



GBP

19/03/2014



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RESEARCH PRODUCTS



Market Research





Dominant Events for the British Pound

Yellow Area

March 12

08:00 - 18:00

- Eurozone Industrial Production
- Eurozone Trade Balance
- US Crude Oil Inventories
- US 10-y Bond Auction
- G7 Meetings

Turquoise Area

March 13

04:00 - 23:00

- Chinese Industrial Production
- US Retail Sales
- US Unemployment Claims
- US Business Inventories
- US Federal Budget Balance

Blue Area

March 14

07:00 - 19:00

- Swiss PPI
- UK Trade Balance
- UK Leading Index
- Eurozone Employment Change
- US PPI
- US Preliminary Consumer Sentiment

Purple Area

March 17

09:00 - 17:00

- MPC Member Cunliffe Speaks
- Eurozone CPI
- US Manufacturing Index
- US Industrial Production
- German Buba President Weidmann Speaks

Orange Area

March 18

07:00 - 19:00

- German Constitutional Court Ruling
- ZEW Economic Sentiment
- US Building Permits
- US CPI
- BOE Governor Speaks

GBP Currency Index Range

0.25%

0.44%

0.29%

0.16%

0.45%

Average GBP/USD Volatility Index

1.1

1.12

1.19

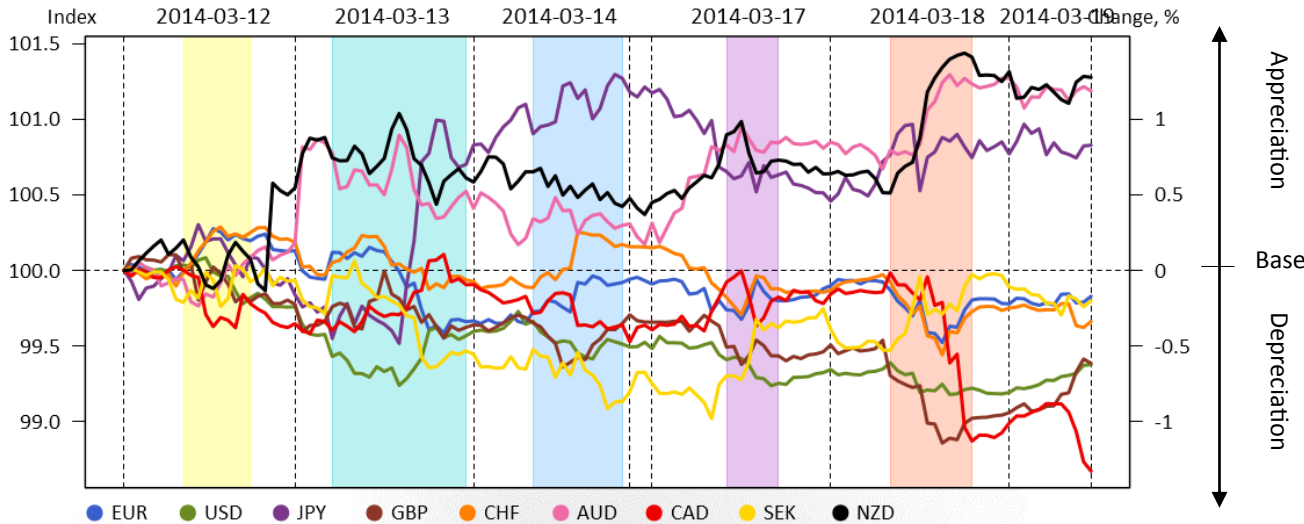
1.08

1.28



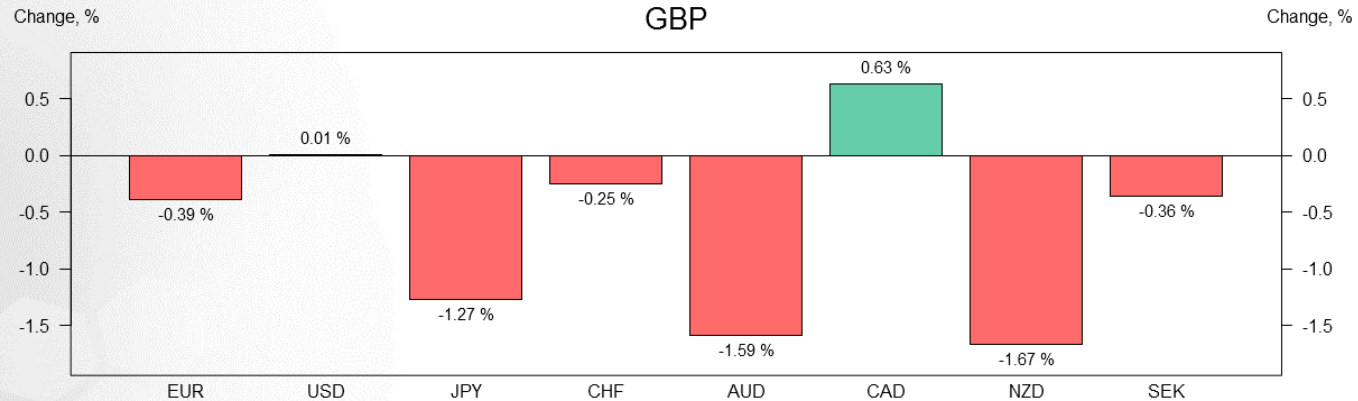
Relative Currency Strength

Currency Indices



Britain's currency was one of the worst-performing major currencies during the last five trading days, with the GBP index falling 0.52%. The biggest gainers, however, were Japanese Yen, Aussie and kiwi. Therefore, it was not a surprise that the Pound posted huge loses versus these three currencies. After a rate hike from the RBNZ on March 12, New Zealand currency received a strong bullish bias that pushed it higher over the described period. New Zealand is now the first developed economy that increasing its key refinancing rate, and according to the latest fundamental data, more rate hikes will be made later this year, hence, NZD crosses will continue their movement to the north.

AUD index climbed 1.41% as the number of employed people increased by a net 47,300 in February. At the same time, RBA's minutes on March 18 pushed the index 0.38% higher. The Sterling was almost unchanged on March 12, staying around the base value, and after a slight drop moved back to its base value as the massive sell-off of the U.S. Dollar continued to feed Pound's bulls. Disappointing trade figures for January dragged the gauge 0.20% lower, while Ukraine's decision not to recognize Crimea as a part of the Russian Federation, boosted risk-aversion sentiment, pushing the Pound lower versus other major currencies. Finally, this week's stronger-than-expected statistics from the U.K. labour market, helped the GBP index to regain some of the earlier losses, with the measure rising 0.29% in the first half of the day.



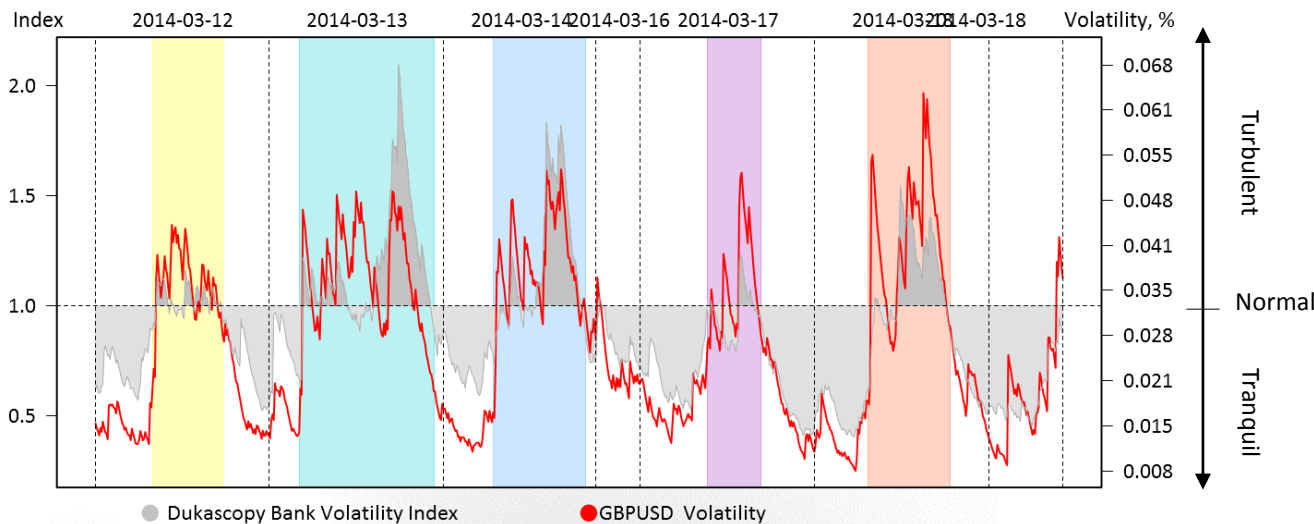
Currency Index Change

Days	EUR	USD	JPY	GBP	CHF	AUD	CAD	SEK	NZD
5	-0.35%	-0.71%	0.67%	-0.52%	-0.5%	1.41%	-1.14%	-0.18%	1.33%
20	0.44%	-0.88%	-0.45%	-1.14%	0.72%	0.08%	-3.6%	1.75%	2.81%
130	3.55%	-1.15%	-3.92%	3.72%	5.2%	-3.65%	-10.08%	1.6%	4.7%



Volatility

Volatility



Financial markets remained rather calm over the described period, as elevated market volatility was observed only in 28% of the time. The cable itself was second most volatile currency couple, with the pair trading above normal volatility in the 34% of the time. The most attractive currency pair for investors was NZD/USD, as RBNZ's hawkish comments and a decision to increase its interest rate pushed pair to its historically high level above 0.86. The less volatile cross was EUR/CHF, with the elevated volatility recorded only in 21% of the time. Due to a bunch of important releases from Asia and Pacific Dukascopy Volatility index during Tokyo and Sydney trading session. On March 13 Ukraine worries fuelled safe-haven demand, with volatility index rising to 2.09.

GBP/USD Volatility Index was fluctuating between 0.24 and 1.96, with both ranges being reached on March 18. The hike from 1.26 to 1.96 was provoked by the U.S. inflation data that came mostly in line with market's forecasts. On a yearly basis, however, inflation slowed to 1.1% from January's 1.6%. Additionally, investors keep a wary eye on the standoff in the Ukraine, while FOMC meeting starts later this week. Following a release of the unemployment data from the U.K., the GBP/USD Volatility Index rocketed to 1.31, while average market's volatility remained at 0.94. It is worth mentioning that EUR/USD index hit 3.46 on March 13, with the pair first hitting 1.3967—the highest since November 2011 and then easing back to a weekly S1 at 1.3939. The pair slumped to session lows following Mario Draghi's comments.

Elevated Volatility (% of the observed period)

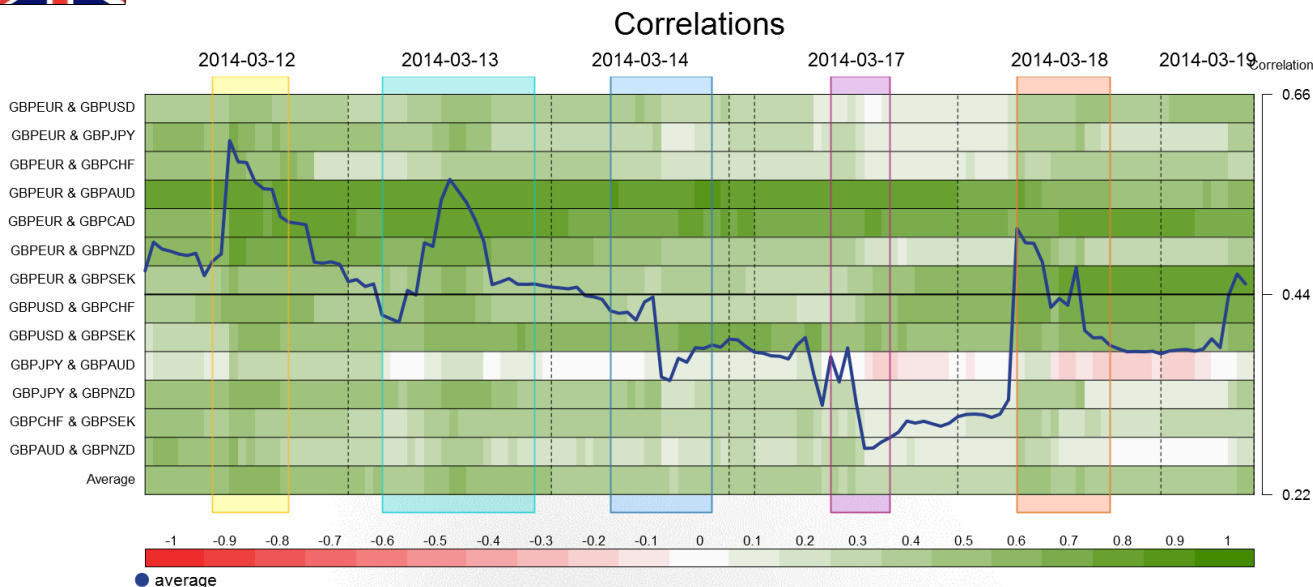
Market	EURUSD	USDJPY	GBPUSD	AUDUSD	USDCAD	USDCHF	EURJPY	EURGBP	EURCHF	USDSEK	NZDUSD
28	30	30	34	33	25	33	33	30	21	34	37

Volatility Index (for the observed period)

	Market	EURUSD	USDJPY	GBPUSD	AUDUSD	USDCAD	USDCHF	EURJPY	EURGBP	EURCHF	USDSEK	NZDUSD
Max	2.1	3.5	2.2	2	3.4	2.9	2.9	2.7	2.6	1.9	2.5	3.2
Min	0.4	0.2	0.3	0.2	0.3	0.3	0.2	0.3	0.3	0.2	0.2	0.3
Average	0.9	0.8	0.9	0.8	0.9	0.8	0.8	0.9	0.8	0.8	0.9	0.9



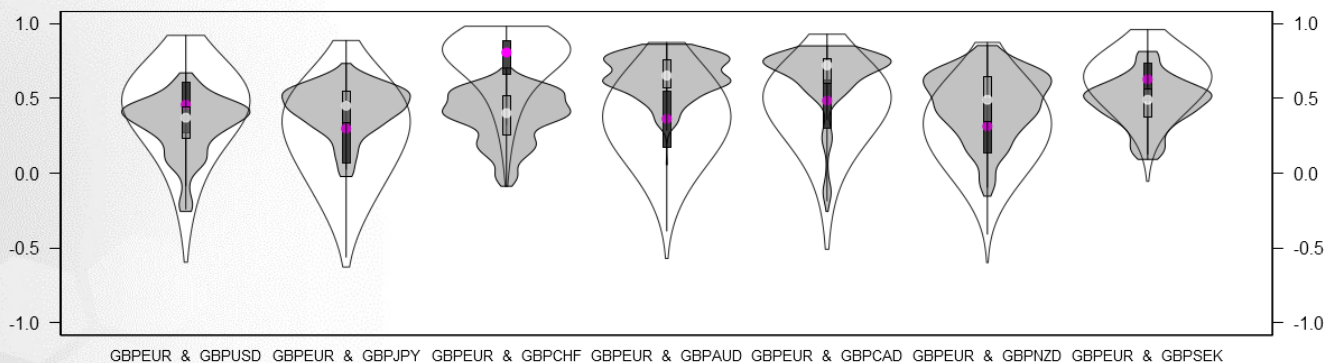
Currency Significance



The importance (measured as average correlation between the GBP crosses) of the GBP during the observed period was mostly decreasing even despite two major spikes on March 12, 13 and 18. Despite being highly volatile, the average correlation index ended a period 0.014 lower. Pound's significance increased substantially on March 12 after a release of the EU trade balance and comments from the U.K. Labour Party that the referendum on the European Union will be postponed to 2020. After that, market main highlight was the RBNZ, hence, a level of significance of the Sterling moved lower. On Thursday, a massive sell-off of the USD and a sluggish Irish GDP pushed the index up to 0.56.

A day later, markets were focusing on German CPI, Eurozone employment change and producer prices from the world's largest economy. Even a release of the U.K. trade balance was not able to offset a decline of the Pound's significance. The correlation index hit its low at 0.27 on Monday as EU inflation data dragged market's attention. This week, the average correlation coefficient is on the rise, as Mark Carney unveiled plans to fuse central bank's department and integrate BoE's functions in the biggest overhaul of the institution. On Wednesday, a release of the claimant count change, unemployment rate and other statistics from the U.K. labour market pushed the significance of the Pound to 0.46. In the remaining two days, the index will most probably move to the south amid a lack of the fundamental data from the U.K.

Correlations (20 vs 130 days)

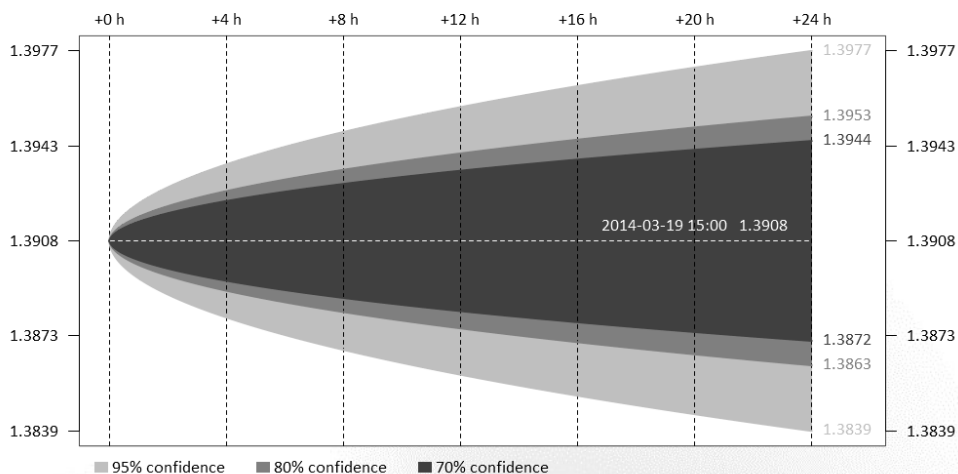


Mean Correlation Coefficient (with GBPEUR)

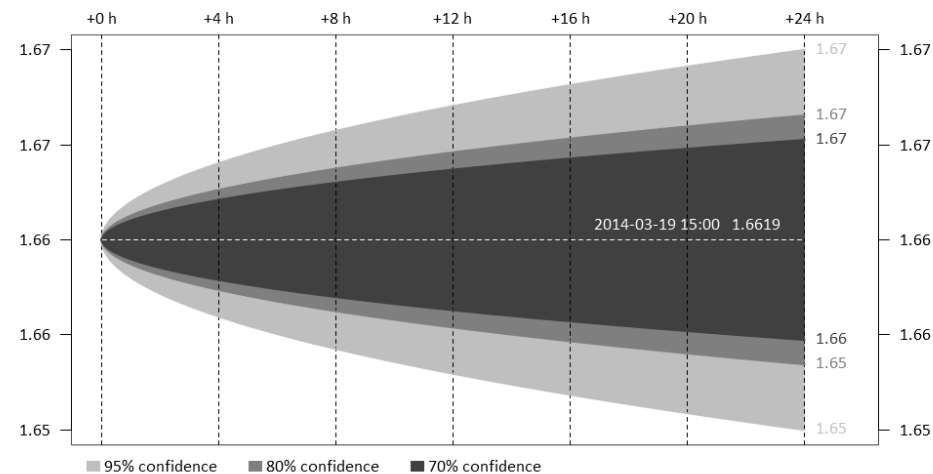
Days	GBPUSD	GBPJPY	GBPCHF	GBPAUD	GBPCAD	GBPNZD	GBPSEK
5	0.34	0.3	0.3	0.75	0.75	0.46	0.52
20	0.32	0.43	0.38	0.65	0.64	0.47	0.47
130	0.47	0.42	0.74	0.42	0.51	0.36	0.57

Confidence Intervals for Next 24 Hours

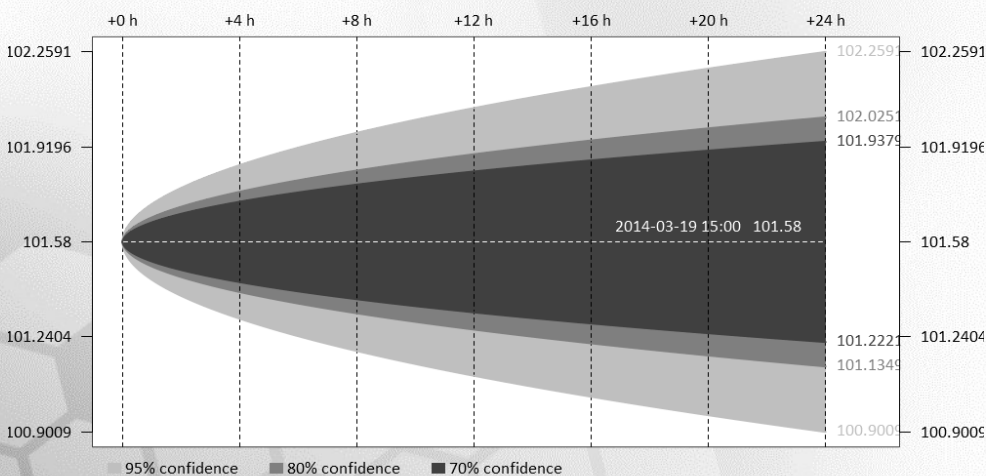
EURUSD Potential Rates



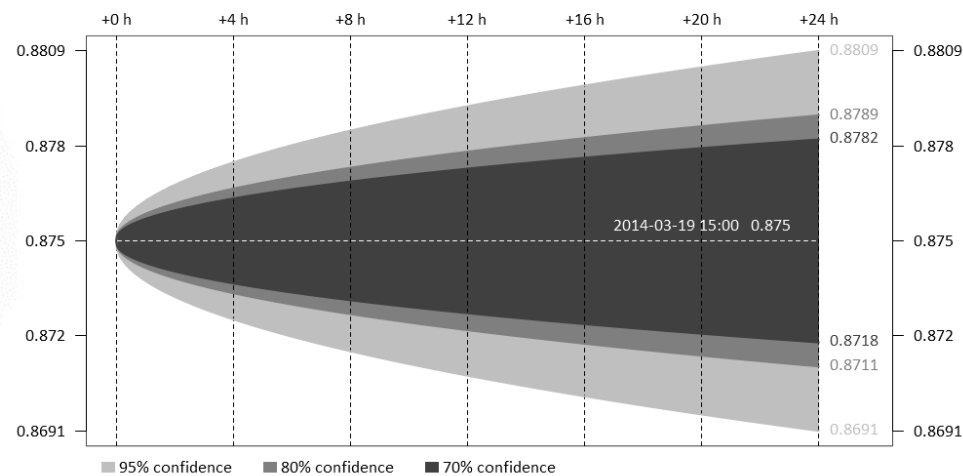
GBPUSD Potential Rates



USDJPY Potential Rates



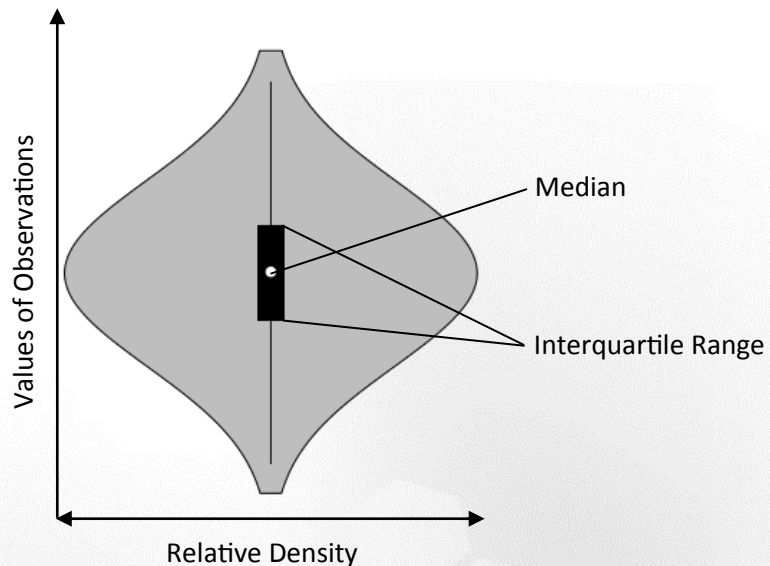
USDCHF Potential Rates



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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