



EUR

21/03/2014



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Market Research





Dominant Events for the Euro

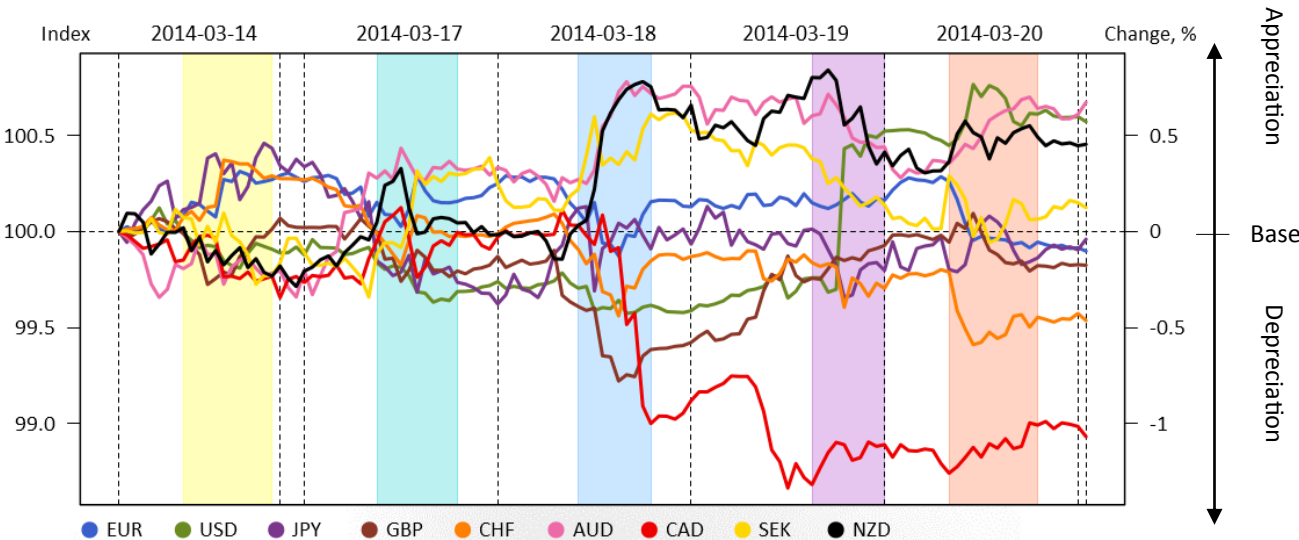
Yellow Area	Turquoise Area	Blue Area	Purple Area	Orange Area
March 14	March 17	March 18	March 19	March 20
08:00 - 19:00	8:00 - 18:00	09:00 - 18:00	14:00 - 23:00	07:00 - 18:00
<ul style="list-style-type: none"> Swiss PPI UK Trade Balance UK Leading Index Eurozone Employment Change US PPI US Preliminary Consumer Sentiment 	<ul style="list-style-type: none"> MPC Member Cunliffe Speaks Eurozone CPI US Manufacturing Index US Industrial Production German Buba President Speaks 	<ul style="list-style-type: none"> German Constitutional Court Ruling ZEW Economic Sentiment US Building Permits US CPI BOE Governor Speaks 	<ul style="list-style-type: none"> US Crude Oil Inventories SNB Chairman Speaks FOMC Economic Projections, Statement and Press Conference 	<ul style="list-style-type: none"> BOJ Governor Speaks Swiss Monetary Policy Assessment US Unemployment Claims MPC Member Weale Speaks EU Economic Summit

EUR Currency Index Range	0.24%	0.26%	0.28%	0.08%	0.35%
Average EUR/USD Volatility Index	1.24	1.1	1.2	1.51	1.1



Relative Currency Strength

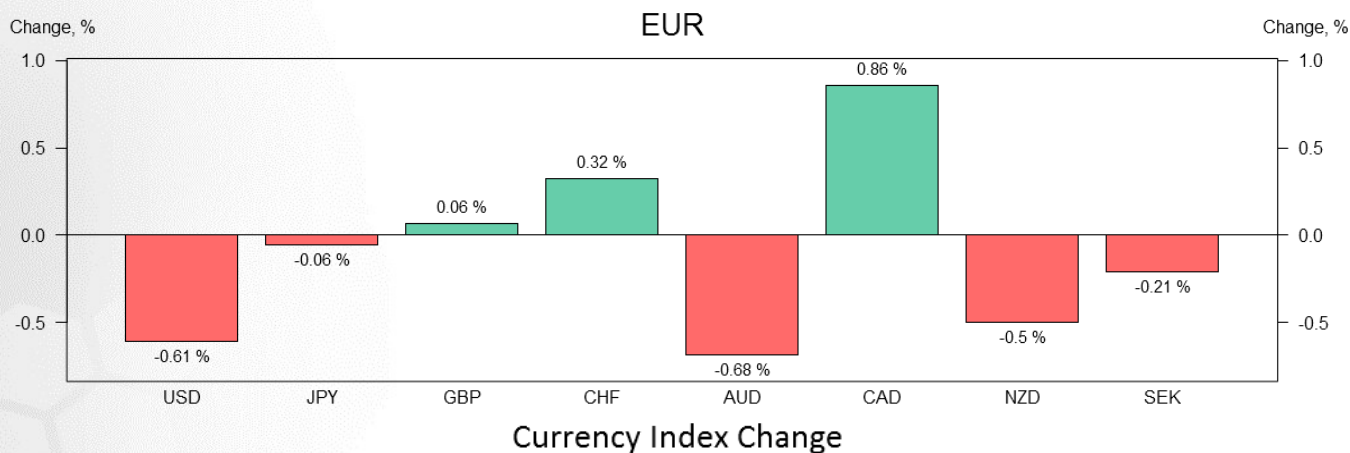
Currency Indices



Euro index once again was “the best of the worst” kind of performer in the last 5 trading days. It outperformed only three, was surpassed by five currency indices and ended the period of analysis below the base (opening) value. There were few factors which had the biggest impact on that. First, substantially worse than expected ZEW data on Tuesday. The gauge slid below the value of 50 for the first time since October, 2013. This caused Euro index to loose 0.22%. Second, arguably the most important, factor was yesterday’s EU Economic Summit which highlighted the tension between the EU and Russia due to events in Crimea.

The period, however, started well for the Euro index as it managed to gain 0.31% on the back of better than expected Eurozone Employment Change and worse than expected US PPI numbers. Worse than expected Eurozone PPI numbers on Monday, however, dragged the Euro index back to the base value.

In the period of analysis we observed one of the rare cases when Euro posted gains against Swiss franc despite the 1.2 gap held by the SNB. This happened due to the worse than anticipated German ZEW data on Tuesday which indicated possible hardships for the Swiss economy as well.

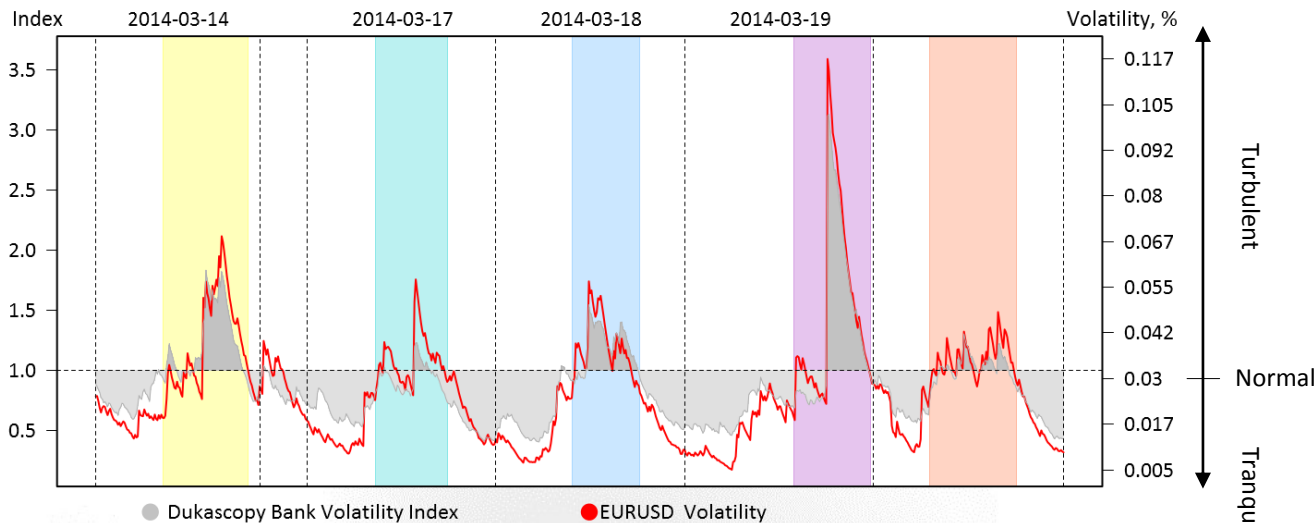


Days	EUR	USD	JPY	GBP	CHF	AUD	CAD	SEK	NZD
5	-0.12%	0.58%	0.02%	-0.13%	-0.45%	0.74%	-1.15%	0.12%	0.35%
20	-0.05%	-0.55%	-0.47%	-1.51%	0.18%	0.12%	-1.94%	1.55%	2.52%
130	3.44%	1.21%	-3.61%	3.95%	4.93%	-4.34%	-9.56%	0.51%	3.4%



Volatility

Volatility



Volatility levels in the financial markets are remaining subdued. It could be easily argued that if not FOMC Economic Projections, Statement and Press Conference on Wednesday we would be seeing even lower levels of volatility as elevated volatility in the market, and in the most of currency pairs, remains below the historical 30-35% level. Besides that, average volatilities are below their usual (long term) values in all of the cases. In general, it could be argued that three periods pretty much defined the last period of analysis. First one being the already mentioned FOMC Economic Projections, Statement and Press Conference on Wednesday. Second being the Eurozone Employment Change and US PPI numbers on Friday.

It greatly boosted confidence in the single currency. The last, but not the least being German Constitutional Court Ruling and ZEW Economic Sentiment on Tuesday. Both of these combined sent rather mixed signals as court ruling allowed Germany's participation in bailout fund which caused some relief in the area, but ZEW data suggested that Germany might not be doing well economically at the moment. This should have caused some headache for some officials and Germany's economic partners. It could be argued that due to the political tension in Crimea, yesterday's EU Economic Summit might have longer term impact as well. However, it is a bit too early to talk about that and besides, the summit is equally likely to boost and to decrease the risk appetite in the markets.

Elevated Volatility (% of the observed period)

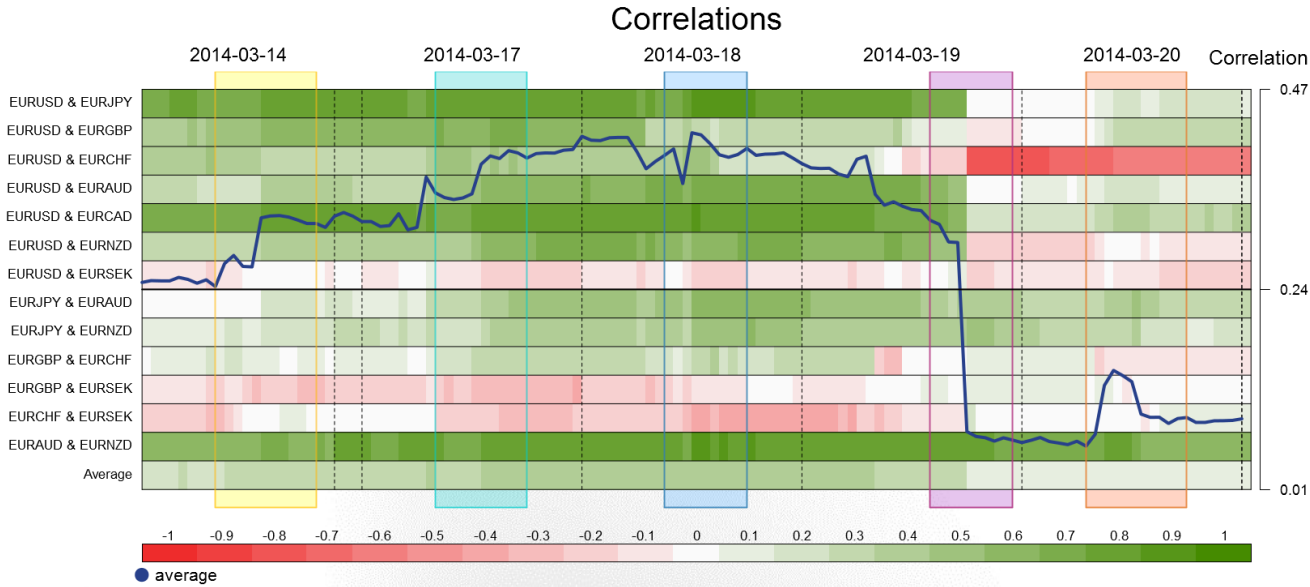
Market	EURUSD	USDJPY	GBPUSD	AUDUSD	USDCAD	USDCHF	EURJPY	EURGBP	EURCHF	USDSEK	NZDUSD
24	30	26	33	22	28	33	21	29	21	36	28

Volatility Index (for the observed period)

	Market	EURUSD	USDJPY	GBPUSD	AUDUSD	USDCAD	USDCHF	EURJPY	EURGBP	EURCHF	USDSEK	NZDUSD
Max	3.1	3.6	3.6	4.5	3.3	4.3	4.3	2.6	1.8	2	3.3	3.9
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	0.9	0.9	0.9	0.9	0.9	0.8	0.8	0.9	0.9



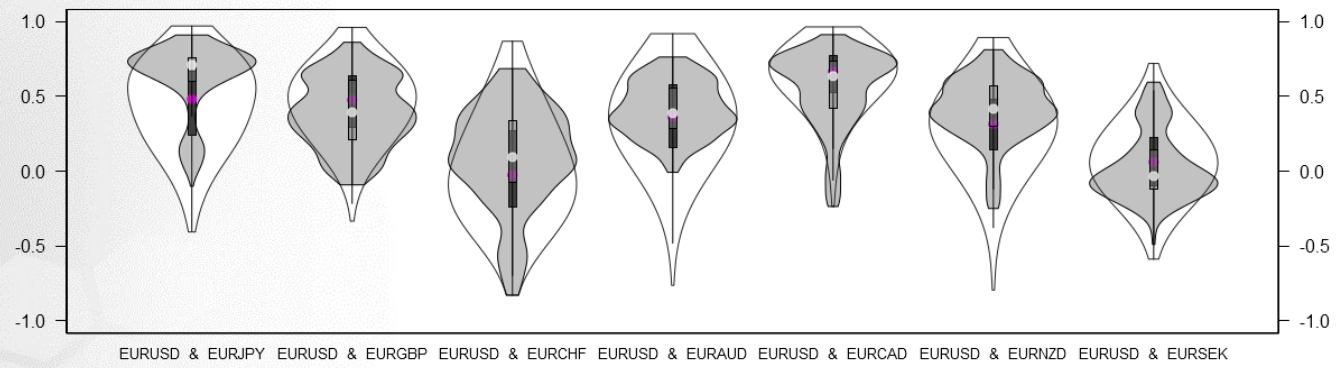
Currency Significance



Significance of the Euro in the financial markets, expressed as average correlation between various Euro crosses, decreased dramatically in the period of analysis; opened at 0.25 and closed at 0.09. Once again, very few factors had impact on this— FOMC Economic Projections, Statement and Press Conference on Wednesday and German Constitutional Court Ruling and ZEW Economic Sentiment on Tuesday. Average correlation was steadily rising until Tuesday in anticipation of the courts ruling. It might be that the gauge would be to remain around 0.4, but worse than expected ZEW numbers caused traders to look for other trading opportunities in the markets.

After that, the gauge started to slowly trail lower. That's until FOMC related events on Wednesday took place. This was the first FOMC for the new Chairperson, Janet Yellen, which attracted even higher attention of the traders although, most likely, these events would have been a highlight of the week anyway. This dragged the gauge from 0.22 till 0.07 and that where it ended the period. There was a slight increase in the value of the average correlation on Thursday. It peaked till 0.14 when EU Economic Summit started, but returned below 0.1 shortly after.

Correlations (20 vs 130 days)



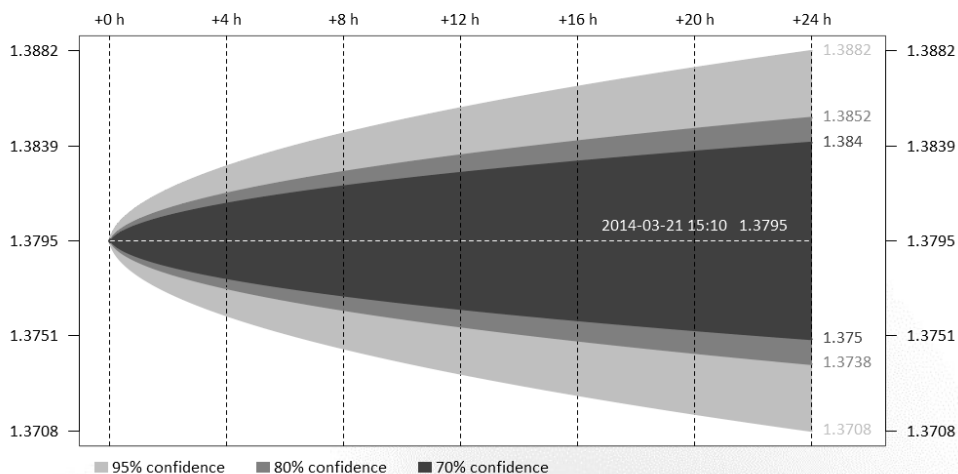
Mean Correlation Coefficient (with EURUSD)

Days	EURJPY	EURGBP	EURCHF	EURAUD	EURCAD	EURNZD	EURSEK
5	0.6	0.37	0.05	0.42	0.64	0.35	-0.11
20	0.62	0.39	0.09	0.41	0.54	0.41	0.03
130	0.47	0.41	-0.11	0.32	0.61	0.29	0.06
250	0.38	0.42	-0.08	0.26	0.59	0.24	0.03

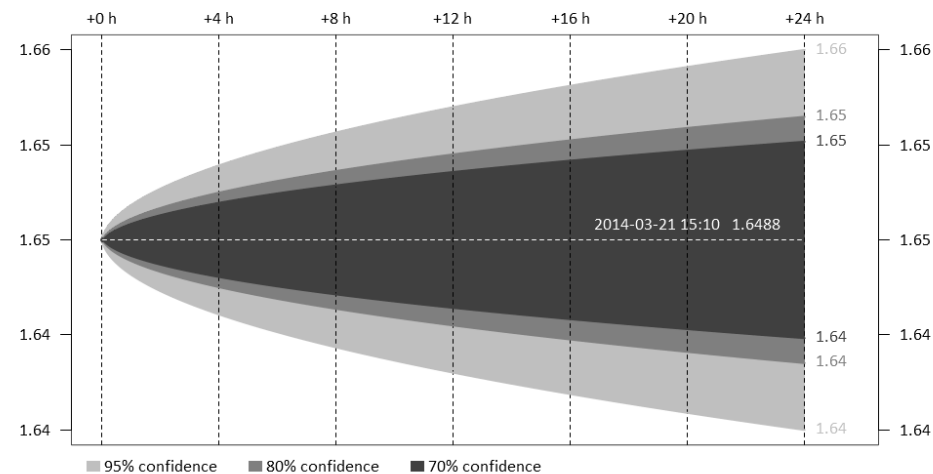
We are seeing higher degree of convergence between correlations of various Euro crosses with EUR/USD due to political tension in Crimea and less informational noise from other regions.

Confidence Intervals for Next 24 Hours

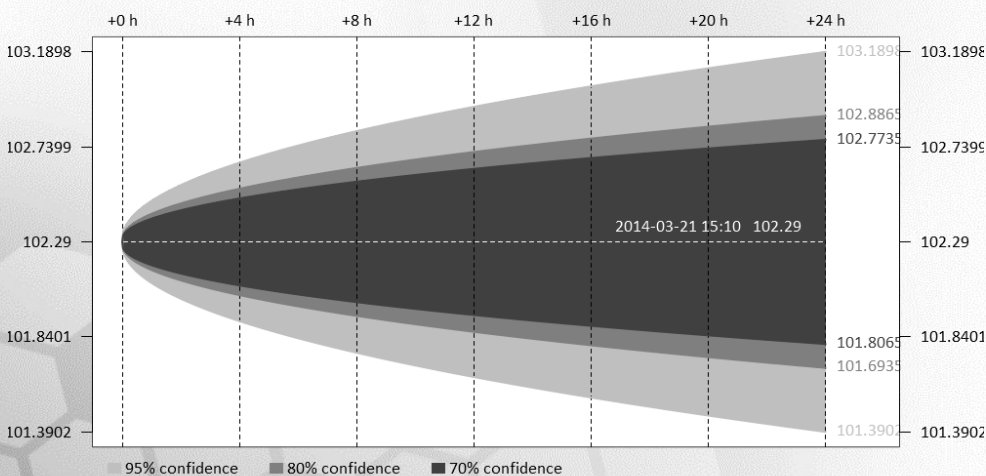
EURUSD Potential Rates



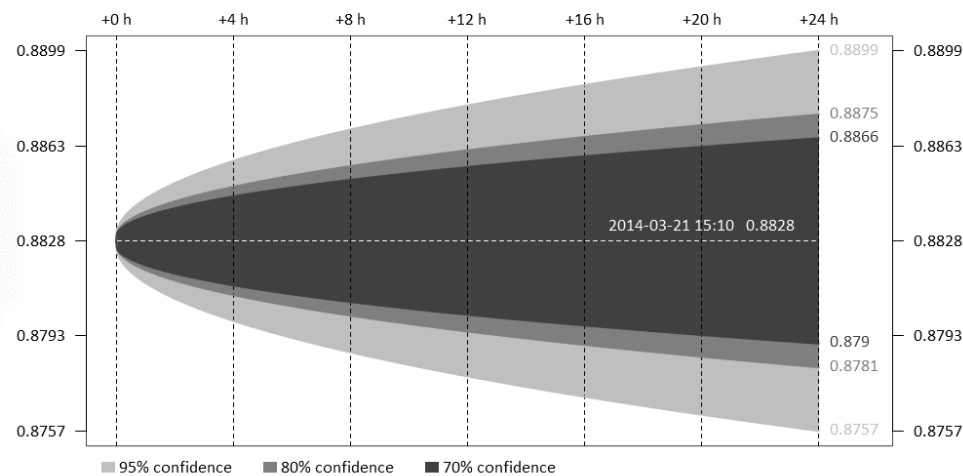
GBPUSD Potential Rates



USDJPY Potential Rates



USDCHF Potential Rates



EXPLANATIONS

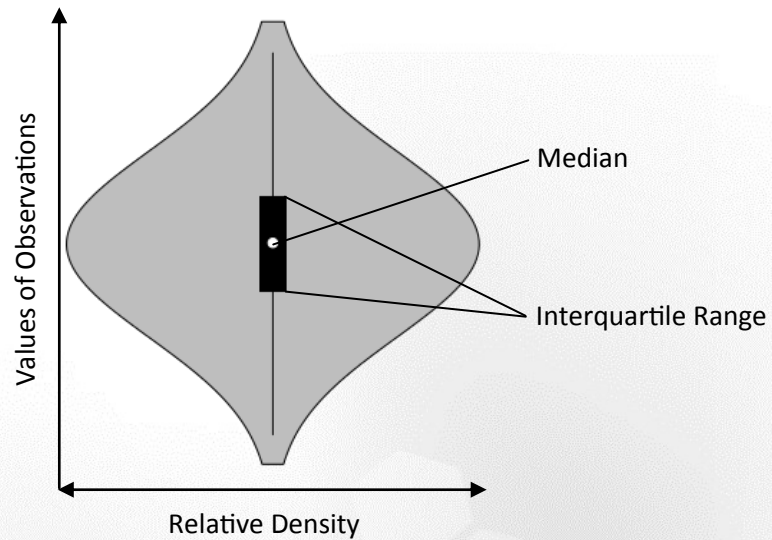
Violin Plot

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

Methodologies

Volatility Index

Confidence Interval





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