



EUR

11/02/2013



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RESEARCH PRODUCTS



Market Research





Dominant Events for the Euro

Yellow Area

February 4

07:00 - 18:00

- Eurozone Sentix Investor Confidence [\[link\]](#)
- Spanish Unemployment [\[link\]](#)
- Corruption Allegations Against Spanish PM [\[link\]](#)
- U.S. Factory Orders [\[link\]](#)

Turquoise Area

February 5

07:00 - 20:00

- Eurozone Services PMI [\[link\]](#)
- Eurozone Retail Sales [\[link\]](#)
- U.S. ISM Non-Manufacturing PMI [\[link\]](#)

Blue Area

February 6

08:00 - 18:00

- German Factory Orders [\[link\]](#)
- U.S. Mortgage Applications [\[link\]](#)

Purple Area

February 7

07:00 - 19:00

- ECB Minimum Bid Rate [\[link\]](#)
- U.S. Unemployment Claims [\[link\]](#)

Orange Area

February 8

06:00 - 17:00

- Chinese CPI [\[link\]](#)
- EU Economic Summit [\[link\]](#)
- U.S. Trade Balance [\[link\]](#)

EUR Currency Index Range

0.89%

0.94%

0.31%

0.98%

0.37%

Average EUR/USD
Volatility Index

1.03

1.53

1.3

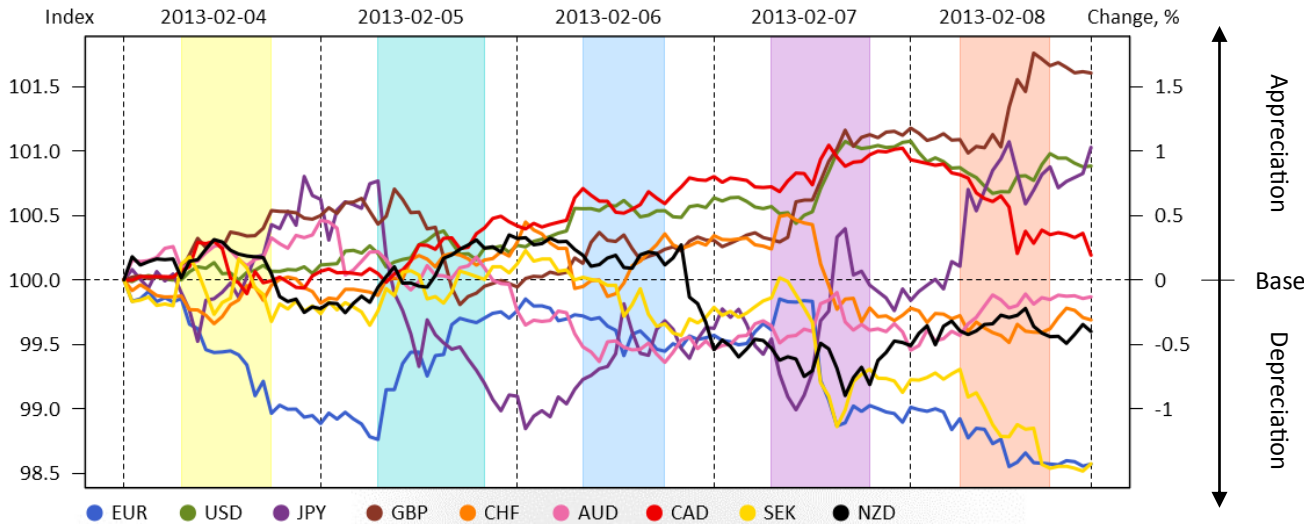
1.43

1.04



Relative Currency Strength

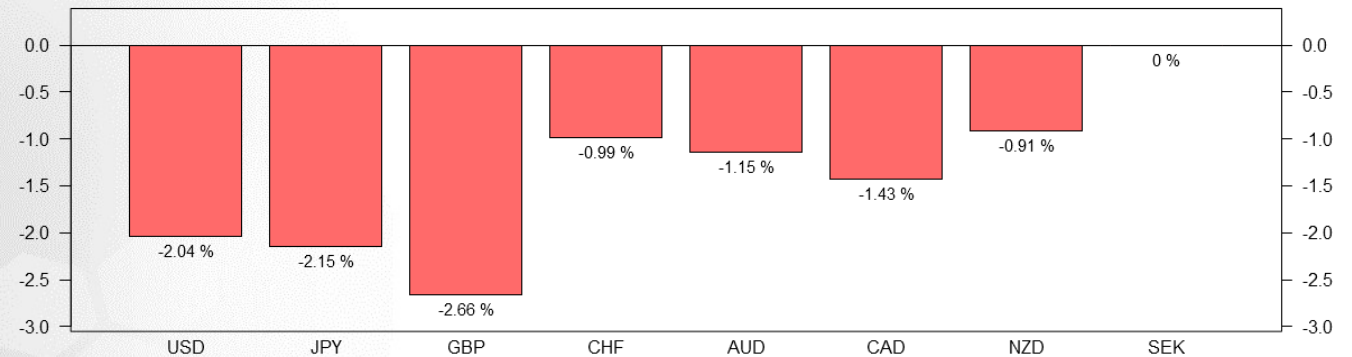
Currency Indices



During the last week the common European currency has pared a considerable part of its previous gains, falling 1.4% since Feb 4, a move opposite to the tendency we were observing for the past 130 days. Until Feb 7 the Euro was subject to speculations that dominated the market then, namely about the ECB meeting and political distress in Spain and Italy. Anticipation of the former event benefitted the Euro, being that the recently published data on the bloc were promising and thereby implying less incentive for the ECB to loosen the monetary policy. On the other hand, the latter happening had a negative impact.

The Euro has underperformed comparatively to all of its major counterparts except for the Swedish Krona, behaviour of which is strongly reminiscent of the 17-nation currency, hence no change in EUR/SEK currency pair. The general sell-off was mainly initiated by the ECB governor Mario Draghi, who stated that the rally of the Euro has overshoot expectations and may thus pose a notable threat to a fragile recovery of the Eurozone that barely escapes a recession. Accordingly, it would be reasonable to assume that European leaders will attempt to curb strength of the currency. However, given the current policies of major central banks, i.e. expansion of their balance sheets, the Euro appears to be well-positioned to carry on surging, at least against the U.S. Dollar and Japanese Yen, as the ECB is doing the opposite at the moment.

Change, %



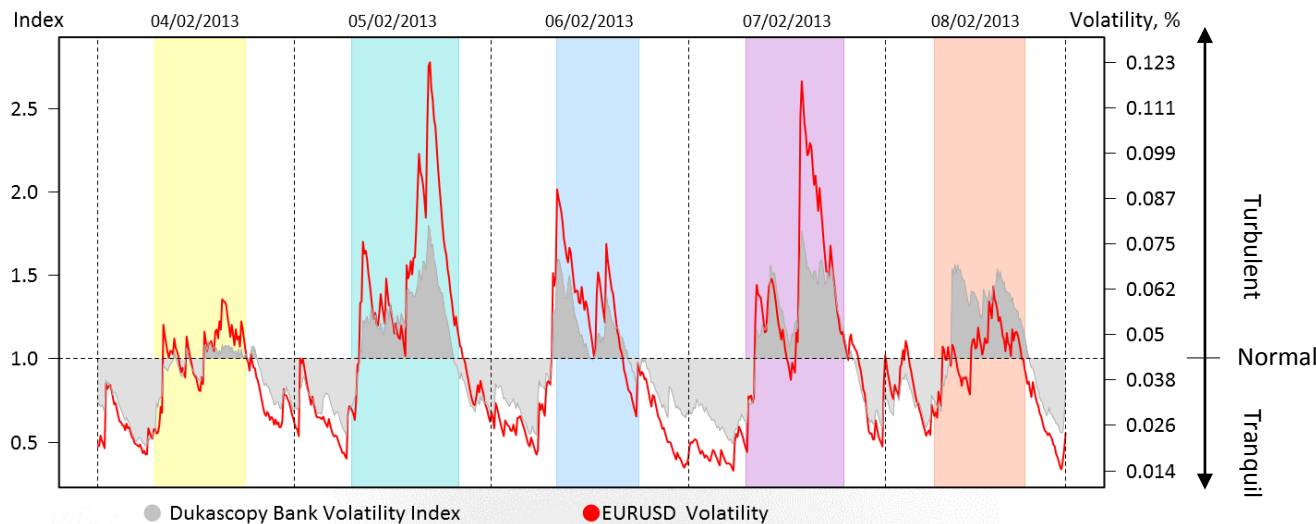
Currency Index Change

Days	EUR	USD	JPY	GBP	CHF	AUD	CAD	SEK	NZD
5	-1.43%	0.88%	1.03%	1.61%	-0.31%	-0.13%	0.19%	-1.43%	-0.40%
20	1.18%	1.22%	-3.05%	-1.05%	0.74%	-1.16%	-0.98%	1.44%	0.99%
130	8.94%	-0.34%	-18.76%	0.89%	6.62%	-3.08%	-1.42%	4.21%	2.90%



Volatility

Volatility



We continue to observe a higher level of turbulence in the market during a New York session than during the European session. The only day it was not the case was last Feb 6, not distinguished by a plethora of significant news, but surrounded by two days with increased volatility and acting as a kind of respite after increased variability on Feb 5 and before the ECB press conference on Feb 7. Overall the market was stormy for 41% of the time, while maximally exceeding its normal volatility 1.8 times amid the report on the U.S. services sector.

While AUD/USD continues to be one of the most frequently volatile currency pairs (in 44% of cases), the maximum value reached by its variability measure (2.4%) was considerably inferior to those of GBP/USD (3.8), EUR/GBP (3.8) and USD/JPY (3.7), which in turn exhibited heightened sensitivity to U.K manufacturing production and trade balance just ahead of the announcement on the asset purchase facility last Thursday and positive Chinese data coupled with the agreement on the European Union budget and Italian industrial production that turned positive after a 1.1% decline.

Conversely, presently the most tranquil currency pair is EUR/CHF, which has seized to increase its pace of change and is calming down.

Elevated Volatility (% of the observed period)

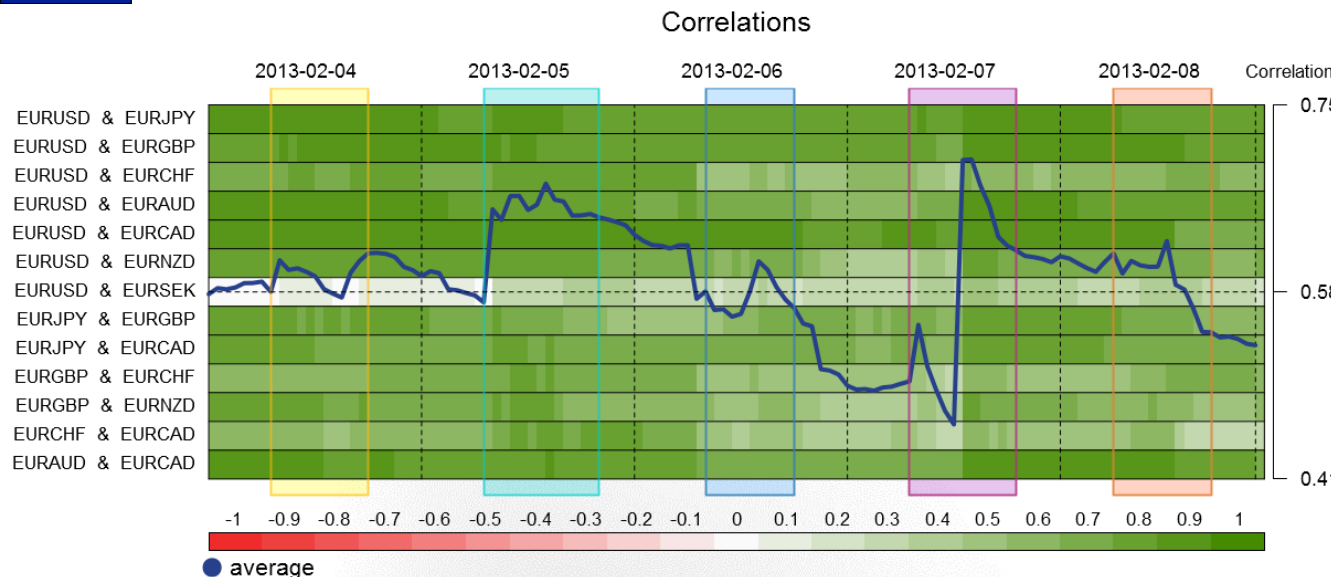
Market	EUR/USD	USD/JPY	GBP/USD	AUD/USD	USD/CAD	USD/CHF	EUR/JPY	EUR/GBP	EUR/CHF	USD/SEK	NZD/USD
41	41	37	43	44	39	32	44	44	26	41	34

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	1.8	2.8	3.7	3.8	2.4	2.2	2.7	2.6	3.8	1.8	2	2.6
Min	0.5	0.3	0.5	0.3	0.5	0.2	0.3	0.4	0.3	0.3	0.3	0.4
Average	1	1	1	1	1	0.9	0.9	1.1	1.1	0.8	0.9	1



Currency Significance

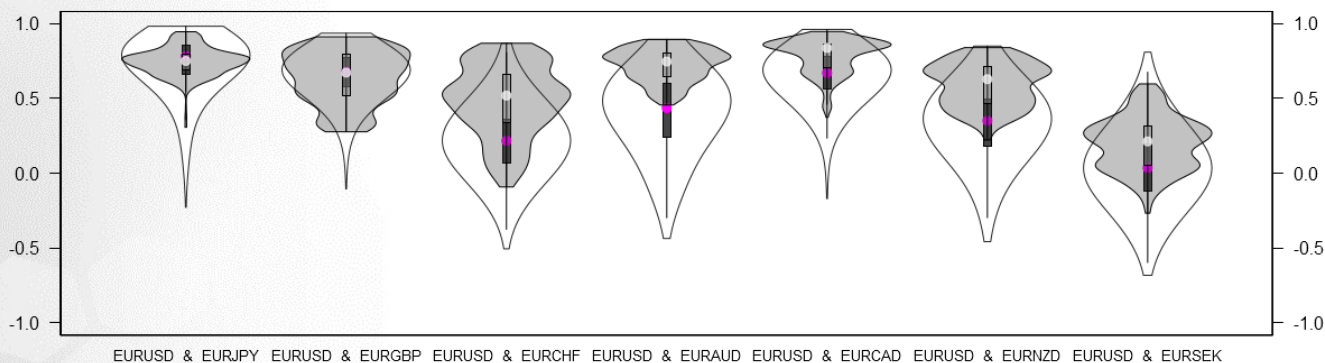


As seen from the analyses of currency index and volatility, the Euro is demonstrating increasing influence in the foreign exchange market in defining the exchange rates. This view is supported by the average of 28 50-hour rolling correlations between major EUR crosses that accurately depicts the extent to which changes in prices are affected specifically by the Euro. The average coefficient has not only risen up to the level of 0.6, but demonstrates stability around it, suggesting elevated level of attention paid to it by the market participants.

As seen from the gradient graph above, the Euro was the most significant currency during the Turquoise and Purple intervals that were marked by news on the Eurozone services PMI, retail sales and ECB minimum bid rate, which would also be considered important purely intuitively, but we also have numerical data to back it up.

While all of the correlations stepped up, the degree varied extensively. While the coefficient between EUR/USD and EUR/JPY increased only marginally, being already high prior to that, interdependence of EUR/USD with EUR/CHF and EUR/NZD has strengthened from 0.3 and 0.41 (for the last 130 days) up to 0.66 and 0.7 (for the last five days) respectively.

Correlations (20 vs 130 days)

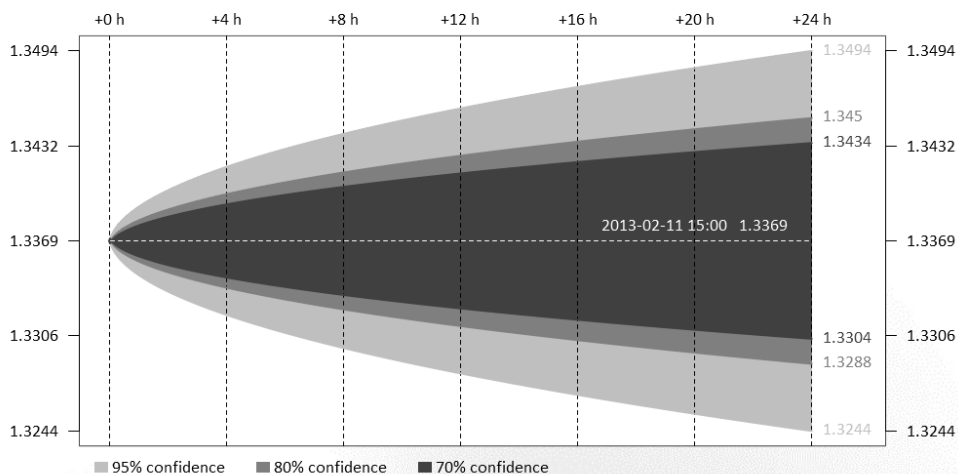


Average Correlation Coefficient (with EURUSD)

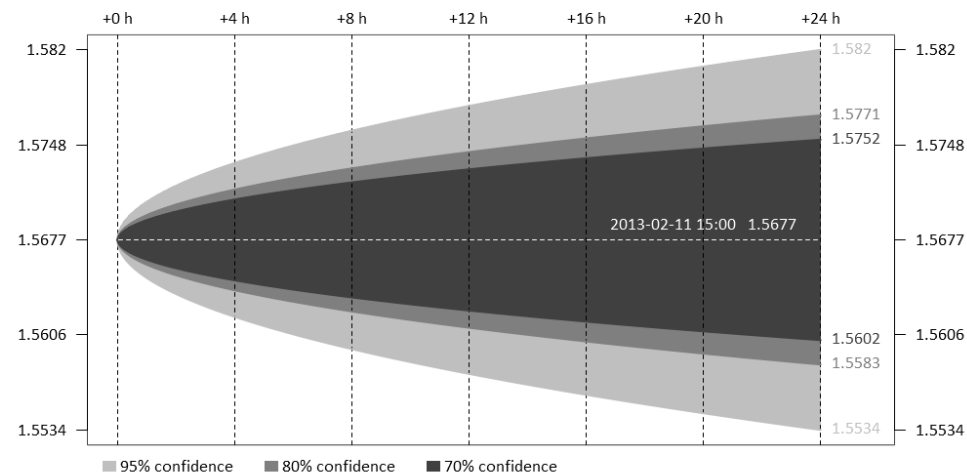
Days	EURJPY	EURGBP	EURCHF	EURAUD	EURCAD	EURNZD	EURSEK
5	0.85	0.84	0.66	0.78	0.87	0.7	0.26
20	0.75	0.64	0.48	0.72	0.78	0.59	0.2
130	0.73	0.67	0.3	0.52	0.69	0.41	0.12

Confidence Intervals for Next 24 Hours

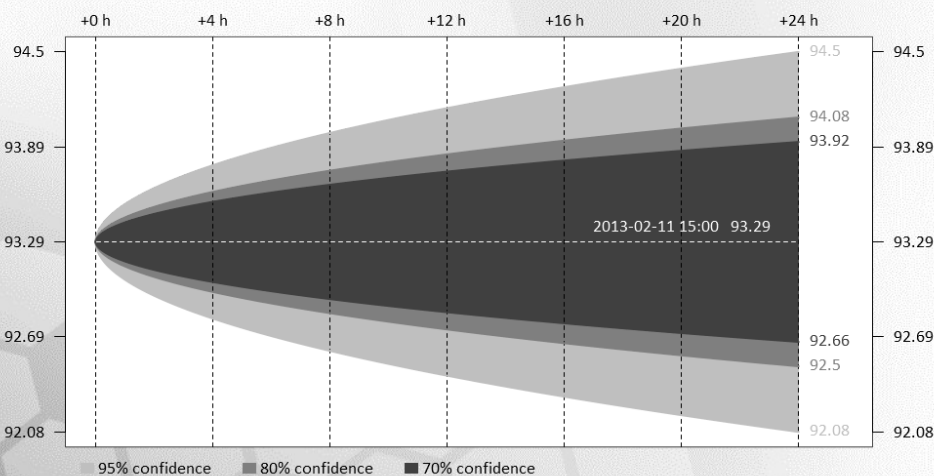
EURUSD Potential Rates



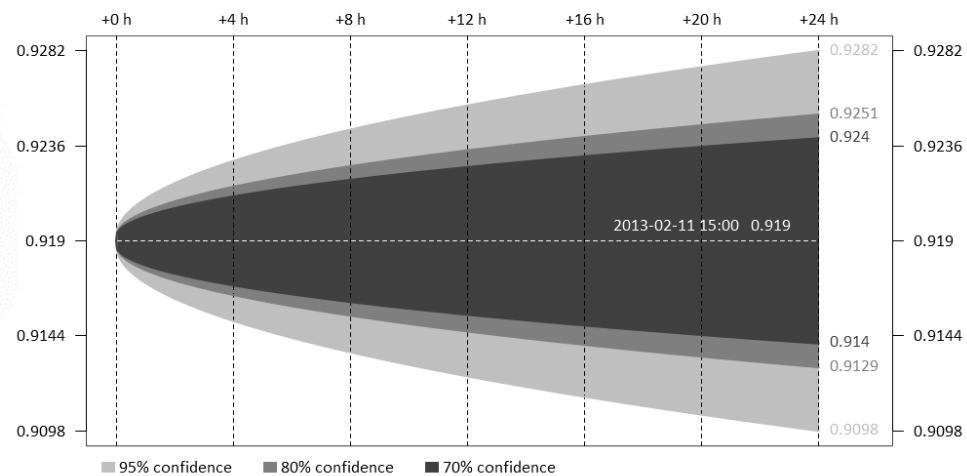
GBPUSD Potential Rates



USDJPY Potential Rates



USDCHF Potential Rates



EXPLANATIONS

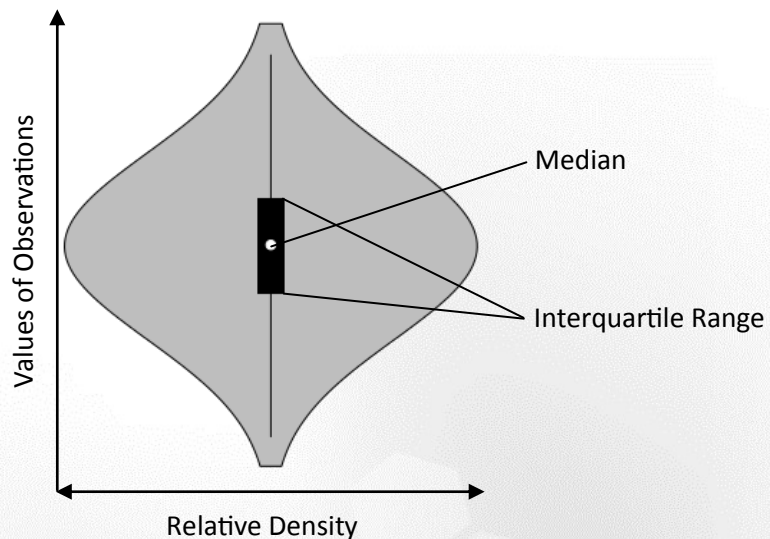
Violin Plot

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

Methodologies

Volatility Index

Confidence Interval





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