - 18:00

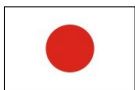
- BoJ Monetary Policy Statement [[link](#)]
- U.S. Unemployment Claims [[link](#)]
- U.S. GDP [[link](#)]

JPY Currency Index Range

1.27%	0.46%	0.68%	0.95%	0.74%
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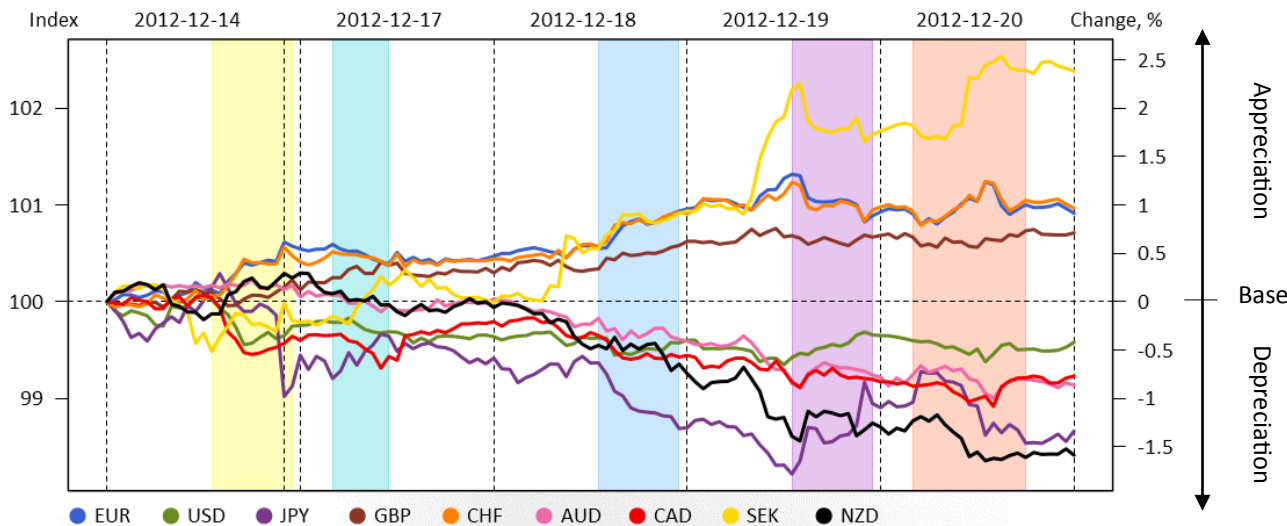
Average USD/JPY Volatility Index

1.89	1.12	0.74	1.03	1.09
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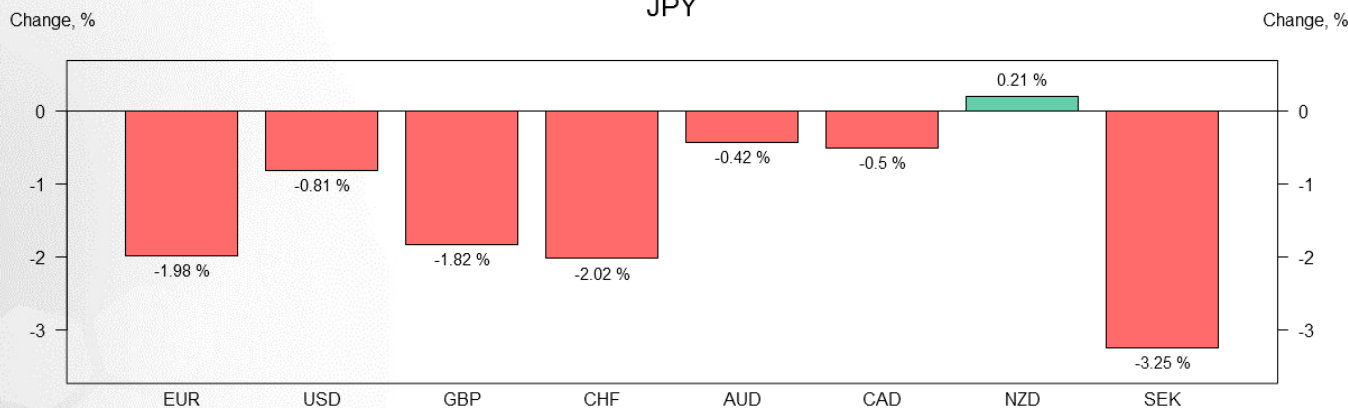
Relative Currency Strength

Currency Indices



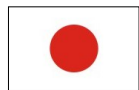
Losing streak of the Japanese Yen continues. This time the currency has depreciated 1.34% during the last five days, since Dec 14. However, Yen's debasement was more tepid than one would expect bearing in mind words of Shinzo Abe, the leader of the Liberal Democratic Party, who advocates unlimited asset purchases and has convinced the market that changes associated with such approach will be implemented as soon as possible. A 1.27% move of the currency index on Friday demonstrated anticipation of more easing associated with Abe's party victory, though subsequent behaviour was not univocal and some JPY crosses underwent notable corrections.

Not only the Japanese Yen slowed its pace of depreciation, it has even increased in value relatively to the kiwi, since a continuous flow of negative data related to the Asia and Pacific overall and New Zealand in particular leaves a negative impression of the well-being of the region's economy. All of the other studied currencies, on the other hand, stepped higher at the expense of the Yen. The gains varied from 0.42% by the Australian Dollar to 3.25% by the Swedish Krona. The latter was pushed upwards despite the Riksbank lowering the key interest rate, as Sweden central bank's unwillingness to carry on with cuts in the future was explicit and triggered a short squeeze.



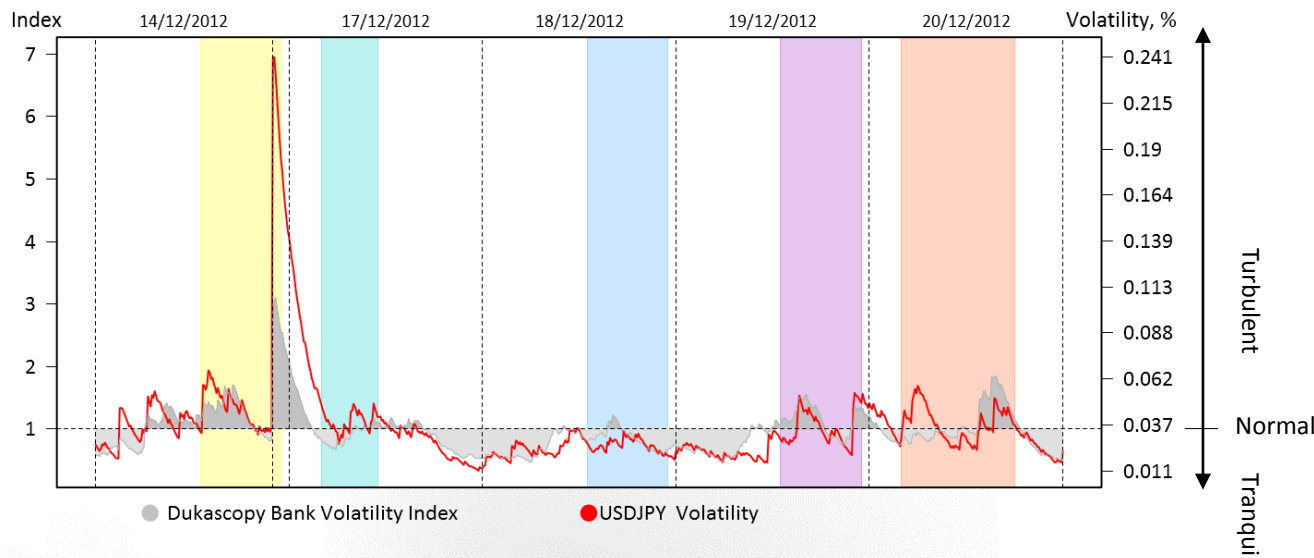
Currency Index Change

Days	EUR	USD	JPY	GBP	CHF	AUD	CAD	SEK	NZD
5	0.91%	-0.42%	-1.34%	0.71%	0.97%	-0.86%	-0.77%	2.38%	-1.59%
20	1.58%	-1.39%	-4.39%	0.89%	1.30%	-0.41%	-0.25%	1.34%	0.99%
130	2.10%	-3.81%	-9.50%	0.91%	1.50%	0.78%	0.69%	4.51%	2.45%



Volatility

Volatility



Judging by the Dukascopy Bank and USD/JPY volatility indices, the most prominent and uncontested in this sense event during the analysed period took place during the weekend, and these were parliamentary elections in Japan. The fact that DBVI surged up to 3.1 and USD/JPY changed 7 times more than it usually does greatly distinguishes this happening from the rest of news released lately. EUR/JPY has also appeared as one of the most volatile currency pairs, as many of JPY crosses, being that its measure of variability was as high as 6.4, while the volatility index of the third most turbulent currency pair was maximally 2.7.

In light of the coming holidays there is a decreased probability of such turbulence being carried into the next week. U.S. employment data will be still published next Thursday, but no significant deviations are expected from the previous readings, leaving the market more or less calm. Moreover, even if the estimates are missed by a large margin, the reaction will be expressed to a much lesser extent.

On a related note, soon we will be able to observe whether a recurring calendar market anomaly, specifically a January effect, holds. It is believed that financial assets tend to outperform during the first month of a new year, which is contrary to a popular hypothesis of market efficiency. Similarly, December is known to be a month of poor securities' performance.

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	36	38	36	37	22	40	40	36	16	47

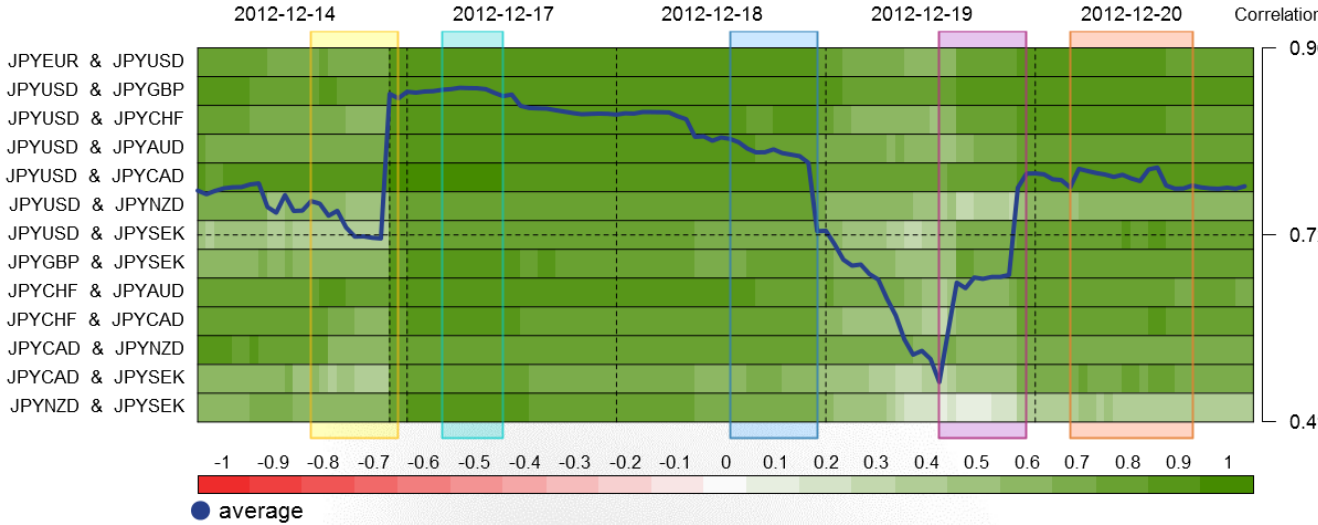
Volatility Index (for the observed period)

	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	2.7	7	2.5	2.6	1.9	2.7	6.4	2.4	1.8	2.7
Min		0.5	0.3	0.3	0.4	0.5	0.2	0.3	0.3	0.4	0.2	0.4
Average		1	0.9	1	0.9	1	0.8	1	1	0.9	0.7	1



Currency Significance

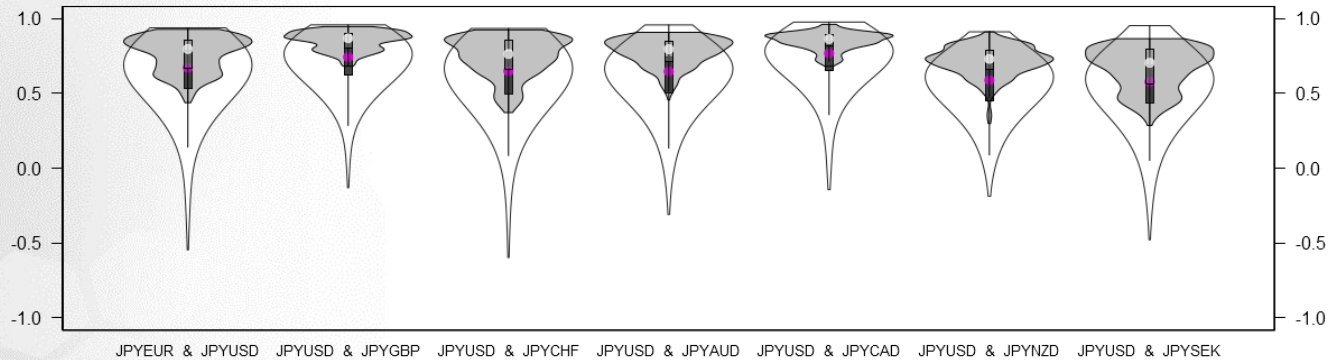
Correlations



By employing the average correlation coefficient curve as an indicator of a currency's significance level, we can discern four distinct periods based upon the difference of Yen's influence on exchange rates—two intervals of decreased Yen's importance (one ended along with the Yellow Area and the other appeared to be between Blue and Orange Areas) and two intervals of increased Yen's importance (one between Turquoise and Blue Areas and the second one started right after the Purple Area). However, regardless of the average coefficient falling during the former two mentioned periods, the Yen remains the main determinant of major changes in the market.

Comparison of 5-, 20- and 130-day samples of 50-hour rolling correlations revealed a notable gap between points of estimates of central tendency measures, which seem to rise over the course of time. Nevertheless, this phenomenon should be attributed to intensification of power change issue in Japan that has grabbed attention of the market participants, as election promises of Shinzo Abe implied complete reshaping of the current monetary policy of the Bank of Japan, starting with setting new, more aggressive targets for inflation, from 1% to up to 3%. The government should be formed on Dec 26, the date after which the made commitments should start to materialise. Otherwise, pressure of Yen's high cost on the Japanese exporters will resume with new vigour.

Correlations (20 vs 130 days)

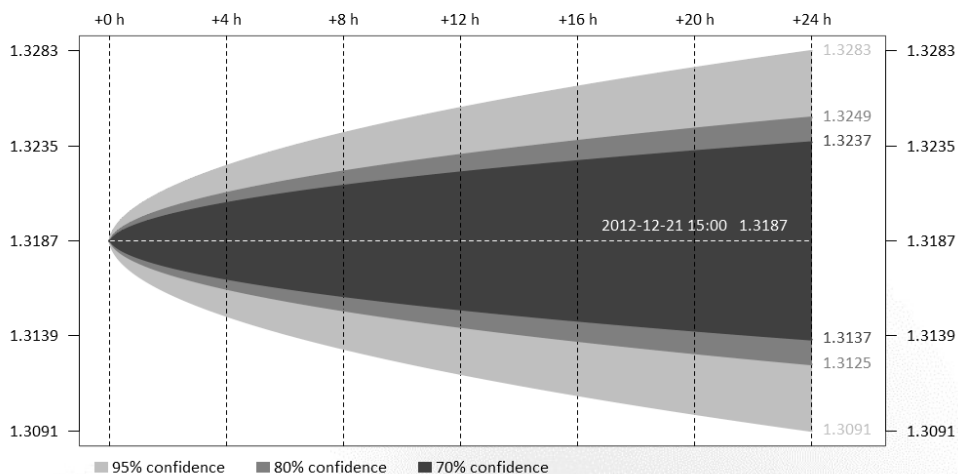


Average Correlation Coefficient (with JPYUSD)

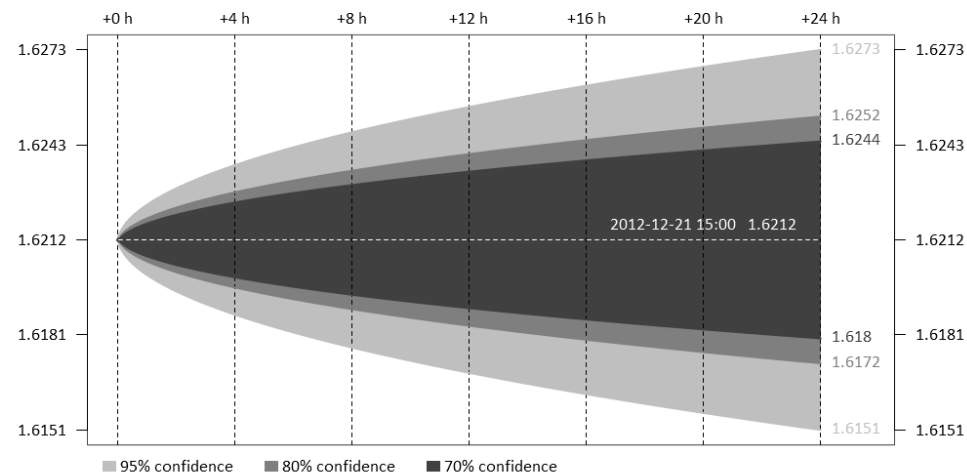
Days	JPYEUR	JPYGBP	JPYCHF	JPYAUD	JPYCAD	JPYNZD	JPYSEK
5	0.85	0.91	0.84	0.81	0.89	0.68	0.74
20	0.76	0.85	0.74	0.78	0.85	0.71	0.67
130	0.65	0.72	0.65	0.64	0.75	0.58	0.56

Confidence Intervals for Next 24 Hours

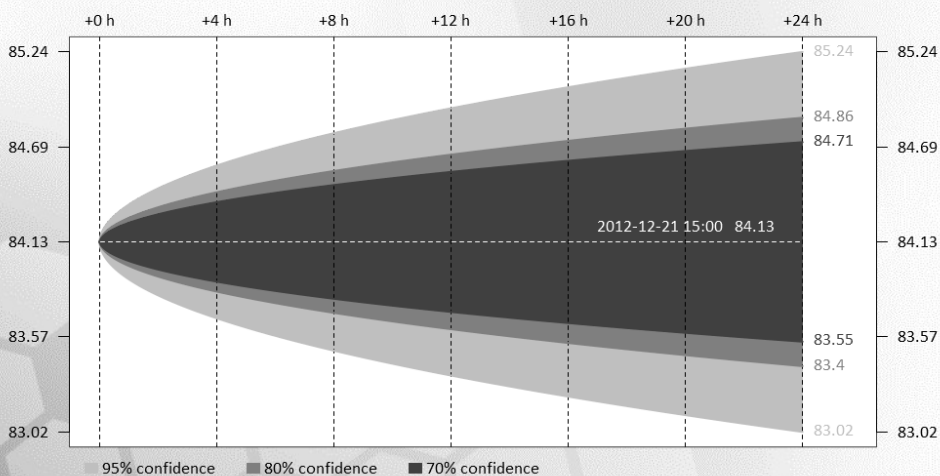
EURUSD Potential Rates



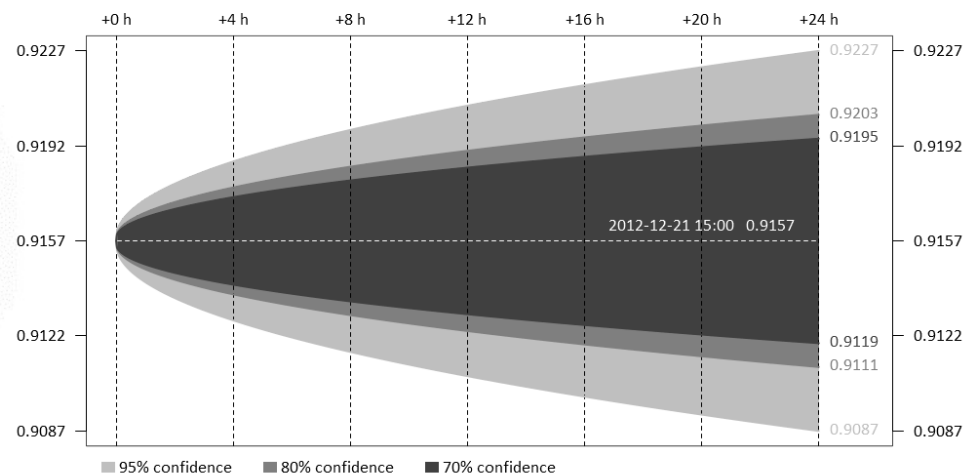
GBPUSD Potential Rates



USDJPY Potential Rates



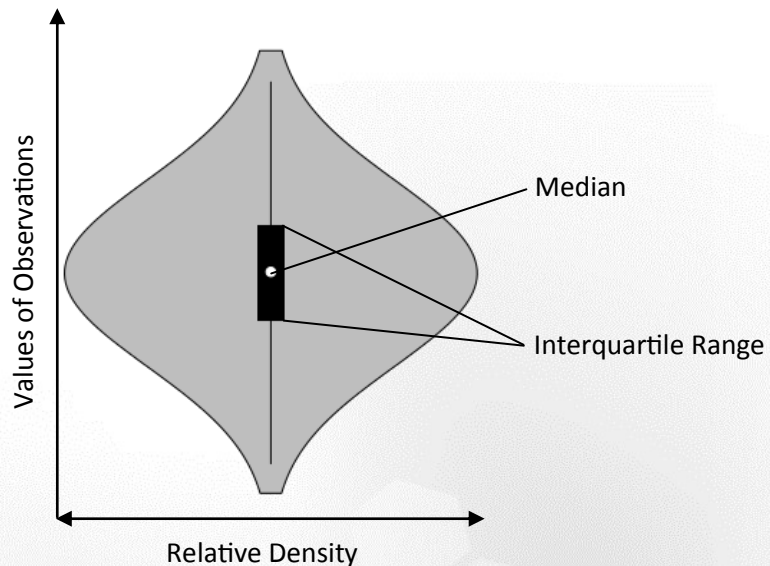
USDCHF Potential Rates



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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