



USD

23/01/2013



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RESEARCH PRODUCTS



Market Research





Dominant Events for the U.S. Dollar

Yellow Area

January 16

06:00 - 17:00

- Japanese Consumer Confidence [\[link\]](#)
- Eurozone CPI [\[link\]](#)
- U.S. CPI [\[link\]](#)
- U.S. Capacity Utilization Rate [\[link\]](#)

Turquoise Area

January 17

03:00 - 19:00

- U.S. Housing Starts [\[link\]](#)
- U.S. Unemployment Claims [\[link\]](#)
- U.S. Philly Fed Manufacturing Index [\[link\]](#)

Blue Area

January 18

07:00 - 17:00

- Japanese Industrial Production [\[link\]](#)
- U.K. Retail Sales [\[link\]](#)
- U.S. UoM Consumer Sentiment [\[link\]](#)

Purple Area

January 21

07:00 - 16:00

- German PPI [\[link\]](#)
- Eurogroup Meeting [\[link\]](#)
- Bank Holiday in the U.S.A.

Orange Area

January 22

02:00 - 16:00

- BoJ Monetary Policy Statement [\[link\]](#)
- German ZEW Economic Sentiment [\[link\]](#)
- U.S. Existing Home Sales [\[link\]](#)

USD Currency Index Range

0.2%

0.17%

0.37%

0.15%

0.38%

Average EUR/USD Volatility Index

1.3

1.01

1.4

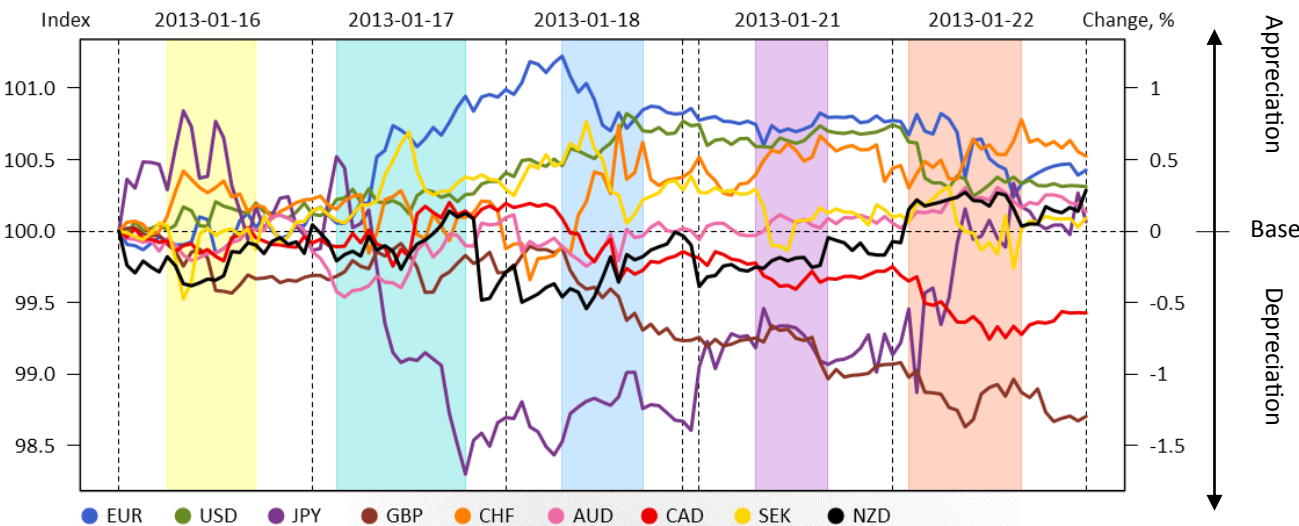
0.73

1.2



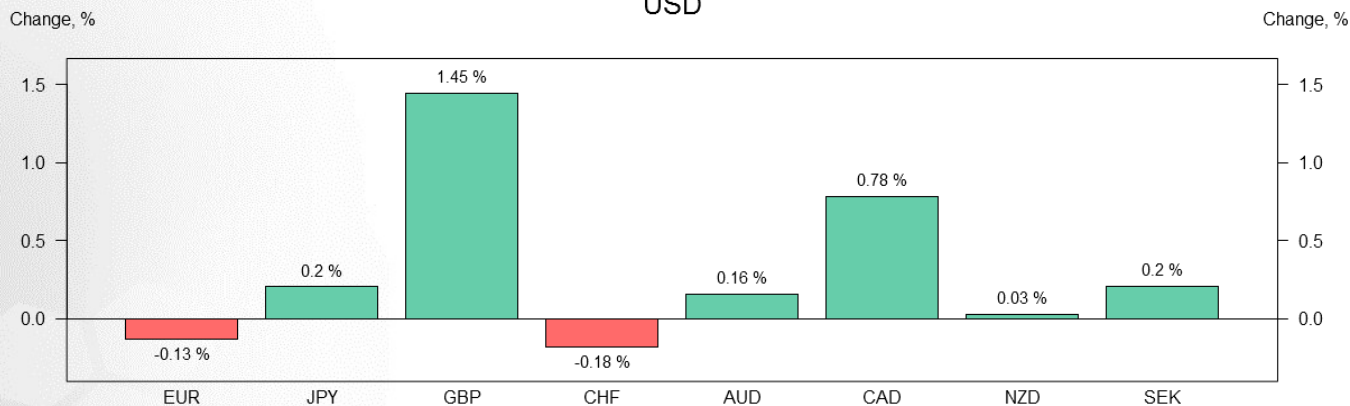
Relative Currency Strength

Currency Indices



The U.S. Dollar has ended the period of the last five trading days on the bullish side, on average appreciating 0.31% relatively to its major counterparts. However, the currency did not move towards this point in a straight line and at some point, on Jan 18, was 0.82% above the initial level of 100. These gains were subsequently trimmed by the BoJ monetary policy statement, possibly the most awaited event this week. Judging by the price action in the foreign exchange, the Japanese monetary authority was unable to meet expectations of the market, initiating a rally of the Yen on all fronts.

Nevertheless, the outlook on the greenback remains bullish, as the action of the BoJ on Jan 22 was an isolated case and is thereby likely to have a subdued effect on further development of the trend in USD crosses. Accordingly, appreciation of the buck seems to be a logical scenario, considering latest facts, as the data on the United States economic performance is consistently positive. The only factor that currently impedes growth of the Dollar's value is a rapidly approaching issue of the debt limit, auspicious resolution of which should relieve the pressure on the U.S. Dollar and, as a result boost demand for it. Until then any rallies in USD currency index are anticipated to be shallow, but should still overpower dips in the near future.



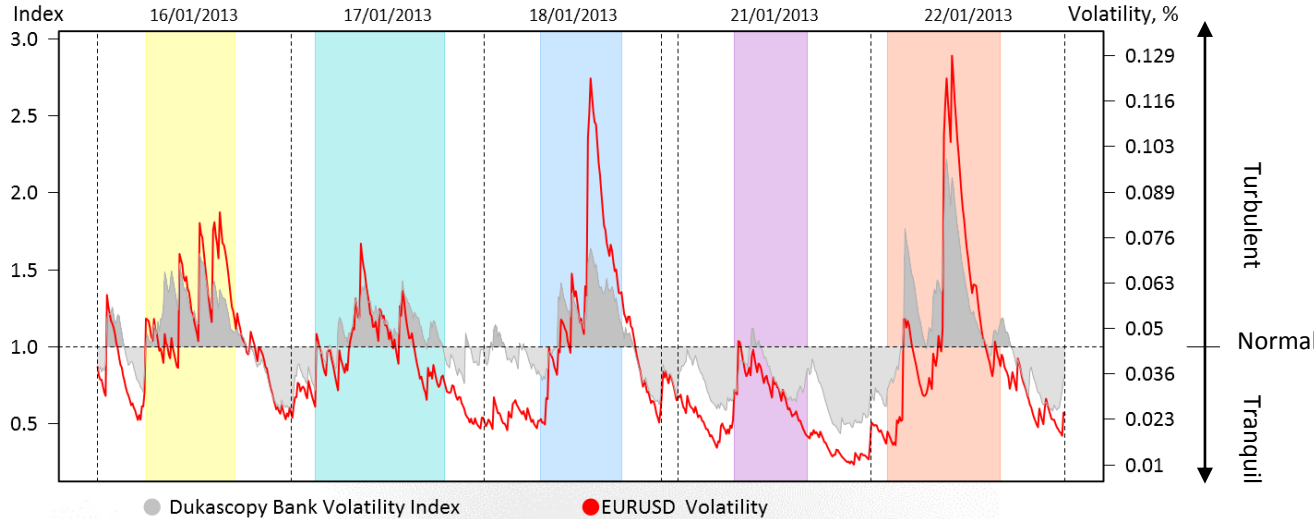
Currency Index Change

Days	EUR	USD	JPY	GBP	CHF	AUD	CAD	SEK	NZD
5	0.43%	0.31%	0.07%	-1.30%	0.52%	0.14%	-0.57%	0.09%	0.29%
20	1.32%	0.22%	-5.48%	-1.68%	-1.35%	2.27%	0.15%	1.03%	2.85%
130	7.78%	-3.15%	-17.28%	-0.68%	4.34%	0.02%	-0.02%	4.89%	4.07%



Volatility

Volatility



Events early on Jan 22 had a notable effect on the exchange rates forcing them to move 2.2 times faster than they usually do. First, the market participants were disappointed with less aggressive than estimated action of the Bank of Japan to energise the economy. Then the Dukascopy Bank Volatility attained its highest value, when the market was anticipating the results of the survey conducted by ZEW. The sentiment among the Eurozone institutional investors and analysts turned out to be considerably better than the forecast. Nevertheless, the impact proved to be short-lived and was unable to fully negate the momentum in the market.

Within this context there are three currency pairs that are advised to be approached with caution, since their volatility measures are substantially higher than those of their peers. These flagged pairs are USD/JPY, EUR/JPY and EUR/CHF, as their most recent behaviour is significantly different from their historical performance. Volatility indices of all of them were more than a half of the time above the mark of 1.

Conversely, USD/CAD and USD/CHF are the least responsive currency couples and thus largely stay still. However, this feature implies that the emerging trends in these currency pair are more reliable and are not subjects to sudden changes introduced by the unexpected news.

Elevated Volatility (% of the observed period)

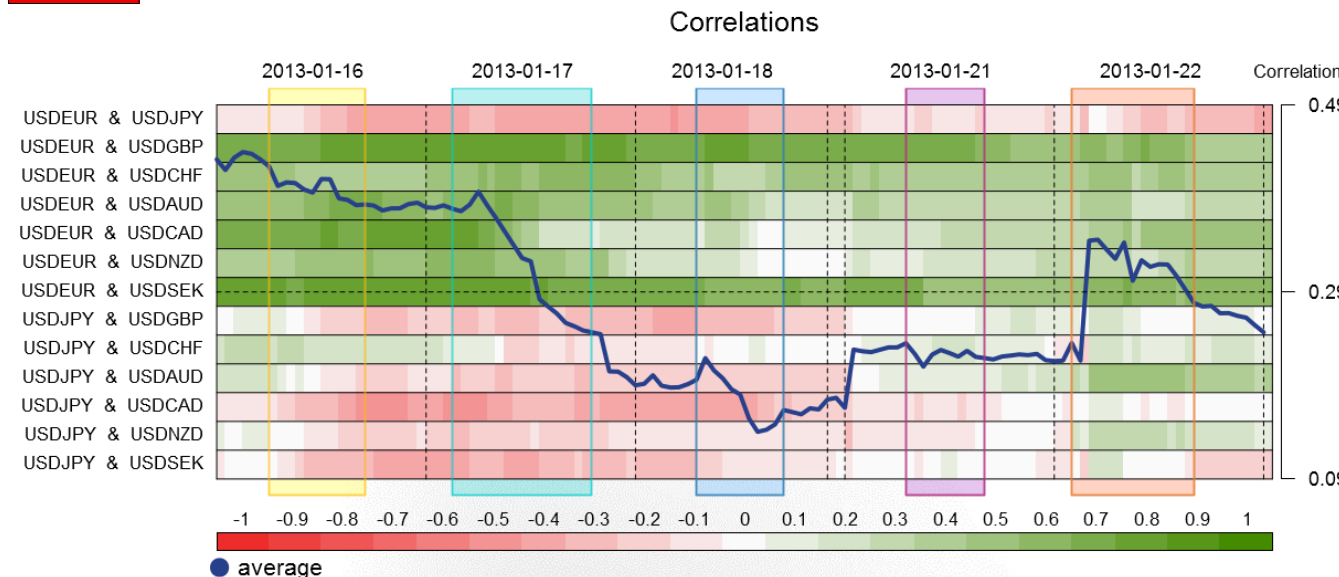
Market	EUR/ USD	USD/ JPY	GBP/ USD	AUD/ USD	USD/ CAD	USD/ CHF	EUR/ JPY	EUR/ GBP	EUR/ CHF	USD/ SEK	NZD/ USD
45	31	58	35	24	22	37	59	35	75	37	22

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	2.9	3.6	2.3	2	1.7	2	3	2.8	4.5	1.9	3.9
Min	0.4	0.2	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.2	0.4
Average	1	0.9	1.1	0.9	0.9	0.8	1	1.1	0.9	1.5	0.9	0.9



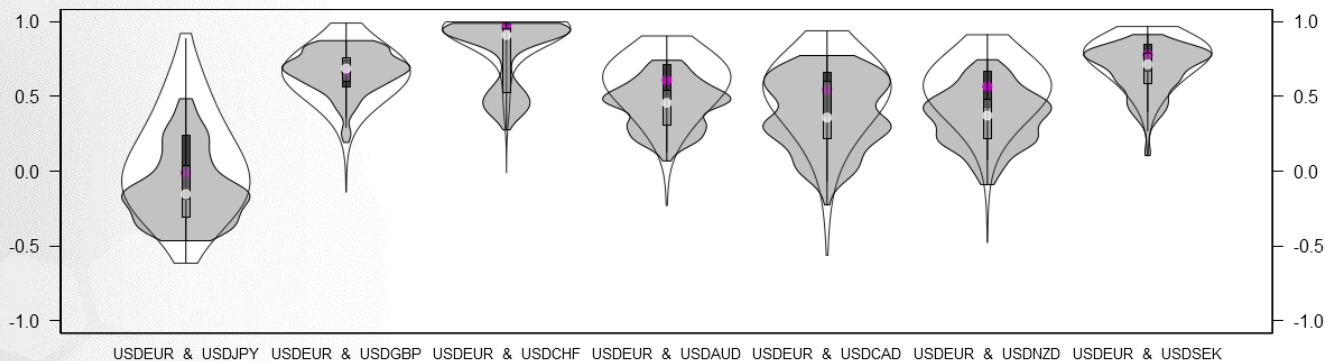
Currency Significance



In light of the fact that investors were paying increasingly close attention to the BoJ, whether it is going to adjust its policy in accordance with guidelines of the newly formed government, the importance of the Japanese Yen has been on the rise as well. This was enticing the market participants to be less attentive to the data releases in the U.S., bringing its average correlation coefficient down, as the buck was exhibiting decreased influence on its crosses. This is also explained by the bank holiday in the U.S. on Monday and a corresponding lack of news from the region.

An overwhelming majority of interdependencies among USD crosses have noticeably weakened over the last few days. For example, the average correlation between USD/EUR and USD/JPY since Jan 16 was -0.28 , whereas the six-month average was -0.07 . The greatest change, however, was observed in a relation between USD/EUR and USD/CHF, which have been always closely linked. The mean of their 50-hour rolling correlation was generally fluctuating around 0.9 with very little deviations. The most recent data, on the other hand, reveal an unprecedented phenomenon, since these two currency pairs are now moving similarly in less than 50% of the observed cases.

Correlations (20 vs 130 days)

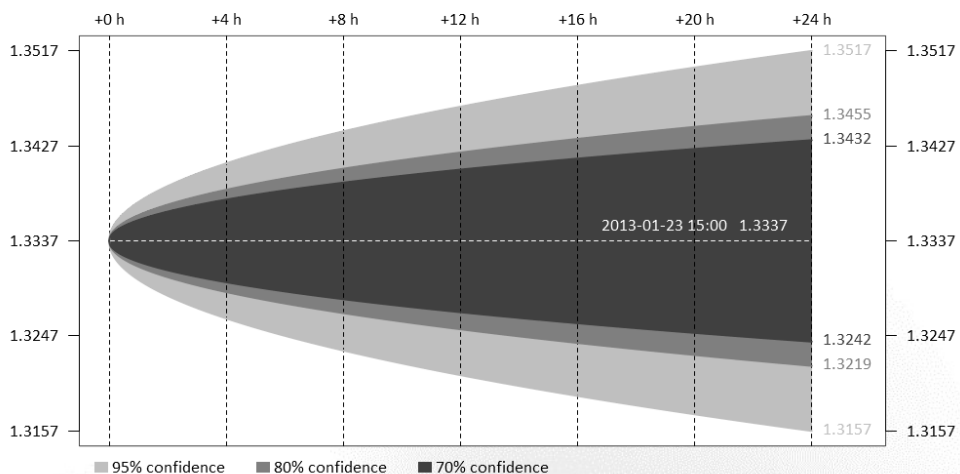


Mean Correlation Coefficient (with USDEUR)

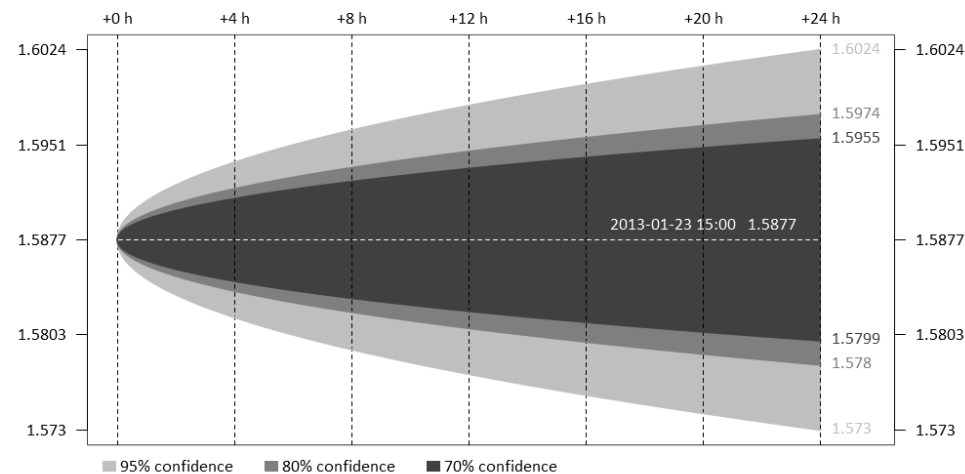
Days	USDJPY	USDGBP	USDCHF	USDAUD	USDCAD	USDNZD	USDSEK
5	-0.28	0.66	0.45	0.39	0.32	0.27	0.63
20	-0.11	0.67	0.79	0.44	0.39	0.36	0.67
130	-0.07	0.64	0.9	0.53	0.44	0.47	0.66

Confidence Intervals for Next 24 Hours

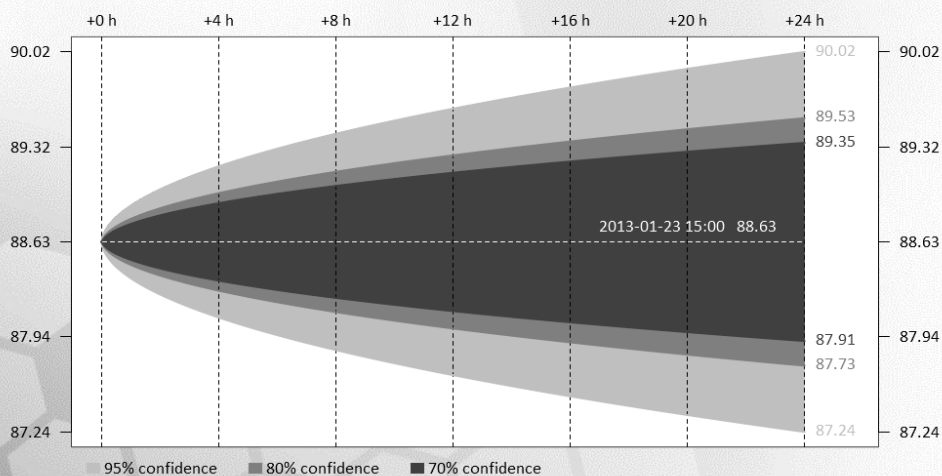
EURUSD Potential Rates



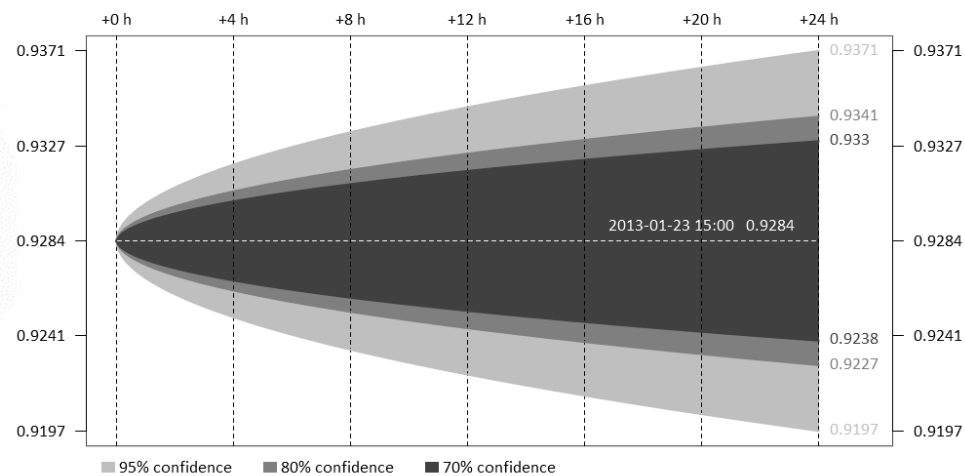
GBPUSD Potential Rates



USDJPY Potential Rates



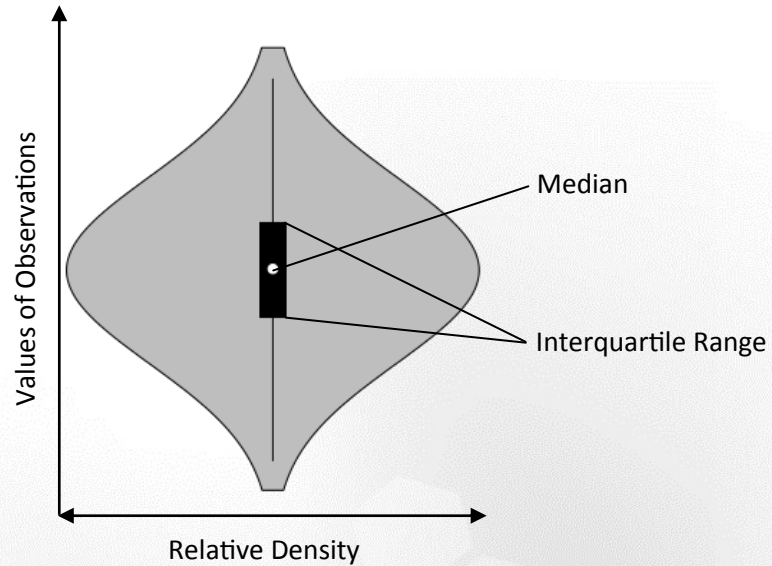
USDCHF Potential Rates



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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