



GBP

25/01/2013



DUKASCOPY
RESEARCH PRODUCTS



Market Research





Dominant Events for the British Pound

Yellow Area

January 18

07:00 - 18:00

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

Turquoise Area

January 21

08:00 - 18:00

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

Blue Area

January 22

03:00 - 21:00

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

Purple Area

January 23

06:00 - 17:00

- U.K Claimant Count Change [\[link\]](#)
- BOE MOC Meeting Minutes [\[link\]](#)
- U.K. Unemployment Rate [\[link\]](#)
- Eurozone consumer Confidence [\[link\]](#)

Orange Area

January 24

07:00 - 18:00

- Eurozone PMI [\[link\]](#)
- U.K. Mortgage Approvals [\[link\]](#)
- U.S. Unemployment Claims [\[link\]](#)

GBP Currency Index Range

0.57%

0.37%

0.39%

0.37%

0.33%

Average GBP/USD Volatility Index

1.1

0.91

1.07

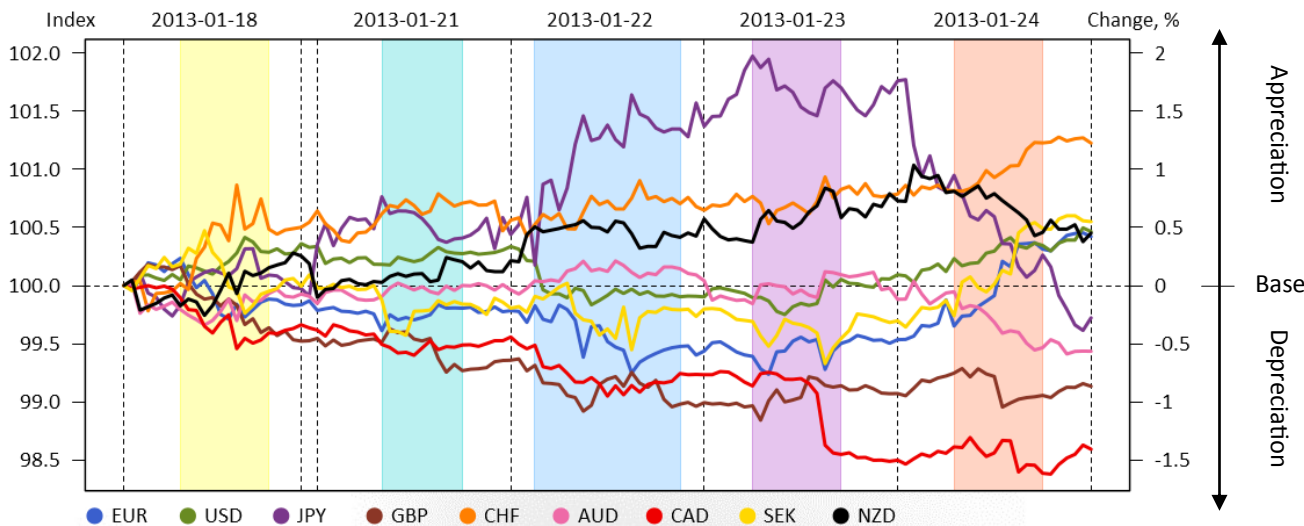
1.21

1.16



Relative Currency Strength

Currency Indices

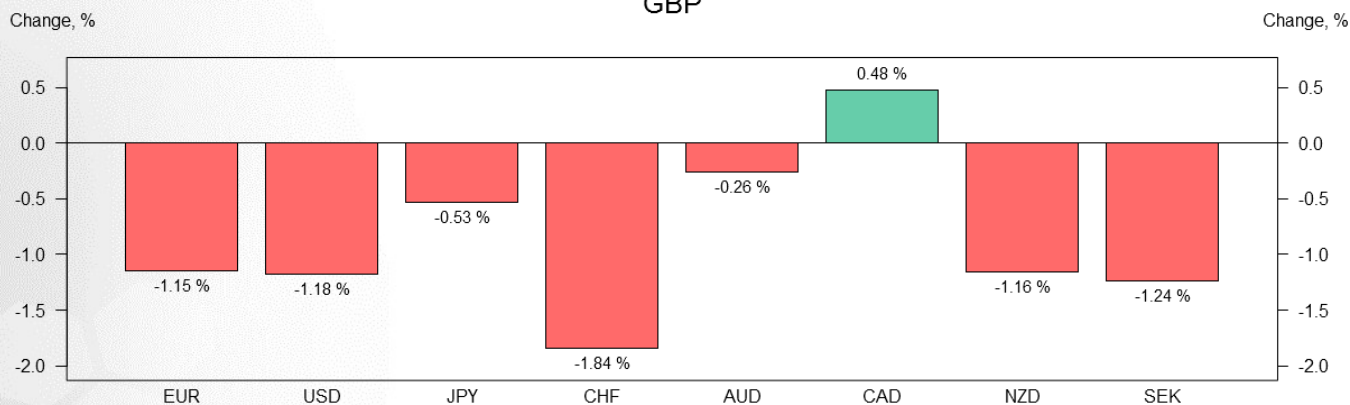


Before Jan 18 the Great Britain Pound had already showed some signs of weakness, but remained buoyant nevertheless, as its value continued to exhibit resilience and unresponsiveness to economic events in the world. The latest data, e.g. retail sales, however, have undercut the Sterling, which proved to be unable to benefit from improving readings on the labour market, conditions where are in fact ameliorating. Presumably the market participants were convinced that the GDP numbers published today will not surprise to the upside. As it turns out, the pessimists were right to expect disappointment, which largely erases all of the optimism amid positive statistics published lately.

Accordingly, instead of paring the accumulated during the last month losses (-1.7%), the Sterling has accelerated debasement and declined 0.87% during the last five trading days, calling into question its ability to stay afloat in the future, as investors obviously are not willing to give the United Kingdom the benefit of doubt any longer.

The only currency that was even more heavily sold than the Pound was the Canadian Dollar, since the Bank of Canada sounded quite dovish in its latest statement, announcing the plans to prolong the period of low interest rates. In the rest of its crosses the GBP has fallen from 0.26% (against AUD) to 1.84% (against CHF).

GBP



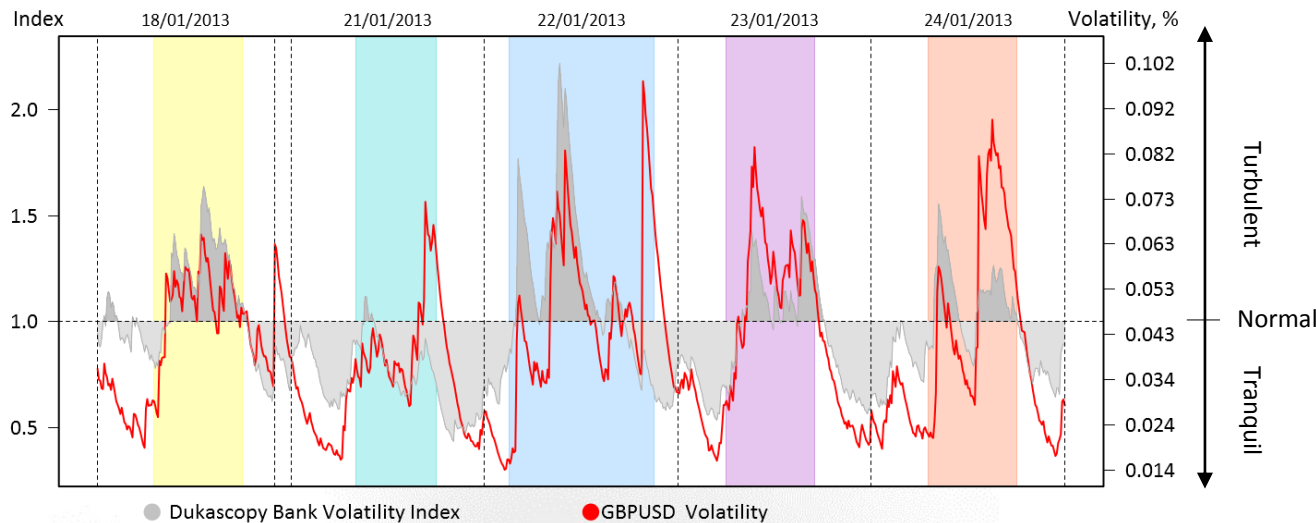
Currency Index Change

Days	EUR	USD	JPY	GBP	CHF	AUD	CAD	SEK	NZD
5	0.42%	0.46%	-0.28%	-0.87%	1.22%	-0.56%	-1.41%	0.55%	0.45%
20	1.80%	0.80%	-5.90%	-1.70%	-1.20%	1.79%	-0.35%	0.93%	2.96%
130	8.37%	-2.38%	-18.69%	-0.26%	4.53%	-0.83%	-0.67%	5.58%	4.25%



Volatility

Volatility



It appears that the market has a definite amount of “energy” for each week, as elevated volatility one day will very much likely lower activity the next day, thus maintaining the balance. Being that the monetary policy statement of the Bank of Japan has stirred the foreign exchange market early Tuesday, the following days were substantially less turbulent than they are usually are. Dukascopy Bank Volatility Index jumped as high as 2.2 on Jan 22 and was declining since then with each subsequent day. Nonetheless, uneasiness demonstrated by the cable did not wane, but was preserved in light of proximity of news on whether the U.K. would be able to avoid another quarter of so much feared recession.

Still, GBP/USD is far from being among the most turbulent pairs, exceeding its historical volatility 34% of the time, just like the market on average (36%). The same measure for EUR/CHF, for example, was 60%. The highest maximum volatility index values were also reached by different currency pairs, namely USD/CAD and EUR/CHF. Nevertheless, we may expect more sharp movements in the Cable in the upcoming weeks, as it is gradually losing its link to EUR/USD, during the second half of the past year correlation between these two currency pairs amounted to 0.9, but in January of the current year it turned negative and became -0.3.

Elevated Volatility (% of the observed period)

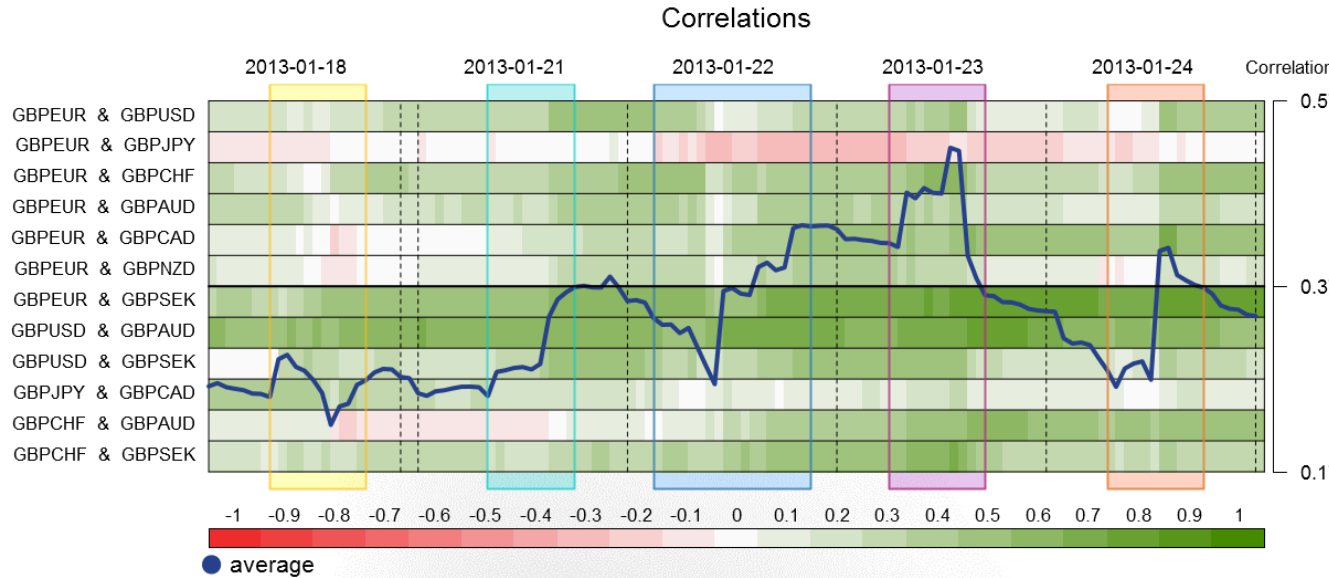
Market	EUR/ USD	USD/ JPY	GBP/ USD	AUD/ USD	USD/ CAD	USD/ CHF	EUR/ JPY	EUR/ GBP	EUR/ CHF	USD/ SEK	NZD/ USD	
	36	30	41	34	26	26	23	44	41	60	36	24

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	2.1	1.7	5.2	2	3	2.8	4.5	2.3	2
Min		0.4	0.2	0.4	0.3	0.3	0.4	0.3	0.3	0.3	0.4	0.2	0.4
Average		0.9	0.9	1	0.9	0.9	0.9	0.8	1	1	1.3	0.9	0.9



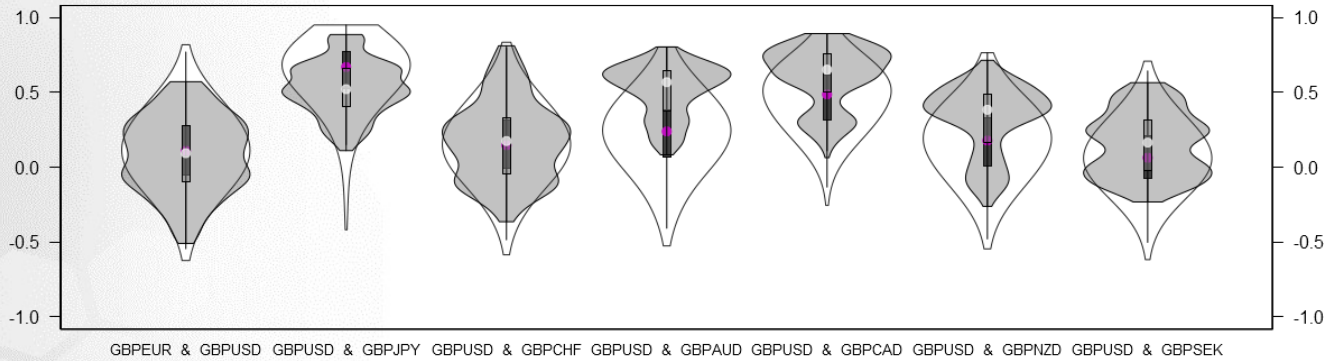
Currency Significance



The extent to which the British Pound impacts the exchange rates was unstable throughout the last five days. The measure that imitates importance of the currency, the average 50-hour rolling correlation coefficient, was fluctuating in the range between 0.52 and 0.22, starting the period with the lowest value and peaking at 0.52 on Jan 23, the day abundant with the updates on the well-being of the U.K. economy, which explains the elevated values. As the flow of news from the country thinned, the significance of the Sterling fell along, down to the normal levels.

We continue to observe major changes in the way how the prices interact. While some of relations, such as GBP/USD & GBP/EUR, remain intact, even preserving the distributions of correlation values, there are a few very noticeable deviations in interrelationships of GBP/USD with GBP/CHF, GBP/AUD and GBP/NZD, which, for the most recent period of five days, were incomparably stronger than for the last six months, when they were largely insignificant. Against this background correlation between GBP/USD and GBP/JPY stands out by weakening instead of intensifying, as the majority does.

Correlations (20 vs 130 days)

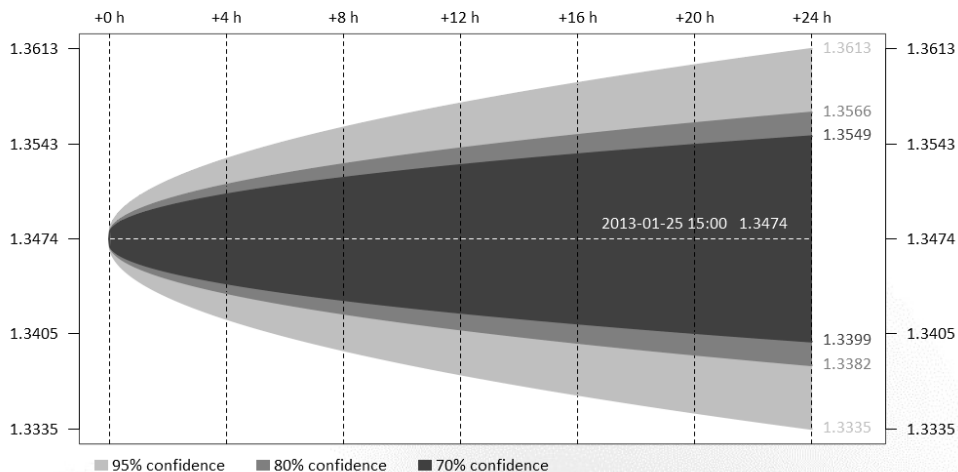


Mean Correlation Coefficient (with GBPUSD)

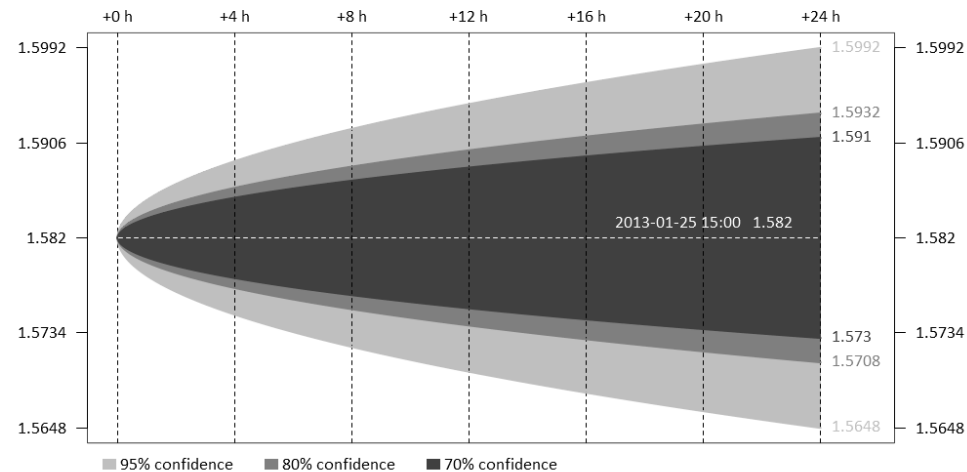
Days	GBPEUR	GBPJPY	GBPCHF	GBPAUD	GBPCAD	GBPNZD	GBPSEK
5	0.3	0.42	0.45	0.64	0.53	0.5	0.34
20	0.08	0.53	0.18	0.52	0.6	0.32	0.15
130	0.09	0.59	0.16	0.29	0.5	0.2	0.08

Confidence Intervals for Next 24 Hours

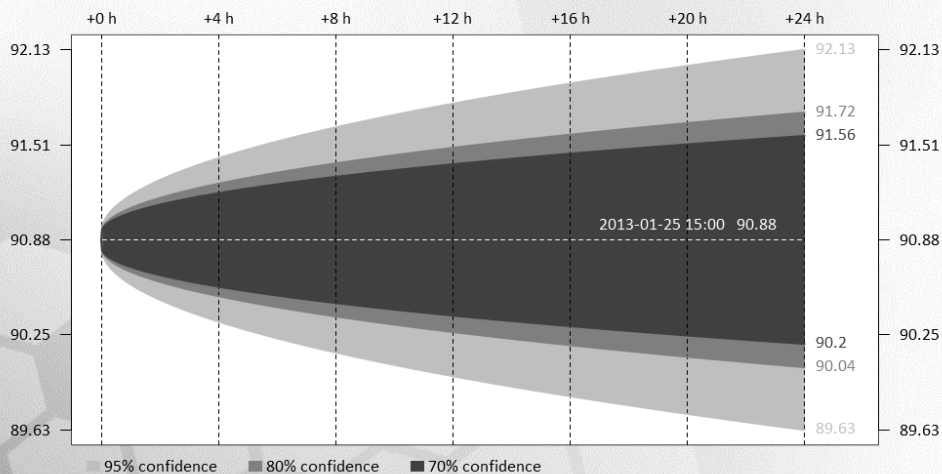
EURUSD Potential Rates



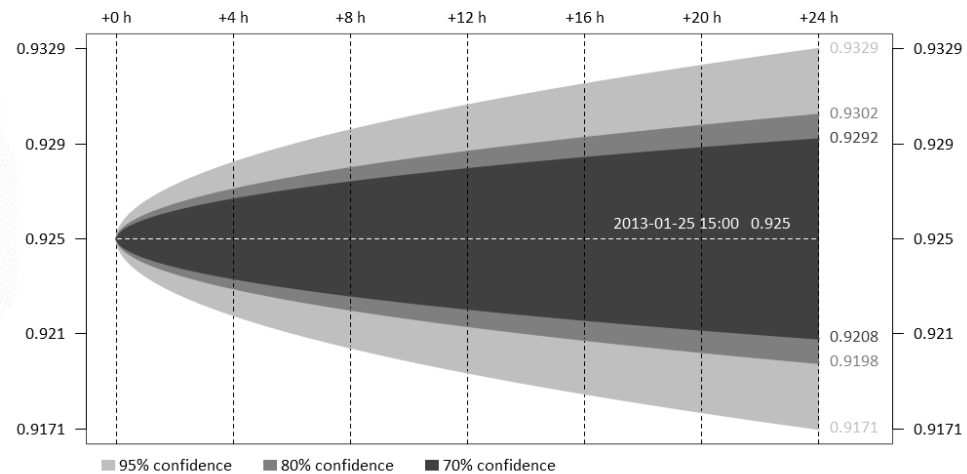
GBPUSD Potential Rates



USDJPY Potential Rates



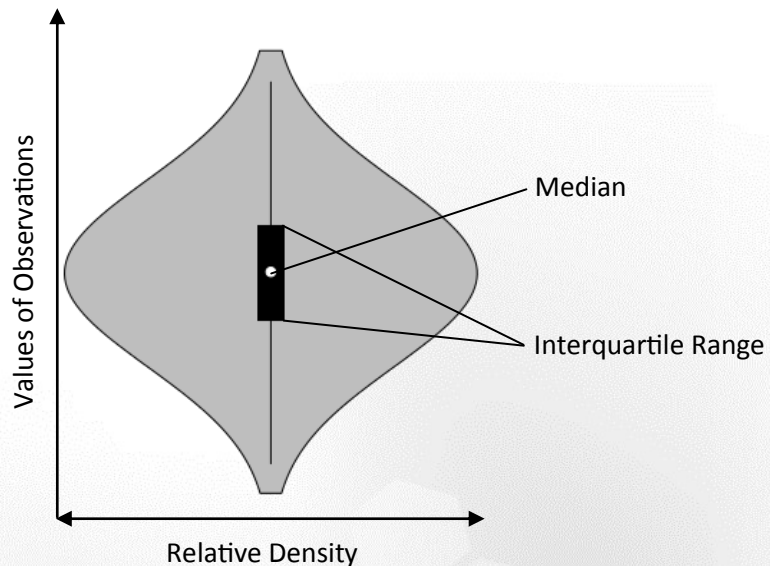
USDCHF Potential Rates



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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