



USD

17/07/2013



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Market Research





Dominant Events for the U.S. Dollar

Yellow Area

July 10

18:00 - 24:00

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

Turquoise Area

July 11

14:00 - 20:00

- U.S. Unemployment Claims [\[link\]](#)

Blue Area

July 12

07:00 - 18:00

- Eurozone Industrial Production [\[link\]](#)
- U.S. PPI and Consumer Sentiment [\[link\]](#)

Purple Area

July 15

05:00 - 16:00

- Chinese GDP [\[link\]](#)
- U.S. Retail Sales [\[link\]](#)

Orange Area

July 16

08:00 - 19:00

- ZEW Economic Sentiment [\[link\]](#)
- U.S. CPI [\[link\]](#)

USD Currency Index Range

1.9%

0.51%

0.47%

0.65%

0.76%

Average EUR/USD
Volatility Index

3.06

1.81

1.03

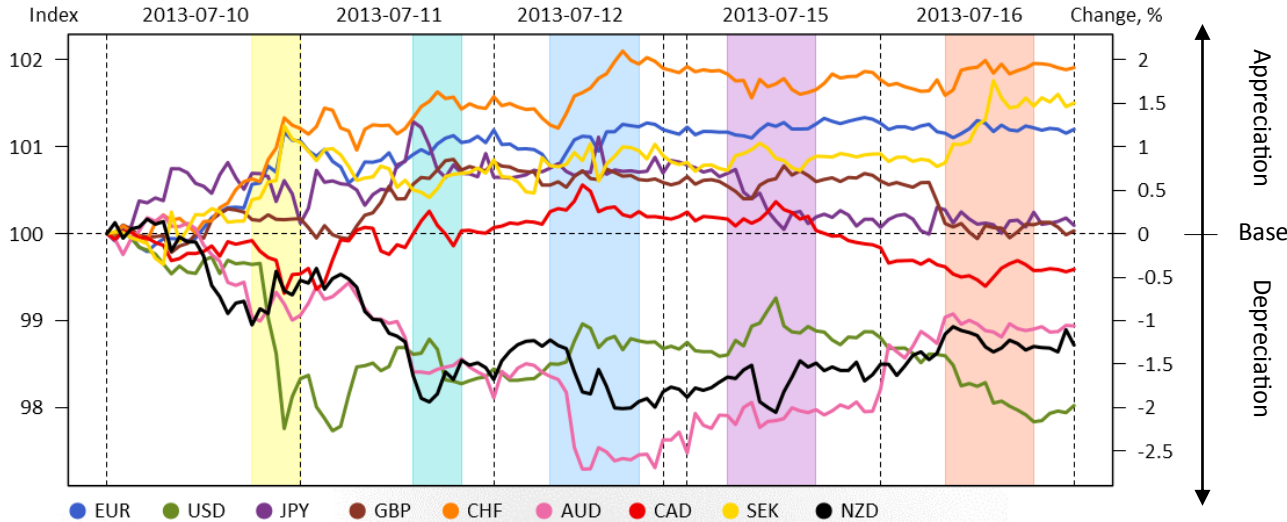
0.95

1.14



Relative Currency Strength

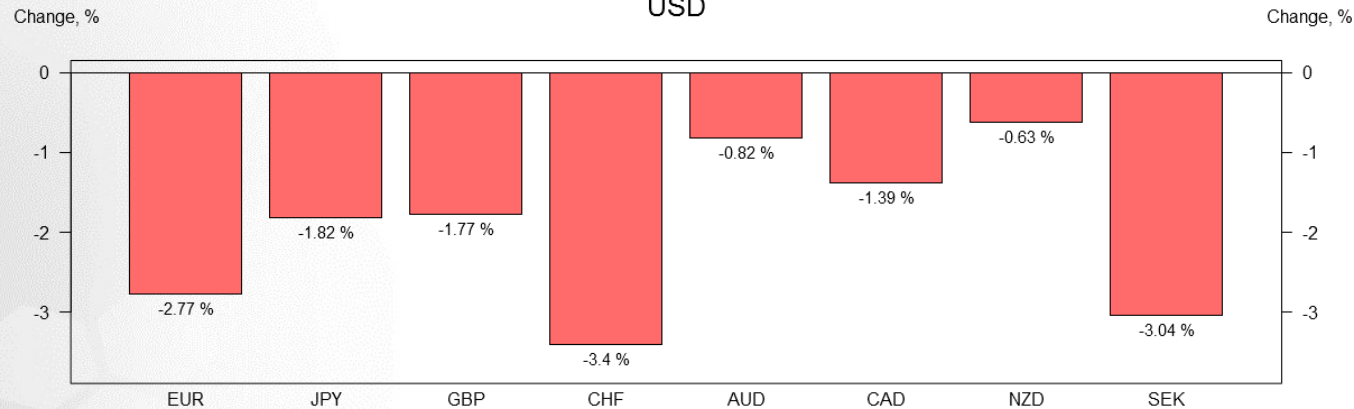
Currency Indices



The U.S. Dollar's performance lately has been strongly bearish—the currency has underperformed against all of its major counterparts since last Wednesday. The five-day loss of its equally-weighted index totalled to 2%, with the most impressive changes in USD/EUR (-2.8%), USD/CHF (-3.4%) and USD/SEK (-3%). As mentioned in the previous issues of Market Research, the sell-off was associated with surprisingly dovish rhetoric of Ben Bernanke in his speech after the minutes of the latest FOMC meeting held were published. His comments are responsible for a 2.3% dip in the average price of the greenback on Jul 10.

Subsequent news were largely incapable of moving the U.S. Dollar, having very limited influence on its pricing. Reports on the U.S. wholesale prices, industrial production and inflation positively affected the value of the Dollar, but the influence was offset by the worse-than-expected data on the U.S. unemployment claims, consumer sentiment and retail sales, keeping the currency's trading levels low.

Yesterday, after a week of fairly low activity, the buck returned to its bearish tendency, retreating additional 0.8%, being that today's testimony of the Fed chairman is again expected to be soft with respect to the monetary policy currently pursued by the central bank of the world's largest country.



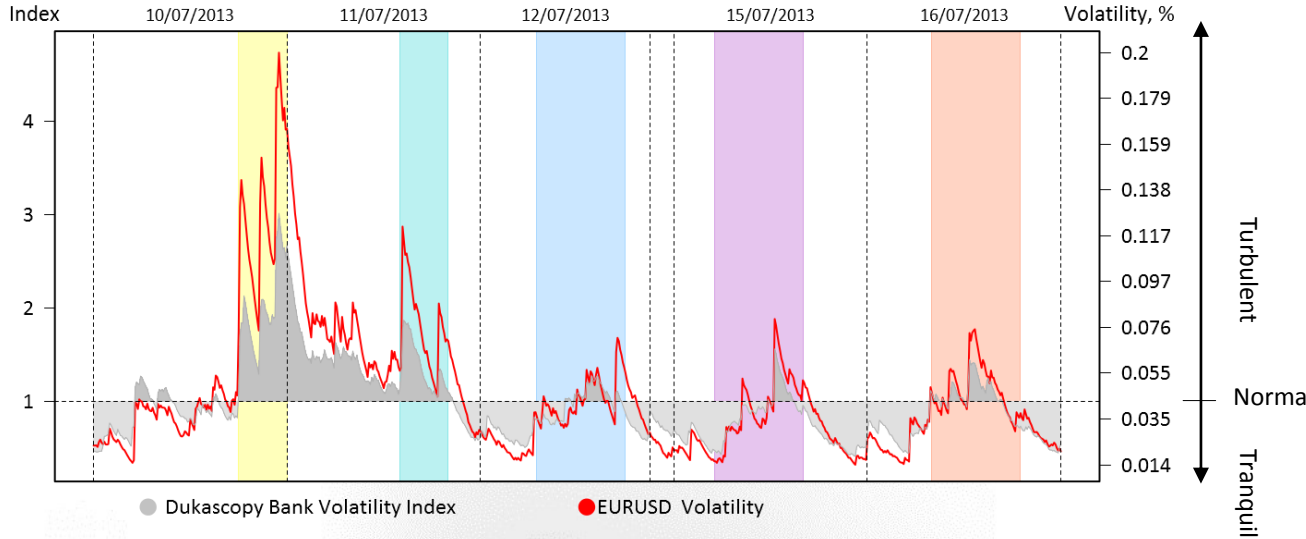
Currency Index Change

Days	EUR	USD	JPY	GBP	CHF	AUD	CAD	SEK	NZD
5	1.20%	-1.98%	0.10%	0.03%	1.91%	-1.06%	-0.41%	1.50%	-1.28%
20	0.20%	2.25%	-2.12%	-1.36%	-0.17%	-0.46%	0.61%	-0.13%	1.00%
130	4.41%	5.82%	-6.78%	-1.04%	4.69%	-9.33%	-0.26%	4.09%	-1.59%



Volatility

Volatility



After last week's flurry of activity, the past three trading days were to a large degree free from increased turbulence with only few exceptions. The market usually appears to be exhausted, following the intervals of high volatility; moreover, it is also Bernanke's testimony scheduled for Jul 17 that is discouraging active trading, as investors seem to be willing to enter the market already being in possession of information, while avoiding taking bets at times of exposure to increased uncertainty. Accordingly, we may expect reaction of the same magnitude as a week ago to today's events that are to supply us with more clarity on future action of the Fed—currently the most dominant topic.

Among the past five days Jul 10 distinguished itself with the highest market and EUR/USD volatilities, which exceeded the norm 3.0 and 4.7 times respectively. Jul 11, on the other hand, is memorable with the amount of time DBVI was elevated, namely 86% of the day, while on average it was twice as small. For a comparison, the maxim value DBVI reached after Jul 11 was 1.6. At the same time only 22% of values were exceeding the level of historical variability at 1.0.

The least susceptible to change buck's currency pairs over the studied period were USD/CAD and USD/SEK that do not appear to have the same sensitivity to the news related to the United States as other U.S. Dollar crosses, but are shaken by different factors, more related to the quote currencies.

Elevated Volatility (% of the observed period)

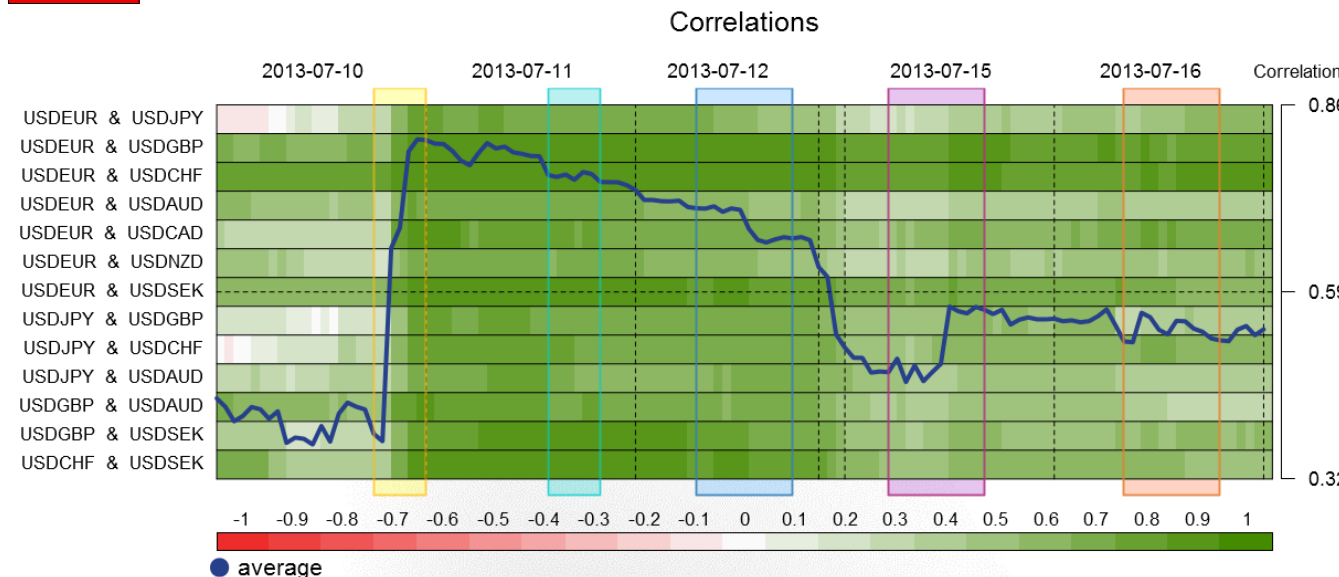
Market	EUR/	USD/	GBP/	AUD/	USD/	USD/	EUR/	EUR/	EUR/	USD/	NZD/	
	40	42	42	39	49	27	42	38	27	35	34	41

Volatility Index (for the observed period)

	Market	EUR/	USD/	GBP/	AUD/	USD/	USD/	EUR/	EUR/	EUR/	USD/	NZD/
		USD	JPY	USD	USD	CAD	CHF	JPY	GBP	CHF	SEK	USD
Max	3	4.7	3.8	4.3	3.1	2.5	3.9	2.3	2.3	2.5	3.3	2.5
Min	0.4	0.3	0.2	0.2	0.4	0.3	0.3	0.3	0.2	0.2	0.2	0.3
Average	1	1.1	1	1	1.1	0.9	1	1	0.8	0.9	0.9	1



Currency Significance

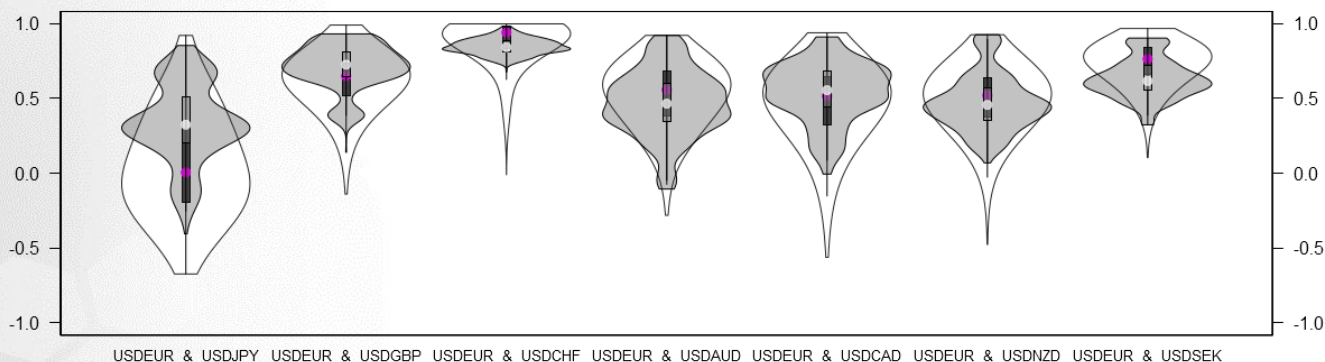


The period Jul 10-16 is a good example what is the impact of the weekend on the correlations between the currency pairs, in this case between the USD crosses. As we have already found out, Bernanke's speech left a notable mark in the market, an idea that is perfectly shown by the average correlation coefficient, which increases when the currency becomes more significant and decreases when the currency becomes less significant. Here the average coefficient soared up to 0.81 and remained the highest (Yen's was around 0.6) until the weekend.

However, even though there were no particular reasons for USD's importance to fall (the topic of QE3 tapering is still far from being resolved), the average coefficient plunged down to 0.46 after a two-day pause. Hence, we may claim that interrelations between the currency pairs, if they are altered somewhere during the week, return to, or at least approach, their usual levels after the weekend or, more generally, after an intermission in trading.

Speaking about the average coefficient in more detail, most of its constituents were greatly increased last Thursday and Friday. Still, some elements that we wish to highlight, namely correlations of USD/EUR with USD/CHF and USD/GBP, are subject to change to a sizeably lesser degree, constantly staying around 0.85 and 0.71 respectively.

Correlations (20 vs 130 days)

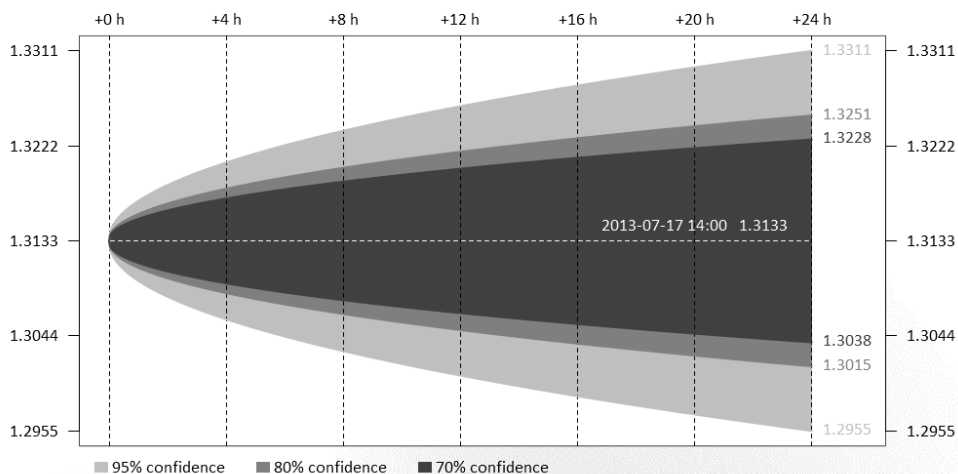


Mean Correlation Coefficient (with USDEUR)

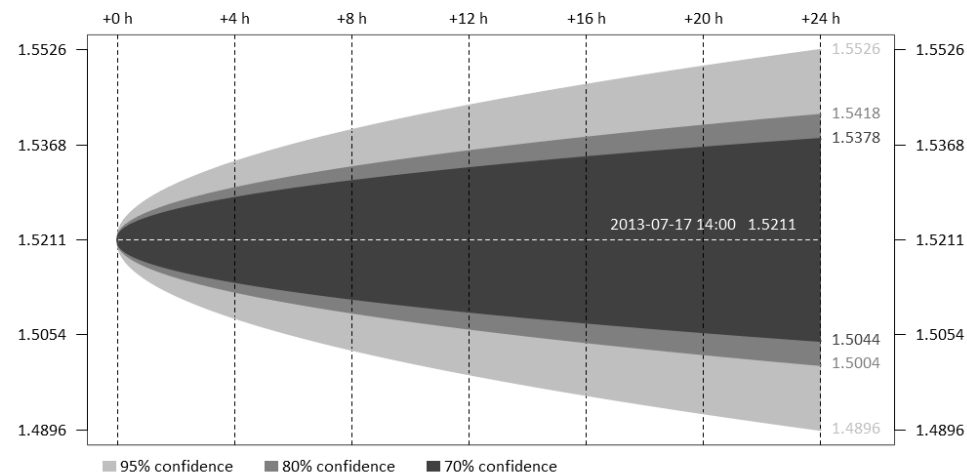
Days	USDJPY	USDGBP	USDCHF	USDAUD	USDCAD	USDNZD	USDSEK
5	0.54	0.87	0.87	0.51	0.68	0.53	0.77
20	0.33	0.71	0.85	0.46	0.54	0.47	0.63
130	0.05	0.55	0.79	0.41	0.39	0.39	0.71

Confidence Intervals for Next 24 Hours

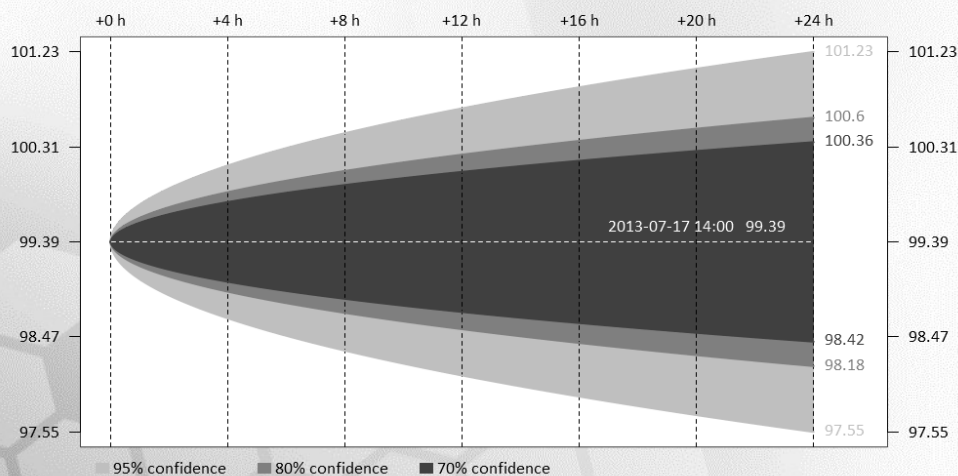
EURUSD Potential Rates



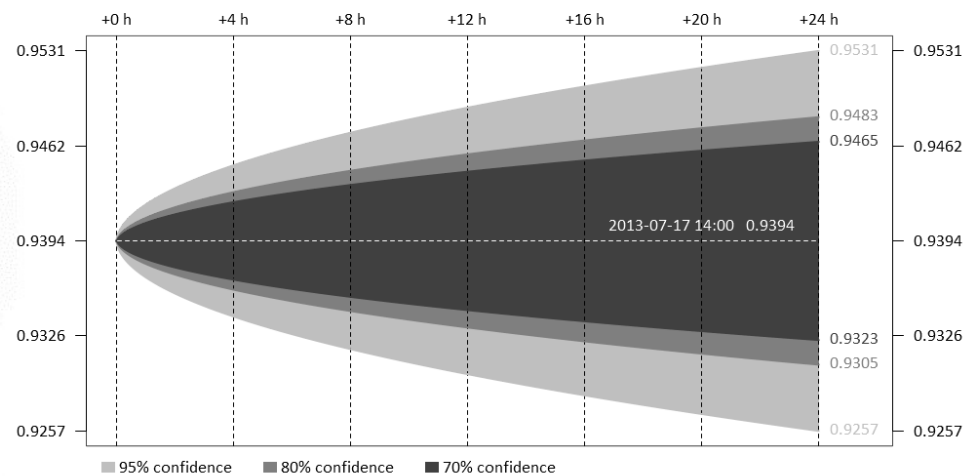
GBPUSD Potential Rates



USDJPY Potential Rates



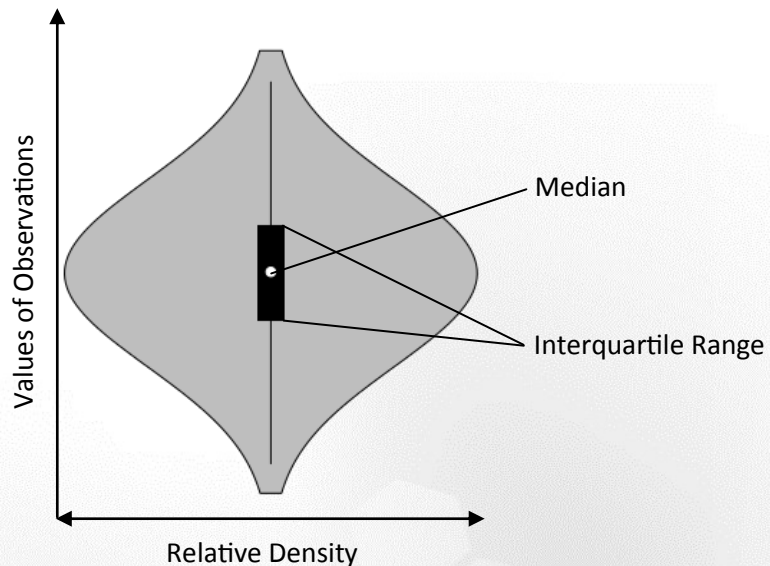
USDCHF Potential Rates



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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