EUR

20/05/2013

DUKASCOPY
RESEARCH PRODUCTS

Market Research

Monday, May 20, 2013
15:30 GMT

Dominant Events for the Euro

Yellow Area

May 13

07:00 - 17:00

- *U.S. Retail Sales* [link]
- *U.S. Business Inventories* [link]

Turquoise Area

May 14

06:00 - 17:00

- *ZEW Economic Sentiment* [link]
- *Eurozone Industrial Production* [link]
- *Federal Reserve Bank of Philadelphia President Speech* [link]

Blue Area

May 15

05:00 - 16:00

- *Japanese Consumer Confidence* [link]
- *Eurozone GDP* [link]
- *U.S. PPI* [link]

Purple Area

May 16

04:00 - 20:00

- *Japanese GDP* [link]
- *New Zealand Annual Budget Speech* [link]
- *Eurozone CPI* [link]
- *U.S. Unemployment Claims and CPI* [link]

Orange Area

May 17

11:00 - 18:00

- *Canadian CPI* [link]
- *U.S. Consumer Sentiment* [link]
- *Deposit Rate Cut Talk*

	Yellow	Turquoise	Blue	Purple	Orange
EUR Currency Index Range	0.29%	0.28%	0.53%	0.37%	0.22%
Average EUR/USD Volatility Index	1.09	1.02	1.13	0.97	1.39

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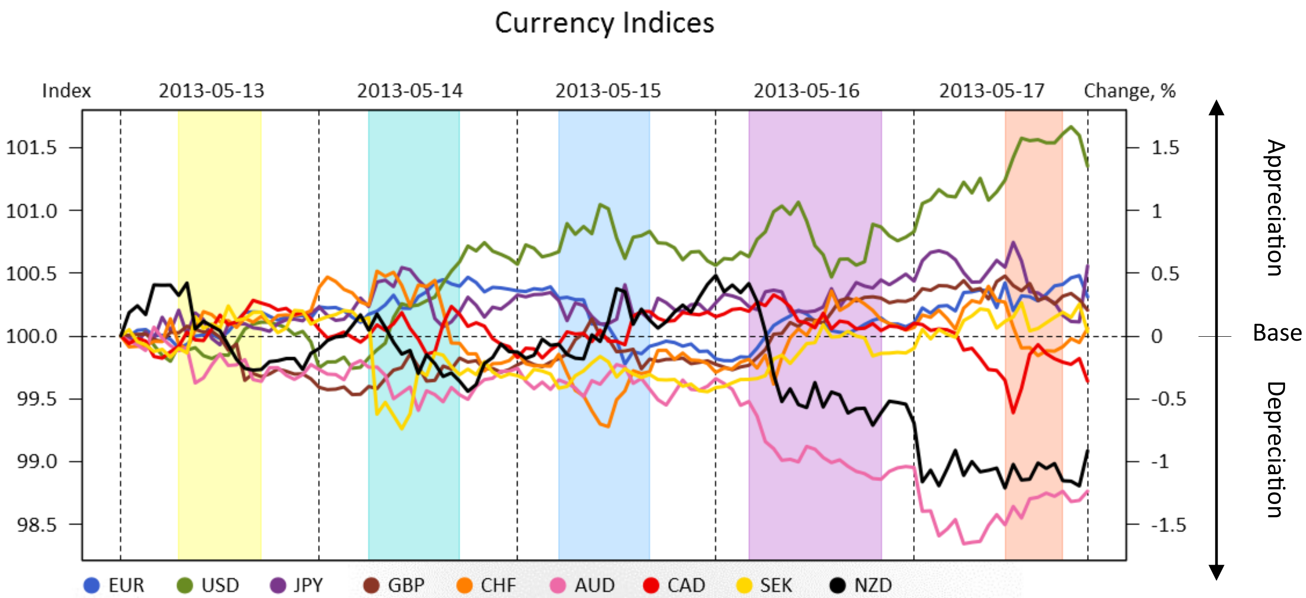
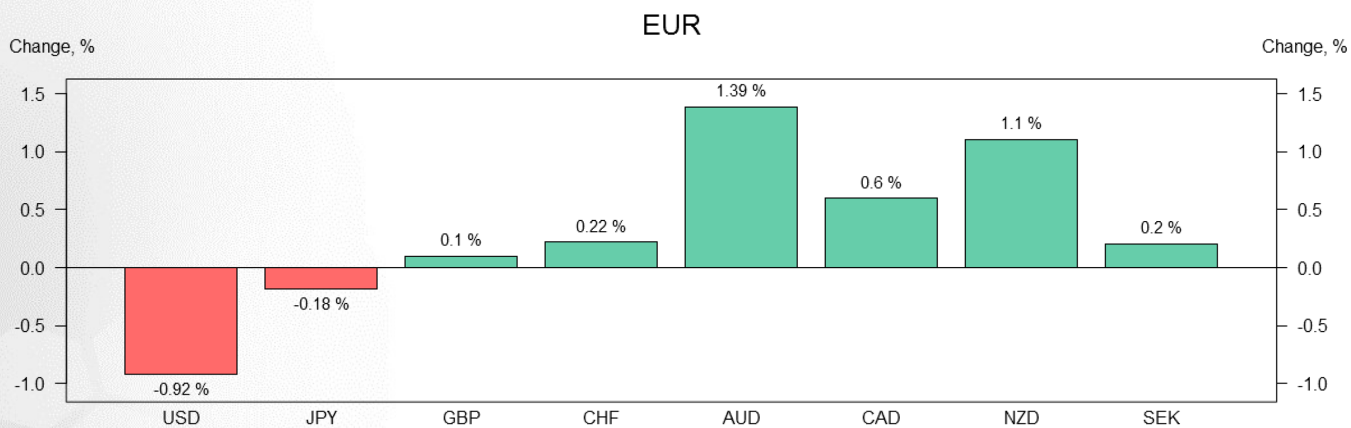
Relative Currency Strength



If we simply look at past week's statistics, we see that the 17-nation currency is doing well, its currency index was able to advance 0.3% since May 13. The Euro underperformed only relative to the U.S. Dollar (-0.9%) and Japanese Yen (-0.2%), while staying unchanged or outperforming the rest of its major counterparts. But the question is whether we can attribute this bullishness, even though fairly moderate, to improving fundamental economic conditions, which in turn would imply that this rally is well-justified and therefore sustainable.

To help us find the answer, we should determine the reasons why the currency was bullish or bearish at certain intervals. Last Tuesday Eurozone industrial production was reported to expand and ZEW economic sentiment to improve, increasing investor's appetite for risk. The optimism was negated already next day by disappointing news on the bloc's GDP figures, which came in less than expected. Subsequent appreciation of the currency, however, was not induced by positive statistics, as on May 14, but by weakness in Australasian currencies, values of which have been suffering from easing policies in the region, meaning that the Euro stands on shaky ground.



Currency Index Change

Days	EUR	USD	JPY	GBP	CHF	AUD	CAD	SEK	NZD
5	0.31%	1.35%	0.56%	0.21%	0.06%	-1.24%	-0.36%	0.03%	-0.91%
20	0.57%	2.43%	-0.68%	2.25%	-1.79%	-3.32%	2.32%	-0.14%	-1.59%
130	5.37%	4.65%	-21.77%	-0.12%	1.57%	-1.84%	1.73%	5.96%	4.41%

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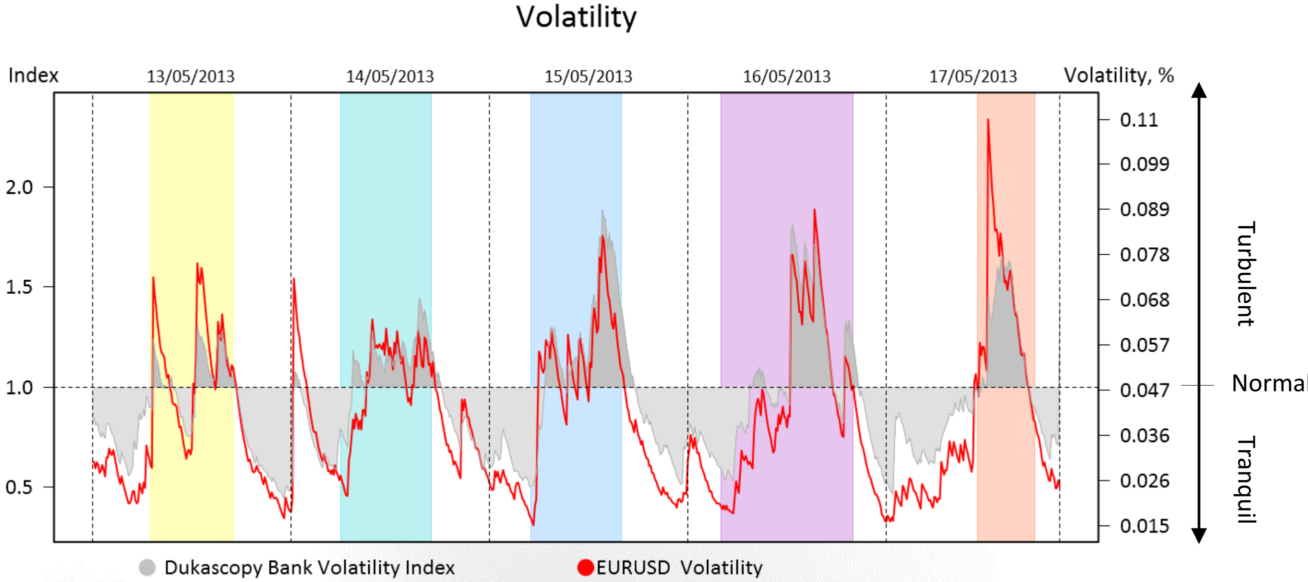
Volatility



If we were to rank days by saturation with highly important for the Forex market news, May 16 would probably come out on top. Indeed, this was one of the most volatile days. Last Thursday was characterised by Dukascopy Bank Volatility Index rising up to 1.8 and EUR/USD being 1.9 times more variable than usually amid reports on U.S. inflation, unemployment benefits and manufacturing, as well as on Eurozone inflation, although the latter number, unlike all of the other, met expectations and thereby had only limited impact on the markets.

Nonetheless, past week's largest (2.3 larger than the historical) 10-minute move of EUR/USD was recorded on Friday at noon, when a sudden mention of an increased chance of deposit rate cut by the European Central Bank made market participants rethink their stance towards the Euro. Still, as we saw from the previous slide, there were no sharp moves of the single currency index that day, even though he most traded currency pair was subject to change.

Meanwhile, the most turbulent relative to their general behaviour currency pairs were USD/CHF, EUR/CHF and USD/SEK, their volatility indices soared as high as 3.2.

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
37	32	21	36	47	47	48	9	29	57	34	50

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	1.9	2.3	2.2	2.4	2.2	2.4	3.2	2	2.3	3.2	3.2	2
Min	0.4	0.3	0.3	0.3	0.5	0.3	0.3	0.3	0.3	0.3	0.3	0.5
Average	0.9	0.8	0.8	1	1	1	1.1	0.7	0.8	1.2	0.9	1

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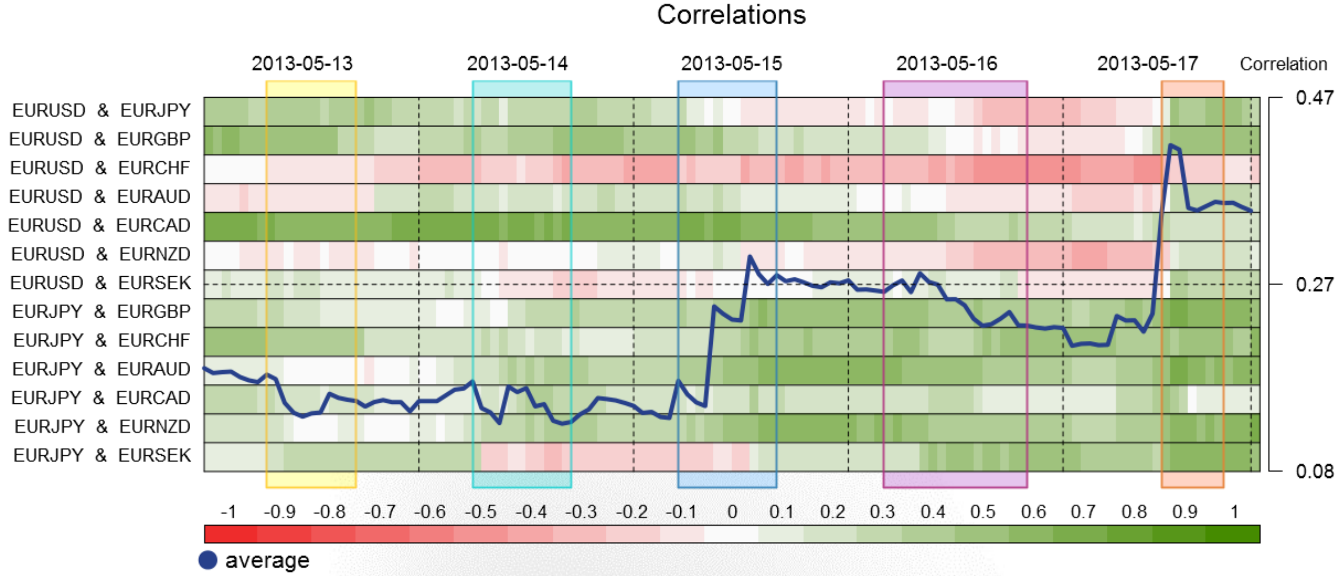
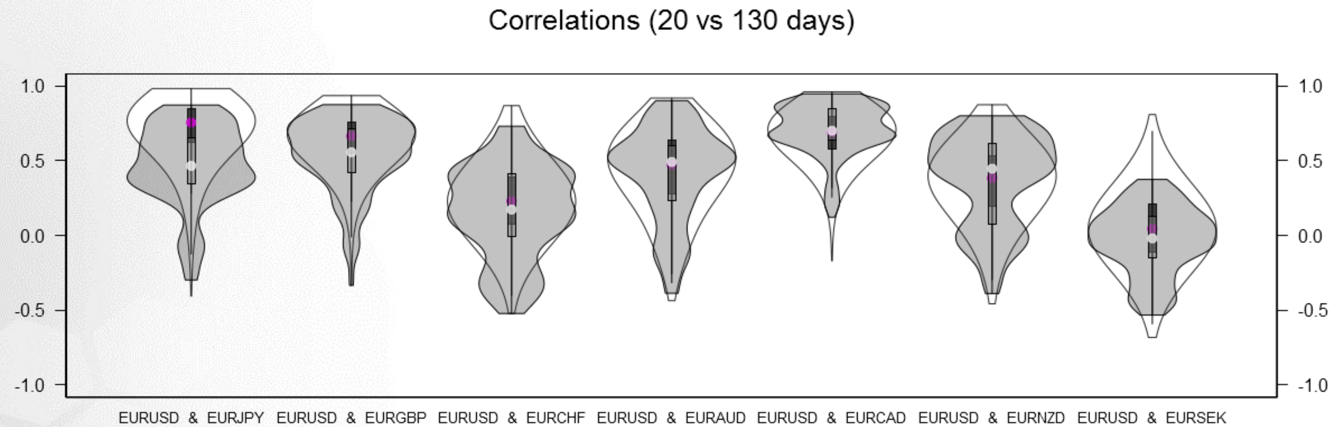
Currency Significance



The figure on the left only reaffirms which and to what extent events have been determining the price of the Euro, as mentioned these were Eurozone GDP and deposit rate cut talks. All of the other happenings have been filtered out by the average correlation coefficient (generally it remains unchanged during their occurrence) for lack of influence on Euro's price across the board. Overall the coefficient grew from 0.19 to 0.35, but at some point, May 17 at 12:00 p.m. GMT, it jumped as high as 0.42.

Perhaps the most significant changes associated with the Euro were related to correlations among its crosses. Neither currency index nor volatility measure did not in any way exhibit notable deviations from normality, while at the same time the strongest and most stable independencies proved to be not as reliable as they seemed to be. Fore example, previously frequent co-movement of EUR/USD and EUR/JPY (50-hour rolling correlation coefficient with a mean of 0.63 for 130 days), largely turned out to be non-existent throughout the past week. The same happened to interrelation of EUR/USD with EUR/AUD, while the coefficient for EUR/USD and EUR/CHF correlation even changed directional sign.



Average Correlation Coefficient (with EURUSD)

Days	EURJPY	EURGBP	EURCHF	EURAUD	EURCAD	EURNZD	EURSEK
5	0.13	0.29	-0.28	0.07	0.5	-0.07	0.05
20	0.46	0.53	0.15	0.4	0.71	0.37	-0.03
130	0.63	0.6	0.31	0.6	0.75	0.48	0.12

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Confidence Intervals for Next 24 Hours

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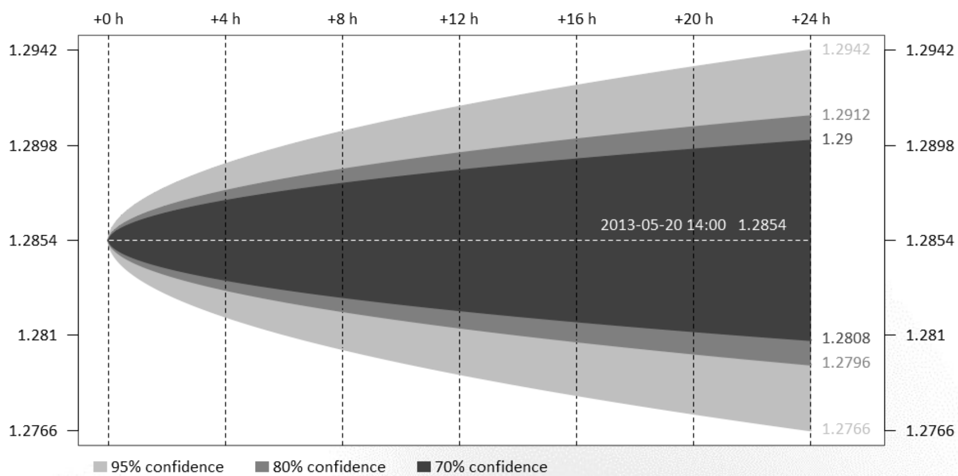
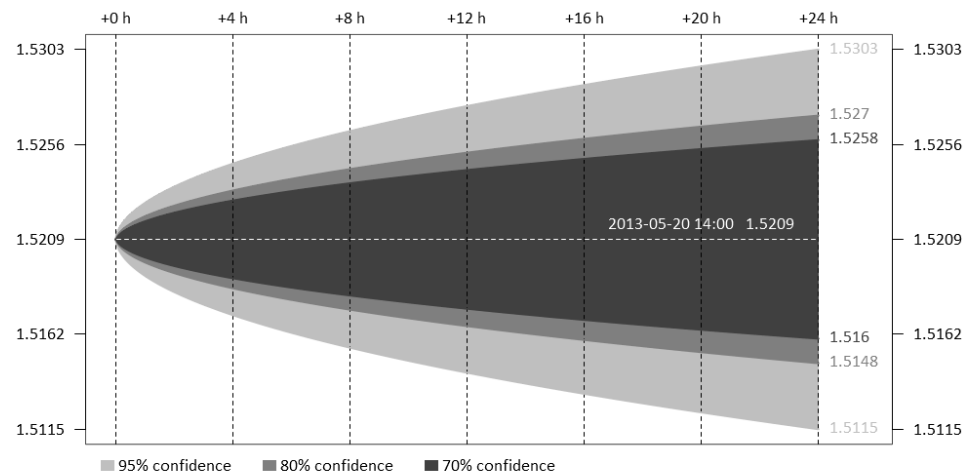
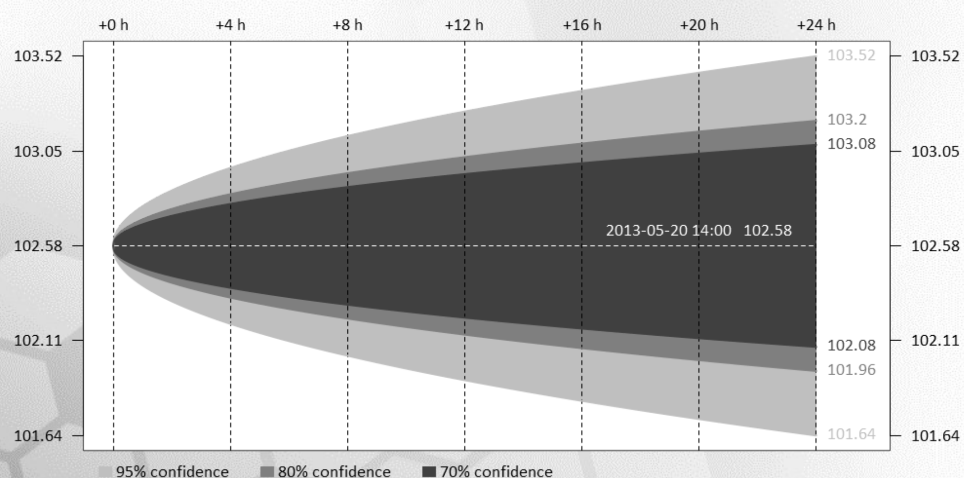
EURUSD Potential Rates



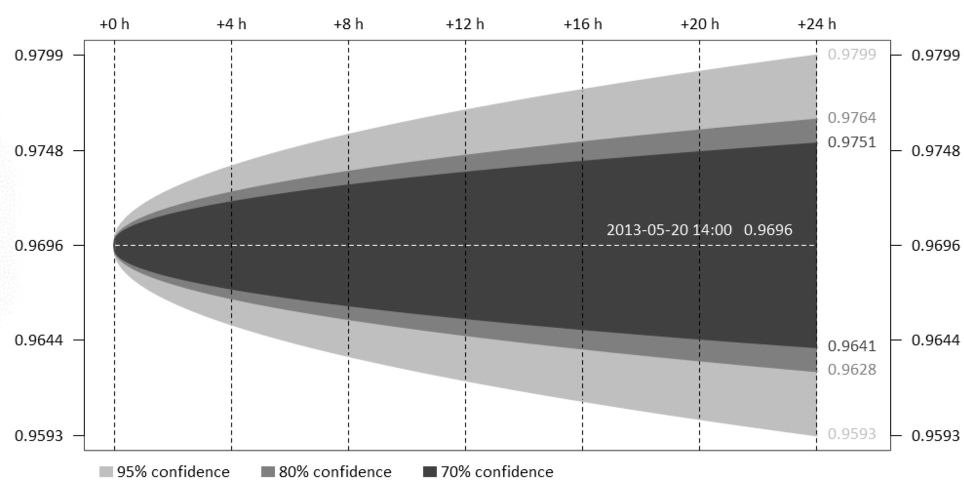
GBPUSD Potential Rates



USDJPY Potential Rates



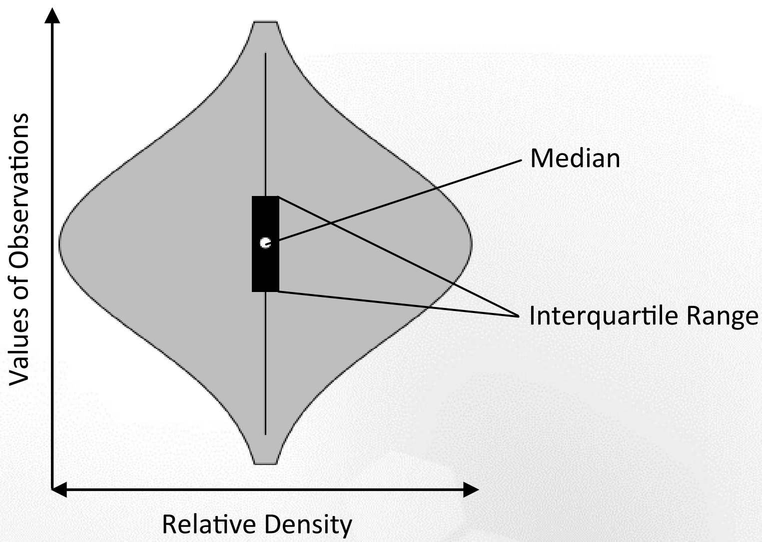
USDCHF Potential Rates



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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Trade Pattern Ideas
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