

**JPY**

07/02/2014



**DUKASCOPY**  
RESEARCH PRODUCTS



**Market Research**





# Dominant Events for the Japanese Yen

## Yellow Area

January 31

03:00 - 22:00

- Japanese Housing Starts
- Eurozone CPI Flash Estimate [[link](#)]
- Eurozone Unemployment Rate [[link](#)]
- US Revised Consumer Sentiment

## Turquoise Area

February 3

07:00 - 23:00

- Eurozone Final Manufacturing PMI
- Treasury Secretary Speaks
- US Manufacturing PMI [[link](#)]
- US Total Vehicles Sales
- Japanese Monetary Base [[link](#)]

## Blue Area

February 4

05:00 - 19:00

- Japanese 10-y Bond Auction
- Spanish Unemployment Change
- UK Construction PMI [[link](#)]
- US Factory Orders
- US Economic Optimism [[link](#)]

## Purple Area

February 5

09:00 - 19:00

- Eurozone Final Services PMI [[link](#)]
- US Non-Farm Employment Change [[link](#)]
- US Non-Manufacturing PMI [[link](#)]
- FOMC Member Plosser Speaks

## Orange Area

February 6

12:00 - 18:00

- UK Official Bank Rate [[link](#)]
- ECB Minimum Bid Rate [[link](#)]
- US Trade Balance [[link](#)]
- US Unemployment Claims [[link](#)]
- Canadian PMI [[link](#)]

JPY Currency Index Range

|      |       |       |       |       |
|------|-------|-------|-------|-------|
| 0.9% | 1.36% | 0.94% | 0.44% | 0.72% |
|------|-------|-------|-------|-------|

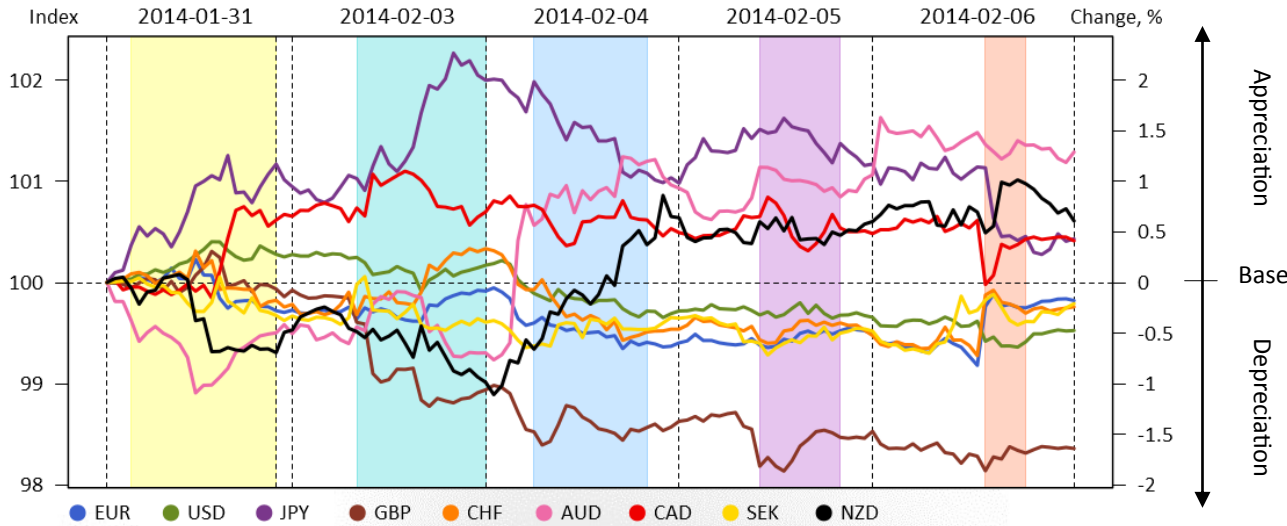
Average USD/JPY Volatility Index

|     |      |      |      |      |
|-----|------|------|------|------|
| 1.2 | 1.16 | 1.17 | 1.16 | 1.04 |
|-----|------|------|------|------|



# Relative Currency Strength

Currency Indices

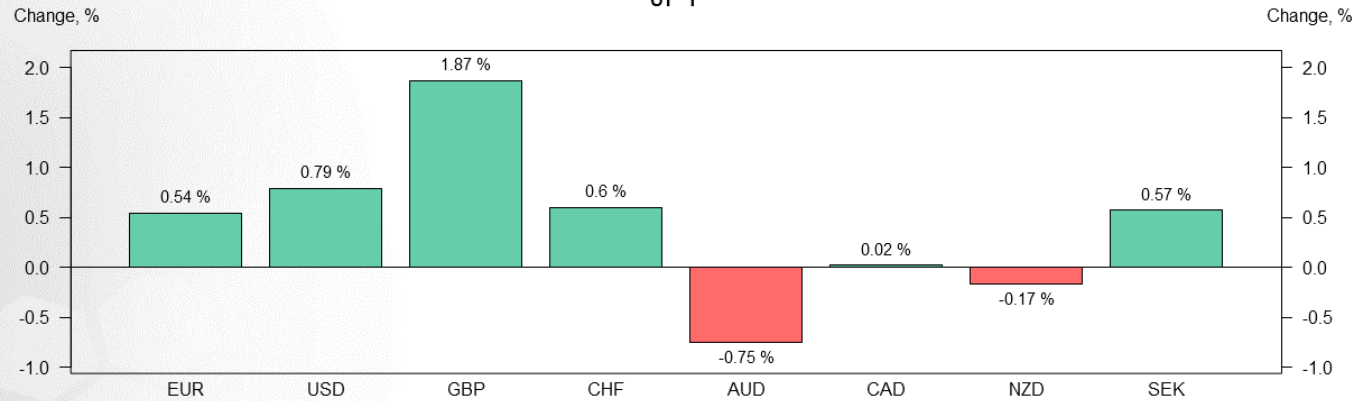


JPY index was one of the best performers last week. It lagged behind the indices of other two oceanic currencies, the aussie and the kiwi, came virtually at par with loonie index, and outperformed all the other analysed currency indices. JPY index started gaining ground right from the beginning of the period after the release of the Japanese Housing Starts numbers which allowed to end the day 0.94% above the base value. Disappointing European and US data on Monday helped JPY to gain further and reach period high gains (1.99%) at the second part of the day. Japanese Monetary Base numbers at the end of the day, however, started dragging the index lower. Tuesday's data releases seemingly had no influence on this.

JPY

Index ended the day with almost 1% daily loss and closed 0.99% above the base value. Wednesday showed signs of possible gains, but although we saw worse than expected data from the other regions this failed to bolster the confidence in JPY. It remained around 1% above the base value until the Thursday's noon. UK's Asset Purchase Facility and Official Bank Rate decisions boosted other European currencies and dragged JPY index almost 0.5%. All in all, despite the promising beginning it ended the period of analysis 0.36% above the base value.

JPY posted losses only against aussie and kiwi, 0.75% and 0.17%, respectively. It virtually came at par with loonie which was round 0.5% against for the most of the period. Gains against other currencies were in 0.54% (EUR) to 1.87% (GBP) range.



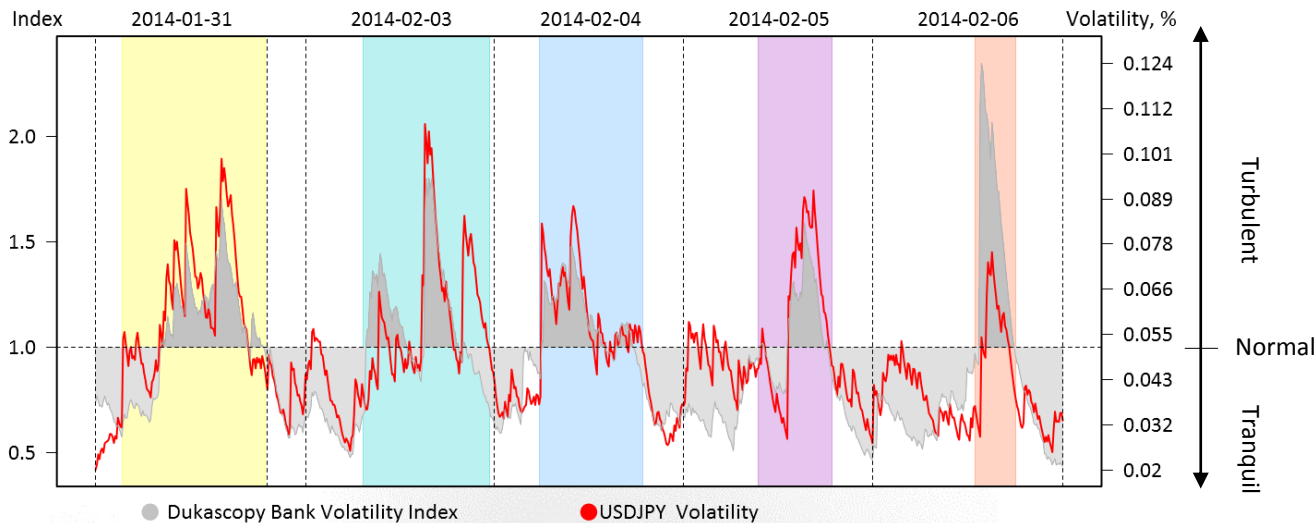
Currency Index Change

| Days | EUR    | USD    | JPY    | GBP    | CHF    | AUD    | CAD    | SEK    | NZD   |
|------|--------|--------|--------|--------|--------|--------|--------|--------|-------|
| 5    | -0.19% | -0.47% | 0.36%  | -1.52% | -0.25% | 1.51%  | 0.42%  | -0.21% | 0.55% |
| 20   | -0.34% | -0.18% | 3.19%  | -1.19% | 0.56%  | 0.54%  | -2.64% | 0.73%  | -0.4% |
| 130  | 1.99%  | -0.1%  | -6.43% | 5.73%  | 2.5%   | -0.55% | -6.94% | 0.12%  | 3.7%  |



# Volatility

Volatility



It is rather usual that USD/JPY and market volatilities (Dukascopy Bank Volatility Index) follow separate paths. However, in the period of analysis they surprisingly showed more correspondence than differences. USD/JPY showed larger than market reaction on Japanese Housing Starts on Friday, but Eurozone and US data the rest of the day kept the market and the USD/JPY volatilities rather similar, approximately 1.6-1.7 times the normal levels in peak points. Eurozone Final Manufacturing PMI bolstered trading activities rather early on Monday, but highlight of the day and the week for the USD/JPY was release of US Manufacturing PMI. At that point it was changing hands 2 times more frequently than usual, whereas market volatility reached second highest level in the period—1.6 times the usual.

Tuesday was relatively calm as volatility at peaks was around 1.5-1.4 times the normal level. We can see a moderate reaction on the US Non-Manufacturing PMI numbers on Wednesday. Market and USD/JPY volatilities were around 1.6 times the normal level at that point. Highlight of the trading activities in the market was seen on Friday. UK's Official Bank Rate announcement caused market volatility to be 2.2 times higher than usual.

In general, it could be said we saw one of the most tranquil weeks this year. Elevated volatility in the market and individual pairs was observed 30-35% of the time which is pretty much the historical level. In addition average volatilities are once again below the normal (long term) values.

Elevated Volatility (% of the observed period)

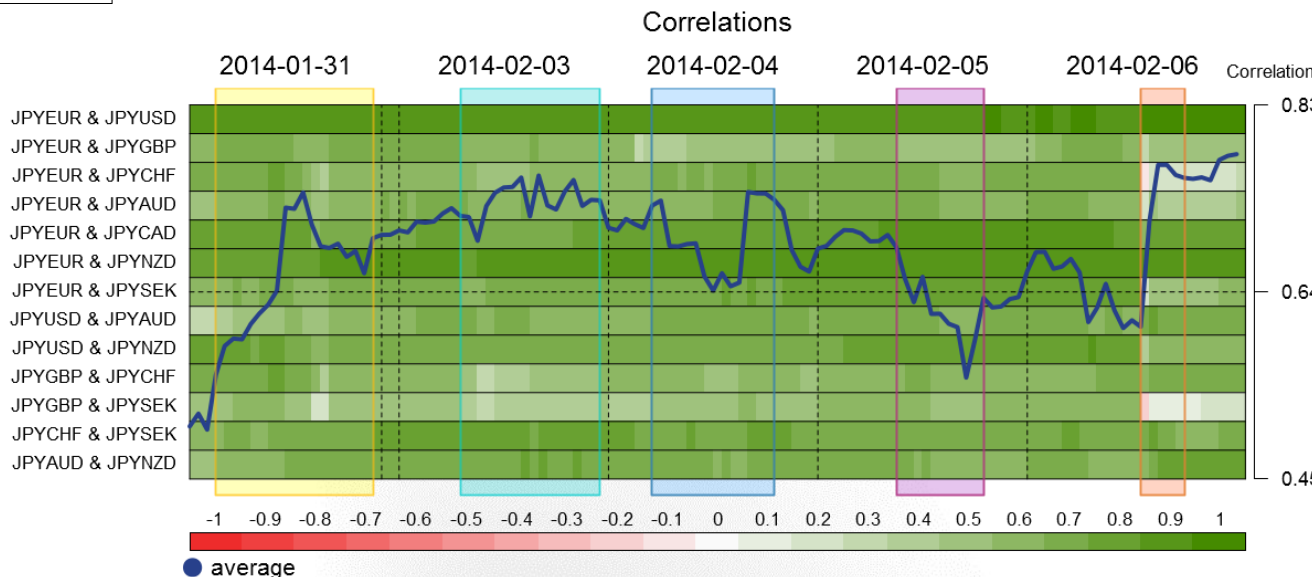
| Market | EURUSD | USDJPY | GBPUSD | AUDUSD | USDCAD | USDCHF | EURJPY | EURGBP | EURCHF | USDSEK | NZDUSD |
|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 35     | 31     | 37     | 31     | 32     | 36     | 29     | 39     | 34     | 37     | 34     | 40     |

Volatility Index (for the observed period)

|         | Market | EURUSD | USDJPY | GBPUSD | AUDUSD | USDCAD | USDCHF | EURJPY | EURGBP | EURCHF | USDSEK | NZDUSD |
|---------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Max     | 2.3    | 4.8    | 2.1    | 2.2    | 3.2    | 3.3    | 3.9    | 2.7    | 3.3    | 2.3    | 3.1    | 2.3    |
| Min     | 0.4    | 0.3    | 0.4    | 0.3    | 0.3    | 0.2    | 0.3    | 0.5    | 0.3    | 0.3    | 0.2    | 0.4    |
| Average | 0.9    | 0.9    | 1      | 0.8    | 0.9    | 0.9    | 0.9    | 1      | 0.9    | 0.9    | 0.9    | 1      |



# Currency Significance

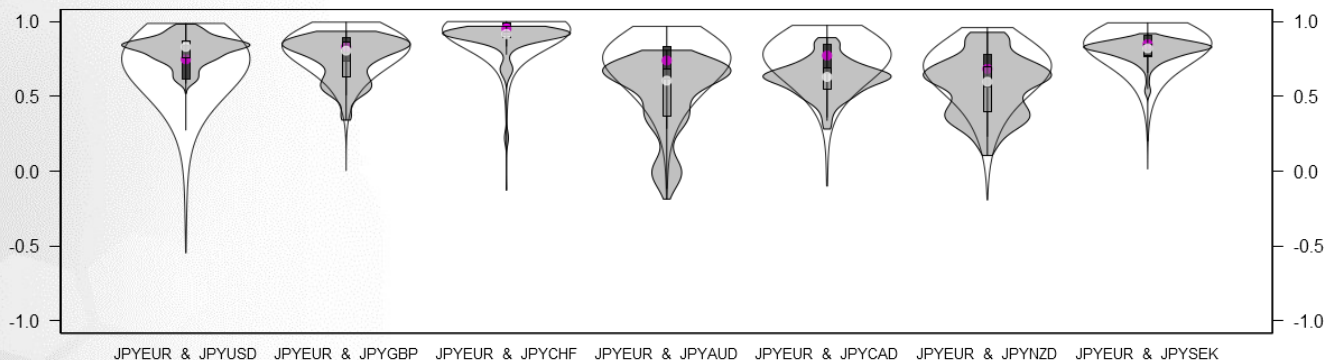


Significance of the Yen, expressed as the average correlation between the various Yen crosses, increased dramatically in the period. It started the period at the period low at 0.5 and ended it at the period high at 0.8. The first and the biggest increase in the gauge can be already seen on Wednesday when Japanese Housing Starts data sent the gauge from 0.5 to 0.72. It pretty much gave the tone for the rest of the week as well. Monday did not bring any major changes, just few minor ups and downs. We can observe a noticeable decrease on the gauge after the Japanese 10-y Bond Auction on Tuesday but it soon recovered back to 0.72 after UK'S Construction PMI numbers.

The biggest decrease in the gauge followed soon after. It reached the second lowest level (0.55) in the period on Wednesday when US Non-Manufacturing PMI numbers came out. Soon after the release the gauge returned above 0.60. The biggest increase in the gauge, which sealed it's value was UK's Official Bank Rate announcement. It boosted the value of average correlation from 0.62 to 0.79. It didn't move much afterwards.

Once again we can see a high level of convergence between the correlations of various the JPY crosses with the JPY/EUR. This signifies the importance the JPY once again has in the markets. It could be speculated that JPY is once again is being perceived as a safe have currency.

Correlations (20 vs 130 days)

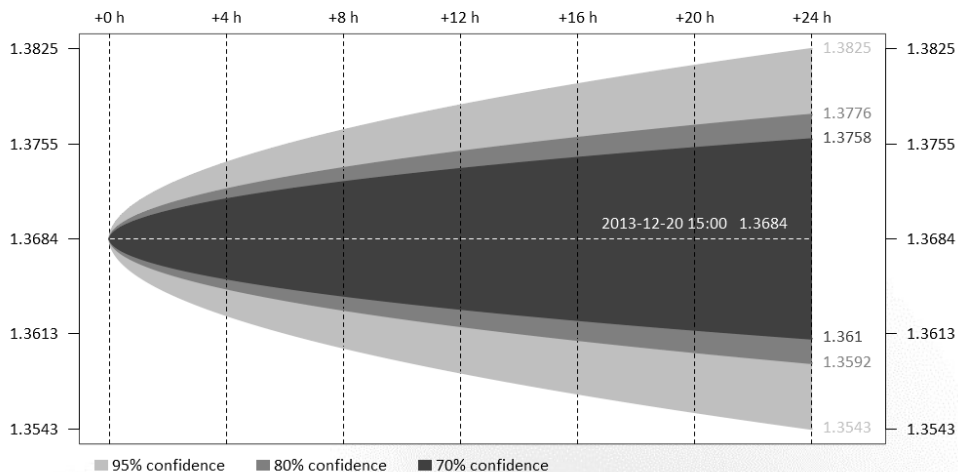


Mean Correlation Coefficient (with JPYEUR)

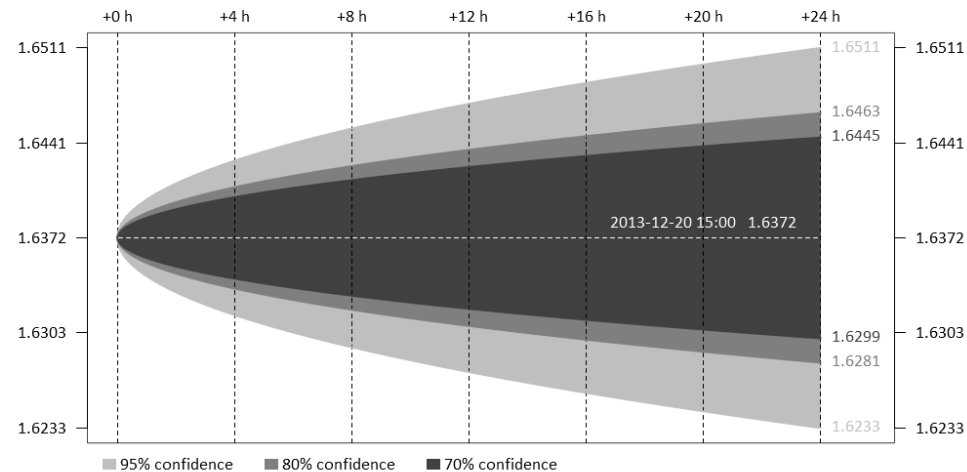
| Days | JPYUSD | JPYGBP | JPYCHF | JPYAUD | JPYCAD | JPNZD | JPYSEK |
|------|--------|--------|--------|--------|--------|-------|--------|
| 5    | 0.89   | 0.72   | 0.76   | 0.59   | 0.72   | 0.75  | 0.75   |
| 20   | 0.81   | 0.75   | 0.88   | 0.5    | 0.62   | 0.56  | 0.8    |
| 130  | 0.72   | 0.76   | 0.89   | 0.56   | 0.65   | 0.51  | 0.75   |

# Confidence Intervals for Next 24 Hours

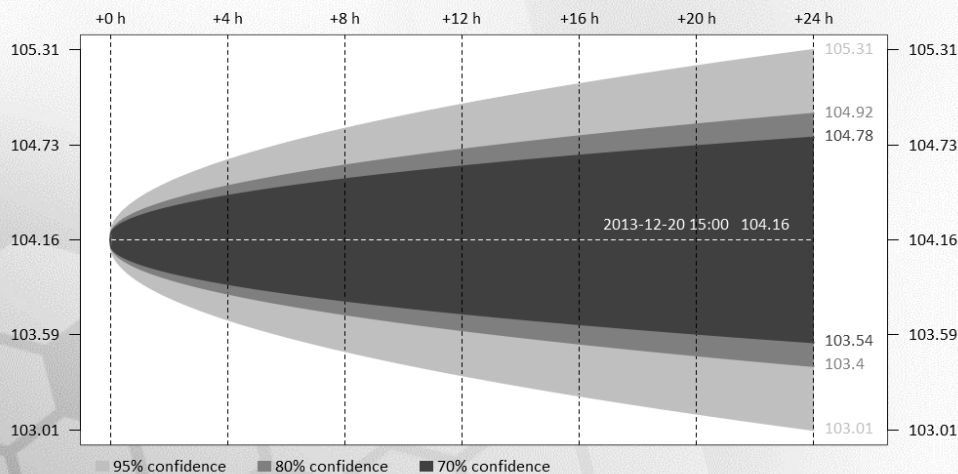
EURUSD Potential Rates



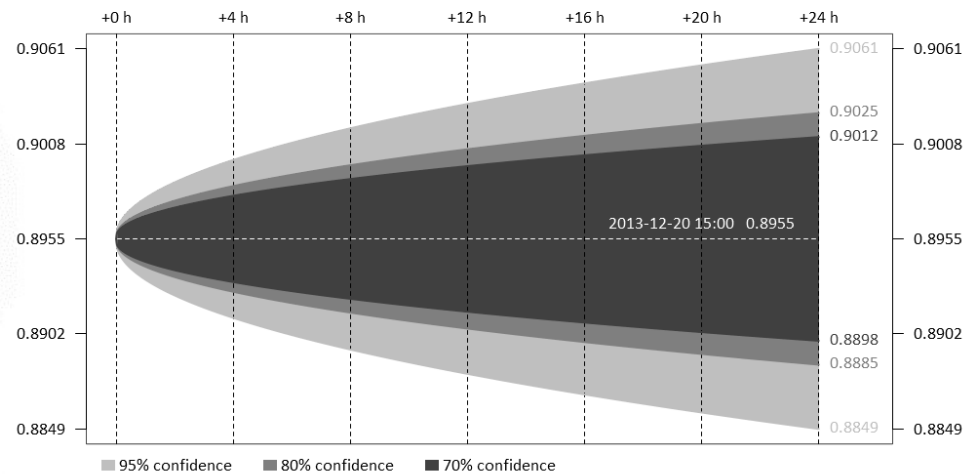
GBPUSD Potential Rates



USDJPY Potential Rates



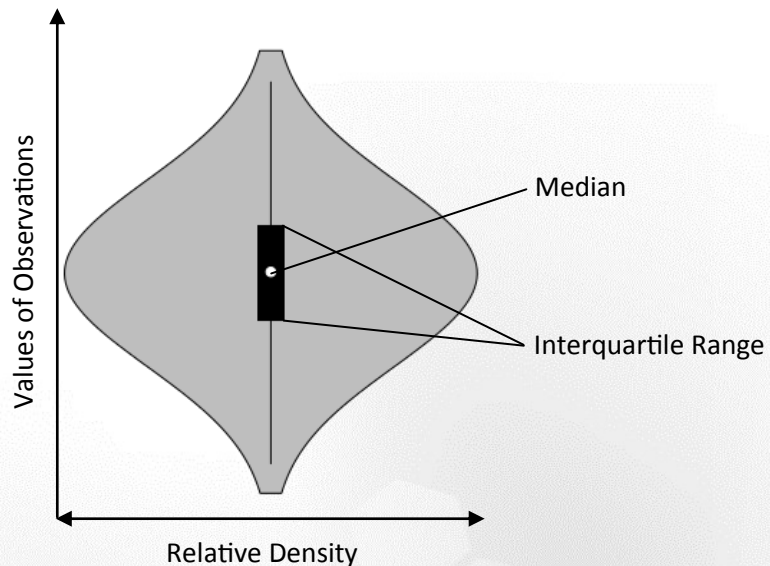
USDCHF Potential Rates



# 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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