



**USD**

13/02/2013



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RESEARCH PRODUCTS



# Market Research





# Dominant Events for the U.S. Dollar

## Yellow Area

February 6

06:00 - 16:00

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

## Turquoise Area

February 7

08:00 - 19:00

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

## Blue Area

February 8

08:00 - 17:00

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

## Purple Area

February 11

07:00 - 21:00

- Eurogroup Meeting [\[link\]](#)
- French Industrial Production [\[link\]](#)
- ECB Council Member Speech [\[link\]](#)
- U.S. Treasury Supports Japan's Actions [\[link\]](#)

## Orange Area

February 12

09:00 - 17:00

- ECB President Speech [\[link\]](#)
- U.S. Small Business Index [\[link\]](#)

USD Currency Index Range

0.24%

0.64%

0.31%

0.24%

0.69%

Average EUR/USD Volatility Index

1.33

1.5

1.08

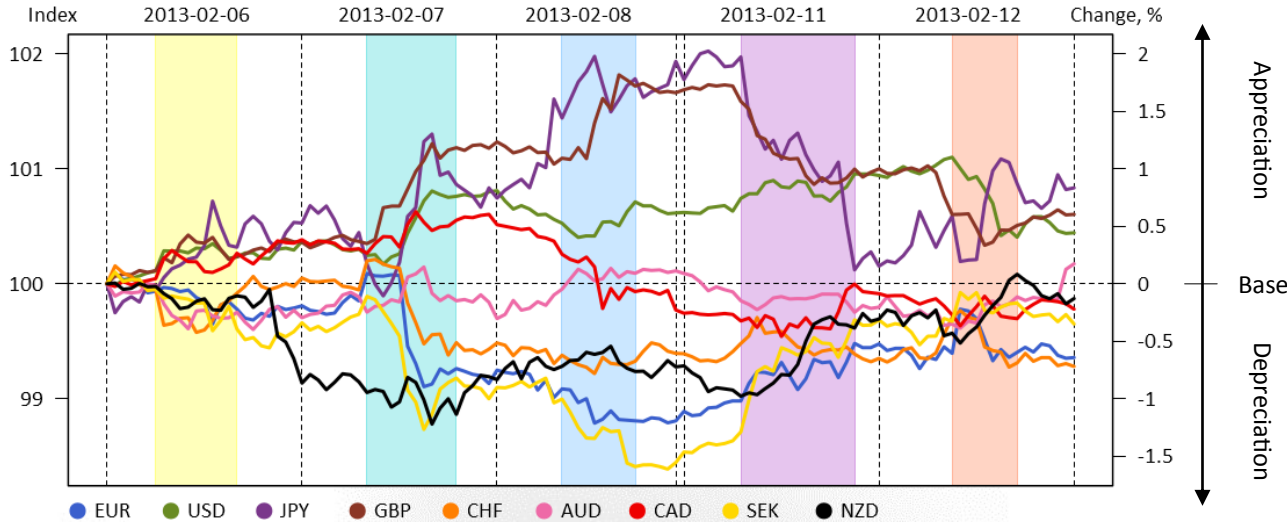
1.12

1.34



# Relative Currency Strength

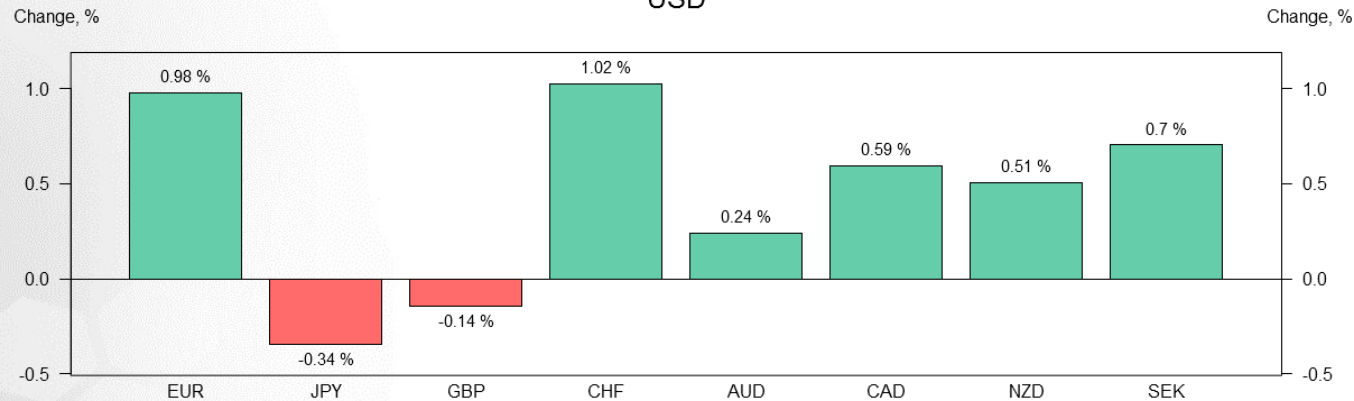
Currency Indices



Since the U.S. Dollar was lacking its own momentum, the value of the buck was mostly driven by comments of officials on other currencies, in most cases on the Japanese Yen and Euro. Towards the end of the last week the greenback was propped up by a decrease in the price of the common currency, which was sold off amid concerns raised by the Eurozone officials over the exceedingly high levels reached by the Euro and potential dangers this might entail. This week a softening Japanese currency provided substantial support, as the U.S. Treasury approved of the current Japan's way of fighting deflation.

In the very end, however, the gains of the U.S. Dollar were trimmed by half, resulting in a 0.44% advancement for the last five days, whereas the highest point reached by the Dollar's currency index was 101.1. The main contributors to the currency's appreciation were its crosses with the Euro and Swiss Franc that periodically return to being strongly correlated at some time intervals, but are becoming less interdependent with the course of time, as we are getting farther and farther away from 1.20.

In the longer time perspective, the average price of the U.S. Dollar exhibits stability, being 0.9% above the level seen a month ago and merely 0.22% below the level seen a half a year ago.



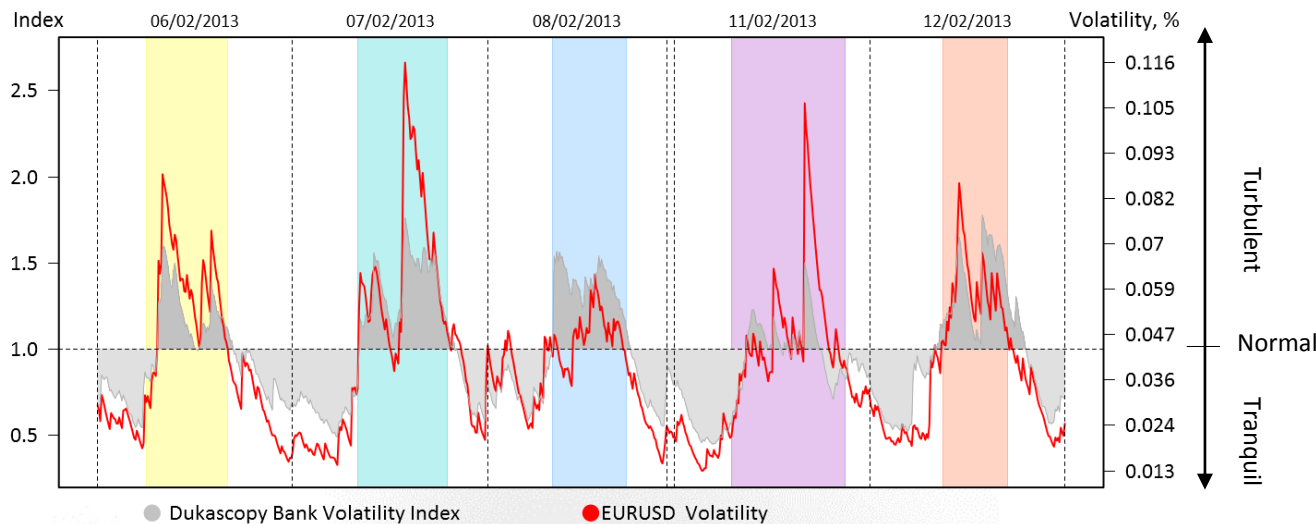
Currency Index Change

Days	EUR	USD	JPY	GBP	CHF	AUD	CAD	SEK	NZD
5	-0.64%	0.44%	0.83%	0.60%	-0.72%	0.17%	-0.22%	-0.35%	-0.13%
20	2.01%	0.91%	-5.95%	-1.86%	2.58%	-1.60%	-1.14%	3.12%	0.71%
130	9.20%	-0.22%	-19.97%	-0.48%	6.21%	-2.35%	-1.32%	4.97%	3.90%



# Volatility

Volatility



The highest and most prolonged volatility in the foreign exchange market was associated with the ECB press conference on Feb 7 that overshadowed all of the other events, of which there was a plenty. That day was marked by the data on the U.S. unemployment claims and MPC rate statement among other news. Then the Dukascopy Bank Volatility Index peaked at 1.8, while EUR/USD volatility index jumped to 2.7, their highest levels within the observed period. Similar variability of EUR/USD was demonstrated this Monday, when the ECB council member refuted the notion that a rally of the Euro threatens recovery of the whole bloc.

Even though the extent to which the market and EUR/USD specifically are sensitive to the happenings in the world varies significantly at a particular point in time, the timing of them being turbulent (>1) coincides perfectly. Accordingly, the amount of time their volatility indices are elevated are nearly equal, 42% for the DBVI and 37% for EUR/USD.

**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
	42	37	45	41	37	37	49	42	25	36	26

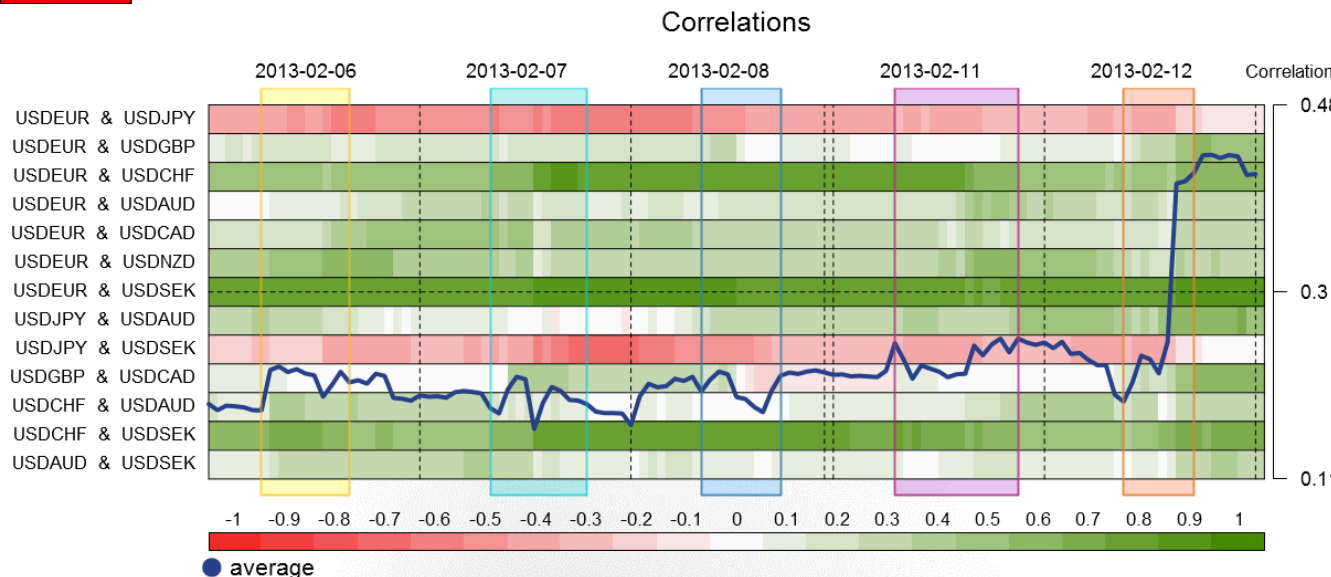
Still, the most volatile comparatively to their normal levels currency pairs were USD/JPY, GBP/USD and EUR/GBP, since the Japanese Yen has changed its direction several times due to the comments of Japan's FM and U.S. Treasury's under secretary and there was an abundance on news that directly affect the worth of the Great Britain Pound.

**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
<b>Max</b>	1.8	2.7	3.7	3.8	2.1	2.2	3.1	2.9	3.8	2.7	2	2.6
<b>Min</b>	0.4	0.3	0.4	0.3	0.4	0.2	0.2	0.4	0.3	0.3	0.3	0.4
<b>Average</b>	1	0.9	1.1	1	1	0.9	0.9	1.1	1	0.8	0.9	0.9



# Currency Significance

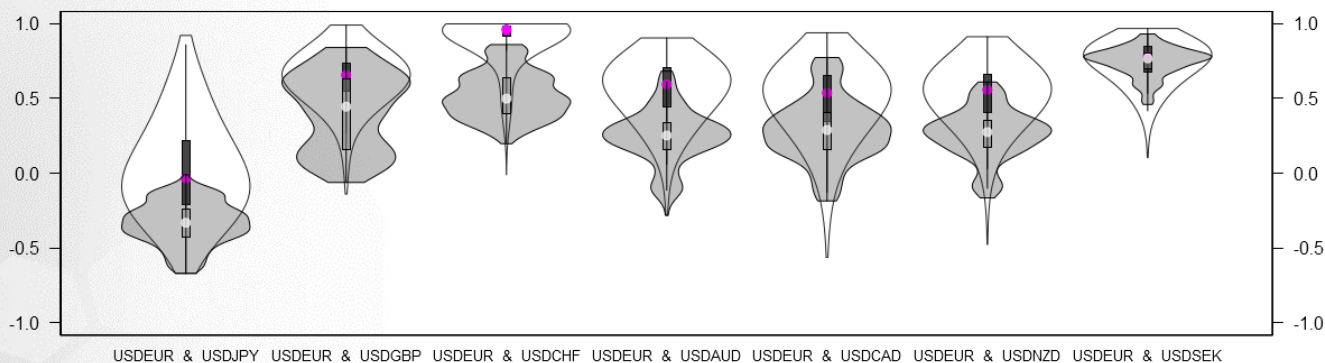


Until Feb 12 the importance of the U.S. Dollar in the market was decreased. This is depicted by the average correlation coefficient that was hovering beneath 0.3, since Dollar currency pairs were moving unidirectionally infrequently, implying that the greenback was not the primary cause of deviations in the exchange rates and market participants were paying a low level of attention to the news on the economy of the United States of America. Nevertheless, the situation has been markedly changed yesterday, when the average coefficient soared up to 0.43.

One of a very few correlations that managed to strengthen was an interrelation between USD/EUR and USD/SEK, average 50-hour rolling correlation of which for the last five days (0.83) was higher than for the last 130 days (0.68).

Given the most recent developments, there are few reasons to believe that the present level of significance of the U.S. Dollar will be preserved. In the future, closer to the month of March, this level seems to be more sustainable, as some of the already forgotten issues, such as the borrowing limit of the USA, are to reappear and potentially cause a turmoil. Consequently, the responsiveness of the buck and its importance should notably increase.

Correlations (20 vs 130 days)

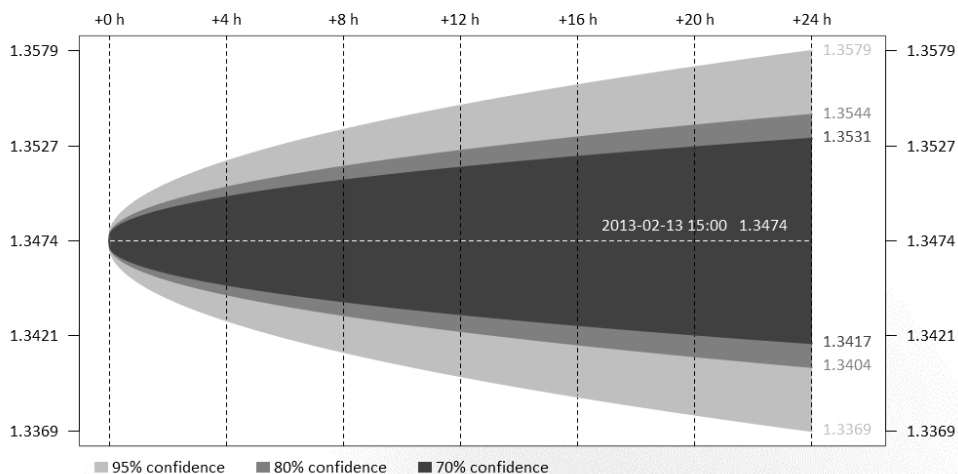


Mean Correlation Coefficient (with USDEUR)

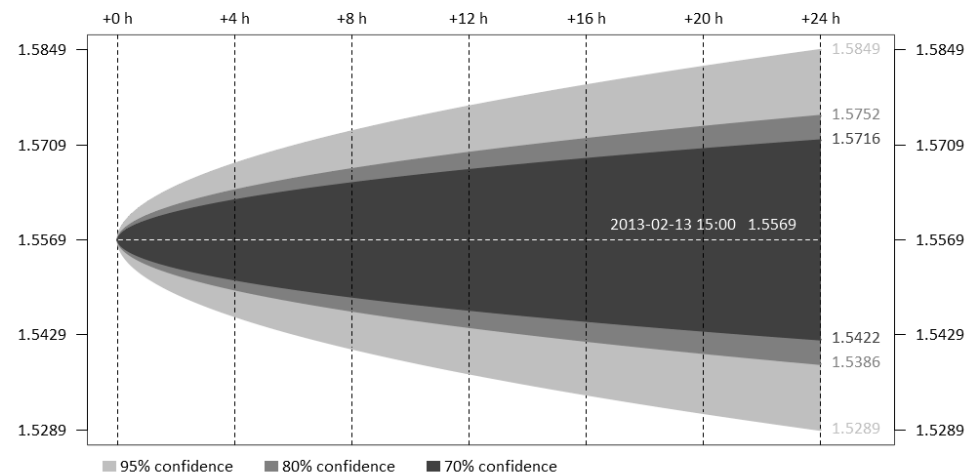
Days	USDJPY	USDGBP	USDCHF	USDAUD	USDCAD	USDNZD	USDSEK
5	-0.41	0.18	0.68	0.25	0.29	0.35	0.83
20	-0.34	0.41	0.52	0.24	0.29	0.26	0.74
130	-0.1	0.6	0.85	0.47	0.4	0.43	0.68

# Confidence Intervals for Next 24 Hours

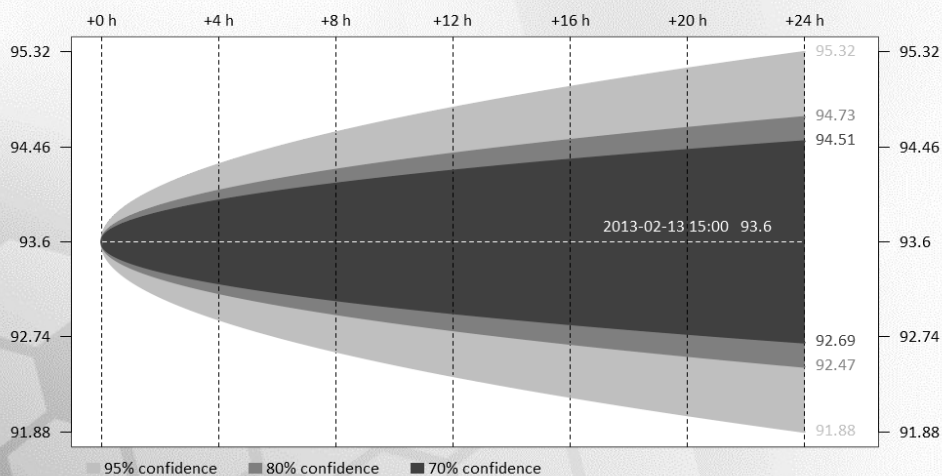
EURUSD Potential Rates



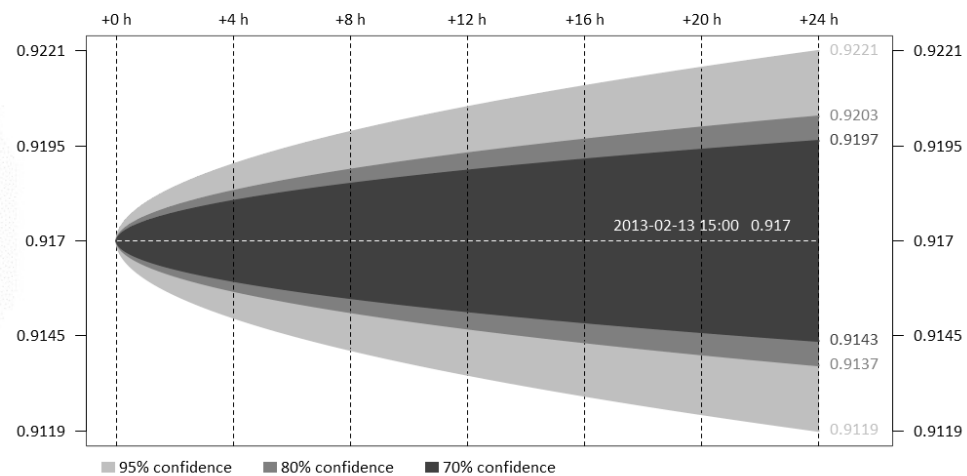
GBPUSD Potential Rates



USDJPY Potential Rates



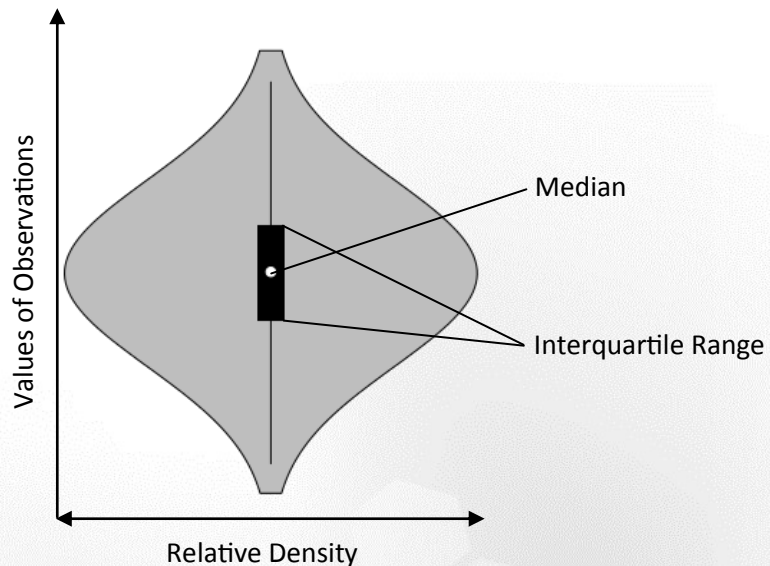
USDCHF Potential Rates



# 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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