



USD

26/12/2012



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RESEARCH PRODUCTS



Market Research





Dominant Events for the U.S. Dollar

Yellow Area

December 19

08:00 - 23:00

- German Ifo Business Climate [\[link\]](#)
- MPC Meeting Minutes [\[link\]](#)
- U.S. Building Permits [\[link\]](#)
- New Zealand GDP [\[link\]](#)

Turquoise Area

December 20

07:00 - 18:00

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

Blue Area

December 21

00:00 - 18:00

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

Purple Area

December 24

06:00 - 16:00

- Pressure the BoJ [\[link\]](#)
- New Proposal on "Fiscal Cliff" [\[link\]](#)

USD Currency Index Range

0.34%

0.19%

0.47%

0.28%

Average EUR/USD
Volatility Index

1.09

1.36

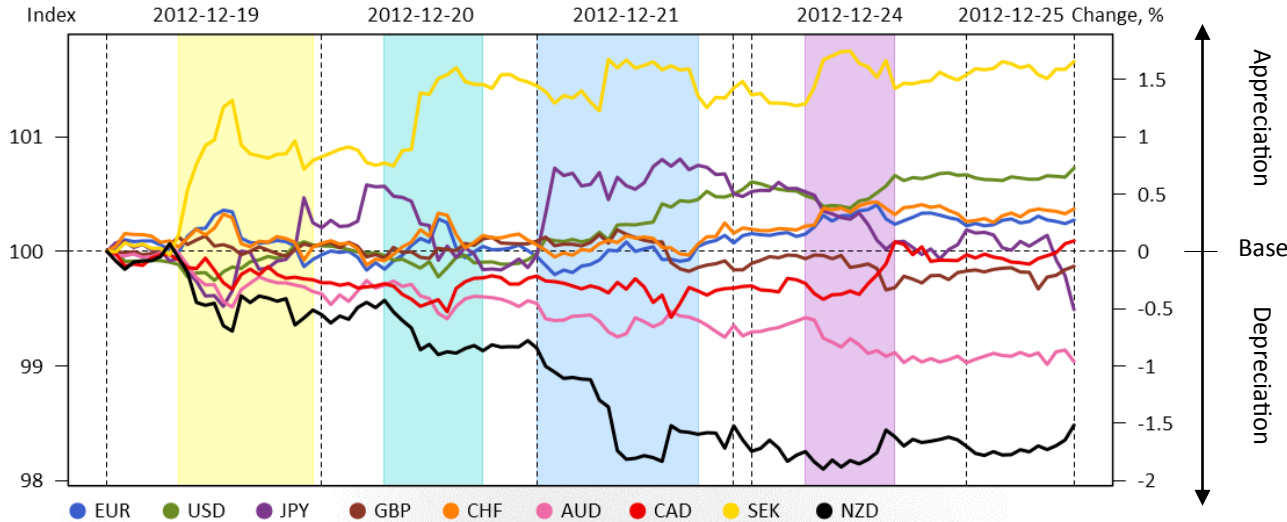
1.19

0.8



Relative Currency Strength

Currency Indices



The U.S. Dollar has taken the opposite direction to its performance observed over the last half of a year by appreciating on average 0.73%, while the currency index was more than 2.9% lower 130 trading days ago. The major role in the outcome of the recent five days occupied daunting proximity of the “fiscal cliff” that has dented some of the riskier currencies, namely the New Zealand Dollar and its Australian counterpart, allowing the greenback to benefit at their expense. The Sterling also gave in to weakness, however, neither the Euro nor the Canadian Dollar proved to be susceptible to protracted and in many ways unsuccessful negotiations.

The only currency that was more bullish than the buck was the Swedish Krona, demand for which sharply rose amid Riksbank’s plans not to flood financial system with excess liquidity and halt interest rate cuts. Accordingly, USD/SEK plunged 0.8% since Dec 19, though there was not as much progress in the currency pair after Dec 20.

Going forward, there is hardly any chance U.S. politicians will disagree until the very end and fail to maintain the current stimulus of economic activity. Therefore the outlook on the Dollar is from neutral to negative, as eventual resolution of the issue should calm the markets, and as a result induce investors to take riskier bets, which in turn will weigh on the Dollar.

USD



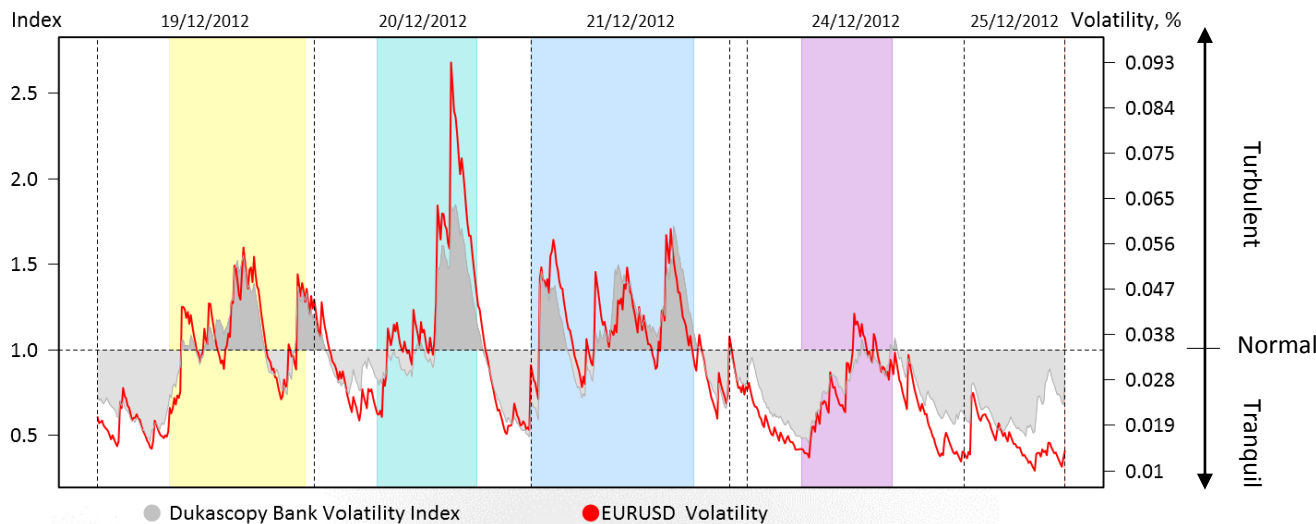
Currency Index Change

| Days | EUR | USD | JPY | GBP | CHF | AUD | CAD | SEK | NZD |
|------|-------|--------|---------|--------|-------|--------|--------|-------|--------|
| 5 | 0.27% | 0.73% | -0.51% | -0.13% | 0.37% | -0.96% | 0.09% | 1.66% | -1.52% |
| 20 | 1.86% | -0.09% | -4.54% | 0.49% | 1.56% | -1.32% | -0.18% | 2.00% | -0.15% |
| 130 | 2.93% | -2.92% | -11.04% | 0.56% | 2.33% | 0.39% | 0.84% | 5.53% | 1.30% |



Volatility

Volatility



Strongly pronounced activity of the market was noted on Dec 19, 20 and 21. Apart from elevated volatility, the days were also characterised by longer than usually periods of increased sensitivity of the currency pairs. Last Wednesday and Friday DBVI was heightened in 43 and 67 per cent of cases, respectively, whereas last Thursday, which was marked with the highest volatility within the studied interval—1.8, DBVI was above 1 only in 30% of cases. Evidently, the higher the reading of volatility is, the more likely it becomes that a subsequent decline in volatility will be extended in comparison with a downturn in variability which follows a more tepid manifestation of turbulence.

The remaining five days until the New Year, the deadline for U.S. officials to avert a substantial decline due to tax hikes in GDP growth, which might even turn negative as a consequence, are nevertheless expected to be relatively tranquil because of thin trading volume. Still, as the happening is potentially a game-changing event, it poses a substantial danger to current stability. Accordingly, highly volatile dawn of 2013 is almost guaranteed.

Moreover, we should also keep in mind Shinzo Abe's resolve to combat deflation in Japan, as a commitment to raise inflation expectations to 2% could involve actions that threaten independence of the central bank. Any alterations will be instantly translated into the market price of the Yen, which bears a great deal of downside risk at the moment.

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 | 36 | 28 | 39 | 39 | 30 | 34 | 32 | 38 | 13 | 38 | 43 |

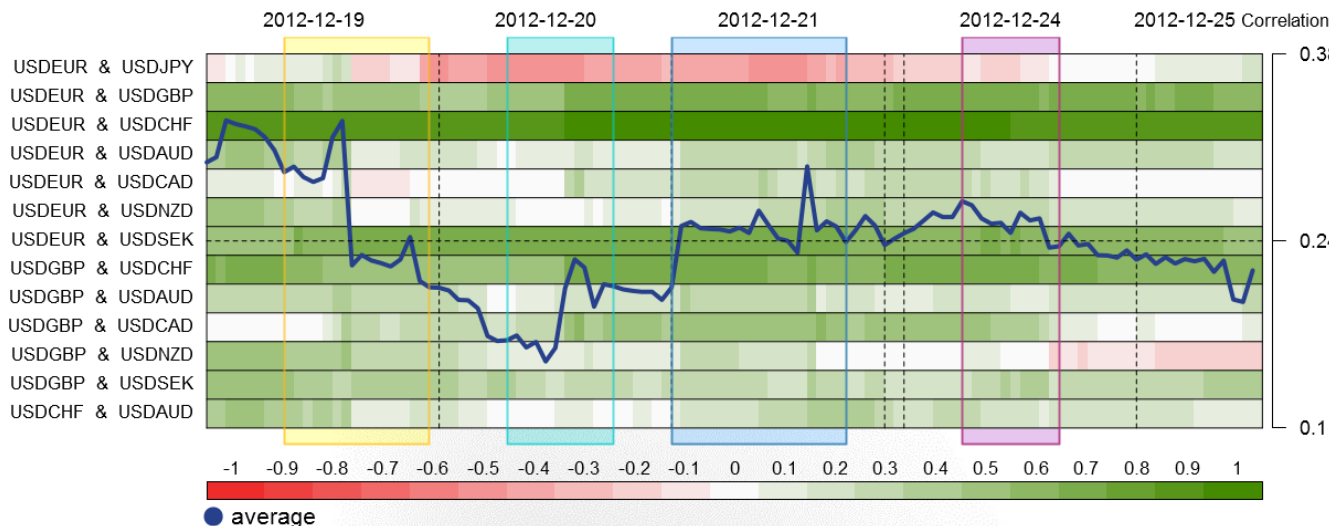
Volatility Index (for the observed period)

| | Market | EUR/USD | USD/JPY | GBP/USD | AUD/USD | USD/CAD | USD/CHF | EUR/JPY | EUR/GBP | EUR/CHF | USD/SEK | NZD/USD |
|----------------|--------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Max | 1.8 | 2.7 | 1.8 | 2.4 | 2.2 | 2.1 | 2.7 | 1.9 | 2.4 | 1.7 | 2.7 | 3 |
| Min | 0.5 | 0.3 | 0.3 | 0.3 | 0.4 | 0.4 | 0.3 | 0.3 | 0.4 | 0.2 | 0.3 | 0.3 |
| Average | 0.9 | 0.9 | 0.9 | 1 | 1 | 0.9 | 0.9 | 0.9 | 0.9 | 0.7 | 1 | 1 |



Currency Significance

Correlations

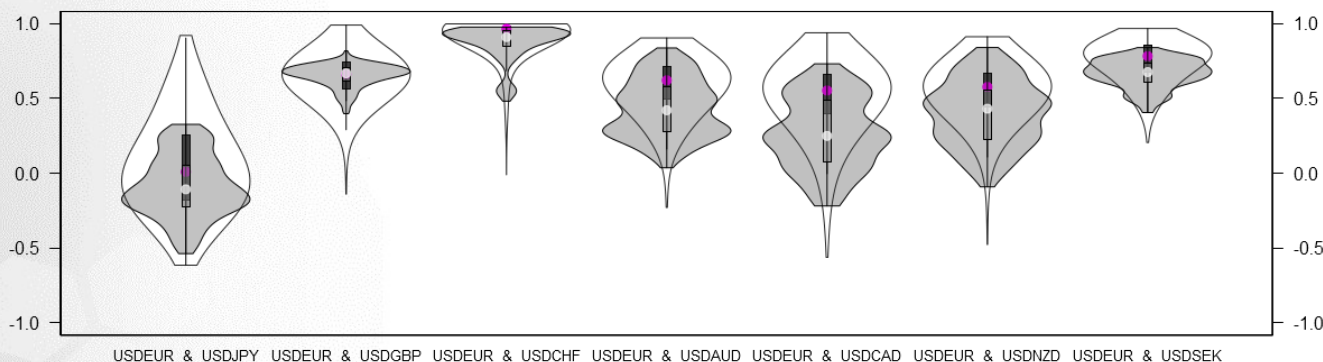


Even though the looming tax increases and budget talks in the United States are some of the most discussed topics, they do not primarily affect the value of the U.S. Dollar, significance and influence of which in fact decreased in the course of the last days. Initially the average correlation coefficient, which measures importance of a particular currency, stood at 0.3, but stepped down to 0.22 lately, with an interim dip to 0.15 on Dec 20. Thereby we should seek a notable response from a market elsewhere, not in USD crosses, but rather in currency pairs with the Japanese Yen.

With a few exceptions an overwhelming majority of correlations analysed were considerably weaker throughout the most recent trading sessions. Interrelation of USD/EUR with USD/JPY wandered further into the negative zone, from -0.05 to -0.25; additionally, the unidirectional movement of USD/EUR and USD/NZD became more than two times less frequent—previously it occurred in 51% of cases, while the most recent data shows merely a 22% coincidence.

In light of these changes only the linkage USD/EUR and USD/CHF could be referred to as strong and stable, being near 0.9 irrespective of the time period observed. Correlations USD/EUR & USD/GBP and USD/EUR & USD/SEK are similar in this respect, but are still notably weaker, fluctuating from 0.6 to 0.7 for the most part.

Correlations (20 vs 130 days)

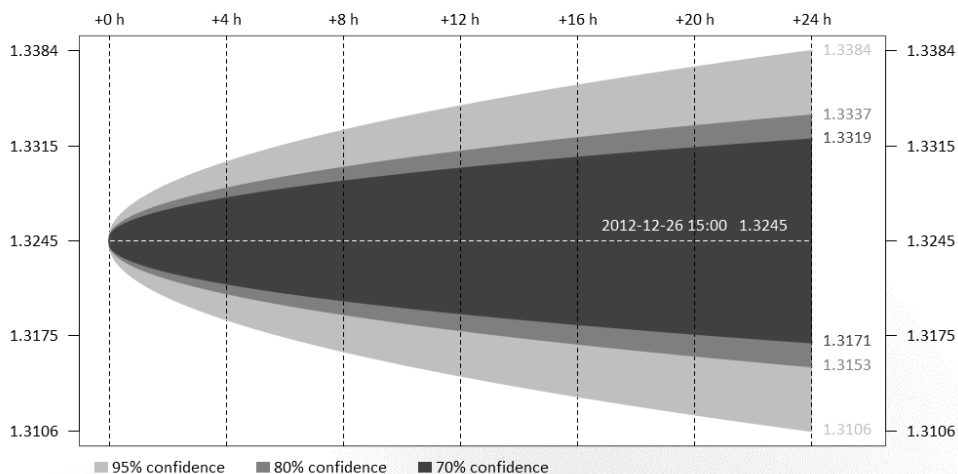


Mean Correlation Coefficient (with USDEUR)

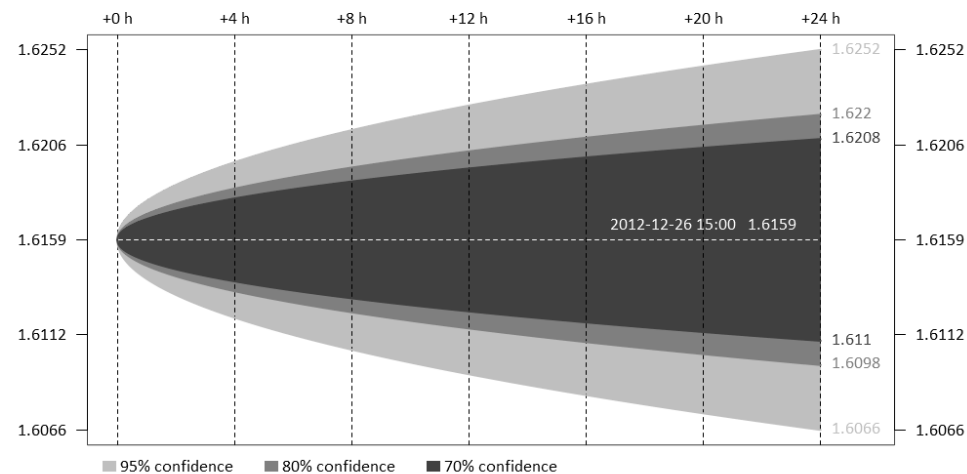
| Days | USDJPY | USDGBP | USDCHF | USDAUD | USDCAD | USDNZD | USDSEK |
|------|--------|--------|--------|--------|--------|--------|--------|
| 5 | -0.25 | 0.63 | 0.95 | 0.23 | 0.16 | 0.2 | 0.66 |
| 20 | -0.09 | 0.65 | 0.87 | 0.43 | 0.26 | 0.39 | 0.66 |
| 130 | -0.05 | 0.64 | 0.93 | 0.56 | 0.47 | 0.51 | 0.67 |

Confidence Intervals for Next 24 Hours

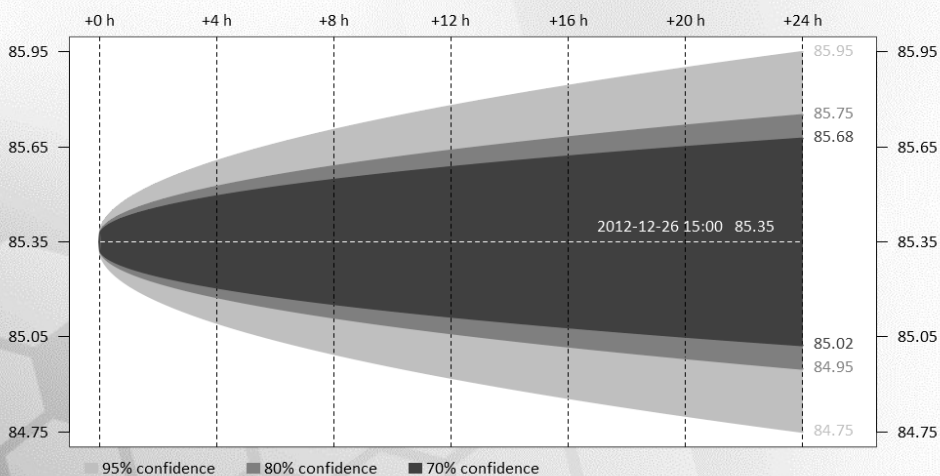
EURUSD Potential Rates



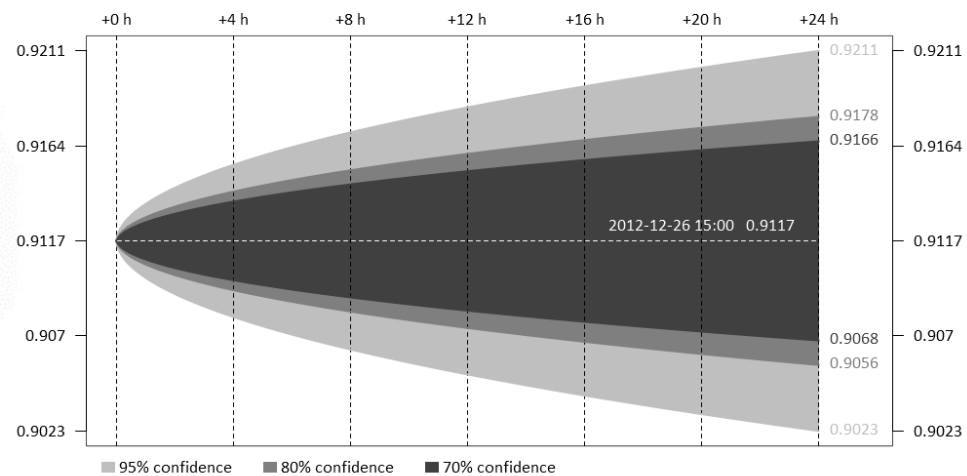
GBPUSD Potential Rates



USDJPY Potential Rates



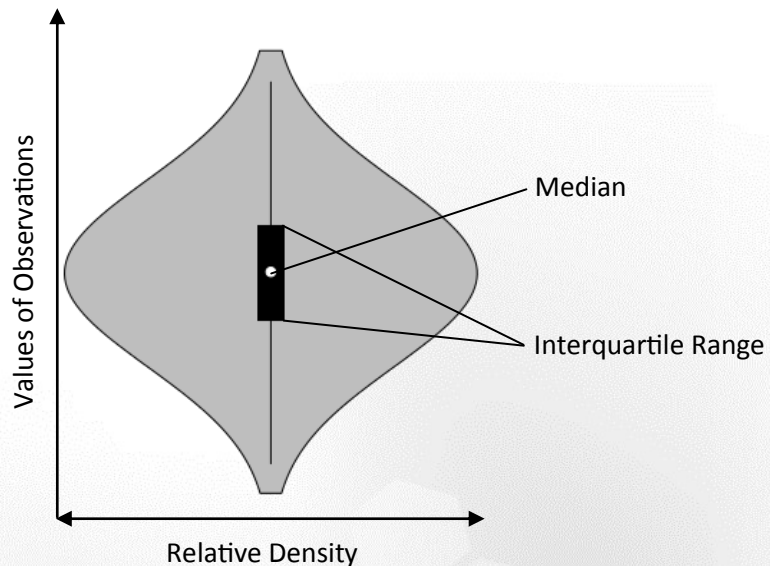
USDCHF Potential Rates



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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