



GBP

21/06/2013



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Market Research





Dominant Events for the British Pound

Yellow Area

June 14

06:00 - 16:00

- Eurozone CPI [[link](#)]
- U.K. Leading Index [[link](#)]
- U.S. Consumer Sentiment and Industrial Production [[link](#)]

Turquoise Area

June 17

11:00 - 19:00

- Eurozone Trade Balance [[link](#)]
- U.S. Manufacturing Index [[link](#)]

Blue Area

June 18

06:00 - 15:00

- U.K. CPI [[link](#)]
- Eurozone Economic Sentiment [[link](#)]
- U.S. Inflation and Housing Starts [[link](#)]

Purple Area

June 19

06:00 - 21:00

- BOE MPC Meeting [[link](#)]
- FOMC Statement [[link](#)]

Orange Area

June 20

06:00 - 15:00

- Eurozone Manufacturing and Services PMI [[link](#)]
- U.K. Retail Sales [[link](#)]
- U.S. Unemployment Claims [[link](#)]

GBP Currency Index Range

0.43%	0.23%	0.61%	0.37%	0.86%
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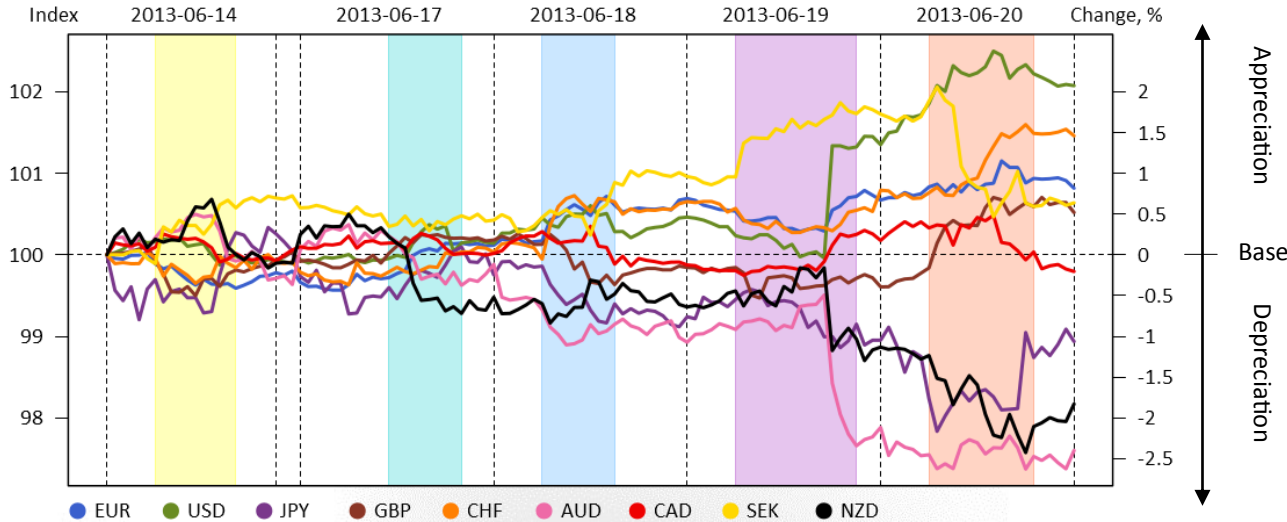
Average GBP/USD Volatility Index

1.15	0.75	1.36	1.36	1.42
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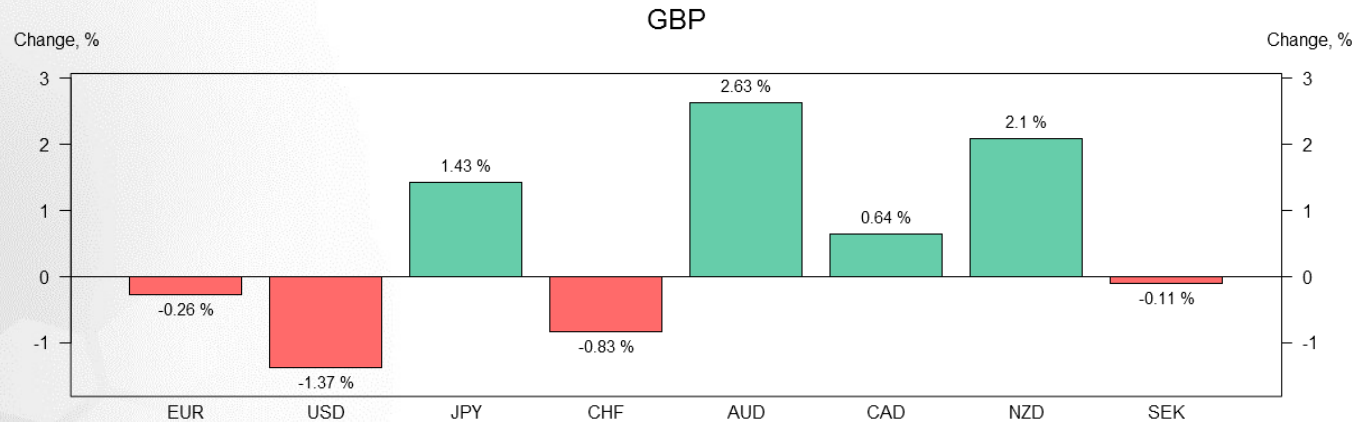
Relative Currency Strength

Currency Indices



At first there were doubts whether the British Pound would be able to finish June 14-20 period on the positive side. The initial data to come out on the U.K. economy was not promising, forcing the investors to reduce their exposure to the Sterling that as a result lost 0.5% of its value within the day. In the end, however, GBP not only negated the losses, but also climbed 0.5% above the starting level, being that the latest report on retail sales has significantly increased Pound's attractiveness, showing that an economic recovery is not as distant as it seemed in the past.

While this appears to be a logical outcome, also taking into account that the Monetary Policy Committee members refused to provide any kind of additional boost (supportive of GBP), currency's behaviour on Tuesday was contrary to what one would expect given the news released on June 18. Instead of rising, the equally-weighted index went down more than 0.6% amid the report on higher rate of inflation than expected. From one side this may be explained by anticipation of the MPC meeting minutes, but then volatility should have been then lower. From the other side, simultaneously with CPI figure, other statistics were announced, and some of them fell short of expectations, making the second option more likely.



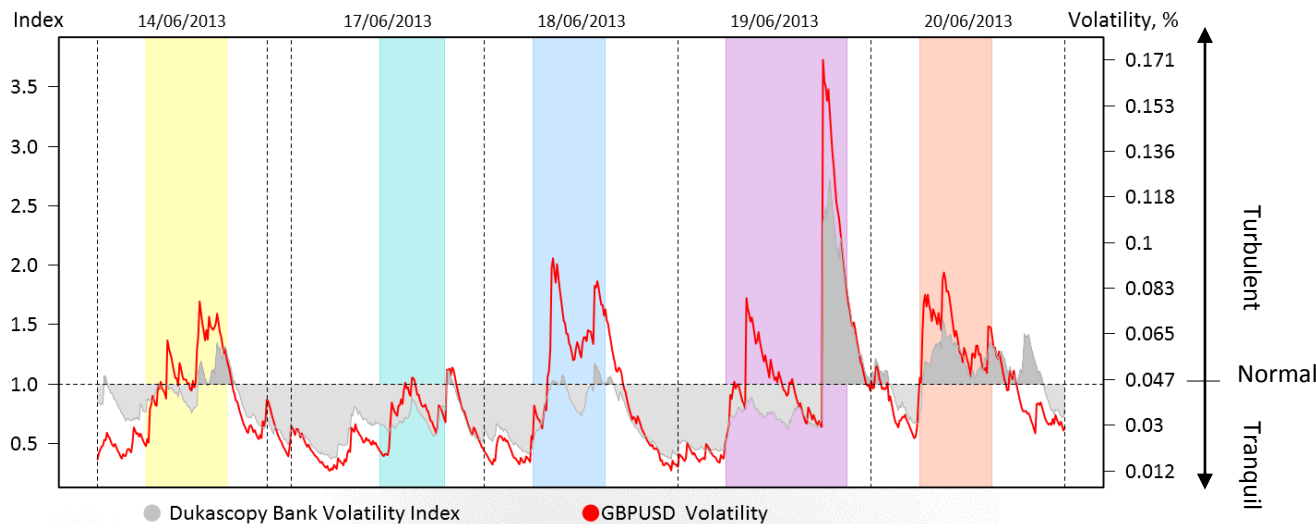
Currency Index Change

Days	EUR	USD	JPY	GBP	CHF	AUD	CAD	SEK	NZD
5	0.82%	2.07%	-1.06%	0.52%	1.46%	-2.40%	-0.20%	0.64%	-1.83%
20	1.65%	-0.85%	5.83%	2.18%	4.34%	-6.47%	-1.45%	0.69%	-5.05%
130	5.28%	5.83%	-9.79%	0.32%	3.79%	-8.65%	0.26%	5.03%	-2.13%



Volatility

Volatility



We have already mentioned some of the major events that defined worth of the Sterling these last five days. They have been keeping elevated volatility of GBP/USD from day to day. The only date to fall out of this pattern was June 17. It is also clearly visible that all of them occurred in the morning, coinciding with the first few hours of European trading session. However, avoiding news not related to the U.K. economy would leave us without an explanation of the Cable's fluctuations later in the day. They were without a doubt Dollar's doing, especially moves on June 19, but the buck created turbulence in GBP/USD in the evenings of June 14 and 18 as well.

In fact, Federal Open Market Committee was responsible for the highest GBP/USD and market volatility levels—3.7 and 2.7 respectively. The new information was digested by the market in an instant. Dollar index moved straight up by 1.4% (within an hour) and afterwards stayed largely unchanged until the next day. Change in AUD was even more substantial, 1.8% of its value vanished in a matter of three hours. Accordingly, volatility in all the USD crosses was greatly increased, specifically in AUD/USD. However, this pair's maximal variability index was only by 0.1 point higher than GBP/USD's, being that the former instrument is normally more volatile than the latter.

Elevated Volatility (% of the observed period)

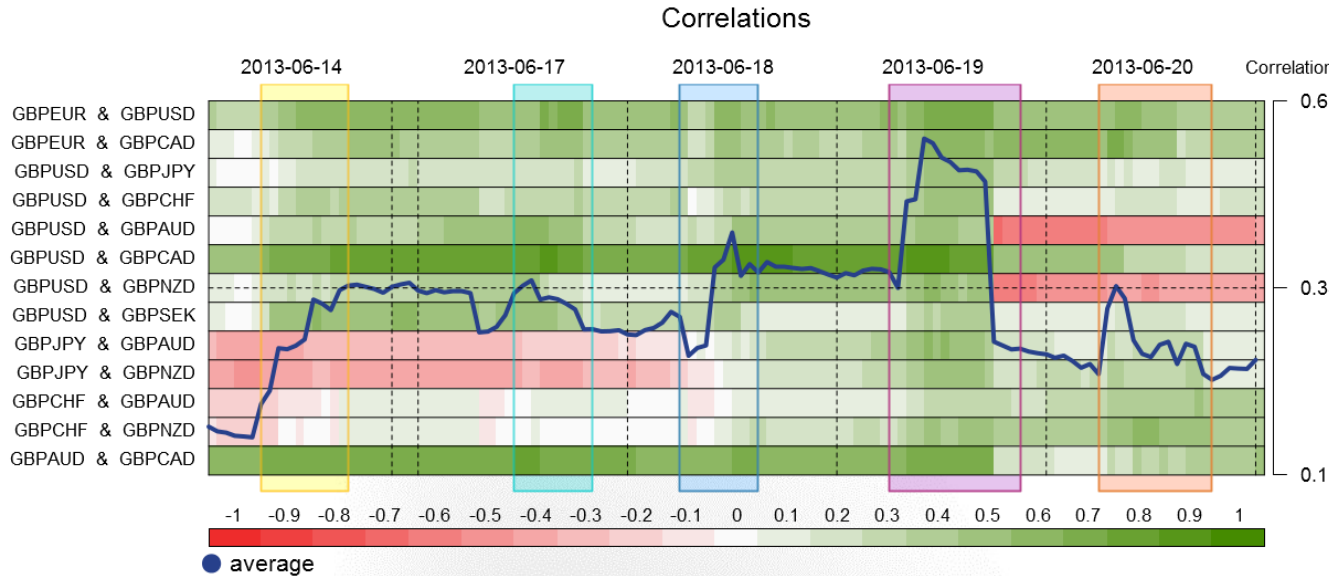
Market	EUR/USD	USD/JPY	GBP/USD	AUD/USD	USD/CAD	USD/CHF	EUR/JPY	EUR/GBP	EUR/CHF	USD/SEK	NZD/USD
28	26	27	35	21	27	23	29	37	22	30	26

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	2.7	3	2.7	3.7	3.8	3.7	2.8	2.6	2.5	2.1	2.8	3.3
Min	0.4	0.2	0.3	0.3	0.3	0.3	0.2	0.4	0.3	0.2	0.2	0.3
Average	0.8	0.8	0.8	0.9	0.9	0.8	0.7	0.9	0.9	0.7	0.9	0.9



Currency Significance

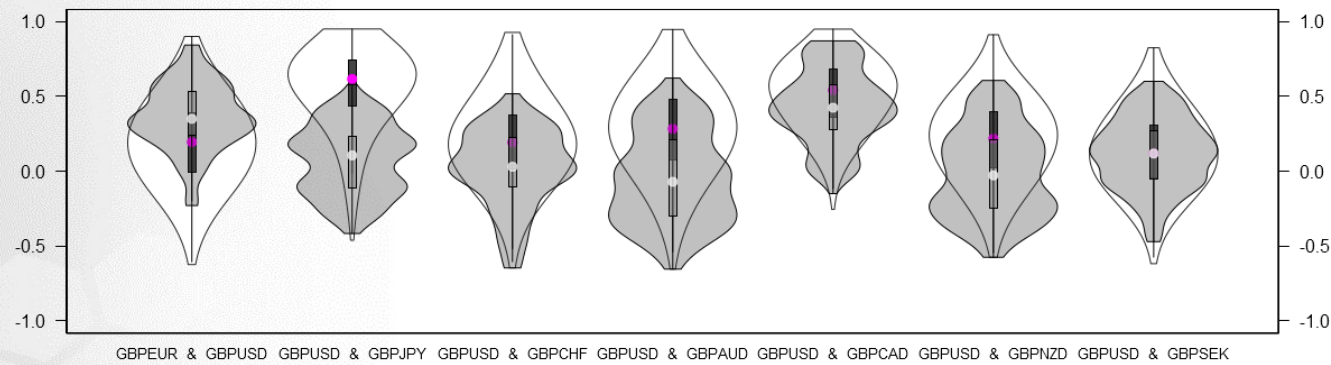


The average correlation line confirms all that has been said previously, rising with the news on the U.K. economy and falling with the external news. The MPC meeting, as it turned out, was associated with the most consistent performance of the Pound across the board since last Friday. Then the 50-hour rolling correlation between all the GBP pairs was the highest, it reached 0.55, but was only 0.16 in the very beginning of the studied interval. Although subsequently the Sterling lost its importance, at the time when the markets were pricing in new information concerning QE3 tapering.

On average volatility of the British Pound's value is lower than changeability of most of its major counterparts. This is the main reason why importance of the currency is decreased. Conversely, high instability of the Yen, which is able to move 1-2% within 24 hours and it still would not be the limit, makes the Asian currency one of the leading forces of the foreign exchange market, leaving most of its main rivals far behind in this sense.

Meanwhile, GBP/USD's interrelationship with GBP/AUD and GBP/NZD experienced the largest changes—these significant correlations swapped their positive directional signs to negative after the FOMC.

Correlations (20 vs 130 days)

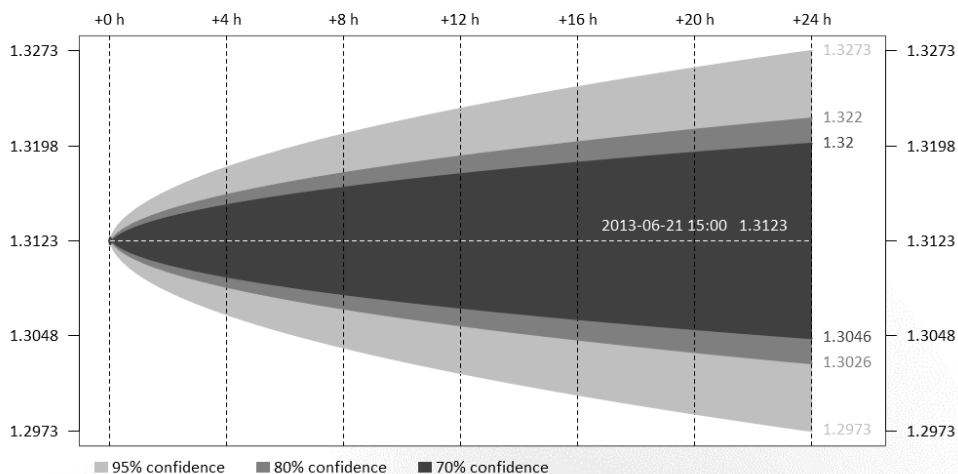


Mean Correlation Coefficient (with GBPUSD)

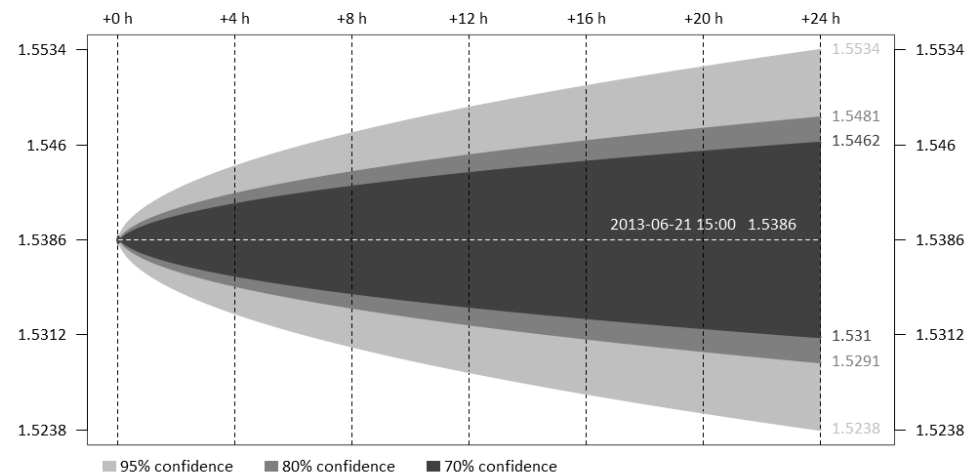
Days	GBPEUR	GBPJPY	GBPCHF	GBPAUD	GBPCAD	GBPNZD	GBPSEK
5	0.54	0.24	0.26	0.11	0.67	0.11	0.26
20	0.36	0.07	0.01	-0.05	0.43	-0.02	0.11
130	0.34	0.4	0.3	0.42	0.64	0.32	0.27

Confidence Intervals for Next 24 Hours

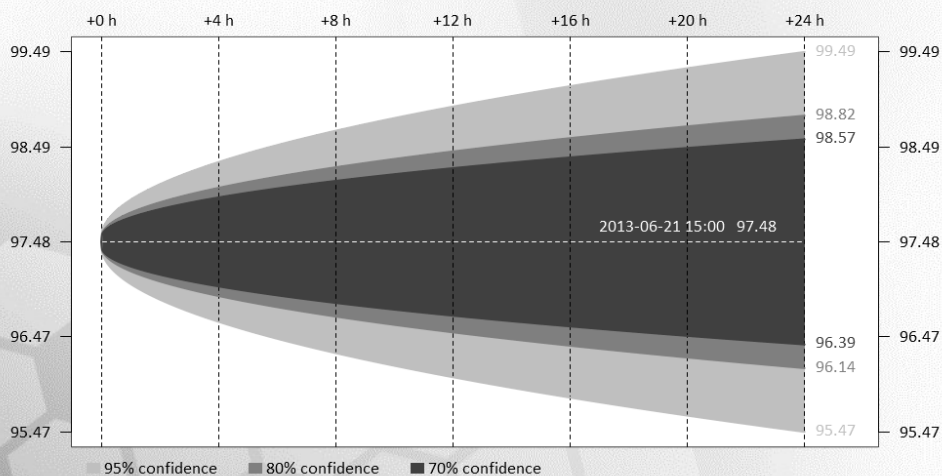
EURUSD Potential Rates



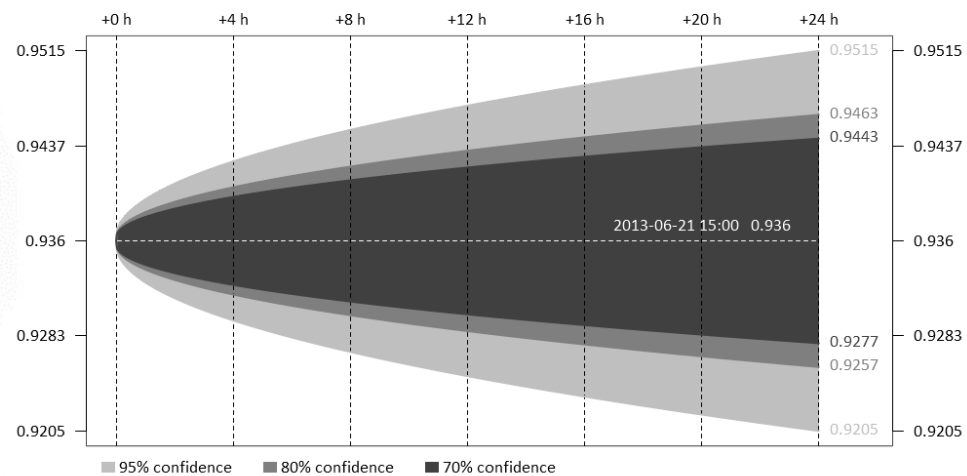
GBPUSD Potential Rates



USDJPY Potential Rates



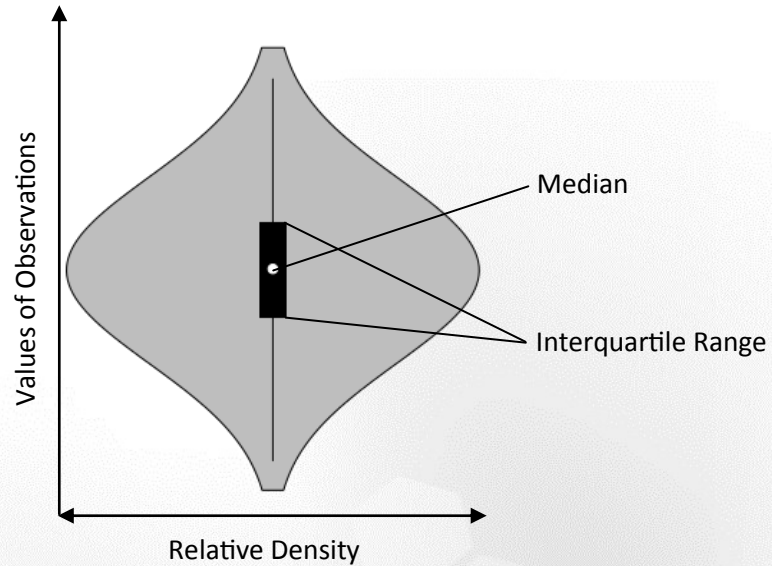
USDCHF Potential Rates



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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