



GBP

10/09/2014



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Market Research





Dominant Events of the Period

Yellow Area

September 3

07:30 - 15:30

- Eurozone Retail Sales, Services PMI
- U.K. Services PMI
- U.S. Mortgage Applications, Factory Orders
- BoC Rate Statement

Turquoise Area

September 4

11:00 - 15:30

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

Blue Area

September 5

07:30 - 14:00

- German Industrial Production
- U.S. Non-Farm Payrolls, Unemployment Rate
- Canadian Unemployment Rate

Purple Area

September 5 20:30 -

September 8 17:00

- Scottish Independence Referendum Poll
- U.K. Home Prices

Orange Area

September 9

06:30 - 14:00

- U.K. Manufacturing Production, Trade Balance
- BoE Governor Speech

GBP Currency Index Range

0.29%	0.16%	0.3%	1.25%	0.23%
1.44	2.47	1.23	2.56	1.74

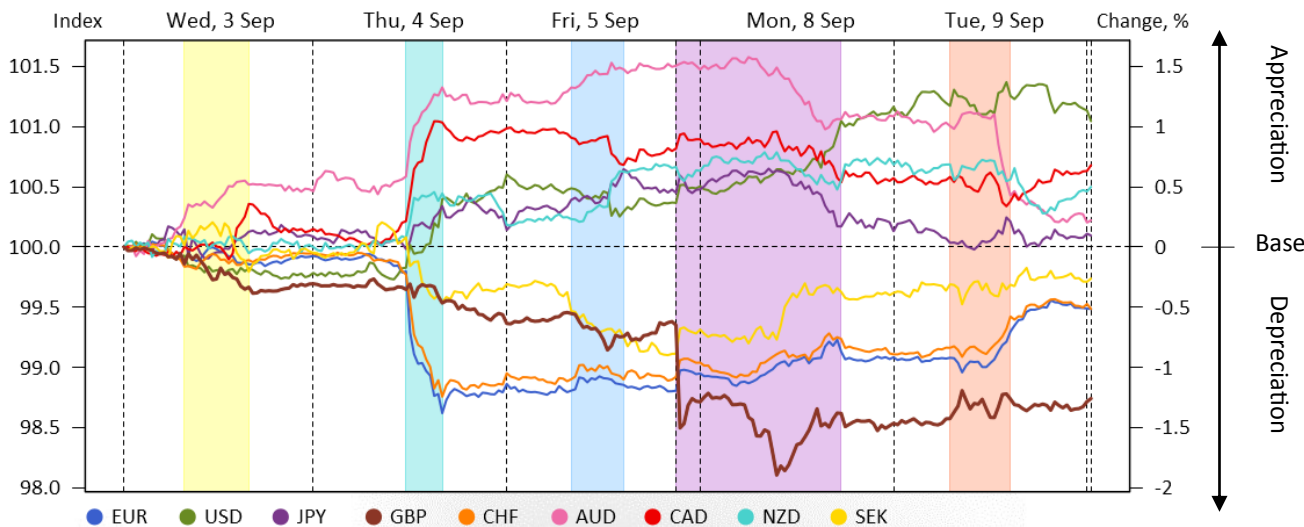
Average GBP Volatility Index



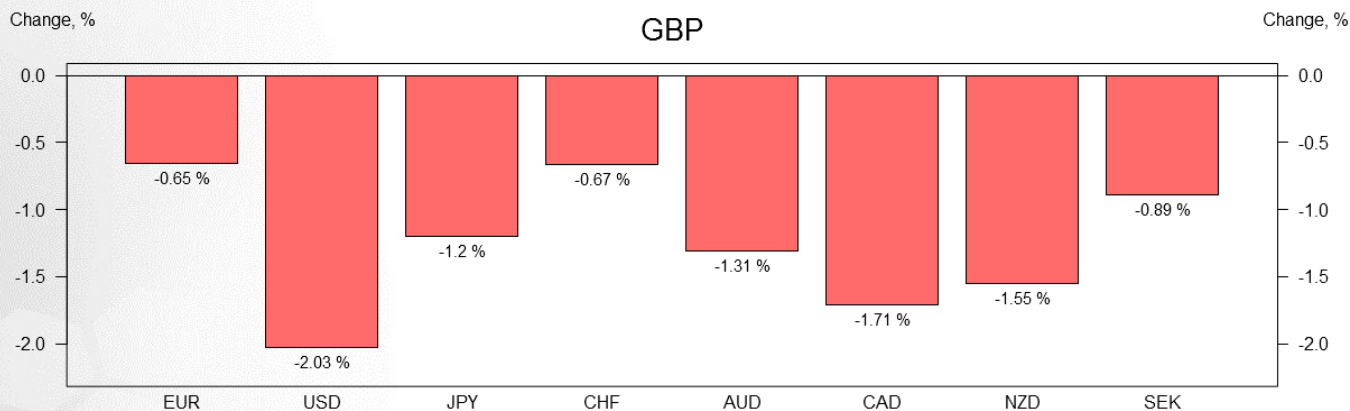
Relative Currency Strength

Currency Indices

The Sterling had the bearish bias from the very beginning—already last Wednesday the market started to slowly sell-off the currency, even though the fundamental background favoured an increase in demand because of the better-than-expected services PMI. A similar picture was observed the next day—the Pound lost even more ground, as the BoE remained unwilling to raise the rates, citing slow inflation and weak wage growth. At the same time, it is interesting to note that GBP was the least sensitive currency to the rate cut by the ECB—while most of the other currencies moved 0.5% or more, the Sterling just moved 0.11%.



Friday's events, even though largely disconnected from the United Kingdom, shook the Sterling a little more, but it was the Scotland independence referendum poll results that had the most effect on the currency. Compared to the value late Friday, the Pound was 0.85% cheaper when the markets opened this week. Before the noon the currency was attacked by the bears once again. But these losses have been negated since then, having no fundamental ground behind them—only falling growth of home prices. There was a good reason to buy the Pound yesterday, with Mark Carney saying that “the recovery has exceeded all expectations”, but the gains were limited—merely a 0.22% advance within a day.



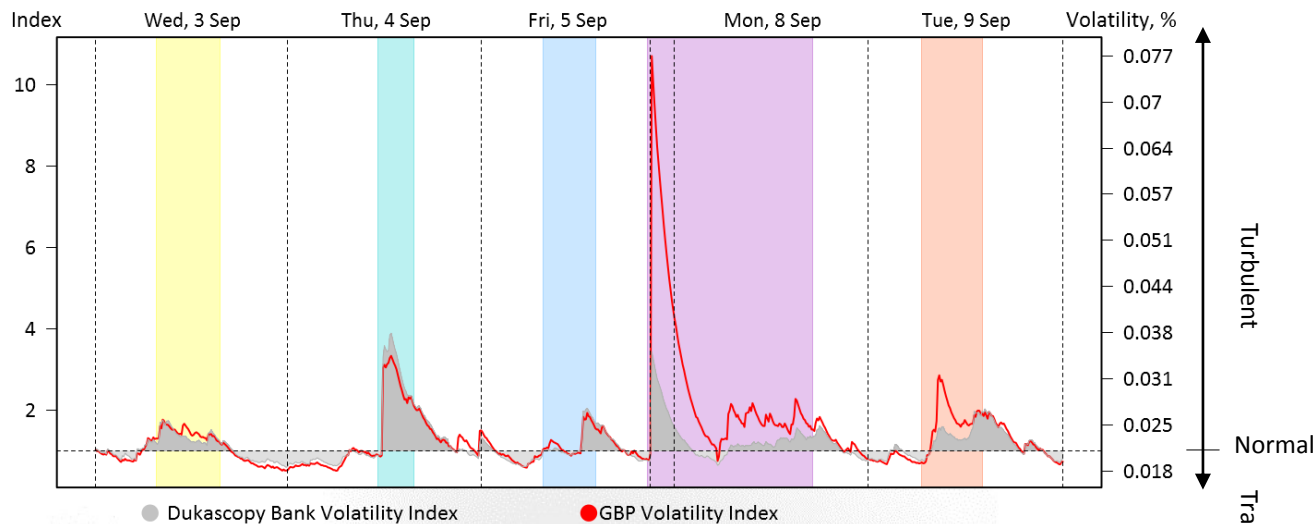
Currency Index Change

Days	EUR	USD	JPY	GBP	CHF	AUD	CAD	NZD	SEK
5	-0.51%	1.05%	0.09%	-1.26%	-0.51%	0.22%	0.68%	0.5%	-0.26%
20	-1.08%	2.48%	-1.72%	-1.99%	-0.5%	1.75%	2.23%	0.16%	-1.15%
130	-4.01%	3.56%	0.24%	0.21%	-3.01%	6.69%	5.45%	0.68%	-8.53%
250	-0.54%	2.06%	-4.94%	5.19%	2.15%	1.72%	-4.16%	5.38%	-6.85%



Volatility

Volatility



The observed period was extremely volatile with 56% of volatility being elevated. In addition, none of the GBP pairs had a lower share of abnormally high volatility than 50%, GBP/USD showing the highest value of 71%. The five-day interval also shows high readings in max volatility levels. Market peaked at a 3.89 mark, and GBP's volatility managed to reach a level of 10.7. While elevated volatility was the result of many important news, the main surge was caused by the upcoming vote for independence in Scotland, which remains the main risk event for the Pound and its crosses in the foreseeable future.

The period started quite volatile, as UK's PMI service showed a reading of 60.5, increasing from the previous value of 59.1. On Thursday, it was mainly the ECB responsible for the turbulence in the markets. At the same time, the news on the U.S. unemployment and trade balance gave volatility an additional boost. A new week started with a big bang, being that opinion polls highlighted the risk that Scotland might vote for independence, wreaking havoc throughout Pound crosses. The period ended on a volatile note, due to the U.K. manufacturing production and trade balance reports, but also due to BoE's Governor Carney giving his speech at the Trade Union Congress in Liverpool, keeping the market's volatility elevated for most of the day.

Elevated Volatility (% of the observed period)

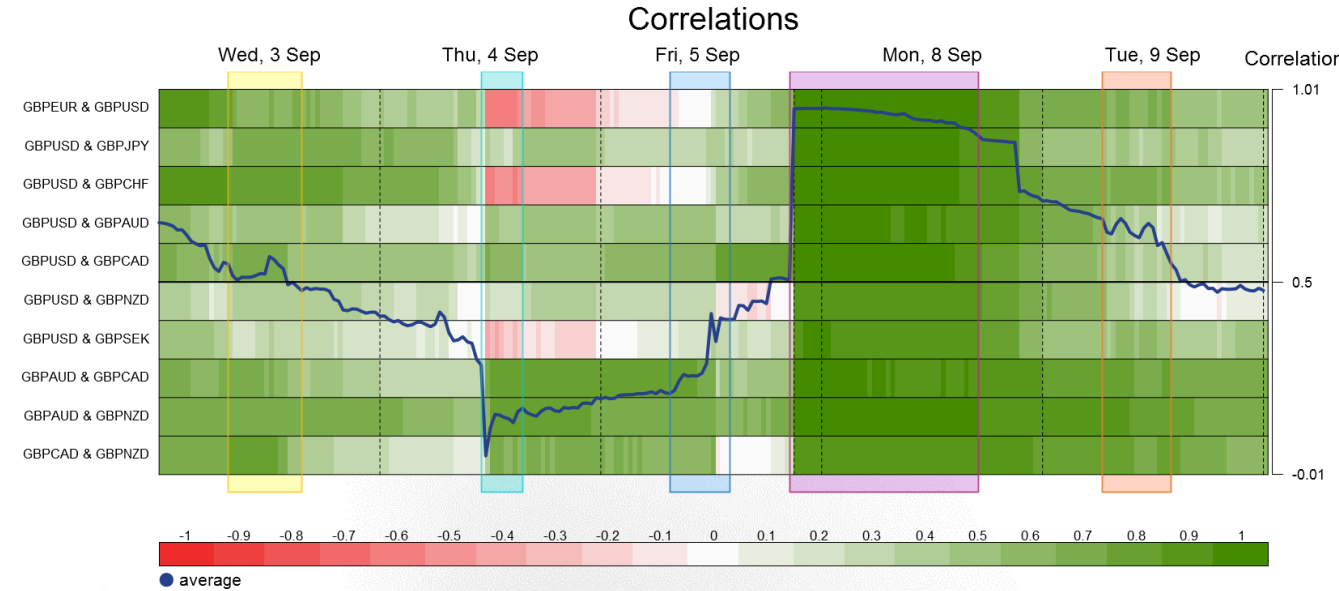
Market	GBP	EURGBP	GBPUSD	GBPJPY	GBPCHF	GBPAUD	GBPCAD	GBPNZD	GBPSEK
	60	57	71	69	50	57	59	58	62

Volatility Index (for the observed period)

	Market	GBP	EURGBP	GBPUSD	GBPJPY	GBPCHF	GBPAUD	GBPCAD	GBPNZD	GBPSEK
Max	3.89	10.7	12.99	14.35	11.74	11.52	9.23	11.35	6.96	9.72
Min	0.6	0.51	0.24	0.35	0.5	0.26	0.52	0.36	0.44	0.33
Average	1.18	1.42	1.54	1.64	1.49	1.4	1.32	1.53	1.22	1.33



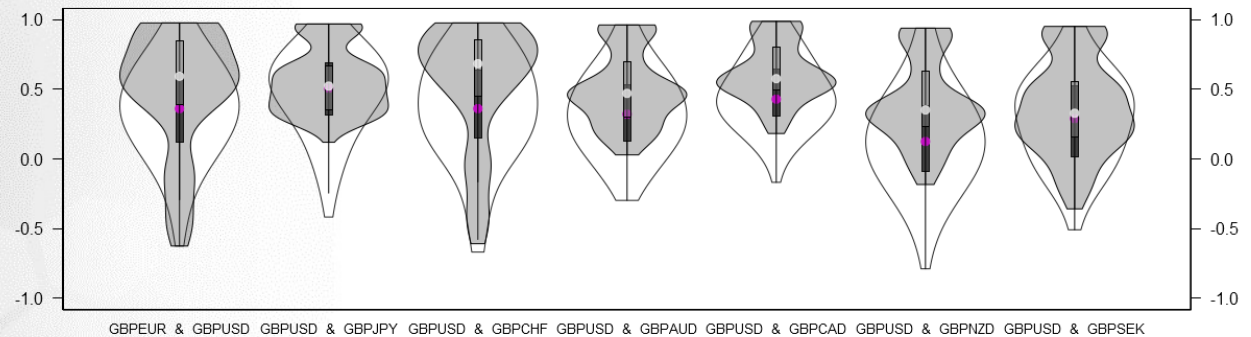
Currency Significance



The amount of attention directed at the British Pound was falling the second part of the previous week, as evidenced by the average correlation coefficient declining from 0.66 down to 0.13, being that the BoE did not surprise anyone and these few days were not rich with the U.K. data releases. But everything changed after the weekend, when the measure of currency's significance soared to 0.96 and stayed this elevated for the most of the day. On Tuesday, the effect on interdependence somewhat wore off, but the correlation between the GBP pairs was still significant.

An overlay of distributions of rolling correlation values for five and 20 days reveals that most of the time the link between the pairs has been either weaker or stronger lately than we are used to, except for only a handful of instances, such as in the case of GBP/USD and GBP/SEK that was impacted the least. The correlation between GBP/USD and GBP/CHF, on the other hand, had the tendency to fluctuate in the right tail of 20-day worth of observations. Understandably, GBP/USD -GBP/EUR correlation also demonstrated elevated levels most of the time, with the only exception being 24 hours after the ECB rate cut.

Correlations (5 vs 20 days)

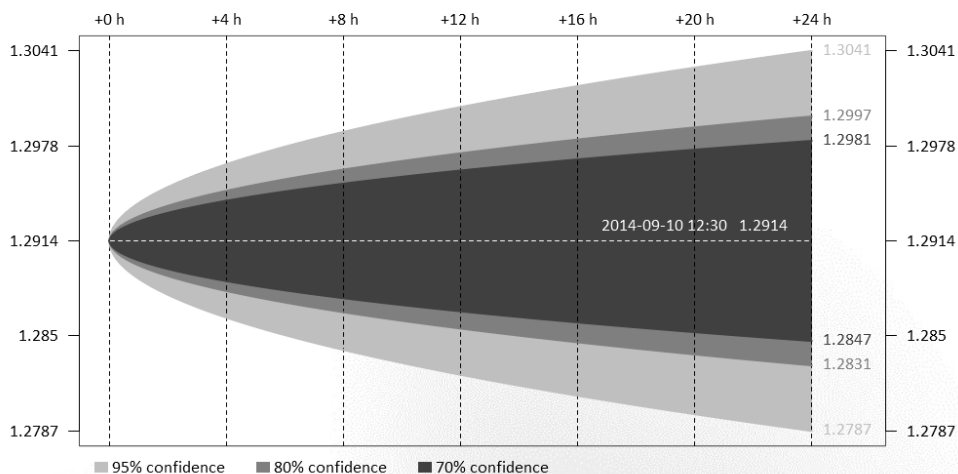


Mean Correlation Coefficient (with GBPUSD)

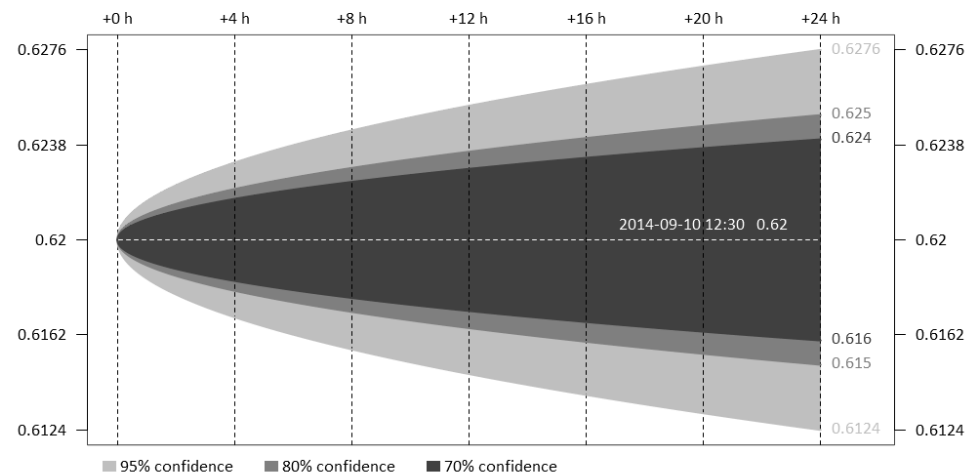
Days	GBPEUR	GBPJPY	GBPCHF	GBPAUD	GBPCAD	GBPNZD	GBPSEK
5	0.48	0.56	0.54	0.51	0.62	0.4	0.38
20	0.35	0.48	0.36	0.33	0.47	0.14	0.28
130	0.44	0.53	0.39	0.33	0.54	0.23	0.28
250	0.47	0.54	0.39	0.34	0.59	0.27	0.31

Confidence Intervals for Next 24 Hours

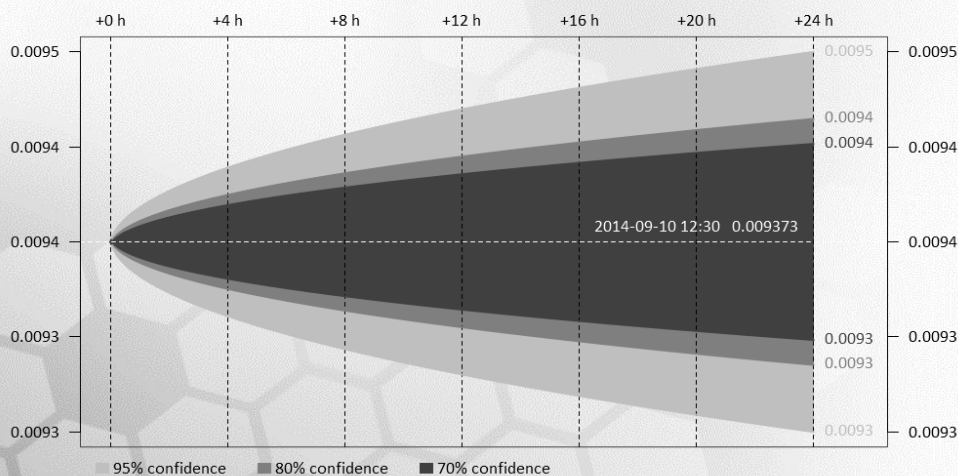
EURUSD Potential Rates



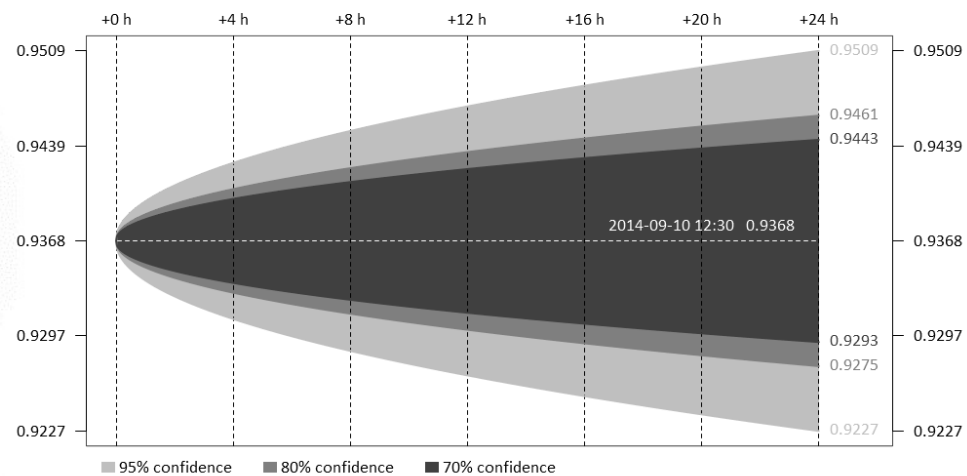
GBPUSD Potential Rates



USDJPY Potential Rates



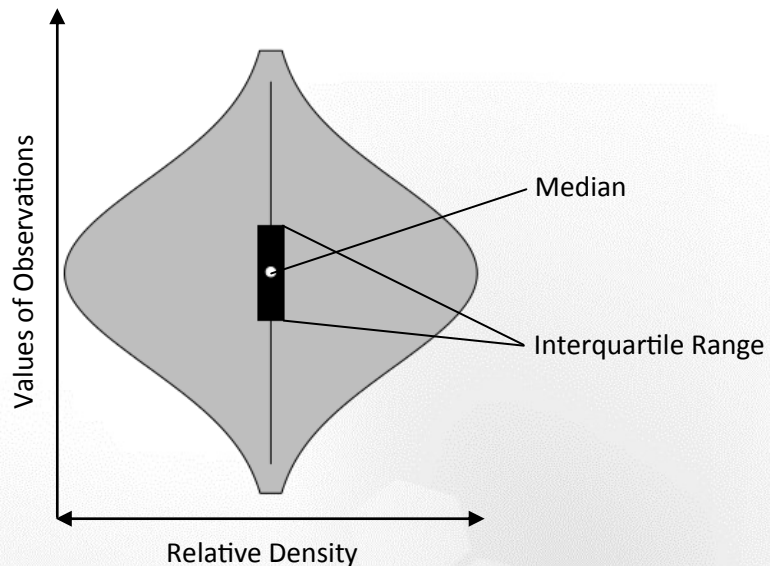
USDCHF Potential Rates



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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