

USD

02/01/2013



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RESEARCH PRODUCTS



Market Research





Dominant Events for the U.S. Dollar

Yellow Area

December 26

13:00 - 17:00

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

Turquoise Area

December 27

05:00 - 19:00

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

Blue Area

December 28

07:00 - 15:00

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

Purple Area

December 31

12:00 - 18:00

- U.S. Escapes "Fiscal Cliff" [\[link\]](#)

USD Currency Index Range

0.24%

0.4%

0.22%

0.15%

Average EUR/USD
Volatility Index

1.38

1.16

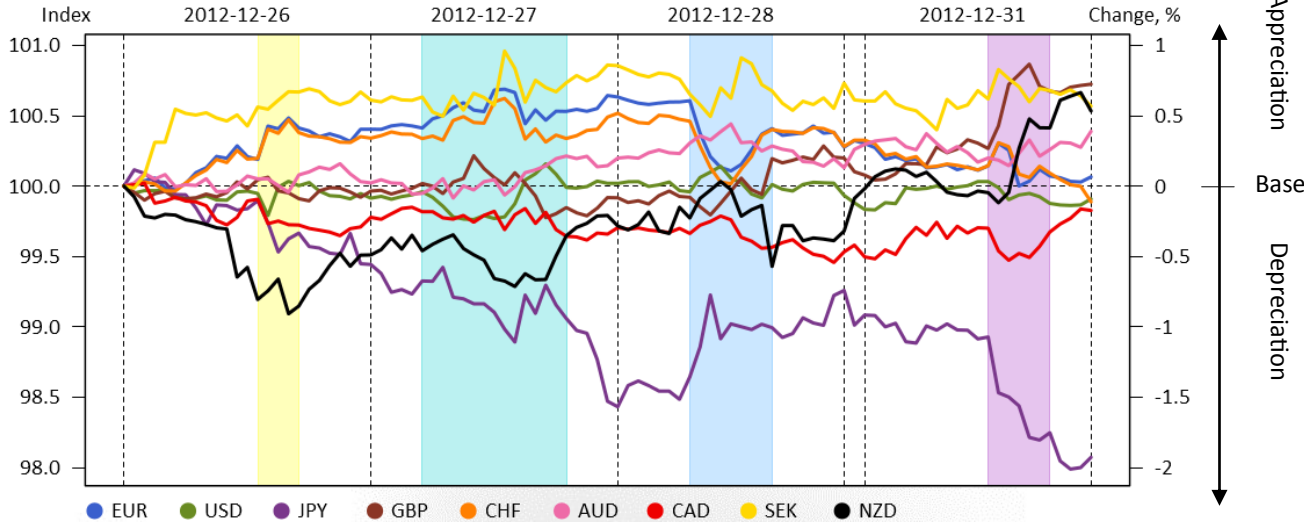
1.52

1.8



Relative Currency Strength

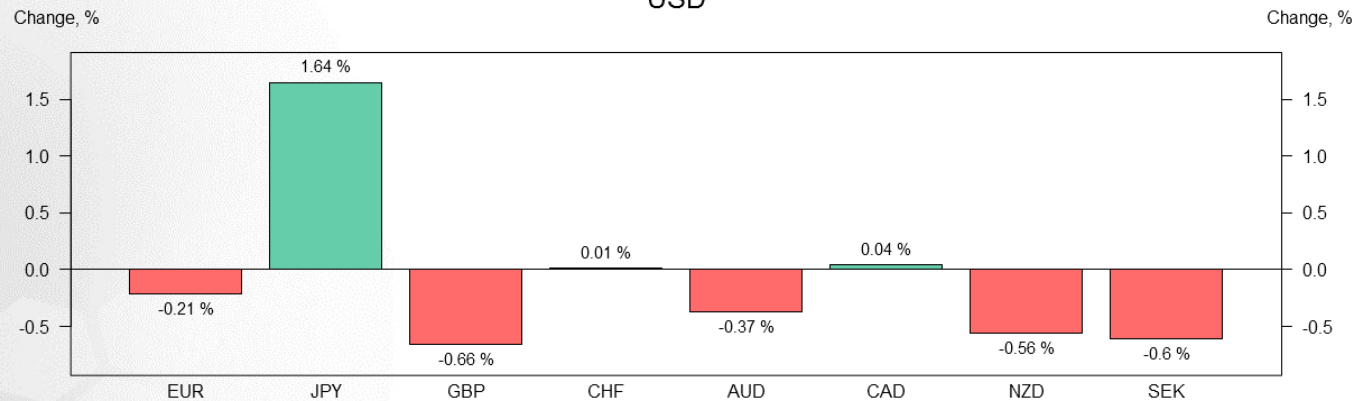
Currency Indices



Even though the term “fiscal cliff” palled due to its constant use in mass media, there is no way one would not mention it, especially whilst describing behaviour of the U.S. Dollar. However, worth of the most traded currency in the world stayed nearly the same throughout the whole period from Dec 26 up until the very end of 2012, with only few deviations from the base value, which did not exceed 0.24%. Overall, during the last five trading days the Dollar slightly declined (-0.09%), as persisting uncertainty did not give any incentives neither to buy nor to sell the greenback.

Price of the U.S. Dollar advanced the most relatively to the Yen, soaring 1.64%, as a new Japanese government is awaited to insist that the Bank of Japan resorts to more aggressive measures. On the other hand, high-beta currencies, AUD and NZD, to name a few, were appreciating, anticipating favourable outcome of negotiations conducted by the U.S. politicians, which, as we already know, veered the economy away from an imminent recession if they did not reach consensus timely.

In near future we may expect the U.S. Dollar to lose some ground, as markets are currently full of optimism and there is still time until we start discussing debt ceiling, a discussion that potentially could pose a threat to risk-on sentiment.



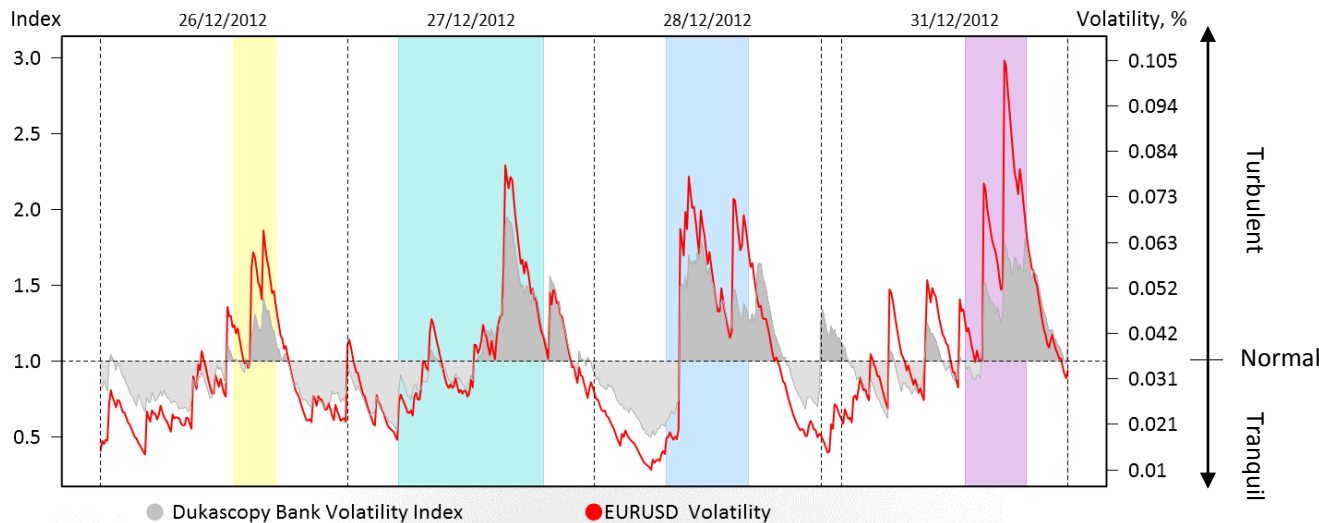
Currency Index Change

| Days | EUR | USD | JPY | GBP | CHF | AUD | CAD | SEK | NZD |
|------|-------|--------|---------|-------|--------|--------|--------|-------|-------|
| 5 | 0.07% | -0.09% | -1.93% | 0.72% | -0.11% | 0.39% | -0.17% | 0.57% | 0.53% |
| 20 | 1.29% | -0.10% | -6.53% | 1.26% | 0.98% | -0.37% | -0.08% | 2.33% | 0.73% |
| 130 | 2.75% | -2.09% | -11.69% | 2.05% | 1.98% | -0.32% | 0.78% | 5.00% | 1.41% |



Volatility

Volatility



Financial markets can now breathe freely, as one of the main dangers originally to the U.S. but also to global economy has been averted. However, the currency pairs were fairly sensitive prior to the final decision. This is manifested by unusually high turbulence this Monday, while, as a rule, Dukascopy Bank Volatility Index is the lowest at the beginning of the week. This time, on the other hand, it could be easily compared with volatility exhibited last Thursday and Friday, days that are commonly accompanied with market-moving events, such as employment data, which remain of primary concern to the Federal Reserve and as a result, to most of investors.

Accordingly, subsequent days could be less volatile than we are used to see, being that extraordinarily elevated volatility is followed by a cooling-off period, in turn characterised by extraordinarily decreased volatility, a case we are observing at the moment.

It might not be apparent while looking at the price charts, but the most hectic currency pairs relatively to their historical behaviour were USD/CAD and NZD/USD, proving to retain the highest level of responsiveness to world events and changes in sentiment. They may also demonstrate similar but likely muted due to the aforementioned reasons activity in the last few days of this week.

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 |
|--------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| | 43 | 42 | 55 | 54 | 56 | 45 | 32 | 48 | 19 | 35 | 51 |

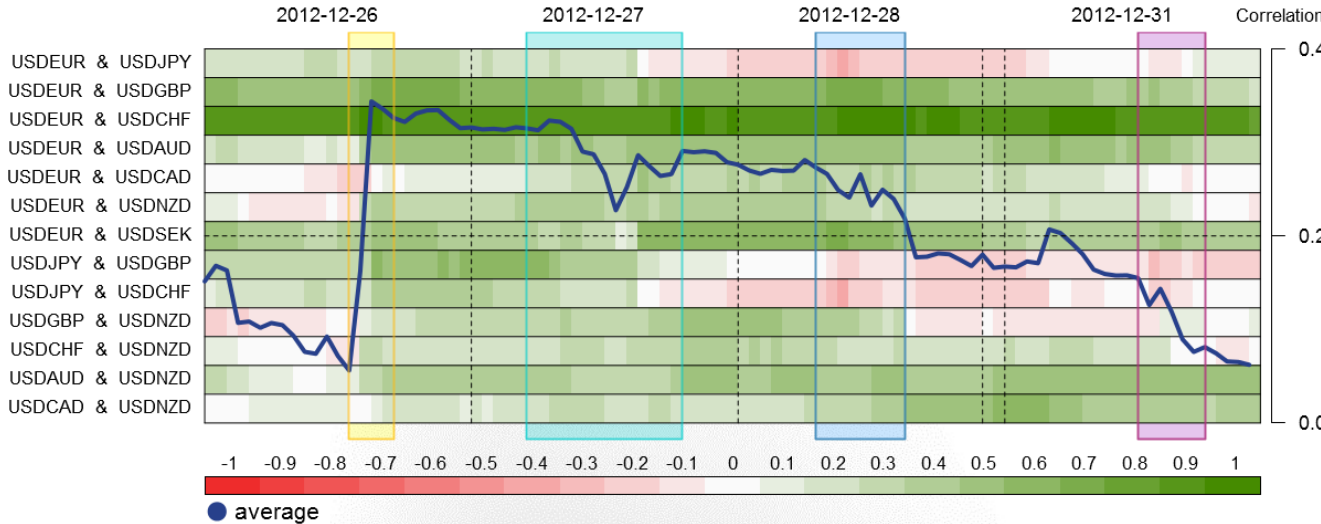
Volatility Index (for the observed period)

| | 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 | 3 | 2.3 | 2.5 | 2.7 | 4.7 | 2.6 | 2.5 | 3.4 | 2.2 | 2.4 | 4 |
| Min | 0.5 | 0.3 | 0.4 | 0.3 | 0.5 | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 | 0.4 |
| Average | 1 | 1 | 1 | 1.1 | 1.1 | 1.2 | 1 | 0.9 | 1.1 | 0.8 | 0.9 | 1.1 |



Currency Significance

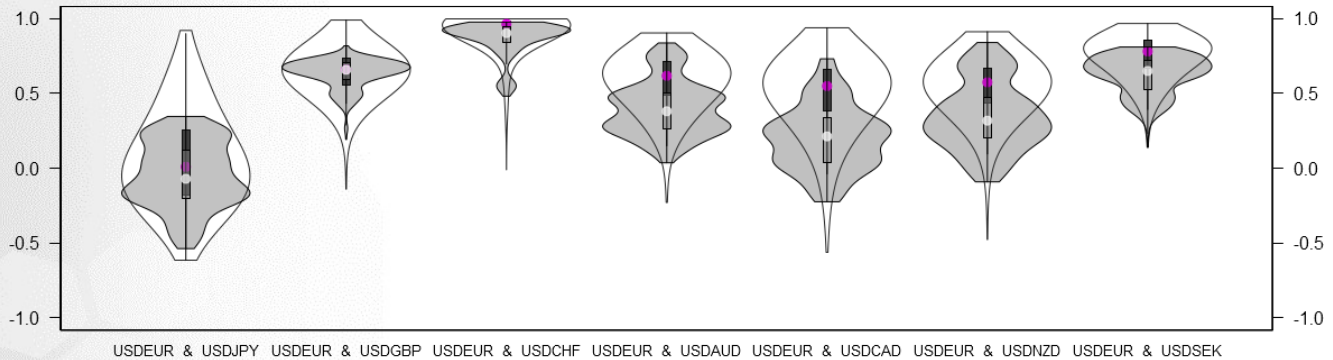
Correlations



The Dollar reached a notable level of significance on Dec 26, as there was no news other but on the U.S. economy, manufacturing sector of which recovered, but at a substantially slower pace than previously estimated. Since then the average correlation coefficient has been on a decline, gradually sliding from 0.39 down to 0.14, mainly because of USD/JPY that refused to go in the same direction as most of other USD crosses, being wayward in this sense. This also implies that movements of the Japanese Yen elicit responses of greater extent from the market than those of the Dollar.

Another reason for the importance of the USD to fall were weakening correlations of USD/EUR with USD/CAD and USD/NZD that plunged from 0.46 and 0.5 to 0.15 and 0.23, respectively. The only trustworthy interrelationship now seems to be USD/EUR and USD/CHF, as these two currency pairs tend to co-move in 9 out of 10 cases, regardless of whether we analyse solely the last week or the last six months, the difference being neglectable. An estimate of correlation between USD/EUR and USD/GBP could be considered reliable as well, as it fluctuates closely to 0.6 at least since the start of already past year's July.

Correlations (20 vs 130 days)

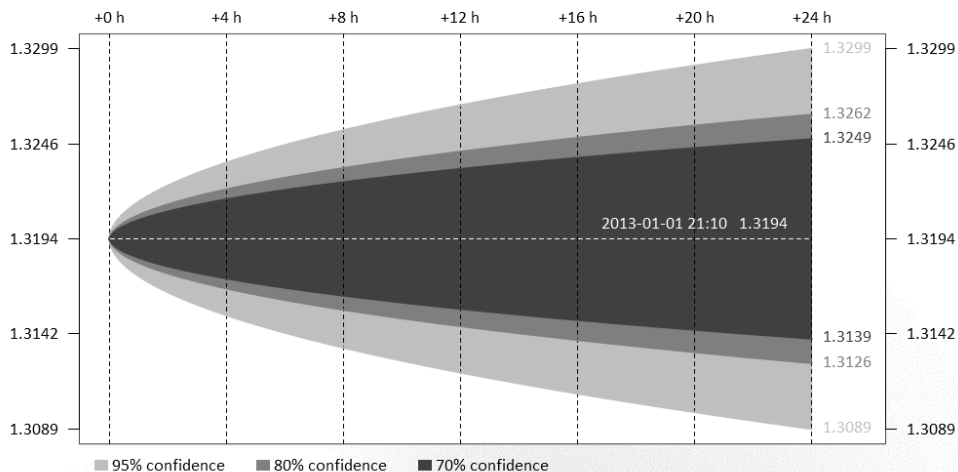


Mean Correlation Coefficient (with USDEUR)

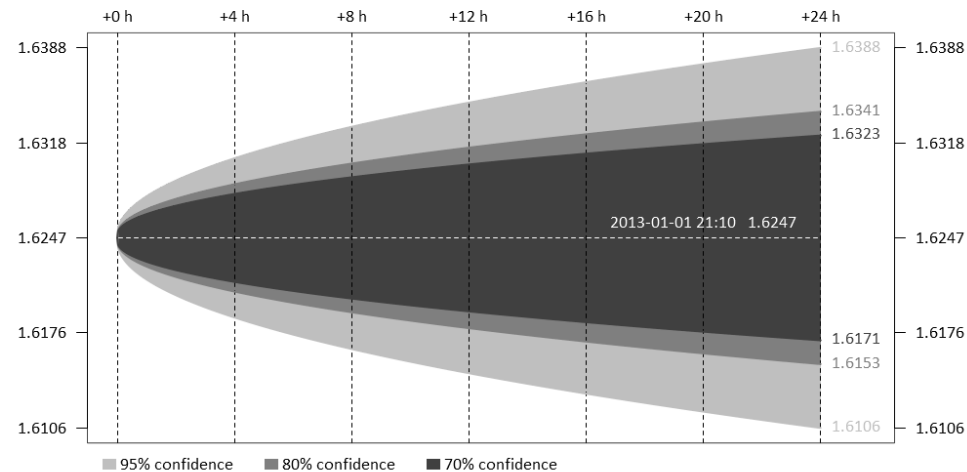
| Days | USDJPY | USDGBP | USDCHF | USDAUD | USDCAD | USDNZD | USDSEK |
|------|--------|--------|--------|--------|--------|--------|--------|
| 5 | 0.04 | 0.55 | 0.92 | 0.4 | 0.15 | 0.23 | 0.47 |
| 20 | -0.05 | 0.63 | 0.86 | 0.4 | 0.2 | 0.34 | 0.62 |
| 130 | -0.05 | 0.64 | 0.93 | 0.55 | 0.46 | 0.5 | 0.66 |

Confidence Intervals for Next 24 Hours

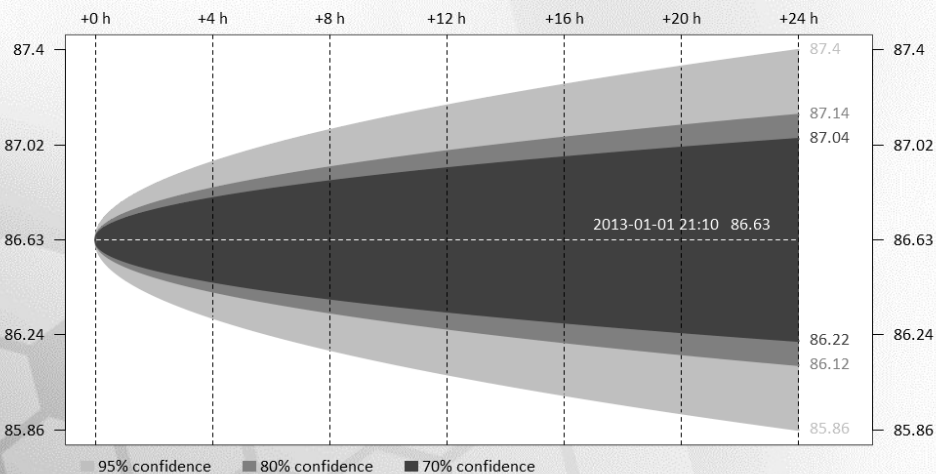
EURUSD Potential Rates



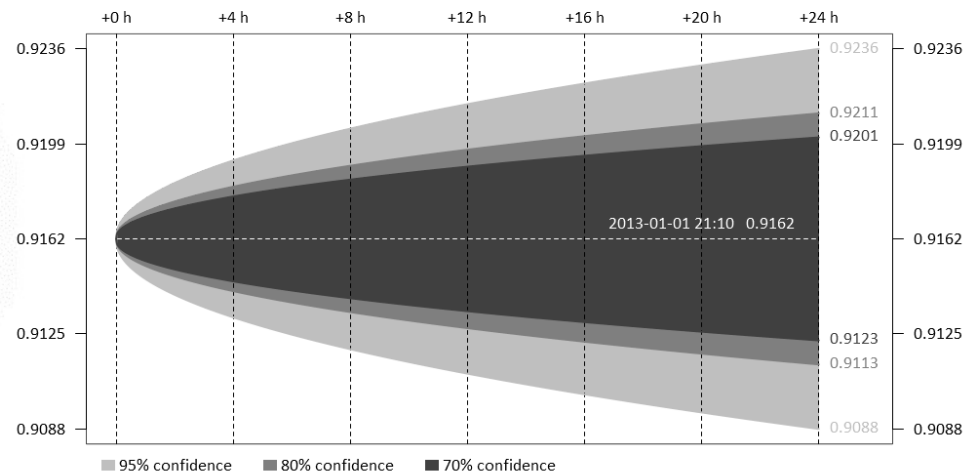
GBPUSD Potential Rates



USDJPY Potential Rates



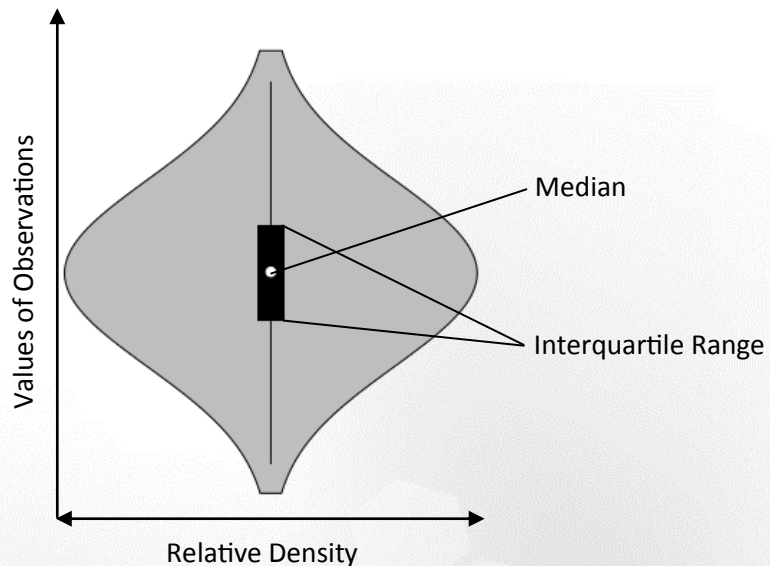
USDCHF Potential Rates



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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