



GBP

04/01/2013



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Market Research





Dominant Events for the British Pound

Yellow Area

December 28

07:00 - 17:00

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

Turquoise Area

December 31

12:00 - 19:00

- Deadline for the "Fiscal Cliff" Deal [\[link\]](#)
- Chinese Manufacturing PMI [\[link\]](#)

Blue Area

January 2

00:00 - 17:00

- U.S. Policymakers Reach a Consensus [\[link\]](#)

Purple Area

January 3

08:00 - 20:00

- U.K. Construction PMI [\[link\]](#)
- U.S. ADP Non-Farm Employment Change [\[link\]](#)
- U.S. Unemployment Claims [\[link\]](#)
- FOCM Meeting Minutes [\[link\]](#)

GBP Currency Index Range

0.4%

0.6%

0.32%

0.45%

Average GBP/USD
Volatility Index

1.39

1.5

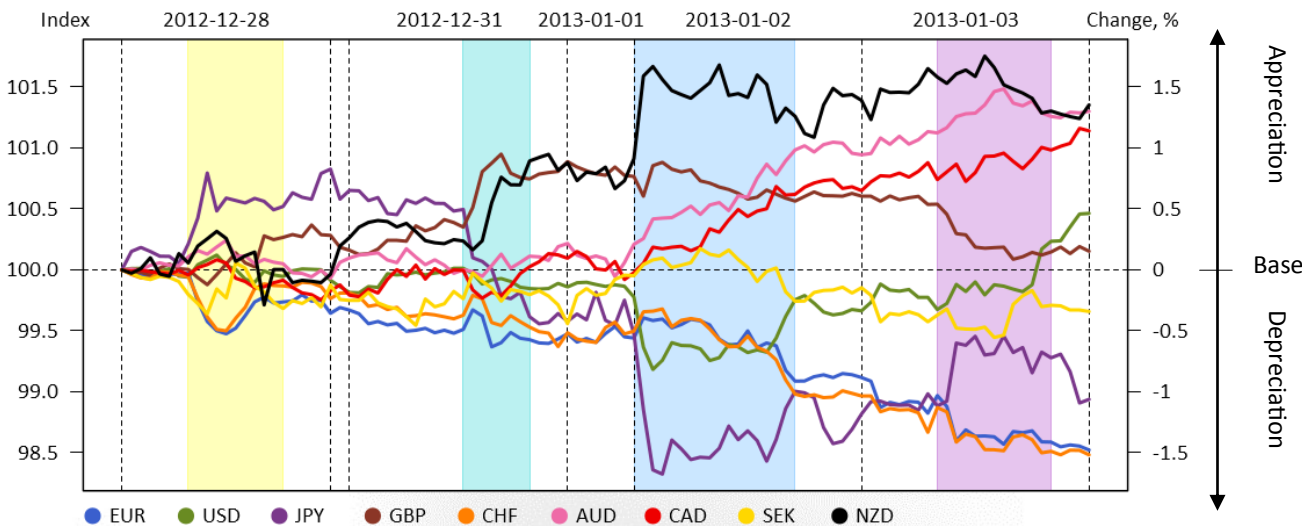
1.48

1.18



Relative Currency Strength

Currency Indices

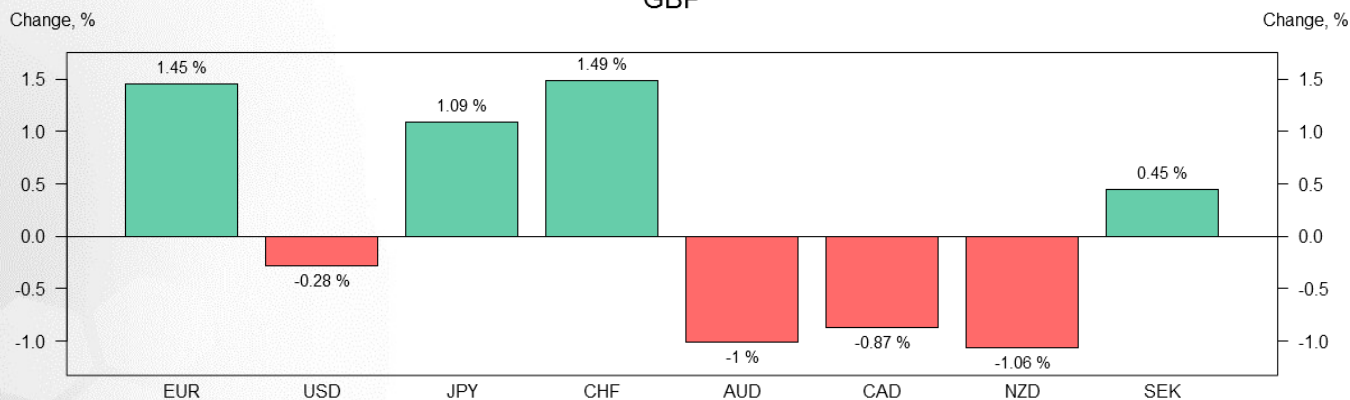


As demonstrated by performance of the currency index for the last two months, the Great Britain Pound is hesitant to travel far away from its base value, on average being stable relatively to its major counterparts. In case the deviations do in fact occur, they are often followed by offsetting moves, bringing Sterling's value back to status quo. Even though the monthly changes of EUR and CHF are lower (0.26% and 0.47%) than those of the Sterling, the distances between their peaks and troughs are significantly wider, implying that the Pound is less inclined to respond to market events and changes in the sentiment.

Such neutrality of the currency is secured by the fact that Bank of England stays in shadow and avoids coming into the spotlight, unlike the Federal Reserve and the Bank of Japan. No new measures were undertaken recently by the U.K. monetary authority and the market does not expect any significant variation of the policy, which is currently deemed to be fairly predictable.

The notable distortion, however, could be introduced provided that current estimates miss U.K. real economic growth in the last quarter of 2012. Still, given prior readings, the risk to the upside seems to be more likely, which translates into the outlook being from neutral to positive on the British Pound.

GBP



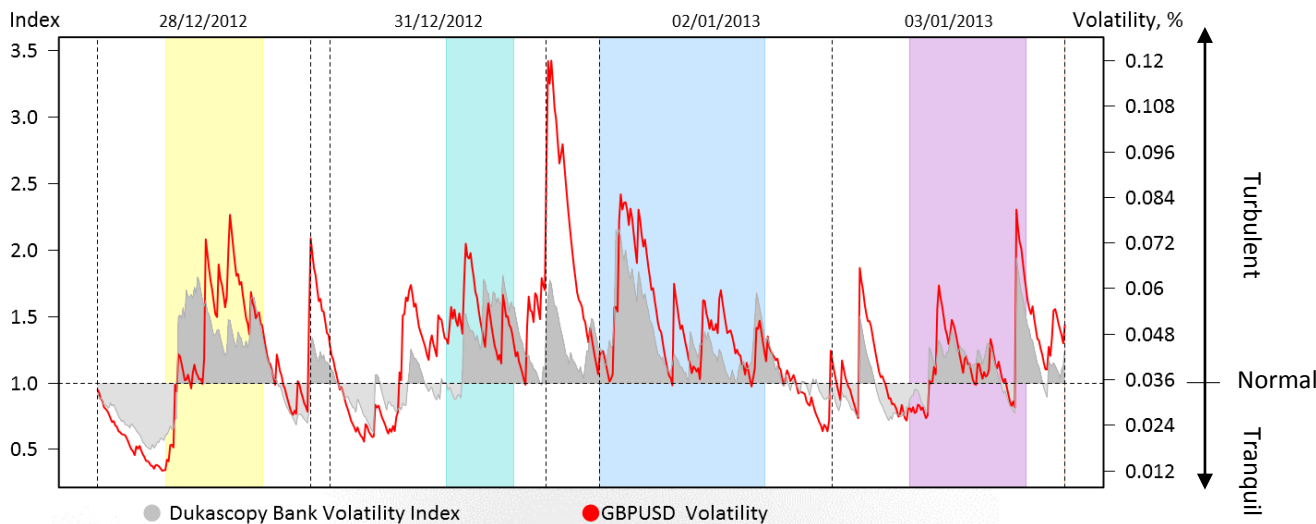
Currency Index Change

Days	EUR	USD	JPY	GBP	CHF	AUD	CAD	SEK	NZD
5	-1.48%	0.46%	-1.06%	0.15%	-1.52%	1.30%	1.14%	-0.34%	1.35%
20	0.26%	0.79%	-6.74%	0.57%	0.47%	0.65%	1.06%	1.53%	0.98%
130	2.72%	-1.63%	-12.23%	1.74%	2.00%	0.20%	1.07%	4.54%	1.50%



Volatility

Volatility



As would be expected, high volatility values clustered around Jan 1, when the markets were closed, since U.S. politicians have put off the final deal until the very last moment. Accordingly, the investors were not able to react to the eventual decision until Wednesday, but have adjusted their positions before that properly with respect to the Sterling at least, range of currency index of which was only 0.32% for Jan 2. The same could be hardly told about the rest of the currencies, values of which varied from 0.43% (EUR) to 1.15% (JPY) that day, implying that initial expectations were different from the actual outcome.

Overall, the market demonstrated both high and protracted volatility during the last five days, being turbulent 63% of the time. Only a week ago this measure was 31%, meaning that lately the values of Dukascopy Bank Volatility Index that exceed a level of historical variability appeared two times more frequently. Nevertheless, the probability of such responsive environment among exchange rates remaining the next week as well is quite low, as momentum currently being carried by some of the pairs should eventually exhaust itself. Moreover, as we noted earlier, intervals of heightened sensitivity are usually followed by prolonged periods of decreased volatility.

Elevated Volatility (% of the observed period)

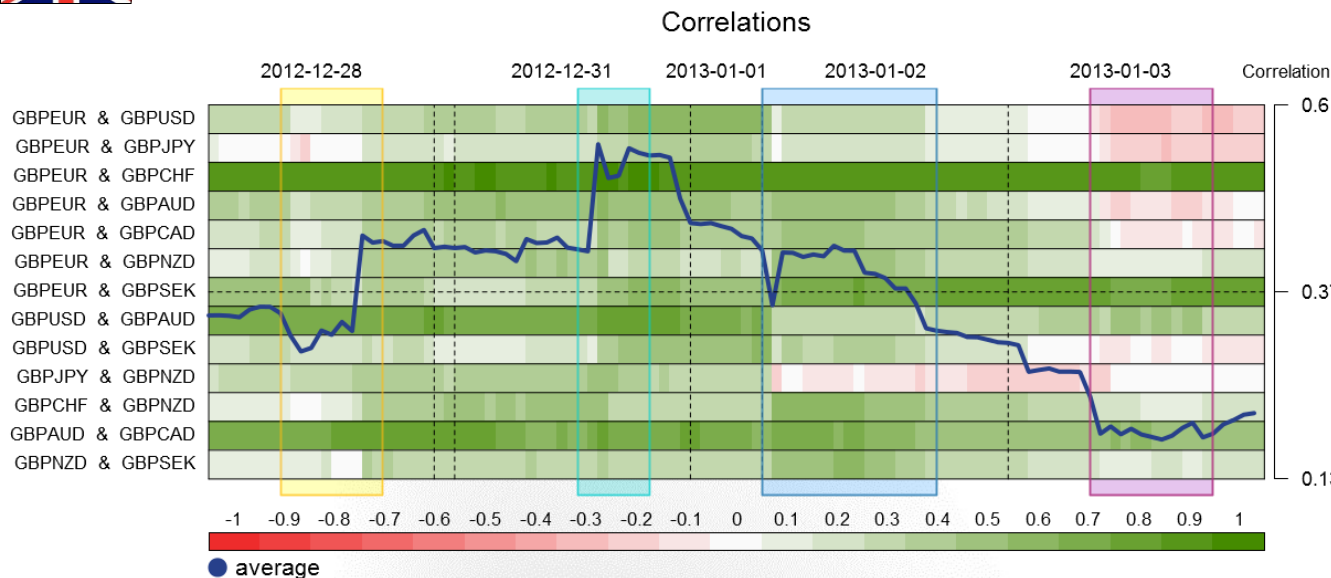
Market	EUR/USD	USD/JPY	GBP/USD	AUD/USD	USD/CAD	USD/CHF	EUR/JPY	EUR/GBP	EUR/CHF	USD/SEK	NZD/USD
63	64	47	71	61	70	62	46	65	25	51	56

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	3.4	2.9	4.7	2.8	2.5	3.6	2.1	2.4	5.1
Min	0.5	0.3	0.4	0.3	0.5	0.4	0.4	0.3	0.3	0.4	0.3	0.4
Average	1.1	1.2	1	1.3	1.2	1.3	1.2	1	1.3	0.9	1	1.2



Currency Significance

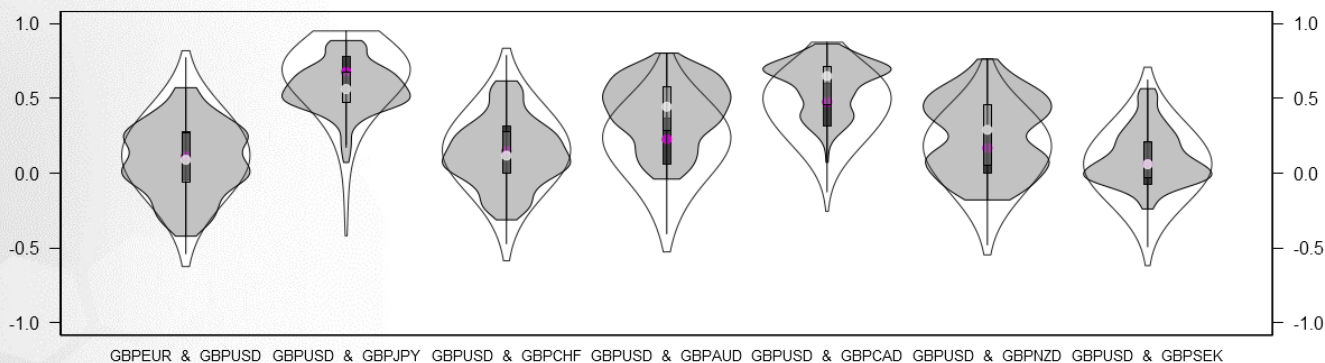


Significance of the Pound has been increasing up until Jan 1, as market participants were getting ready to fundamental shifts that the “fiscal cliff” was promising. Subsequently, presumably due to qualitative forecasts of those who were exposed to the U.K. currency, there was no need for them to alter positioning, thereby leaving price of the GBP largely unchanged.

Over the last few days the average correlation surged as high as 0.56, but afterwards slid down to 0.18, as the Sterling gradually went out of sight of the market, focusing on different issues that in turn did not concern U.K. economy.

Study of distributions of 50-hour rolling correlations between GBP crosses has led us to a conclusion that almost none of them are stable, since there is no clearly distinguished modes—values that are found considerably more frequently than the rest. This pattern is especially noticeable when looking at interdependence of GBP/USD with GBP/EUR and GBP/NZD, which take values from 0.57 to -0.34 and from 0.61 and -0.15, respectively, with nearly equal probabilities.

Correlations (20 vs 130 days)

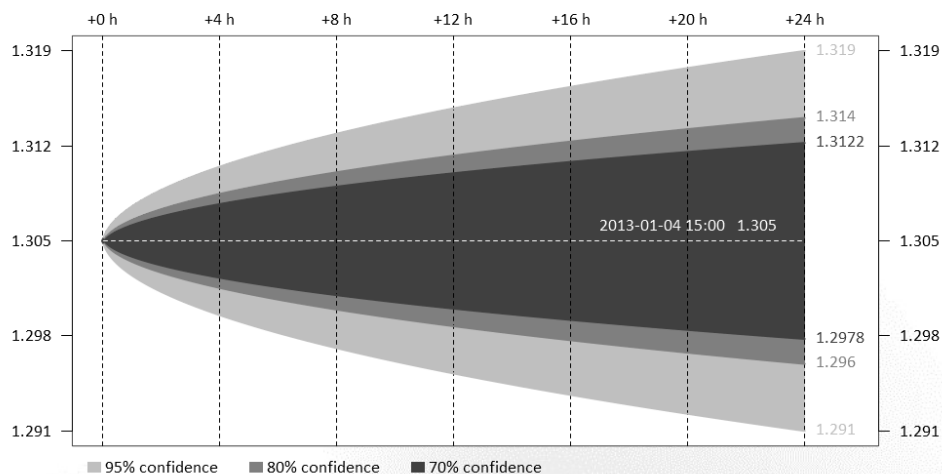


Mean Correlation Coefficient (with GBPUSD)

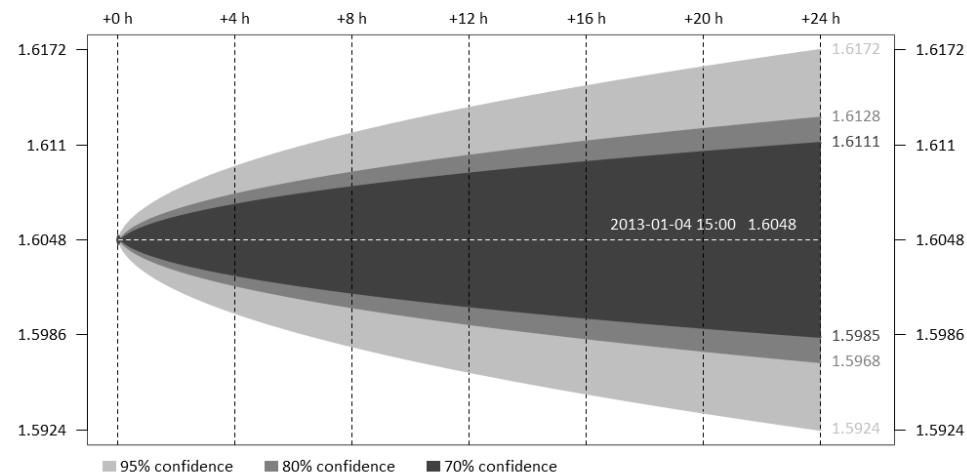
Days	GBPEUR	GBPJPY	GBPCHF	GBPAUD	GBPCAD	GBPNZD	GBPSEK
5	0.2	0.76	0.22	0.49	0.5	0.2	0.21
20	0.09	0.57	0.13	0.42	0.59	0.26	0.1
130	0.09	0.62	0.15	0.25	0.48	0.17	0.09

Confidence Intervals for Next 24 Hours

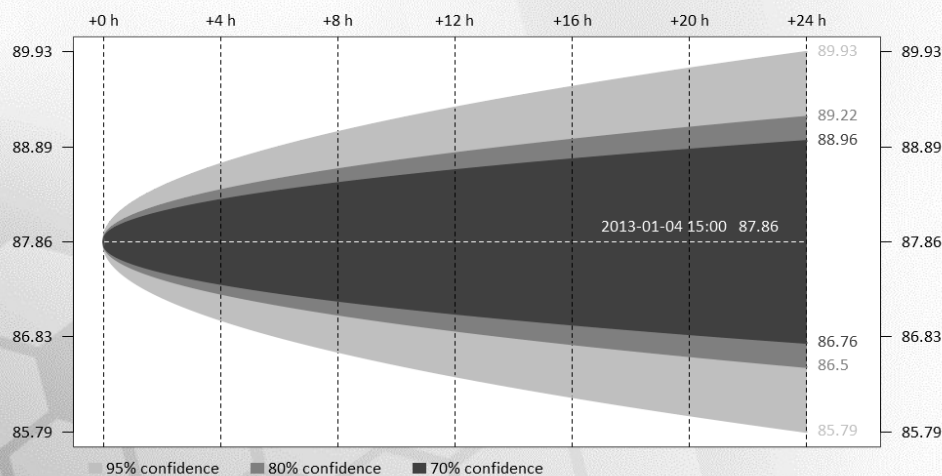
EURUSD Potential Rates



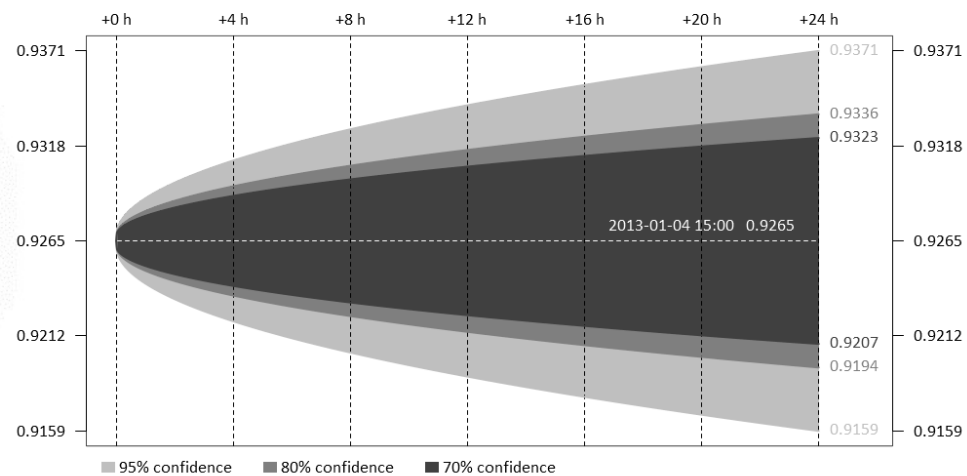
GBPUSD Potential Rates



USDJPY Potential Rates



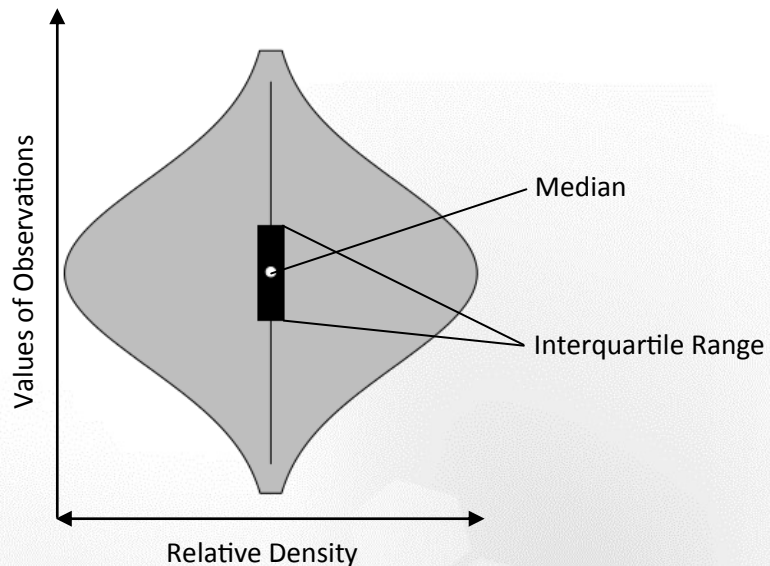
USDCHF Potential Rates



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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