



GBP

16/07/2014



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RESEARCH PRODUCTS



Market Research





Dominant Events for the British Pound

Yellow Area

July 10

05:30 - 15:00

- ECB Monthly Report
- UK Trade Balance
- BoE Interest Rate Decision
- US Initial and Continuing Jobless Claims

Turquoise Area

July 11

05:30 - 12:30

- German CPI, HICP
- Canadian Unemployment Rate, Net Change in Employment, Participation Rate

Blue Area

July 14

05:30 - 13:00

- Euro Area Industrial Production

Purple Area

July 15

08:00 - 15:30

- UK CPI, PPI, RPI
- BoE Governor's Speech
- German ZEW Survey, Euro zone ZEW Survey
- US Retail Sales
- US Business Inventories
- Janet Yellen Speech

GBP Currency Index Range

0.21%

0.09%

0.35%

0.67%

Average EUR/GBP Volatility Index

1.18

1.08

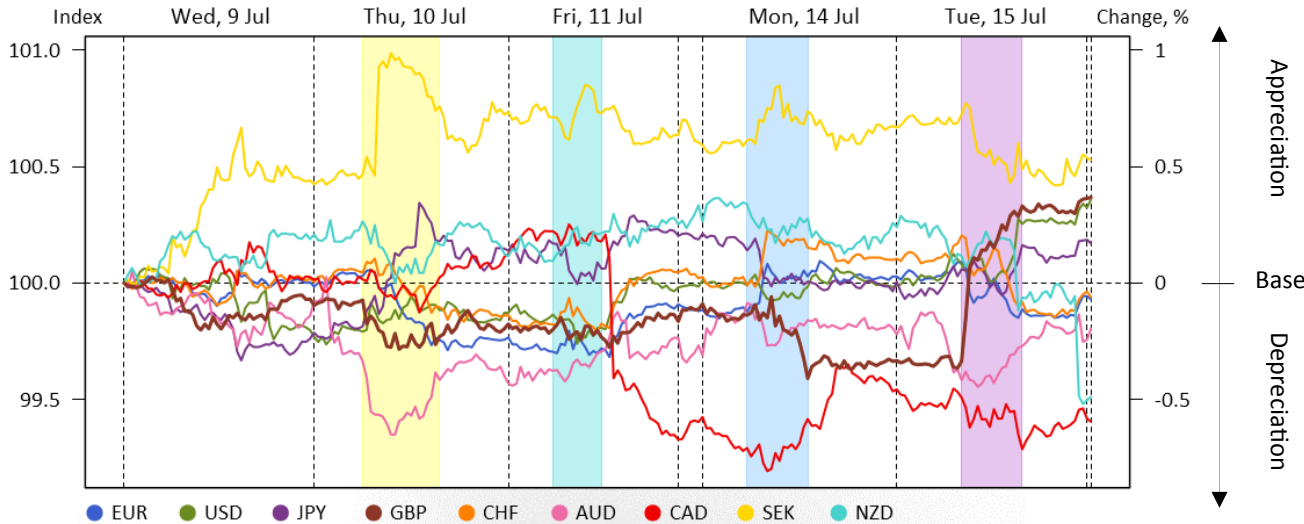
1.24

2.59



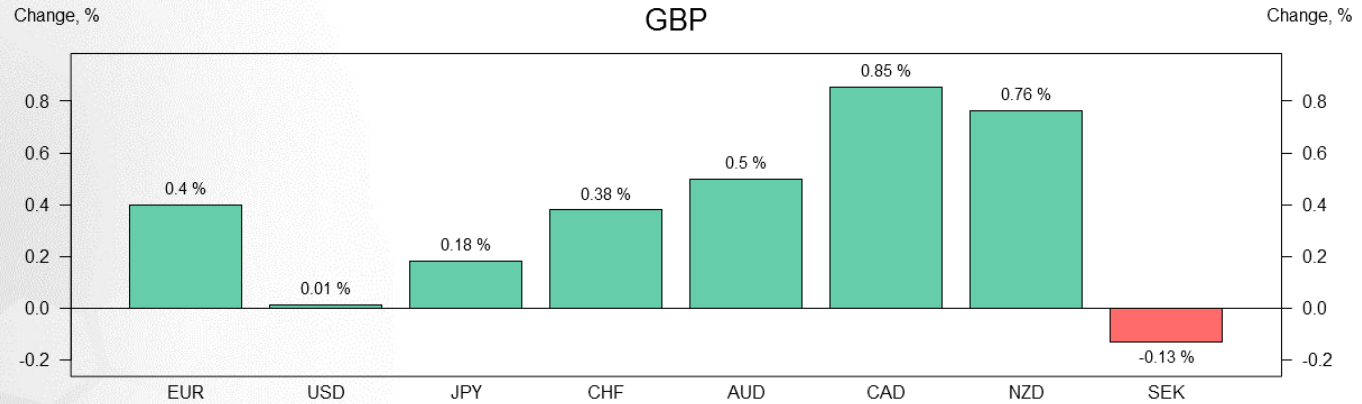
Relative Currency Strength

Currency Indices



The British pound could be named the star of the period as its index performed a beautiful act of last-minute recovery, jumping from the second worst to the second best in a span of eight hours. After spending the past week and a half trudging below the base level, the GBP index posted a gain that was surpassed only by the advancement of the period's leader, the Swedish krona. The pound faced the end of the period neck and neck with the U.S. dollar, outrunning it only by 0.01%. The currency's gains over other peers were much more substantial, reaching as high as 0.76% and 0.85% against the Kiwi and the Loonie. In the long-term view, the pound remains firm in its leading position with +3.1% half-yearly and +10.67% yearly changes.

After the heavy strike of the July 8 production data, the pound started the period below the base level and among the top three worst performers. The bearish mood was further encouraged by the greater-than-expected trade deficit reported on Thursday. The BoE decision to keep its monetary policy unchanged had little effect on the exchange rates, and the GBP index approached the weekend in a narrow range between 99.75 and 99.85. The level was changed abruptly on Monday, when the pound suddenly weakened against its peers, and the index was left pinned to the 99.65 mark. The pound's side of the market was expected to be sensitive to the inflation data, and Friday's release did not fail to deliver. A sharper-than-expected rise in CPI added fuel to the interest rate rise discussion, and the GBP index made a +0.67% surge to the second-best position.



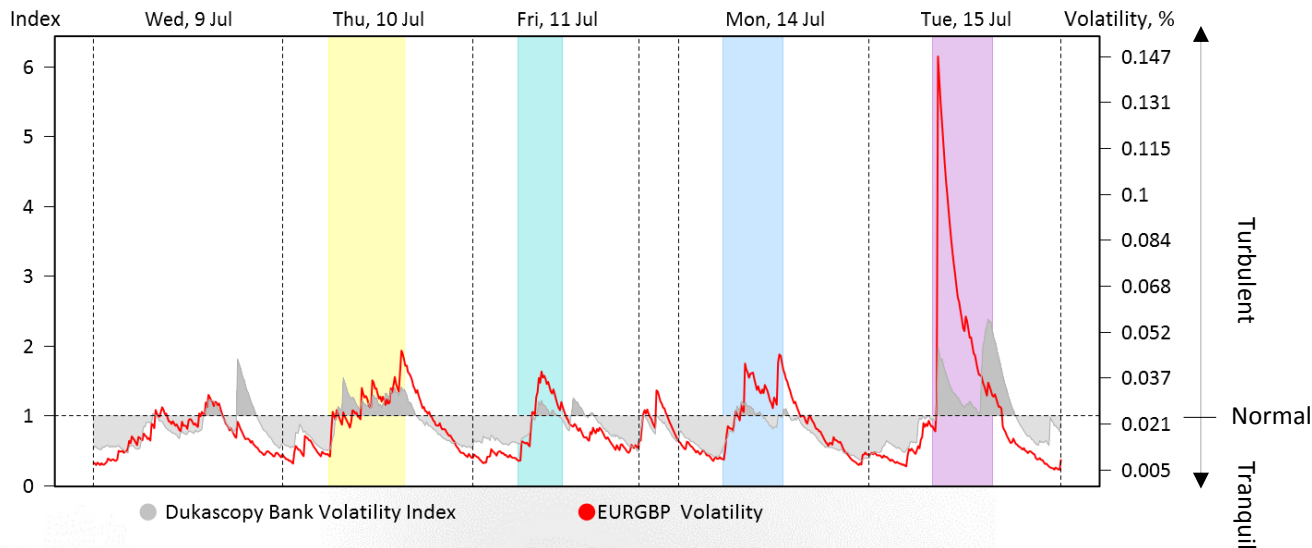
Currency Index Change

Days	EUR	USD	JPY	GBP	CHF	AUD	CAD	SEK	NZD
5	-0.07%	0.36%	0.17%	0.37%	-0.06%	-0.2%	-0.59%	0.53%	-0.49%
20	0%	-0.15%	0.38%	0.92%	0.26%	0.22%	0.97%	-3.34%	0.62%
130	-2.21%	-1.43%	1.45%	3.1%	-0.52%	3.71%	0.58%	-7.75%	3.15%
250	0.66%	-3.61%	-5.55%	10.67%	2.81%	-0.61%	-7.11%	-6.04%	8.8%



Volatility

Volatility



Throughout the period the pound's currency pairs were averagely turbulent compared to their GBP-lacking counterparts, but convincingly outperformed them in the scope of volatility peaks. July 15 inflation data and the generated surge of the pound pushed the volatility indexes to record highs, with the EUR/GBP index peaking at the period's absolute maximum of 6.1, and the GBP/USD reaching the third biggest value of 4.4. Beyond the peaks, the volatility of the pound's crosses was neither enhanced nor subdued relative to other currency pairs, with the average value perfectly in line with the market.

The Tuesday's peak was undoubtedly the most outstanding occurrence of the period, but the inflation data was not the only force capable of inducing turbulence. For instance, the ECB's interest rate and asset purchase decisions, that were met with little response from the GBP currency index, coincided with a 1.5 peak of EUR/GBP volatility measure. In turn, variety of European data reported earlier on the same day did not produce any solid outbursts above the historical level of volatility, but managed to make the index bounce around the reference value for the whole three hours during which the data was coming out.

Elevated Volatility (% of the observed period)

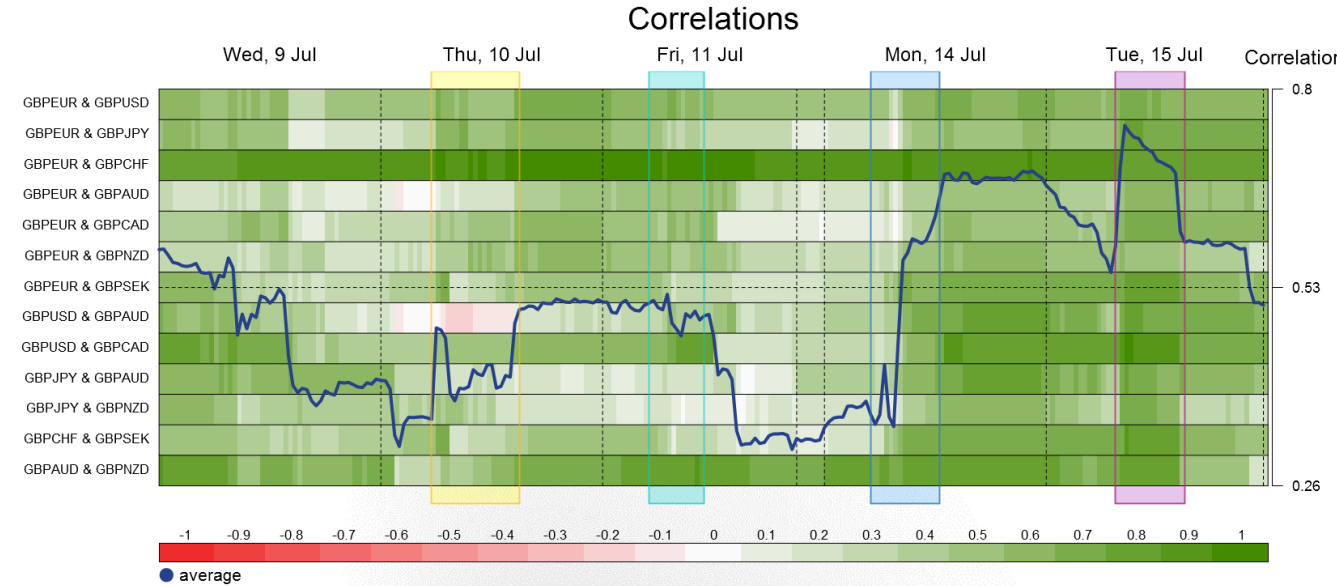
Market	EURUSD	USDJPY	GBPUSD	AUDUSD	USDCAD	USDCHF	EURJPY	EURGBP	EURCHF	USDSEK	NZDUSD
29	36	27	36	26	35	37	39	31	31	9	26

Volatility Index (for the observed period)

	Market	EURUSD	USDJPY	GBPUSD	AUDUSD	USDCAD	USDCHF	EURJPY	EURGBP	EURCHF	USDSEK	NZDUSD
Max	2.4	2.8	2.6	4.4	3	4.6	3.1	2.7	6.1	2.9	3.2	3.7
Min	0.4	0.3	0.4	0.3	0.3	0.3	0.2	0.4	0.2	0.3	0.1	0.4
Average	0.9	0.9	0.9	1	0.9	0.9	0.9	1	0.9	0.8	0.6	0.9



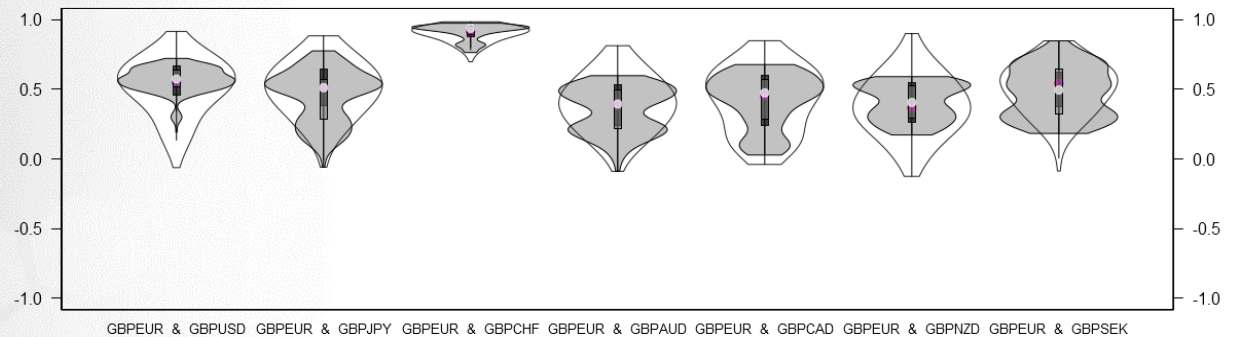
Currency Significance



The average values of the correlation coefficients between GBP/EUR and the rest of pound's crosses varied between 0.35 and 0.91 over the past 5 and 20 days, 0.05-0.1 points higher than longer-term values, indicating solid positive relation. There was only one occurrence of negative correlations throughout the period. Australian unemployment rate release furthered the weakening of the Aussie and, consequently, shifted the bond between GBP/EUR – GBP/AUD and GBP/USD – GBP/AUD to the negative side. As for the overall significance measure of the pound, it held on a relatively high level during the period, ranging from 0.3 to 0.75. The week, however, was not short of some ups-and-downs.

The very first day of the period saw the composite start to fall and eventually drop from 0.58 to 0.31. However, against the background of BoE monetary policy decisions, the measure started to recover and reached the 0.5 level by Thursday afternoon. On Friday, however, it dropped down to the minimal value of the period, and did not break higher up until the Monday. Then, after the Euro zone industrial production data was released, the composite advanced to 0.68 and held above around 0.6 until the events of July 15 pushed it to the period's maximal value of 0.75.

Correlations (5 vs 20 days)

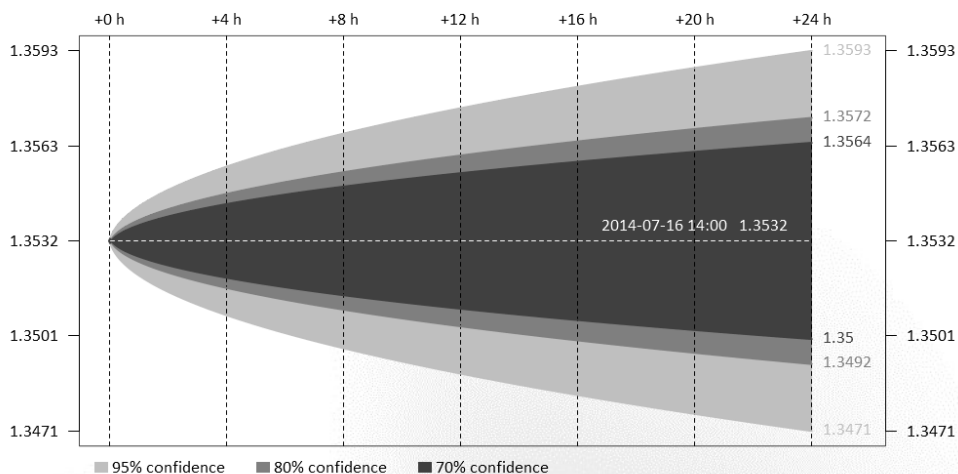


Mean Correlation Coefficient (with GBPEUR)

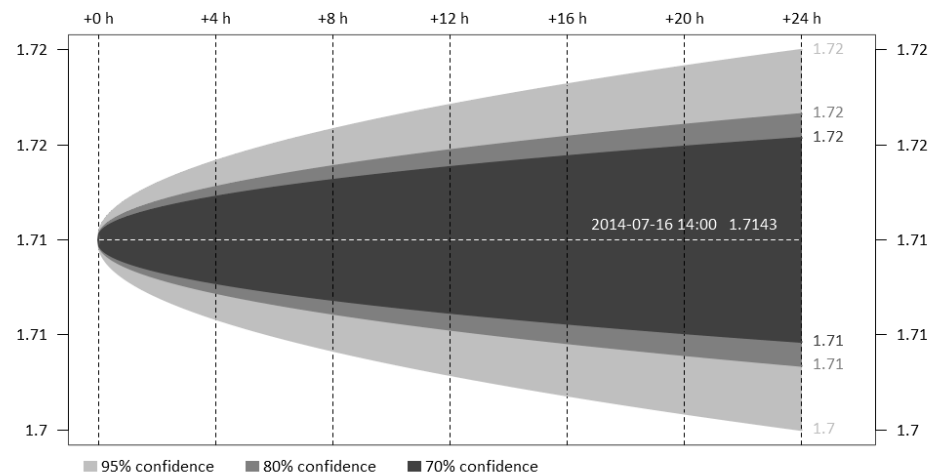
Days	GBPUSD	GBPJPY	GBPCHF	GBPAUD	GBPCAD	GBPNZD	GBPSEK
5	0.57	0.45	0.91	0.35	0.42	0.4	0.48
20	0.52	0.5	0.9	0.39	0.42	0.38	0.51
130	0.47	0.39	0.87	0.31	0.36	0.32	0.61
250	0.47	0.38	0.85	0.32	0.39	0.3	0.59

Confidence Intervals for Next 24 Hours

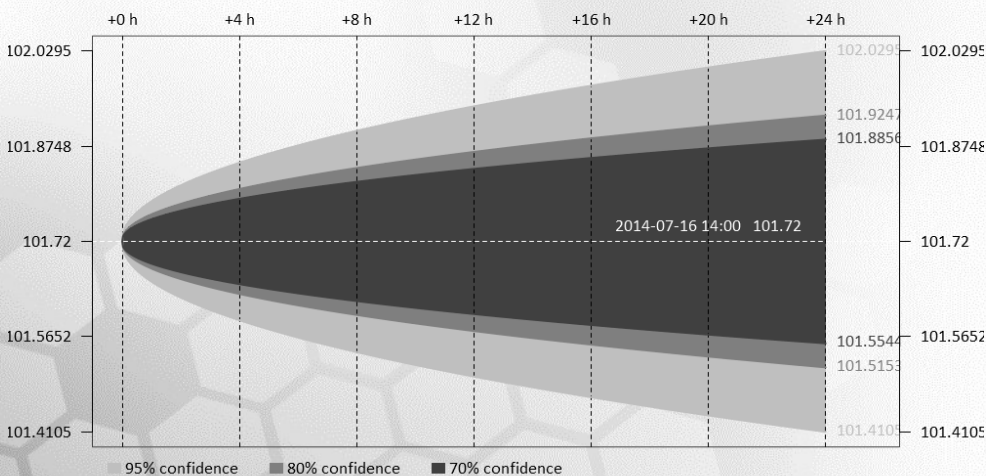
EURUSD Potential Rates



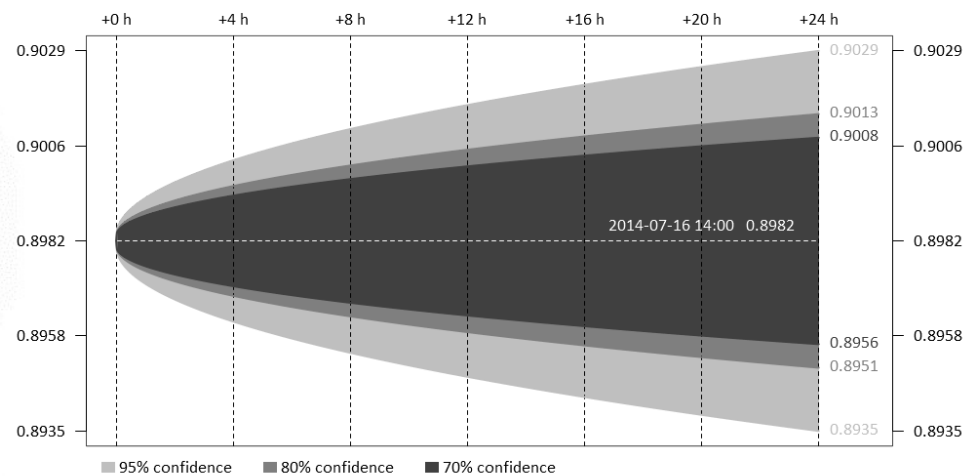
GBPUSD Potential Rates



USDJPY Potential Rates



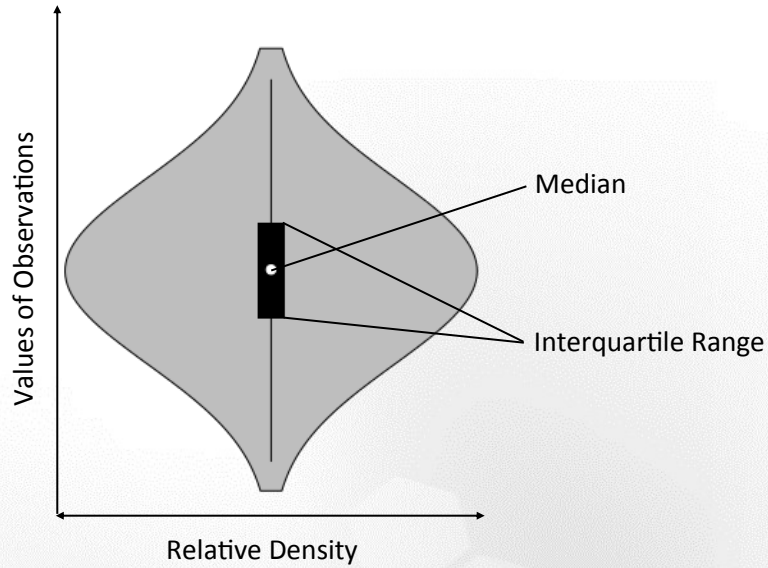
USDCHF Potential Rates



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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