



GBP

12/07/2013



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RESEARCH PRODUCTS



Market Research





Dominant Events for the British Pound

Yellow Area

July 5

06:00 - 15:00

- German Factory Orders [[link](#)]
- U.S. Non-Farm Employment Change, Unemployment Rate [[link](#)]

Turquoise Area

July 9

05:00 - 15:00

- U.K. Manufacturing Production [[link](#)]
- ECB Policymaker Comment [[link](#)]
- U.S. Job Openings and Hiring [[link](#)]

Blue Area

July 10

18:00 - 24:00

- FOMC Meeting Minutes [[link](#)]

Purple Area

July 11

05:00 - 19:00

- BOJ Press Conference [[link](#)]
- U.S. Unemployment Claims [[link](#)]

GBP Currency Index Range

0.45%

0.78%

0.07%

0.91%

Average GBP/USD
Volatility Index

1.3

1.5

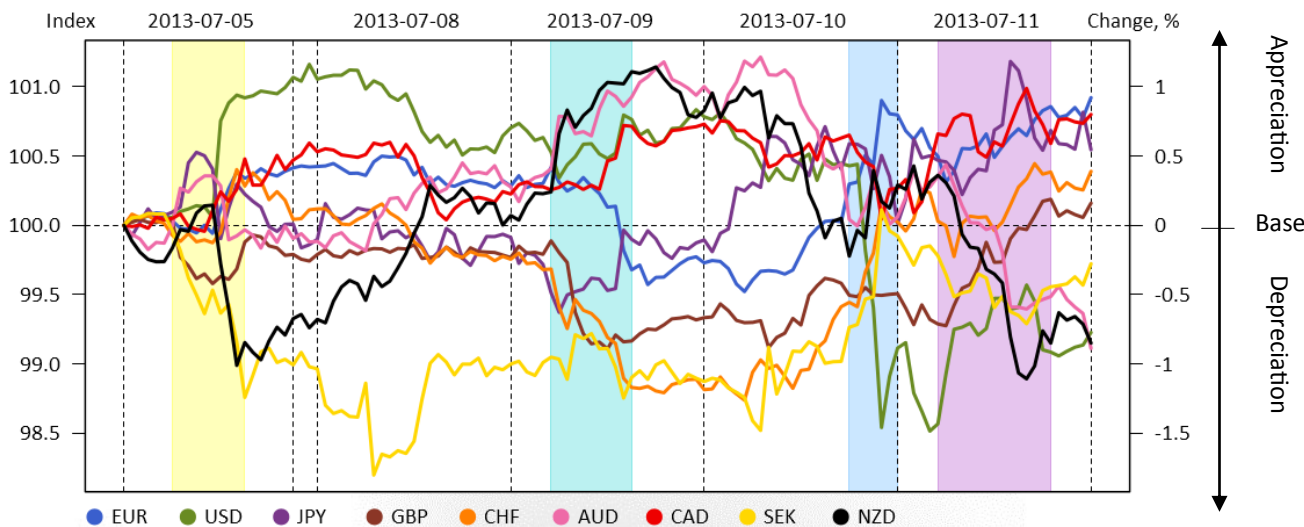
2.33

1.37



Relative Currency Strength

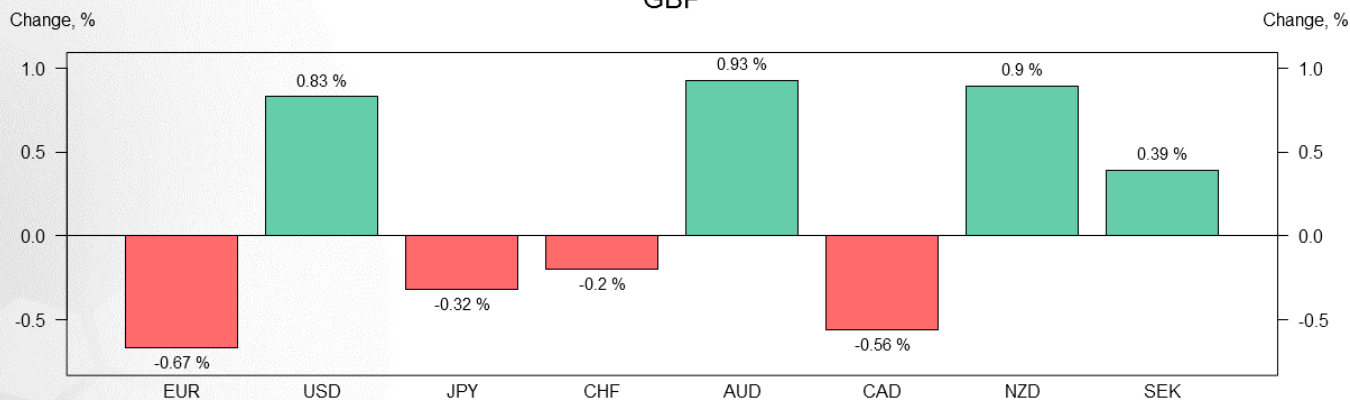
Currency Indices



When looking through the events that have occurred recently, it becomes evident that the changes in the valuation of the British Pound were weakly linked to the actual fundamentals of the United Kingdom. The only pertinent to the economic situation in the country report was released this Wednesday, reminding us that we should not get ahead of ourselves by a 0.8% dip in Sterling's index, even though in bulk the statistics lately have been promising. Investors in this case proved to be cautious, keeping the Pound's price more or less at the same level in the short term (+0.16%) and in the longer perspective as well (-0.75%).

Next two days, following a negative release, the Pound was successfully reconquering its previous positions on the back of several factors. One of them was poor performance of commodity currencies, namely AUD, NZD and CAD, all of which fell more than 1% this Wednesday amid disappointing Chinese data. At the same time IMF raised its U.K. GDP growth forecast, confirming that the economy is still moving in the right direction, even though the road, as we have witnessed, is quite bumpy. Finally, widespread sell-off of the U.S. Dollar, being that the Fed remains prudent with respect to the recovery and is therefore not in a hurry to remove stimulus, also supported the Sterling.

GBP



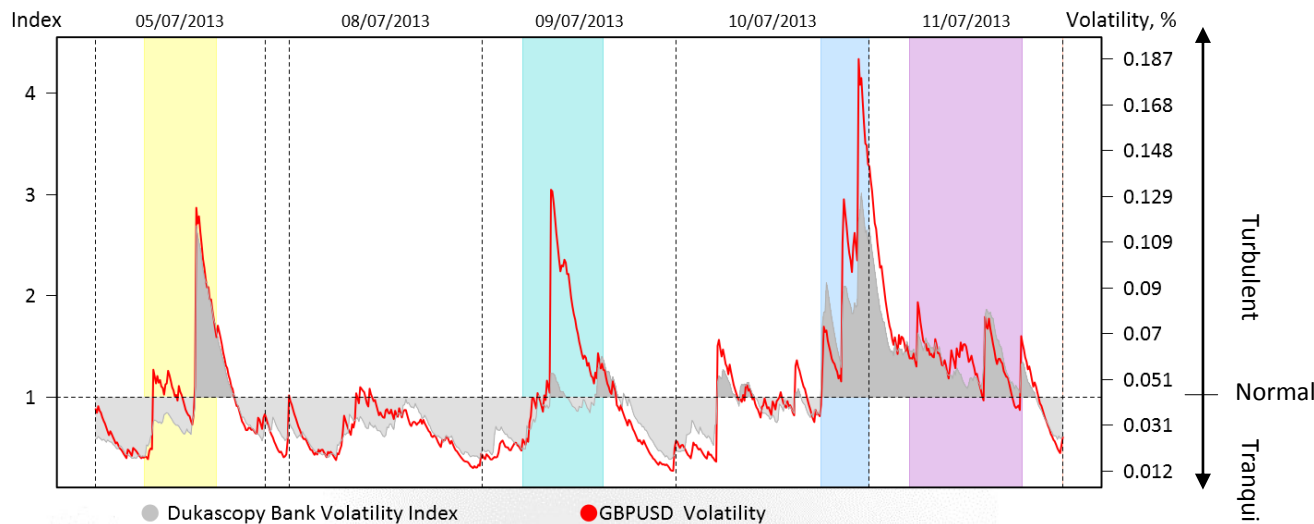
Currency Index Change

Days	EUR	USD	JPY	GBP	CHF	AUD	CAD	SEK	NZD
5	0.92%	-0.77%	0.54%	0.16%	0.39%	-0.89%	0.80%	-0.28%	-0.85%
20	0.88%	3.07%	-1.89%	-0.75%	0.23%	-2.63%	0.81%	0.14%	-0.26%
130	4.95%	6.48%	-5.28%	-0.63%	2.48%	-10.00%	0.40%	3.63%	-2.00%



Volatility

Volatility



Out of the past five days four were volatile. Last Friday the only reason why GBP/USD and other pairs as well moved at an increased speed (Dukascopy Bank Volatility Index at 2.7) were data on the U.S. labour market, which had elevated importance in light of the approaching FOMC meeting. This partially explains why activity was scant the first two days of this week, but we should also mention absence of any news scheduled on these dates that could have potentially changed the situation. The share of DBVI values exceeding a level of historical volatility amounted to merely 11% (Jul 8 and 9). However, GBP/USD, unlike its counterparts, strongly responded to the U.S. manufacturing production figure published on Jul 9.

Subsequent events, however, had a much greater impact on the exchange rates, which posted three times larger changes within the 10-minute intervals than they used to in the past due to unexpected dovishness of Ben Bernanke's comments, as a result of which EUR/USD's volatility index soared up to 4.7. It is worth mentioning that the highest levels of volatility appeared several hours after the actual speech. The turbulence evoked in the evening of Jul 10 did not abate until late Thursday, lasting for nearly 27 hours, whereas usually such periods are limited to European and American trading hours, just as observed on Jul 5 and 9.

Elevated Volatility (% of the observed period)

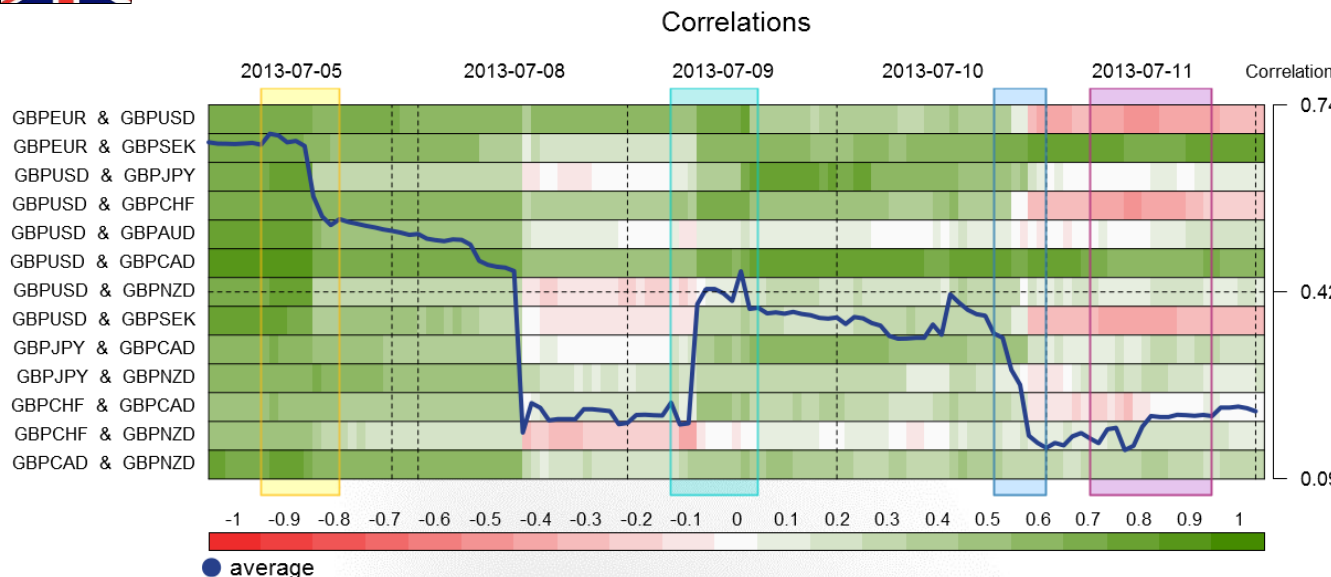
Market	EUR/USD	USD/JPY	GBP/USD	AUD/USD	USD/CAD	USD/CHF	EUR/JPY	EUR/GBP	EUR/CHF	USD/SEK	NZD/USD
35	39	33	41	33	32	40	31	30	43	38	37

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	3	4.7	3.8	4.3	3.1	3.6	4.3	2.3	3.2	2.7	3.3	2.6
Min	0.4	0.3	0.3	0.3	0.4	0.2	0.3	0.3	0.2	0.3	0.2	0.3
Average	1	1.1	1	1	0.9	0.9	1.1	0.9	0.9	1	0.9	0.9



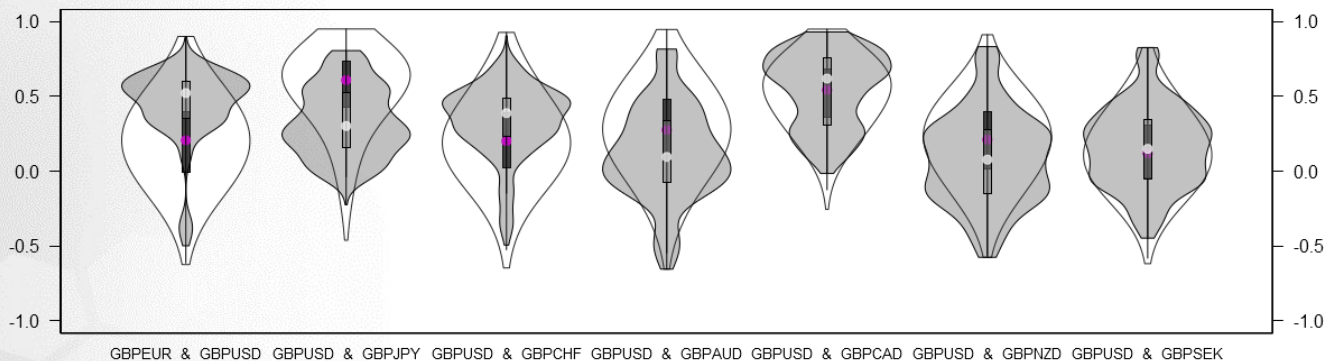
Currency Significance



The significance of the British Pound as a driver of the exchange rates has been reduced to nearly nothing over the last days, if we compare the starting and the ending values of the average correlation coefficient, which is a proxy to how sensitive are Sterling crosses to the fluctuations of the Sterling itself. On Jul 5, a day after the BOE meeting, the gauge hovered as high as 0.69 at first, but was damaged by 0.18 points due to the important data coming from the world's largest economy.

Another heavy hit the average coefficient took after the weekend, on Monday, plummeting down to 0.14. The level of Pound's significance was lifted for a short period of time by the already mentioned report on the secondary sector of U.K.'s economy, up to 0.4, but this continued only until 6 p.m. GMT of Jul 10. Then the coefficient went again down to 0.14, but this is likely to be corrected next week, when U.K. inflation, BOE MPC meeting minutes and finally retail sales, among some other news in the calendar, are going to improve interdependence between GBP crosses, among which GBP/USD with GBP/CAD is one of few to demonstrate stability and strength.

Correlations (20 vs 130 days)

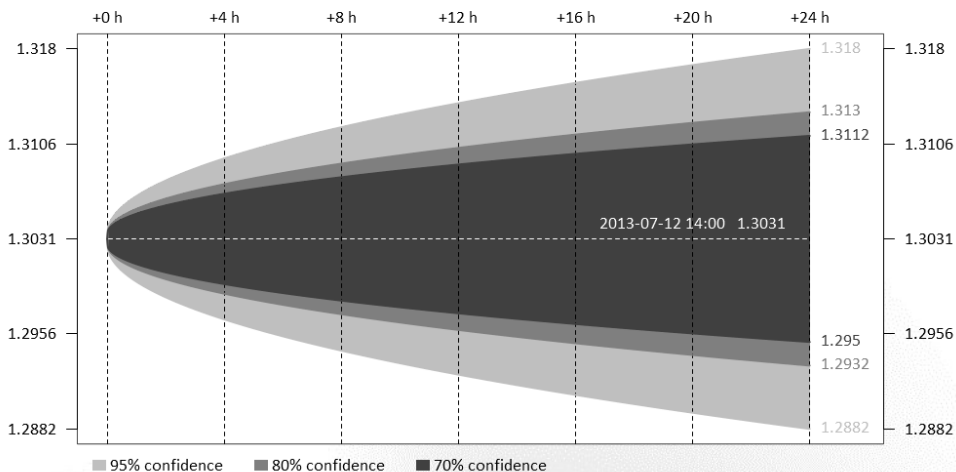


Mean Correlation Coefficient (with GBPUSD)

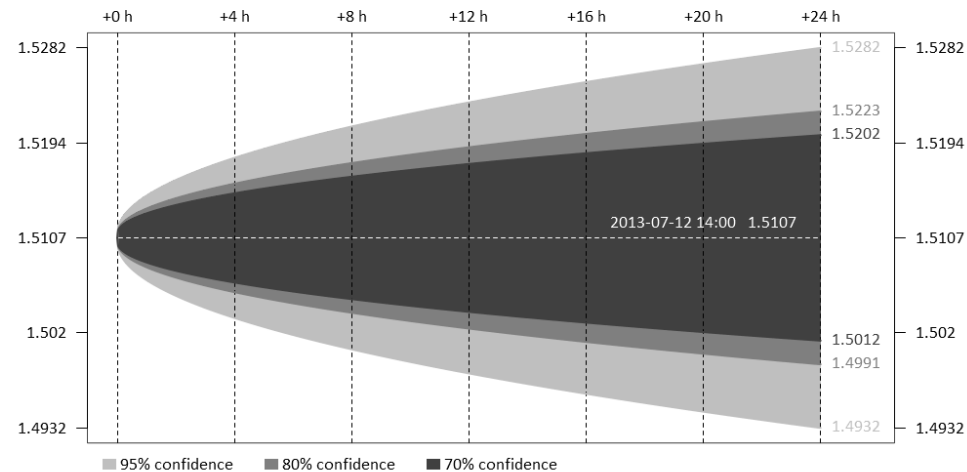
Days	GBPEUR	GBPJPY	GBPCHF	GBPAUD	GBPCAD	GBPNZD	GBPSEK
5	0.27	0.3	0.26	0.14	0.67	0.14	0.05
20	0.44	0.33	0.33	0.11	0.54	0.08	0.16
130	0.38	0.39	0.33	0.38	0.63	0.3	0.27

Confidence Intervals for Next 24 Hours

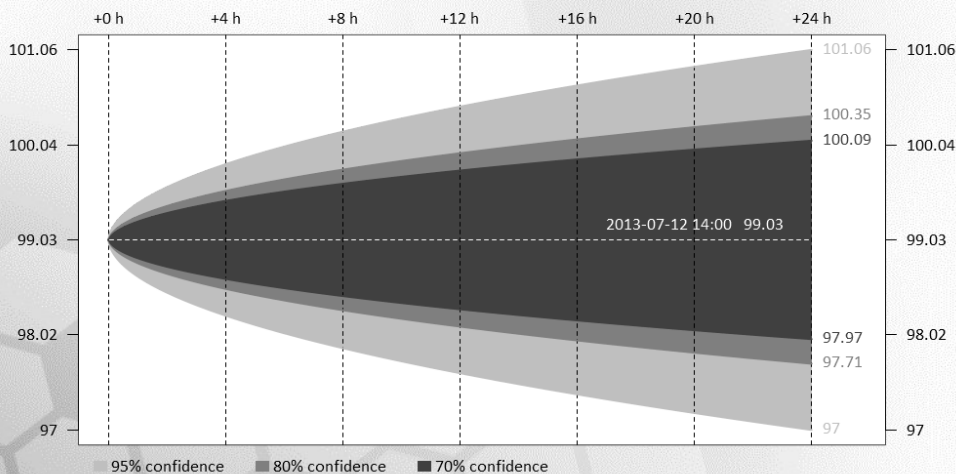
EURUSD Potential Rates



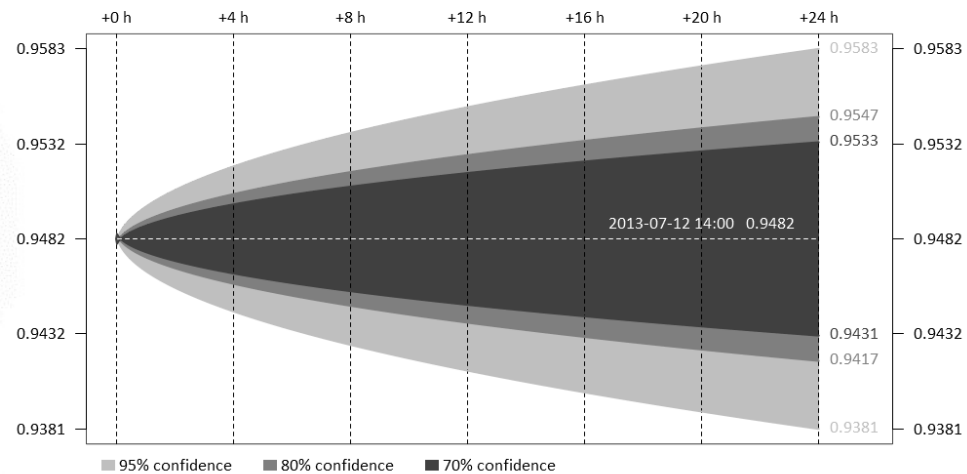
GBPUSD Potential Rates



USDJPY Potential Rates



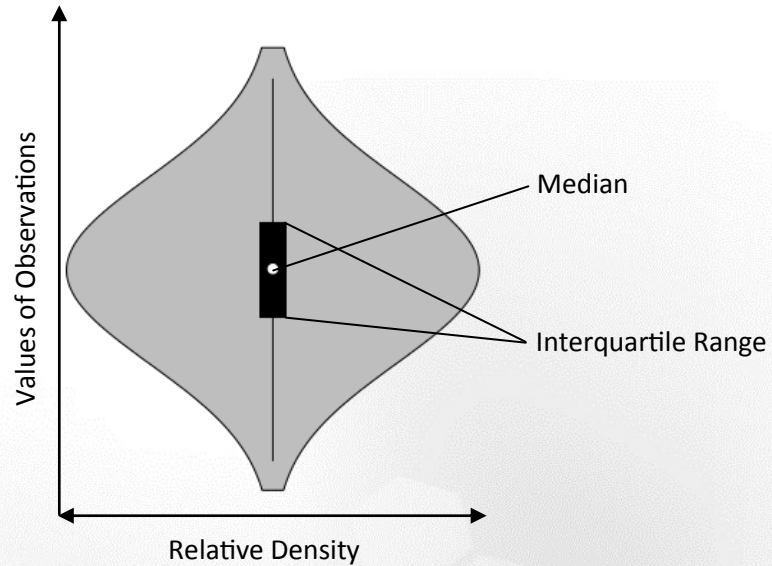
USDCHF Potential Rates



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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