



EUR

24/12/2012



DUKASCOPY
RESEARCH PRODUCTS



Market Research





Dominant Events for the Euro

Yellow Area

December 17

09:00 - 16:00

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

Turquoise Area

December 18

09:00 - 18:00

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

Blue Area

December 19

08:00 - 23:00

- German Ifo Business Climate [\[link\]](#)
- Eurozone Current Account [\[link\]](#)
- U.S. Building Permits [\[link\]](#)
- New Zealand GDP [\[link\]](#)

Purple Area

December 20

10:00 - 18:00

- U.S. Unemployment Claims [\[link\]](#)
- U.S. GDP [\[link\]](#)
- Eurozone Consumer Confidence [\[link\]](#)
- U.S. Existing Home Sales [\[link\]](#)

Orange Area

December 21

00:00 - 18:00

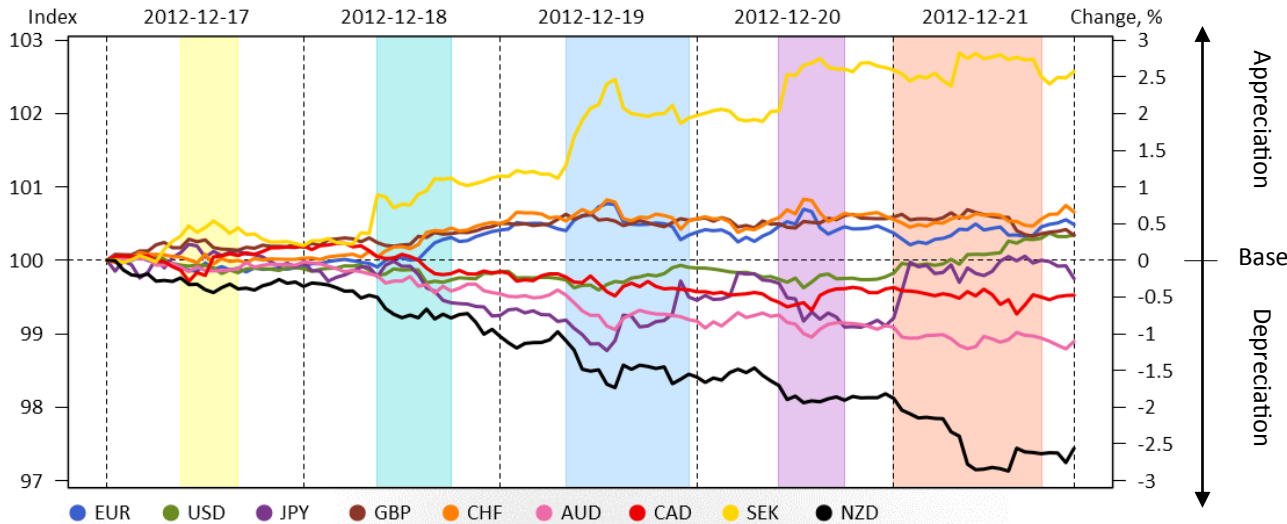
- Looming "fiscal cliff" [\[link\]](#)
- German Consumer Climate [\[link\]](#)
- U.S. Durable Goods Orders [\[link\]](#)

EUR Currency Index Range	0.12%	0.4%	0.49%	0.34%	0.28%
Average EUR/USD Volatility Index	0.98	0.85	1.09	1.51	1.19



Relative Currency Strength

Currency Indices

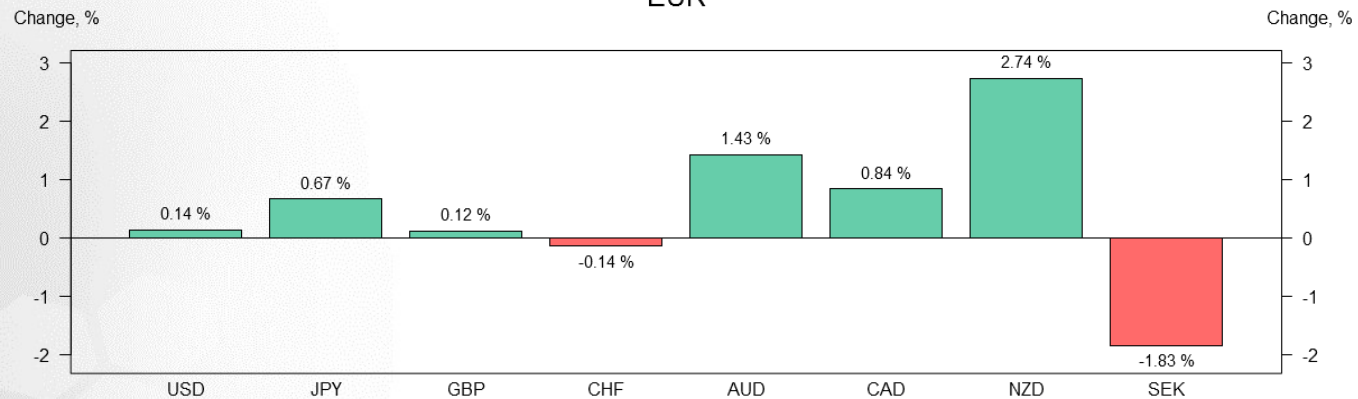


Over the past week European currencies were the ones to come to the top, outperforming the rest of their counterparts. While the Swedish Krona appreciated the most in the market—2.57%, gains of the Euro were less pronounced, amounting to 0.49%. However, the rally of the 17-nation currency was not gradual, but largely attributable to the events on Dec 18, when the progress of fiscal talks in the United States supported increased exposure towards high-beta currencies. Further development of the issue in the U.S., on the other hand, especially an eventual failure of politicians to come to a consensus, muted the preceding positive effect.

All of the other news were generally incapable of altering valuation of the Euro, which remains immune to negative readings on the bloc's economy, though it was hard to trace during the recent week given a limited amount of such releases since Dec 17.

Nonetheless, the same could be ascribed to supposedly bullish for the currency news. The Euro did not benefit from expansion of the monetary easing programme by the Bank of Japan. It also remained unresponsive to improving business climate in Germany. Accordingly, this leaves us with only one topic to follow, which for now completely defines direction of the single European currency.

EUR



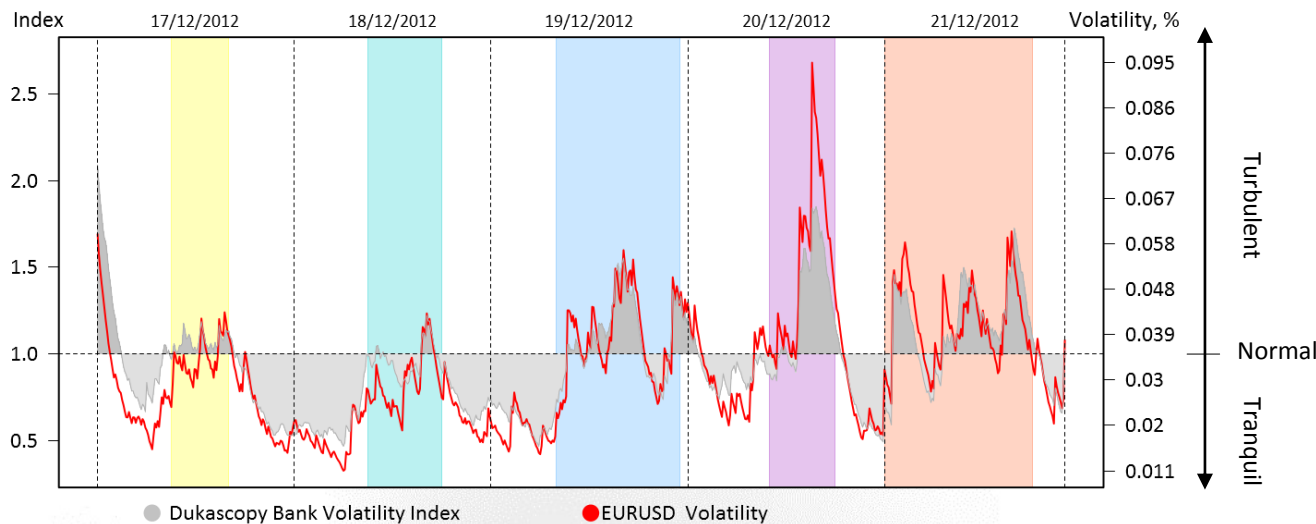
Currency Index Change

Days	EUR	USD	JPY	GBP	CHF	AUD	CAD	SEK	NZD
5	0.49%	0.35%	-0.25%	0.34%	0.66%	-1.11%	-0.48%	2.57%	-2.56%
20	1.49%	-0.28%	-2.89%	0.62%	1.16%	-0.81%	-0.28%	0.99%	-0.21%
130	2.22%	-3.16%	-8.56%	0.91%	1.60%	0.54%	0.30%	4.56%	1.47%



Volatility

Volatility



The pattern of turbulence in the market was similar to, but nevertheless distinguishable from the usual behaviour of the studied currency pairs. While the days of most intense activity stayed the same (Wed, Thu and Fri), the intraday intervals proved to be substantially longer. It was especially shown last Friday, when Dukascopy Bank Volatility Index was elevated for 68% of the time, even though for the whole week its measure of variability was above 1 in a much lower percentage of cases—39%. Still, the highest value DBVI reached was 2.1, attained a day before, on Dec 20.

In many ways instability of EUR/USD resembles turbulence of the market (DBVI), as their troughs and peaks frequently coincide. The only difference was observable during periods of high volatility, such as noted on Dec 20, when sensitivity of the currency pair exceeded average susceptibility of its peers and was 2.7 times higher than it usually is.

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	34	35	41	27	39	40	36	12	47

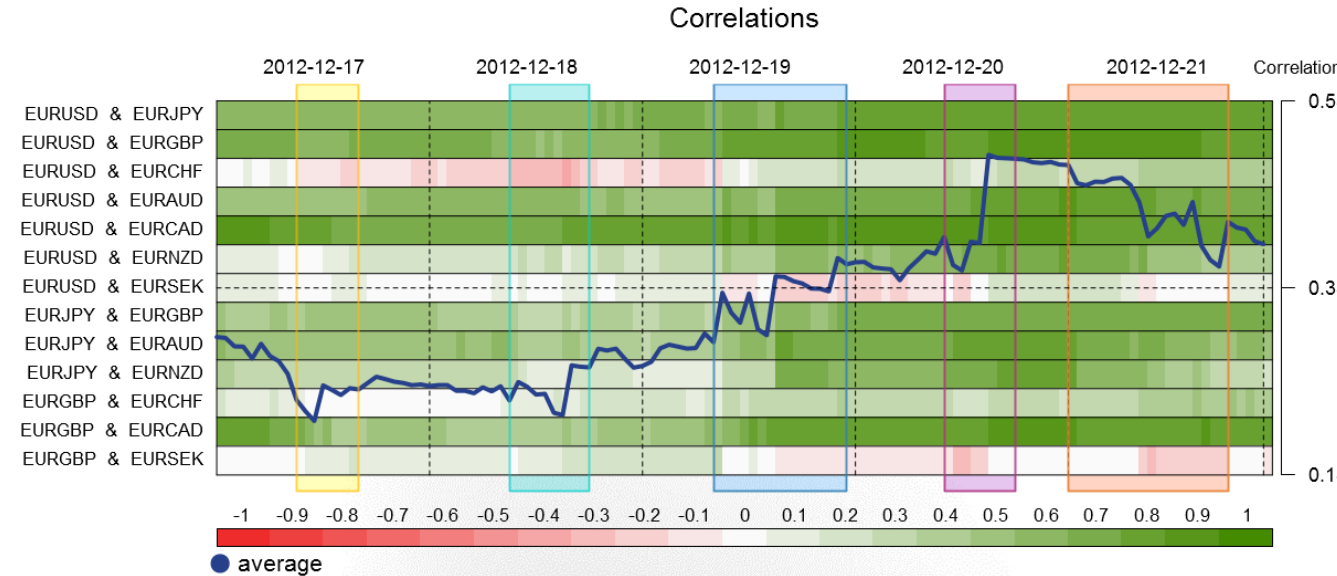
The most turbulent pairs, however, were JPY crosses—USD/JPY and EUR/JPY, having 4.1 and 3.8 times the historical pace of change. Conversely, EUR/CHF was the most resilient couple, since its volatility index did not step above 1.6 recently.

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	2.7	4.1	2.3	2.2	2	2.7	3.8	2.4	1.6	2.7	3
Min	0.5	0.3	0.3	0.4	0.5	0.2	0.3	0.3	0.4	0.2	0.4	0.5
Average	0.9	0.9	0.9	0.9	1	0.8	0.9	1	0.9	0.7	1	1.1



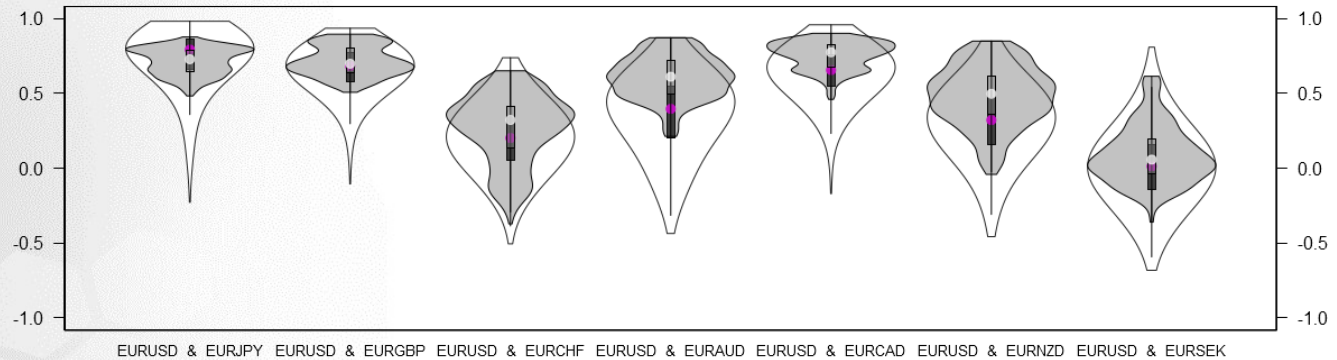
Currency Significance



Regardless of the fact that the value of the Euro was unchanged for the most part of the week, its significance, as pointed out by a surge of the average correlation coefficient (from 0.31 up to 0.39) has notably increased. Still, it is by far insufficient for the currency to take the leading role in the foreign exchange market that currently follows the direction chosen by the Japanese Yen. The situation has somewhat improved during the second part of the week amid updates on consumer and business climate in the Eurozone, but the coefficient stays beneath 0.5 nevertheless.

While interrelations between a majority of EUR crosses are stable, some of the currency pairs tend to change their habits. For example, correlations EUR/USD & EUR/AUD and EUR/USD & EUR/NZD both strengthened. If we compare the data for the last month and for the last half of a year, co-movement in the former pair is now observable in more than 60% of cases instead of 44% of them. In a like manner unidirectional reaction of EUR/USD and EUR/NZD appears 48% of the time (36% previously).

Correlations (20 vs 130 days)



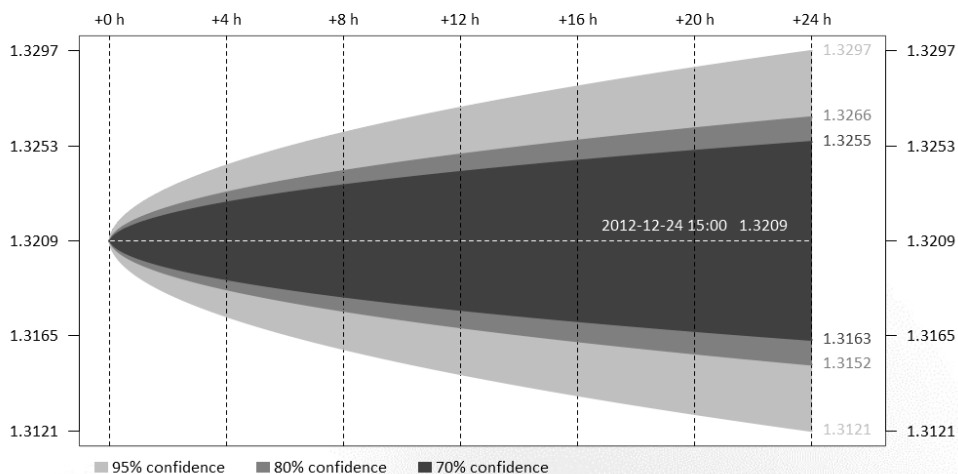
Average Correlation Coefficient (with EURUSD)

Days	EURJPY	EURGBP	EURCHF	EURAUD	EURCAD	EURNZD	EURSEK
5	0.7	0.75	0.07	0.65	0.8	0.39	0.02
20	0.71	0.71	0.27	0.61	0.75	0.48	0.09
130	0.76	0.67	0.25	0.44	0.66	0.36	0.12

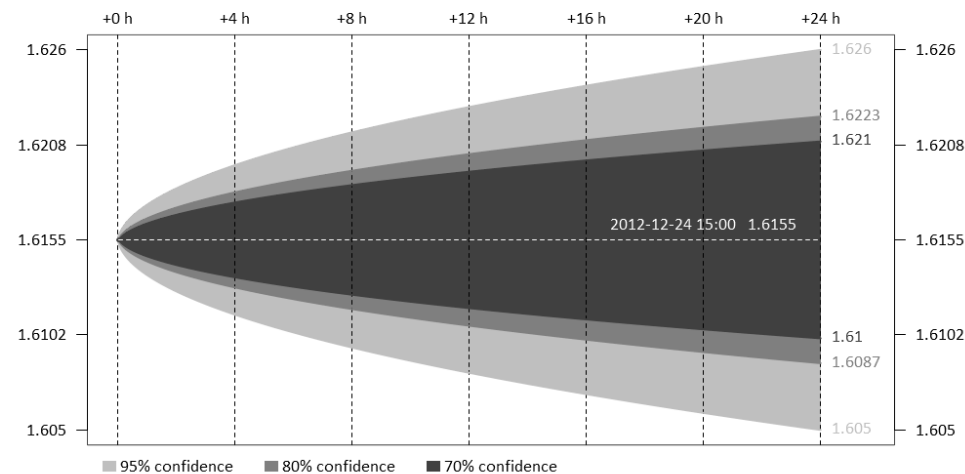
On a related note, the greatest benefits of diversification, according to the latest data, given a required investment into the Euro, could be achieved through a simultaneous exposure to EUR/JPY and EUR/SEK, the average 50-hour rolling correlation between which is -0.08 .

Confidence Intervals for Next 24 Hours

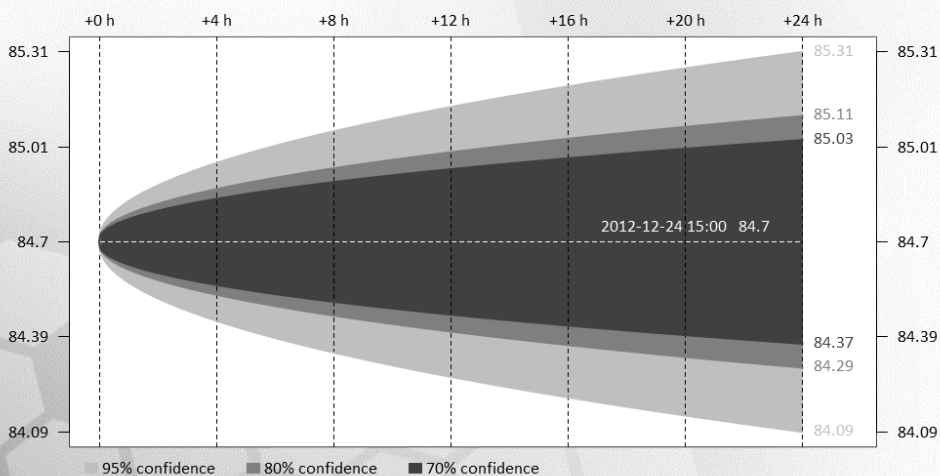
EURUSD Potential Rates



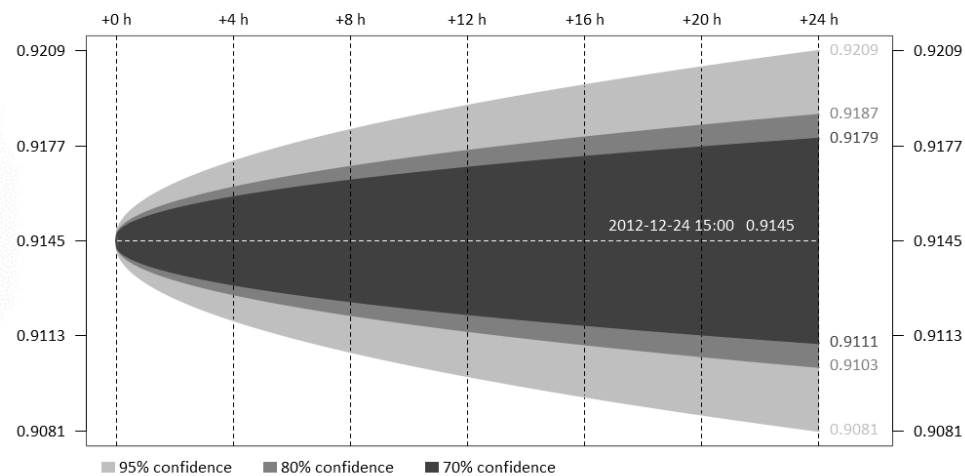
GBPUSD Potential Rates



USDJPY Potential Rates



USDCHF Potential Rates



EXPLANATIONS

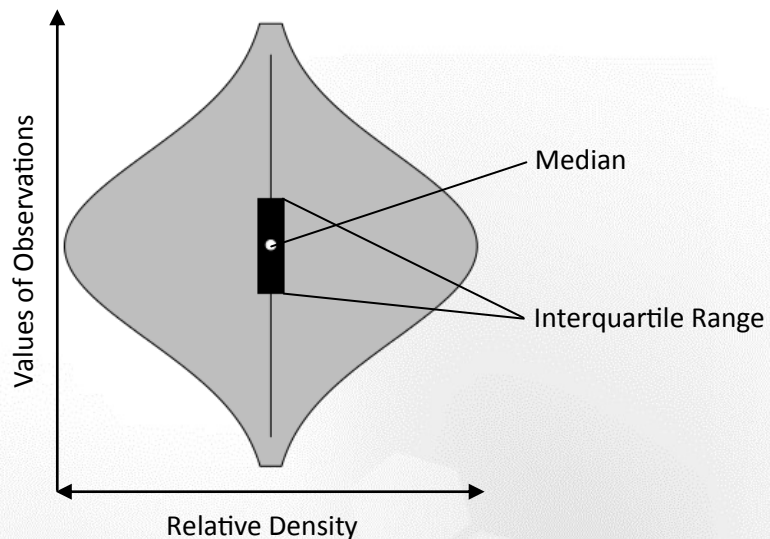
Violin Plot

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

Methodologies

Volatility Index

Confidence Interval





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