



EUR

31/12/2012



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Market Research





Dominant Events for the Euro

Yellow Area

December 24

07:00 - 17:00

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

Turquoise Area

December 26

06:00 - 17:00

- U.S. Manufacturing Index [[link](#)]
- New Japan Prime Minister [[link](#)]

Blue Area

December 27

07:00 - 23:00

- U.S. Unemployment Claims [[link](#)]
- U.S. CB Consumer Confidence [[link](#)]
- Japanese National Core CPI [[link](#)]

Purple Area

December 28

07:00 - 18:00

- Spanish Prime Minister Speech [[link](#)]
- Eurozone Retail PMI [[link](#)]
- U.S. Pending Home Sales [[link](#)]

EUR Currency Index Range

0.19%

0.47%

0.25%

0.5%

Average EUR/USD
Volatility Index

0.85

1.02

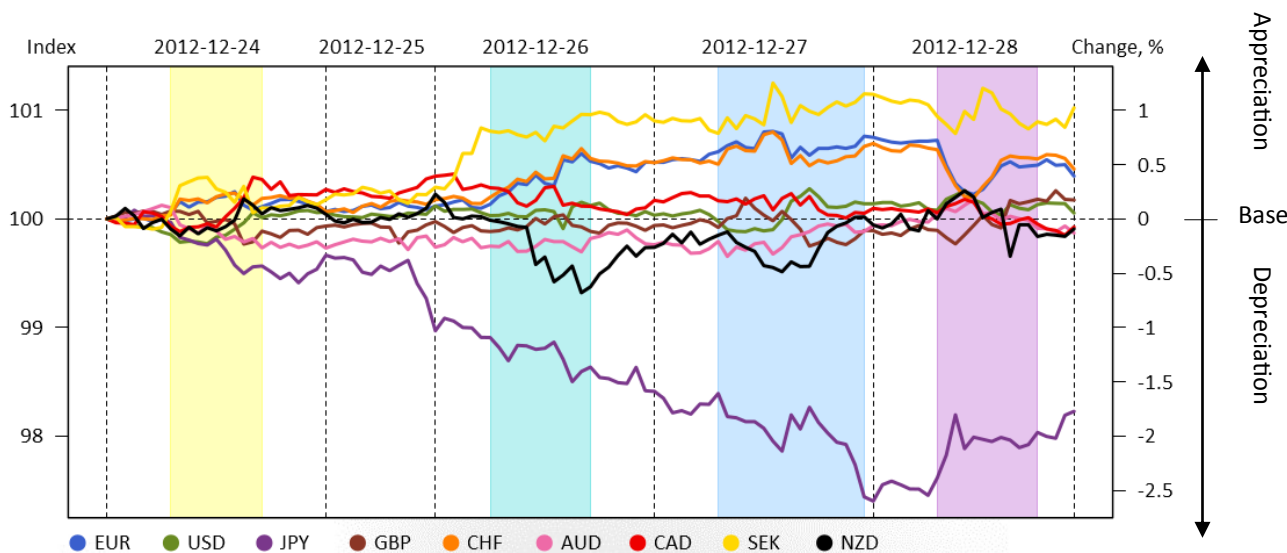
1.2

1.45



Relative Currency Strength

Currency Indices

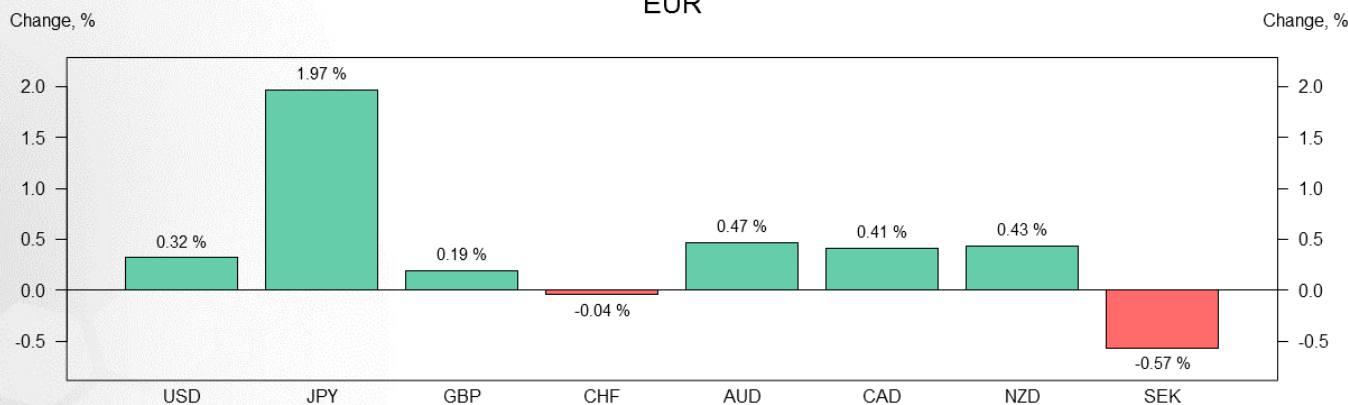


Against all odds the Euro keeps on rising in value, appreciating 0.39% since Dec 24. Neither uncertainty in the United States caused by policymakers' inability to timely reach a consensus and finally avert contractionary policy measures nor acknowledgement of tough times lying ahead by Eurozone leaders forced the single currency to fully pare its prior gains. It must be admitted that optimistic conviction of investors was notably shaken, especially on Dec 28, when the Euro plunged 0.5% in four hours. Nevertheless, in the end Euro-bulls managed to recuperate and defend their positions.

While in most cases Euro price increases were shallow (+0.19% against GBP) overall positive performance was mainly secured by EUR/JPY, which was a step away from a 2% surge over a five-day period and thereby may be considered as one of the primary reasons why the Euro index is still afloat and above its base value. In the future we could continue seeing the bullish momentum weakening, though witnessed resilience of the Euro improves the chances to inspire extension of a rally.

The Swedish Krona was the only major currency to find itself in larger demand, rallying more than one per cent across the market, while the Swiss Franc was nearly unchanged relatively to the Euro (EUR/CHF down by 0.04%).

EUR



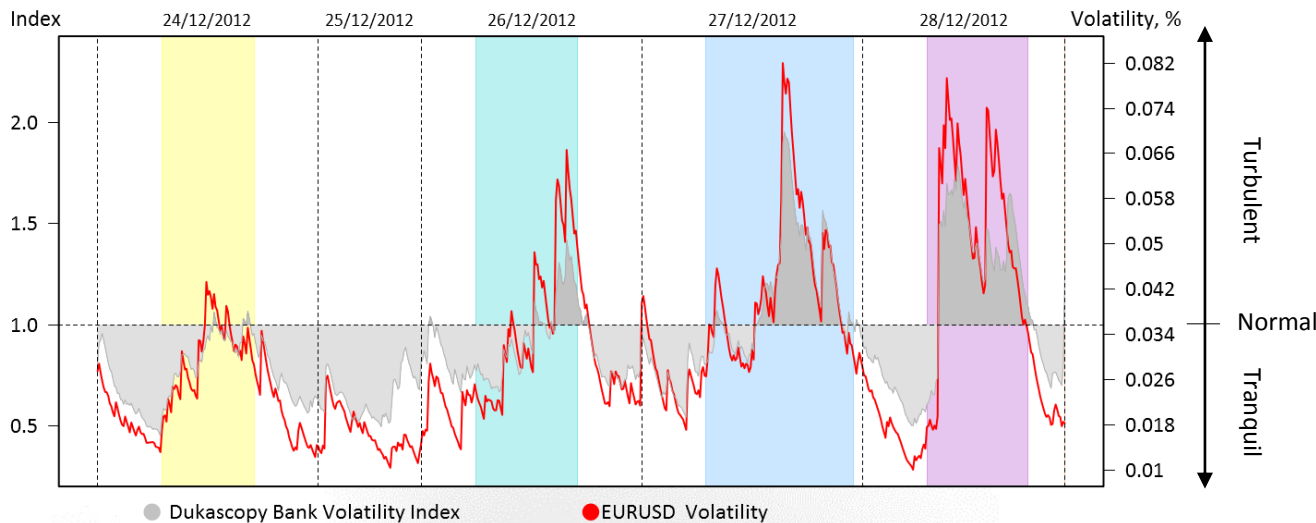
Currency Index Change

Days	EUR	USD	JPY	GBP	CHF	AUD	CAD	SEK	NZD
5	0.39%	0.05%	-1.77%	0.17%	0.46%	-0.13%	-0.07%	1.02%	-0.09%
20	1.61%	-0.16%	-4.71%	0.61%	1.37%	-0.74%	-0.45%	2.28%	-0.20%
130	3.08%	-2.54%	-11.02%	1.23%	2.53%	-0.26%	0.85%	5.35%	0.66%



Volatility

Volatility



Yet again volatility proves to be subject to seasonal fluctuations by visibly increasing as we progress towards the weekend, a feature that remains intact in spite of the fundamental shifts and the soon arrival of the New Year. As expected, last days of the week were characterised by elevated turbulence, with the aforementioned global factors serving as catalysts to traders' activity. On Thursday the market was two times more volatile than it usually is, the next day turbulence was demonstrated 50% of the time and only 27% over the whole period from Dec 24 to Dec 28.

NZD/USD was the most susceptible to news pair, since its volatility index reached the highest of all mark of 4 last Friday amid releases of U.S. pending home sales and crude oil inventories. On the other hand, all EUR crosses and USD/SEK on average were the most stable currency couples.

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
27	27	29	43	42	40	29	20	34	21	24	41

This week (ending Jan 4) also promises to be marked by heightened volatility with particular emphasis on Jan 3, when U.S. non-farm employment change data will be coupled with unemployment claims, not to mention the FOMC meeting minutes, which in fact may have muted effect on the market considering that the new round of asset purchases has already been announced, though we might get more insight into the reasons that led to such a decision.

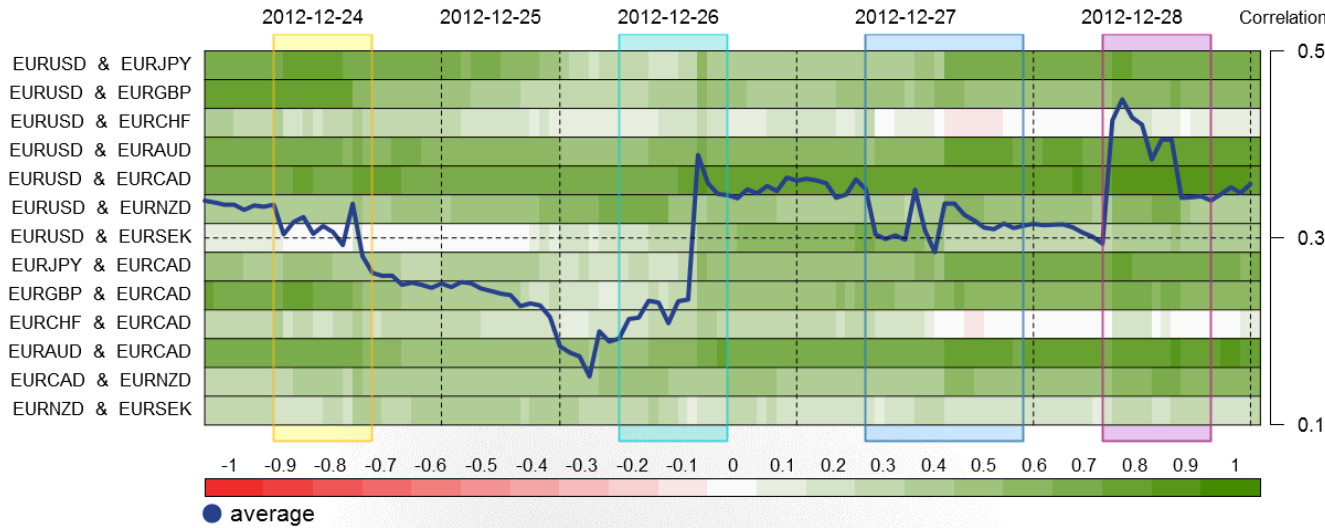
Volatility Index (for the observed period)

	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	2.3	2.3	2.5	2.2	2.3	2.6	2.5	2.2	2.2	2.4	4
Min	0.5	0.3	0.3	0.3	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Average	0.9	0.8	0.9	1	1	0.9	0.9	0.8	0.9	0.8	0.8	1



Currency Significance

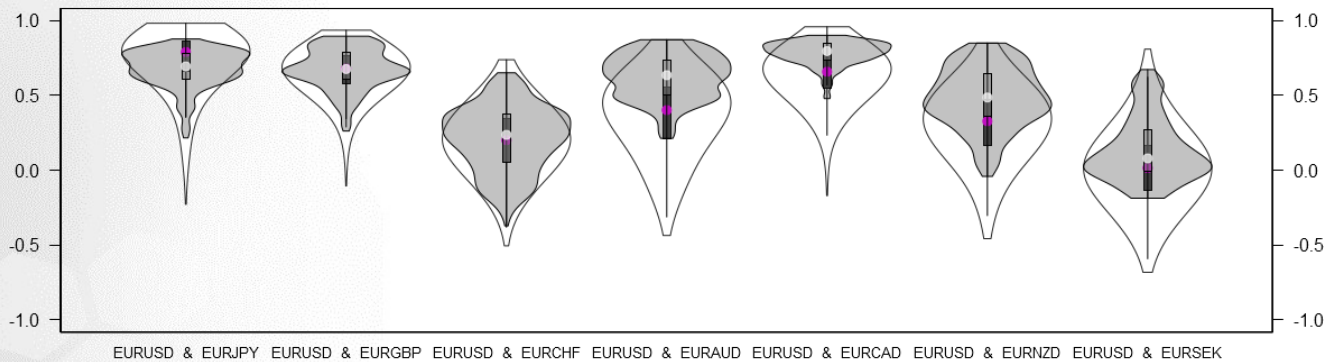
Correlations



Even though there appears to be no change, if we compare the first and the last values of the average correlation coefficient, which started the week with 0.38 and ended it with 0.40, significance of the European currency dipped as low as 0.20 and soared as high as 0.49, implying substantial changes in how market participants were perceiving the Euro during a short interval. Surprisingly, the coefficient grew both on Dec 26 and Dec 28. Whereas a rally on Dec 28 was justified by the fact of publication of Eurozone retail PMI and a speech of Mariano Rajoy, there was literally nothing Europe-related issued last Wednesday.

Correlations among EUR crosses were behaving differently over the course of the week. Some of them, such as EUR/USD with EUR/JPY, EUR/GBP and EUR/CHF, weakened. At the same time interdependencies between EUR/USD and EUR/AUD, EUR/CAD and EUR/SEK, on the contrary, improved. The only thing that held true for all of them was their instability and therefore unreliability, especially when attempting to make use of diversification benefits in the long term. As an example, this could be executed by means of simultaneous exposure to EUR/USD and EUR/JPY, rather than taking a long position solely on EUR/USD, which in turn would unnecessary increase the risk, leaving the expected profit largely the same.

Correlations (20 vs 130 days)

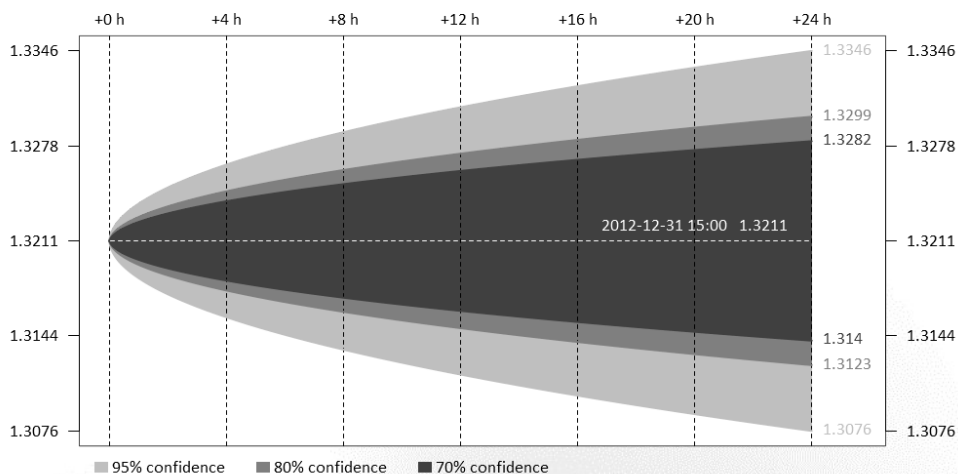


Average Correlation Coefficient (with EURUSD)

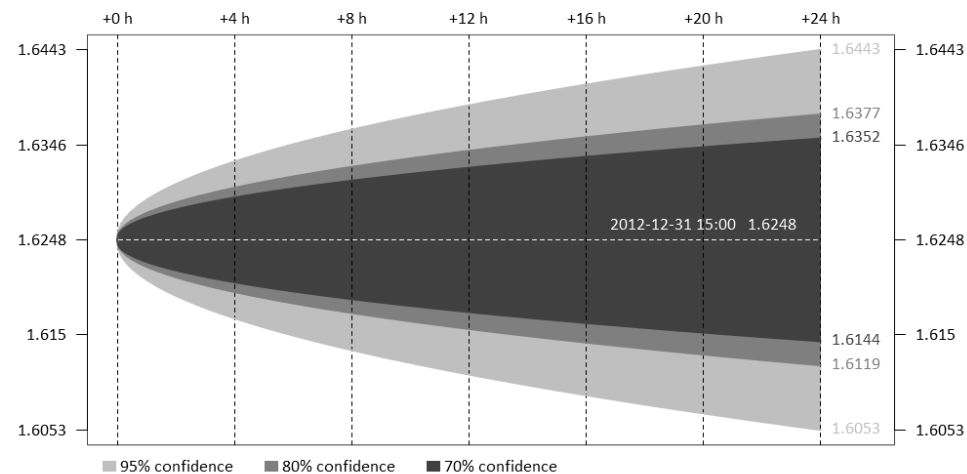
Days	EURJPY	EURGBP	EURCHF	EURAUD	EURCAD	EURNZD	EURSEK
5	0.59	0.52	0.15	0.67	0.78	0.48	0.28
20	0.68	0.67	0.21	0.62	0.78	0.48	0.14
130	0.75	0.67	0.25	0.46	0.67	0.37	0.13

Confidence Intervals for Next 24 Hours

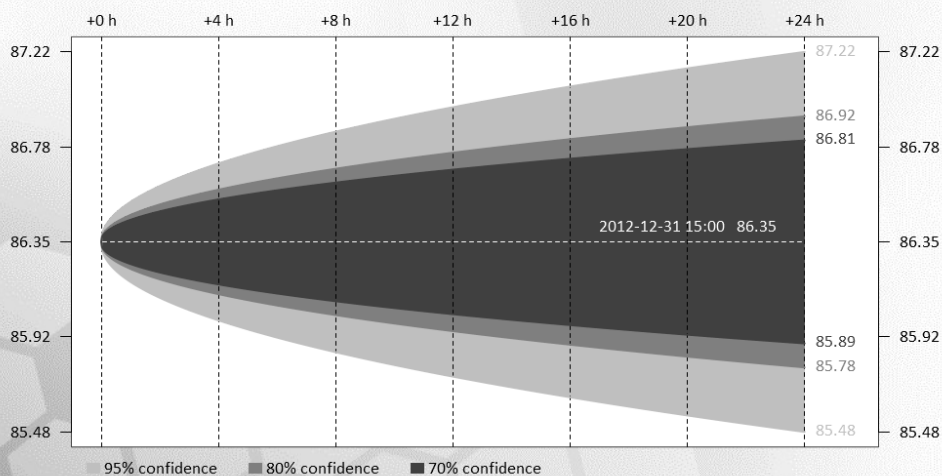
EURUSD Potential Rates



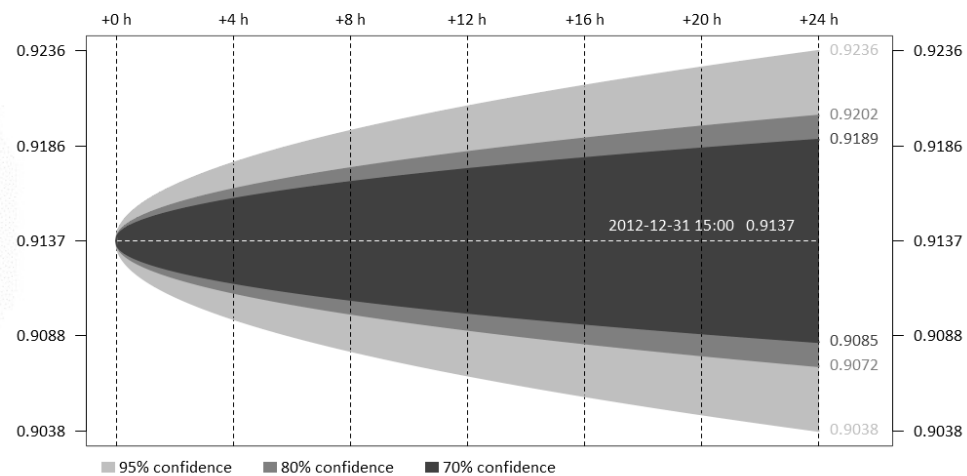
GBPUSD Potential Rates



USDJPY Potential Rates



USDCHF Potential Rates



EXPLANATIONS

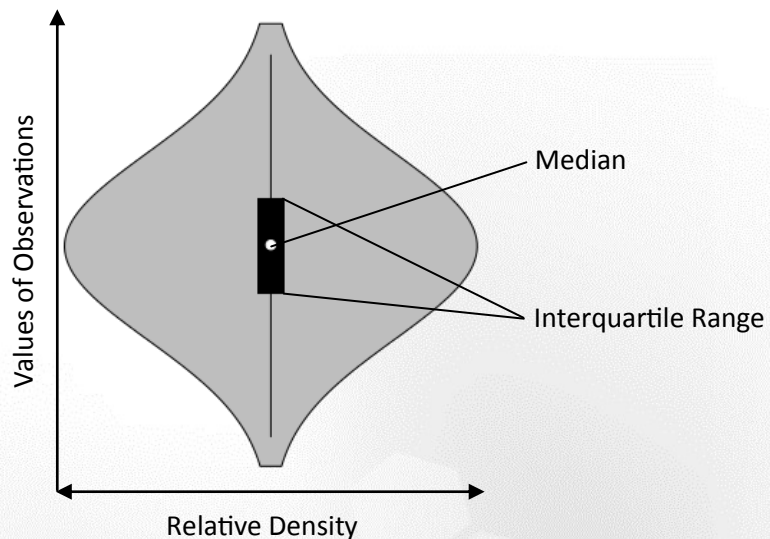
Violin Plot

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

Methodologies

Volatility Index

Confidence Interval





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