



EUR

05/09/2014



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Market Research





Dominant Events of the Period

Yellow Area

August 29

05:30 - 15:00

- German Retail Sales, Eurozone CPI, Unemployment Rate
- U.S. Chicago PMI, Personal Spending
- Canada GDP

Turquoise Area

September 2

13:30 - 19:30

- Japan Pension Fund Reform
- U.K. Construction PMI
- U.S. Manufacturing PMI

Blue Area

September 3

05:00 - 08:00

- Eurozone Retail Sales, Services PMI
- U.K. Services PMI

Purple Area

September 4

11:00 - 15:30

- MPC Meeting
- ECB Meeting
- U.S. Trade Balance, Unemployment Claims, Non-Manufacturing PMI

EUR Currency Index Range

0.24%

0.18%

0.12%

1.18%

Average EUR Volatility Index

1.07

1.73

1.17

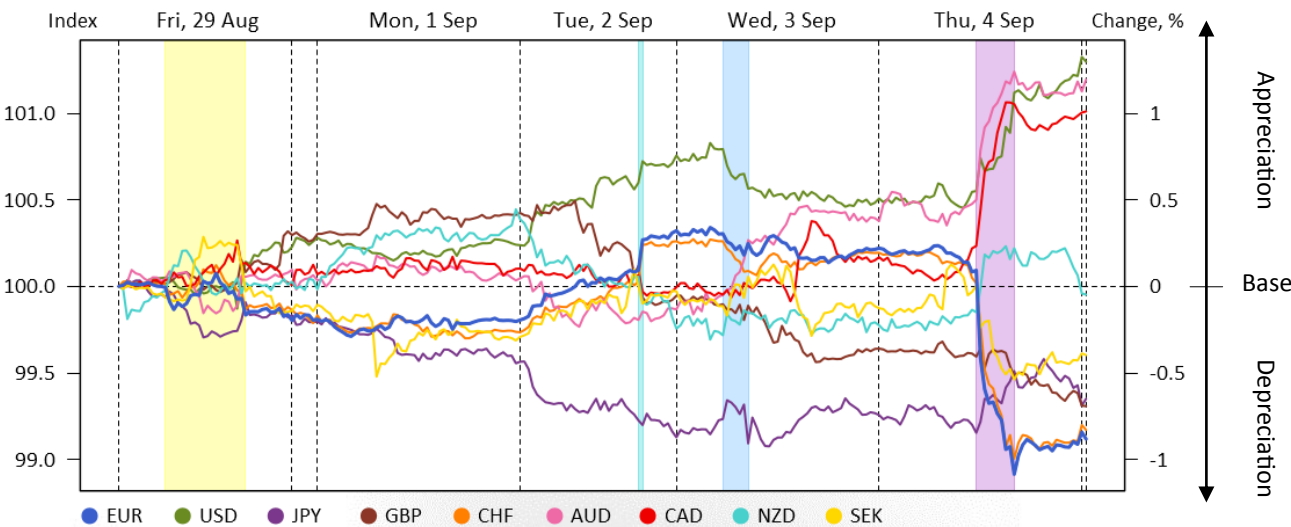
4.58



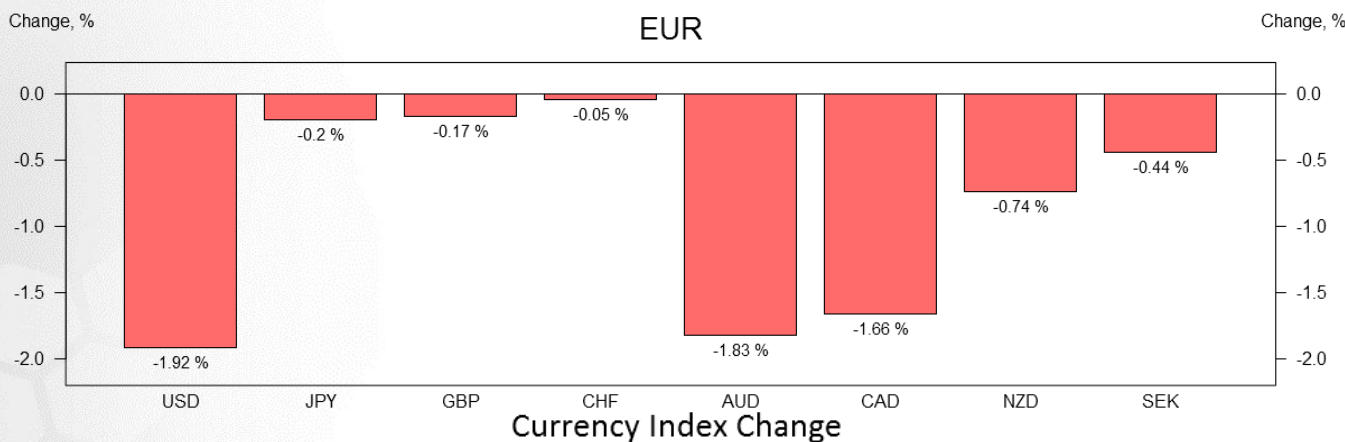
Relative Currency Strength

Currency Indices

Euro finished last week on a weak footing, as German retail sales growth turned out to be negative. A little later demand for the currency slightly increased, but was damaged by the better-than-expected Chicago PMI. The situation improved on this week's second day. First, weakness of the Yen due to speculations regarding Japan pension fund reform helped the Euro to negate its prior losses. Then, surprisingly good U.S. Manufacturing PMI benefited not only the U.S. Dollar, but also prompted investors into buying Euro and abandoning Sterling, Aussie and Kiwi. But Wednesday already revealed that appreciation of the Euro had its limits—Euro zone retail sales contracted more than expected.



But the main events took place on Thursday, when the common currency lost 1.2% of its value, because the market turned out to be unprepared for what was coming. This day was destined to be characterized by elevated volatility, since apart from the ECB meeting, there were also the MPC meeting, BoJ statement and U.S. unemployment claims. However, very few believed the European monetary authority was going to cut the rates this meeting, most experts were lulled by Draghi's hesitation to act before. Only six of 57 economists surveyed by Bloomberg were right. As a result, the Euro saw 0.9% depreciation since Aug 29.

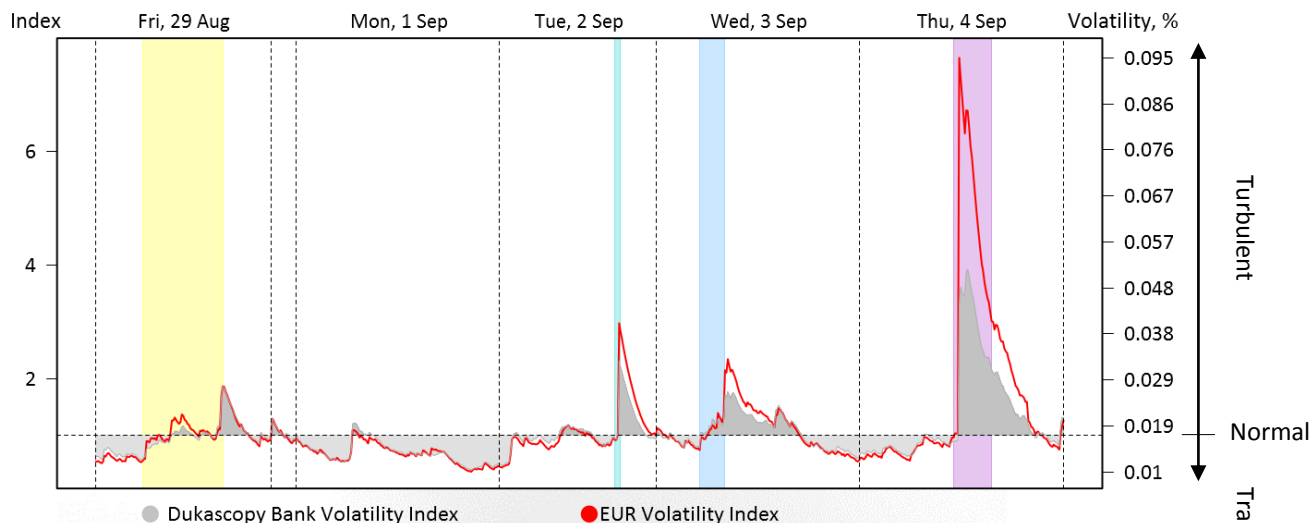


Days	EUR	USD	JPY	GBP	CHF	AUD	CAD	NZD	SEK
5	-0.88%	1.3%	-0.65%	-0.69%	-0.83%	1.19%	1.01%	-0.05%	-0.4%
20	-1.69%	2.06%	-1.85%	-1.51%	-0.91%	2.84%	2.58%	-0.62%	-0.68%
130	-4.3%	3.47%	0.62%	0.24%	-3.01%	6.59%	4.83%	0.5%	-7.91%
250	-1.43%	0.88%	-5.48%	5.68%	1.29%	3%	-3.27%	6.26%	-6.93%



Volatility

Volatility



Plenty of important news associated with the Euro and the Greenback have been released since Aug 29—the two of the main market movers, which made the market exceptionally volatile. It was elevated 39% of the time, and, if we analyse the Euro pairs in more detail, we can observe that most of them had their volatility elevated for about 40% of the time, exceptions being the EUR/USD and EUR/CAD. This further indicates that the Euro played a big part in market’s high volatility this period. The observed period stands out with its peaks in volatility, as the market reached a maximum value of 3.92, while the Euro’s volatility peaked at a whopping 7.64 mark.

The five-day period started rather volatile, then the Euro zone inflation data lifted the Euro’s and market’s volatility. But the largest surge of the day occurred a bit later, when Chicago’s PMI showed a massive increase, namely from 56.0 to 64.3. A new week started fairly calmly, without any important news, which continued until the afternoon of Tuesday, when the U.S. Manufacturing PMI was released, livening things up and causing a large surge in the volatility level. On Wednesday the volatility rose once again, with the Euro zone’s retail sales contracting by 0.4%. The period ended with a massive surge in volatility, reaching the period’s highest value of 7.64, when the ECB decided to cut the ease the monetary policy even further, thus causing the Euro to plummet.

Elevated Volatility (% of the observed period)

Market	EUR	EURUSD	EURJPY	EURGBP	EURCHF	EURAUD	EURCAD	EURNZD	EURSEK
	39	37	26	44	39	43	44	34	46

Volatility Index (for the observed period)

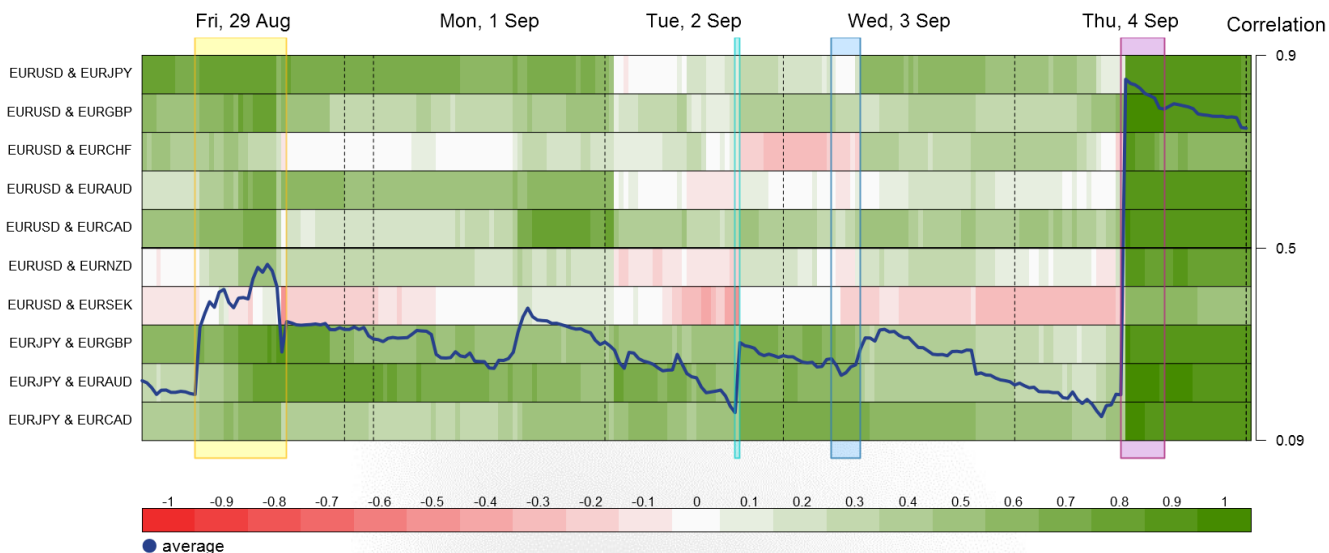
	Market	EUR	EURUSD	EURJPY	EURGBP	EURCHF	EURAUD	EURCAD	EURNZD	EURSEK
Max	3.92	7.64	9.6	8.12	8.4	4.15	8.67	9.46	6.12	4.84
Min	0.4	0.36	0.23	0.33	0.23	0.31	0.33	0.26	0.34	0.19
Average	1.03	1.13	1	1.19	1.11	1.1	1.18	1.19	1.12	1.12



Currency Significance

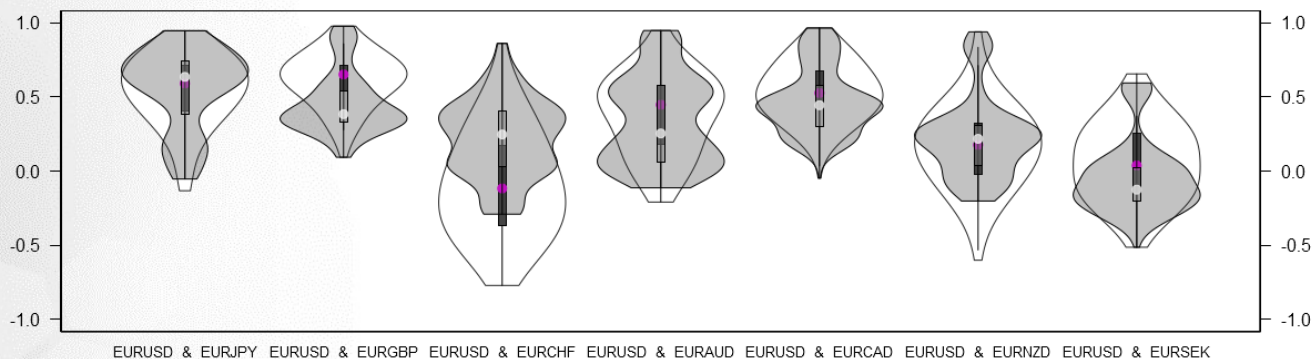
Correlations

Judging from the average correlation coefficient that shows the overall significance of a currency in the market, the most part of the five-day period the common currency was far from being the main driver. Until the Thursday's noon the coefficient has not even once exceeded a level of 0.5, making only one such attempt last Friday because of the disappointing German retail sales. The next three days the indicator mostly fluctuated between 0.35 and 0.2, exhibiting no sensitivity to any of the economic releases whatsoever.



However, on Thursday the Euro suddenly became the star of the show—the average correlation between the Euro crosses skyrocketed from 0.19 to 0.85 just within an hour, meaning the Euro-bears have completely taken control of the whole market and boosted the values of many instruments at the expense of the Euro and those currencies that are closely linked to it, namely the Swiss Franc and Swedish Krona. The latter two gave up 1 and 0.54% of their values respectively after the news were released, while the New Zealand Dollar and its U.S. and Australian counterparts had their worth increased by 0.83, 0.78 and 0.74% accordingly.

Correlations (5 vs 20 days)

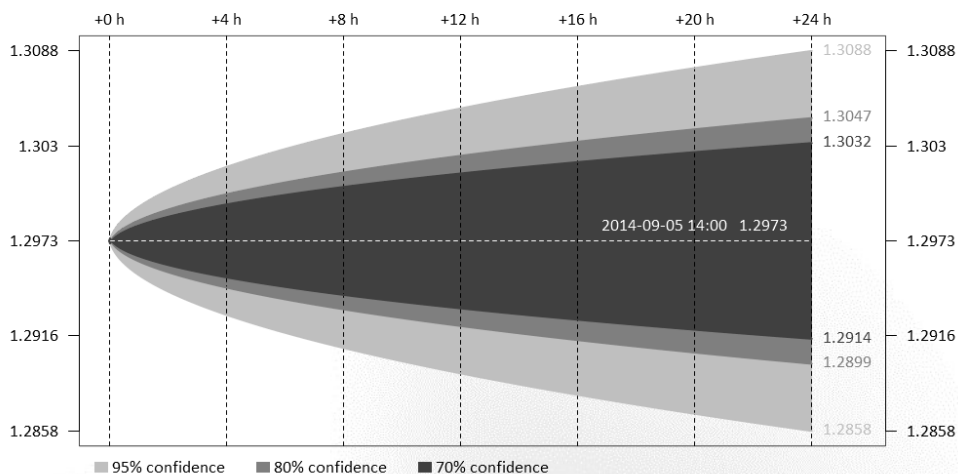


Mean Correlation Coefficient (with EURUSD)

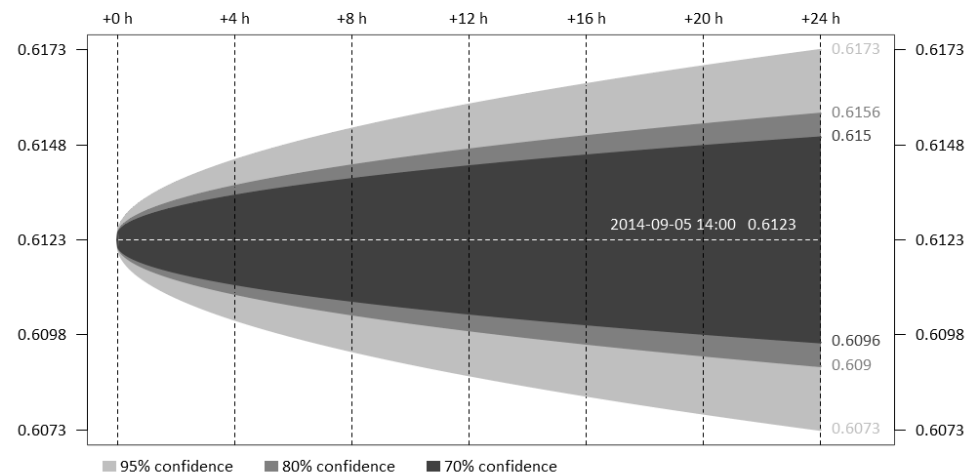
Days	EURJPY	EURGBP	EURCHF	EURAUD	EURCAD	EURNZD	EURSEK
5	0.55	0.46	0.22	0.34	0.47	0.23	-0.04
20	0.55	0.62	-0.1	0.38	0.54	0.16	0.06
130	0.53	0.55	-0.13	0.36	0.56	0.24	0.06
250	0.5	0.49	-0.12	0.33	0.58	0.26	0.07

Confidence Intervals for Next 24 Hours

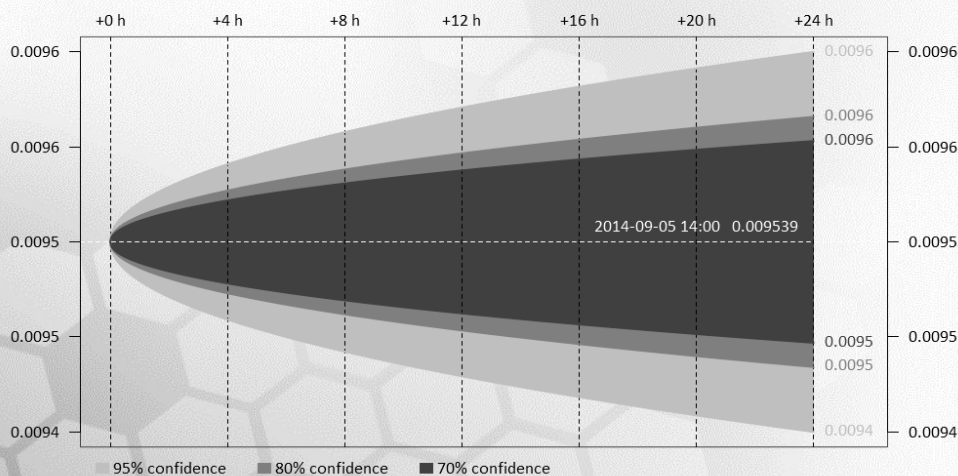
EURUSD Potential Rates



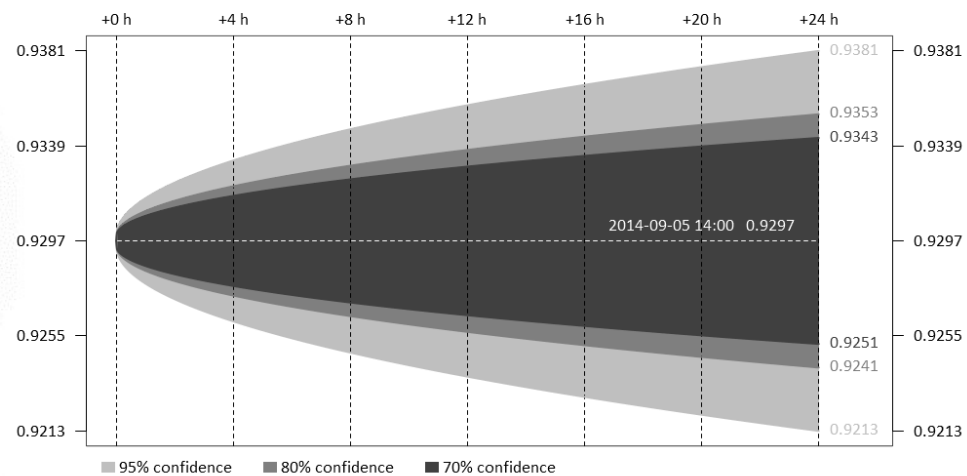
GBPUSD Potential Rates



USDJPY Potential Rates



USDCHF Potential Rates



EXPLANATIONS

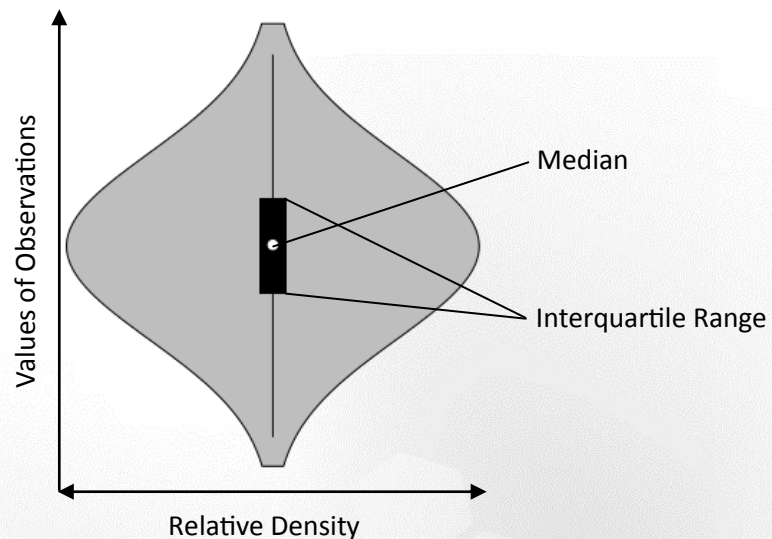
Violin Plot

Violin Plot is a combination of a Box Plot and rotated Kernel Density Plot

Methodologies

Volatility Index

Confidence Interval





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