



GBP

26/03/2014



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RESEARCH PRODUCTS



Market Research





Dominant Events for the British Pound

Yellow Area

March 19

08:00 - 23:00

- UK Claimant Count Change
- MPC Votes
- UK Unemployment Rate
- US Current Account
- FOMC Economic Projections, Statement and Press Conference

Turquoise Area

March 20

07:00 - 17:00

- BOJ Governor Speaks
- US Unemployment Claims
- US Manufacturing Index
- MPC Member Weale Speaks
- EU Economic Summit

Blue Area

March 21

08:00 - 18:00

- Eurozone Current Account
- UK Public Sector Borrowing
- Canada's CPI
- FOMC Member Fisher Speaks
- EU Economic Summit

Purple Area

March 24

07:00 - 21:00

- Eurozone Flash Manufacturing PMI
- Eurozone Flash Services PMI
- German Buba Monthly Report
- US Flash Manufacturing PMI
- G7 Meetings

Orange Area

March 25

09:00 - 20:00

- UK CPI
- UK Mortgage Approvals
- UK RPI
- UK Industry Realized Sales
- US Consumer Confidence
- US New Home Sales

GBP Currency Index Range

0.19%

0.3%

0.17%

0.33%

0.21%

Average GBP/USD Volatility Index

1.58

1

1.22

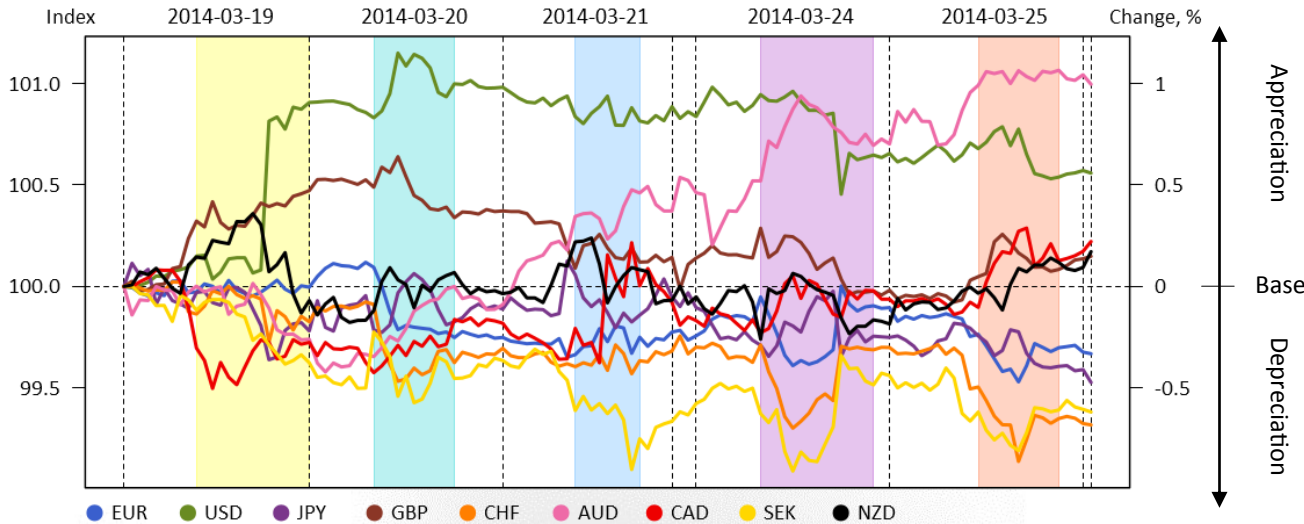
1.17

0.95



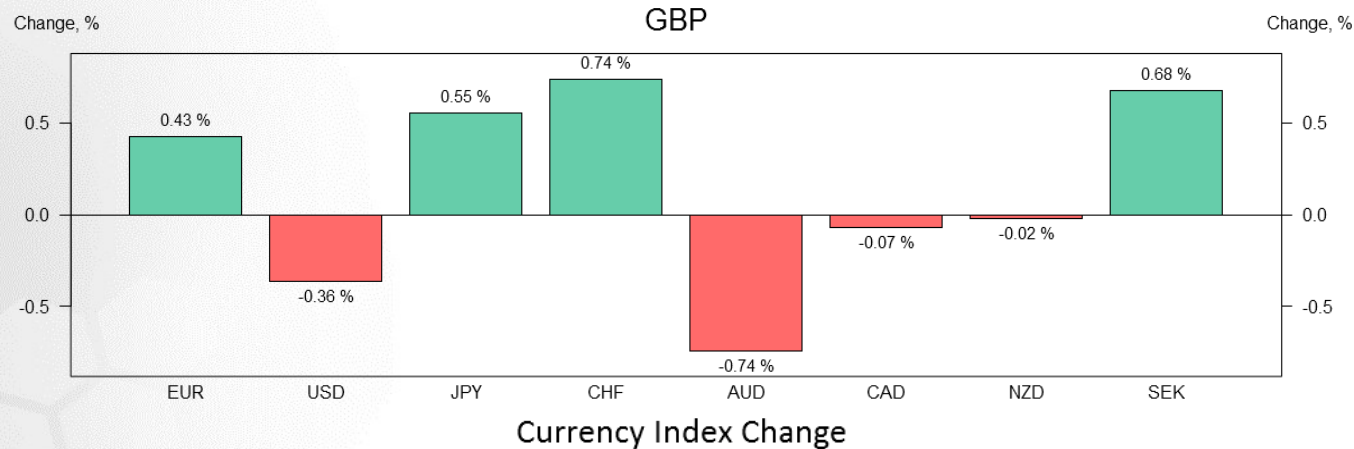
Relative Currency Strength

Currency Indices



Sterling index was one of the five gainers during the last five trading days, even though the currency posted the smallest gain, adding only 0.11% of its base value. Fundamental news pushed the index higher only on March 19 and 25 as both statistics from the labour market and consumer prices surprised markets to the upside. After receiving a strong bullish bias from the MPC votes, claimant count change and average earnings figures, the GBP index hit 100.63 on March 20. However, later a lack of fundamental data from the U.K. on Thursday and a higher-than-expected budget deficit released on Friday dragged the currency back to its base value.

Despite a modest gain over the period, the Sterling lost some of the ground versus the greenback and Aussie, while remained almost unchanged against the loonie and kiwi. Australian currency shrugged off weaker-than-expected Chinese manufacturing data, while the AUD/USD pair refreshed this year's high on Friday, hitting 0.9174, while AUD index advanced to 101.06. At the same time, USD index hit the highest point among other indexes on March 20 unemployment claims and Philly Fed manufacturing index supported the case the economy is ready for a rate hike in the first half of 2015. Moreover, the risk-off sentiment prevailed markets in the described period, as Japanese Yen, Swiss Franc and Swedish Krone remained in the negative territory, each posting at least a 0.6% decline.



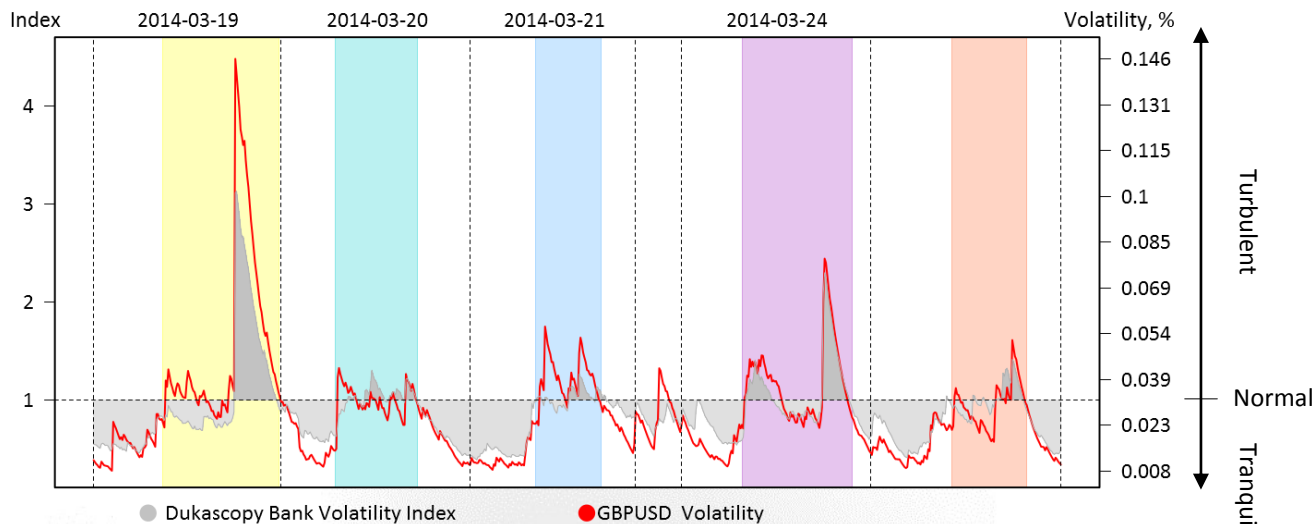
Currency Index Change

Days	EUR	USD	JPY	GBP	CHF	AUD	CAD	SEK	NZD
5	-0.3%	0.56%	-0.6%	0.11%	-0.65%	1.34%	0.25%	-0.61%	0.16%
20	-0.08%	-0.71%	-0.79%	-1.5%	-0.19%	1.56%	-1.54%	0.88%	2.64%
130	3.1%	0.54%	-3.47%	3.69%	3.92%	-3.27%	-8.76%	0.18%	3.23%
250	7.28%	0.43%	-2.96%	9.55%	6.94%	-13.97%	-9.97%	0.78%	1.97%



Volatility

Volatility



Markets remained rather tranquil over the last five trading days, with the elevated market volatility recorded only in 24% of the time. During BoJ's Kuroda's speeches on March 19 and 20 as well as after a release of Australian leading index Dukascopy Volatility index remained highly above cable's volatility, while the biggest divergence was recorded after Chinese manufacturing PMI was available to public. It is also important to mention that even despite Kuroda's comments JPY crosses were the least volatile, as he once again reiterated his confidence about reaching inflation within the planned period. This week, Japanese Yen is projected to be highly volatile, as inflation figures on March 27 will be the last piece of puzzle before April 1.

The cable was highly volatile over the observed period, with its volatility exceeding the average market's volatility most of the days, except Monday, March 24, when markets were driven by manufacturing and services PMI from Europe. GBP/USD volatility index peaked at 4.5 on March 19, after a bunch of positive data from the U.K. Even though the unemployment rate remained unchanged, the number of people claiming for jobless benefits fell more than expected, while average earnings index came stronger than expected and MPC votes showed unanimous decision to keep the monetary policy unchanged. Inflation data on March 25, however, came mostly in line with analysts' forecasts, hence the currency added only 0.2% to its base value.

Elevated Volatility (% of the observed period)

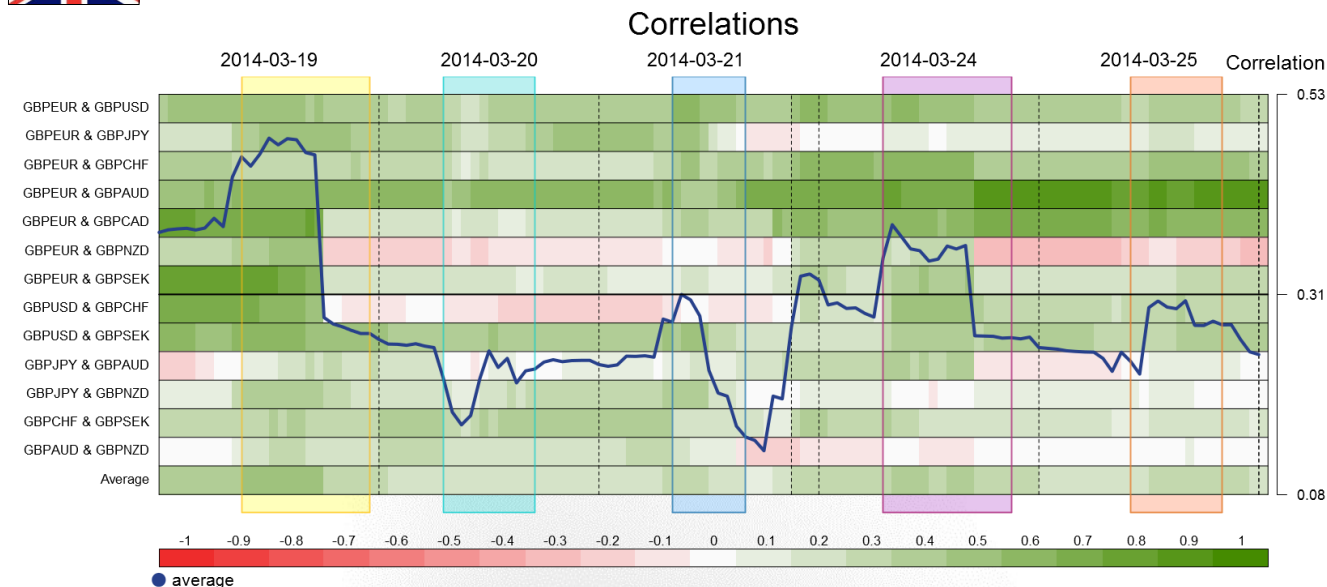
Market	EURUSD	USDJPY	GBPUSD	AUDUSD	USDCAD	USDCHF	EURJPY	EURGBP	EURCHF	USDSEK	NZDUSD
24	37	10	30	16	26	34	16	33	27	39	26

Volatility Index (for the observed period)

	Market	EURUSD	USDJPY	GBPUSD	AUDUSD	USDCAD	USDCHF	EURJPY	EURGBP	EURCHF	USDSEK	NZDUSD
Max	3.1	4.5	3.6	4.5	3.3	4.3	4.3	2.4	2.5	2	3.7	3.9
Min	0.4	0.2	0.2	0.3	0.4	0.3	0.3	0.3	0.2	0.2	0.2	0.4
Average	0.9	0.9	0.7	0.9	0.9	0.8	1	0.8	0.8	0.9	0.9	0.9



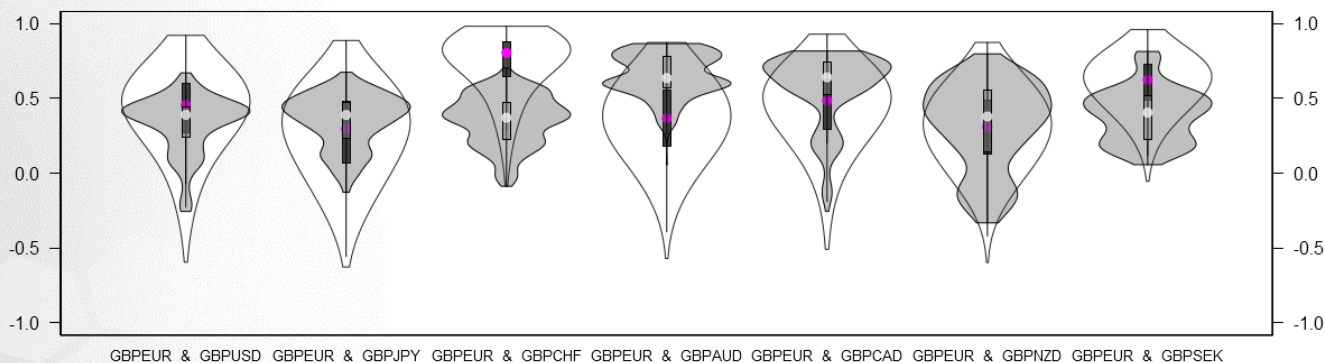
Currency Significance



British currency is one of the most traded currencies, even though markets are rarely driven by events from the U.K. This time, however, the earlier-mentioned set of fundamental data from the U.K. on March 19 pushed the average correlation coefficient to 0.4843—the highest over the period. CBI industrial order expectations and a speech of one of the MPC members were not able to drag investors' attention to the Sterling, as they focused on the statistics from the world's largest economy, hence a level of Sterling's significance plunged to 0.15. A day later, public sector net borrowing and a release of the U.K. budget helped the correlation coefficient to climb back to the average value around 0.31.

The index reached the lowest point on March 21, touching 0.12 right after the release of Canada CPI and retail sales figures that proved the economy is performing better than it was initially expected. Once again, a release of the U.K. inflation data had a small impact on the Sterling, even though the cable rose to 1.6513. At the same time, a level of Pound's significance advanced only to 0.29. It can be explained by the fact the BoE has been constantly reiterating its pledge to keep interest rates at a record-low for the foreseeable future, as policymakers aim at eliminating the remaining slack within the economy. The mean correlation between the GBP/EUR and the cable during the last five trading days and the last trading year remained almost unchanged, while correlation with GBP/NZD turned into the negative territory.

Correlations (20 vs 130 days)

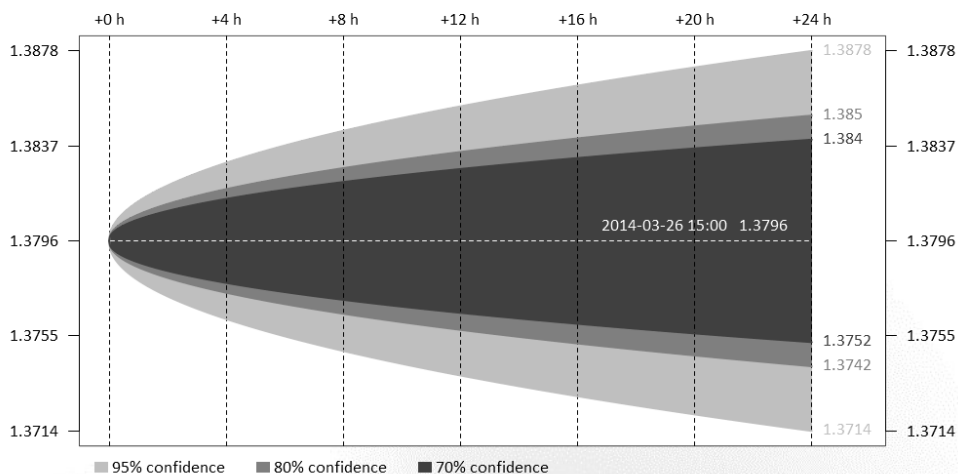


Mean Correlation Coefficient (with GBPEUR)

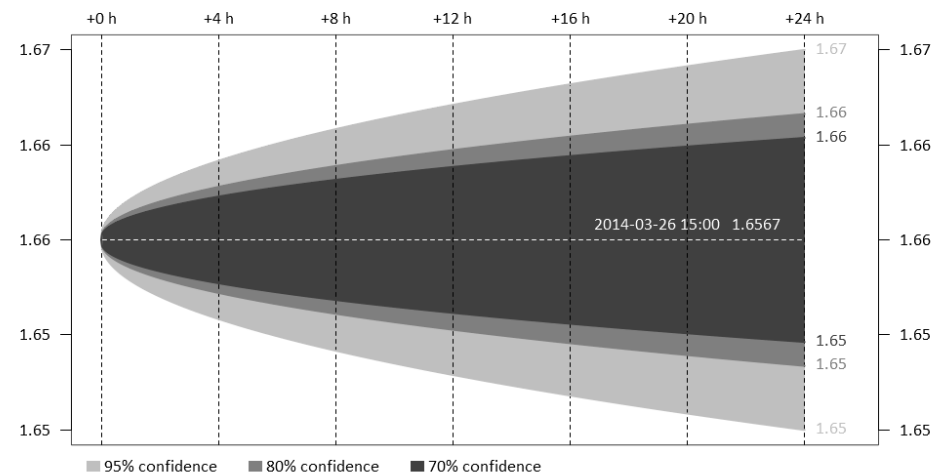
Days	GBPUSD	GBPJPY	GBPCHF	GBPAUD	GBPCAD	GBPNZD	GBPSEK
5	0.43	0.23	0.38	0.67	0.46	-0.02	0.29
20	0.33	0.35	0.35	0.66	0.56	0.31	0.39
130	0.47	0.42	0.72	0.43	0.5	0.35	0.55
250	0.42	0.32	0.73	0.34	0.44	0.28	0.56

Confidence Intervals for Next 24 Hours

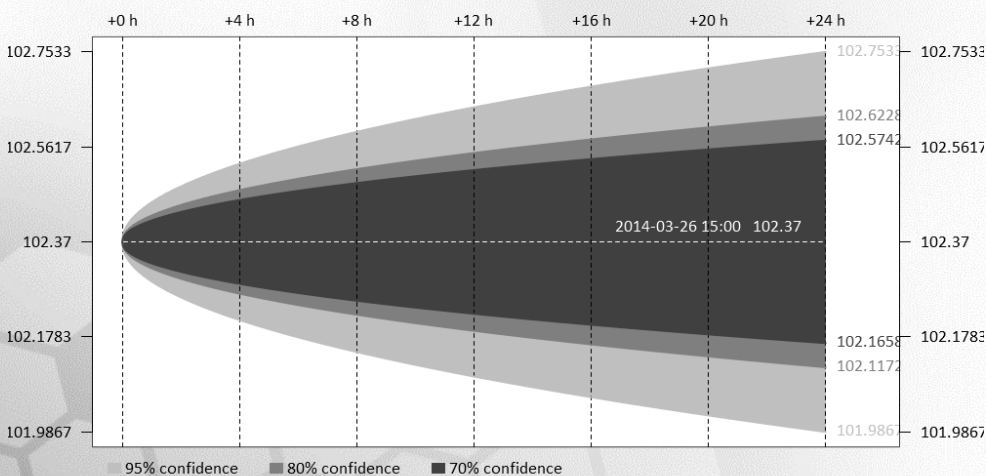
EURUSD Potential Rates



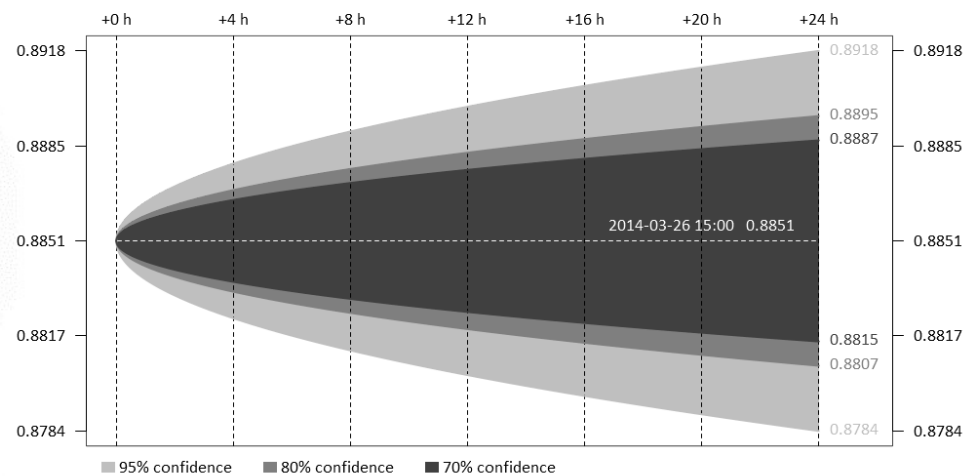
GBPUSD Potential Rates



USDJPY Potential Rates



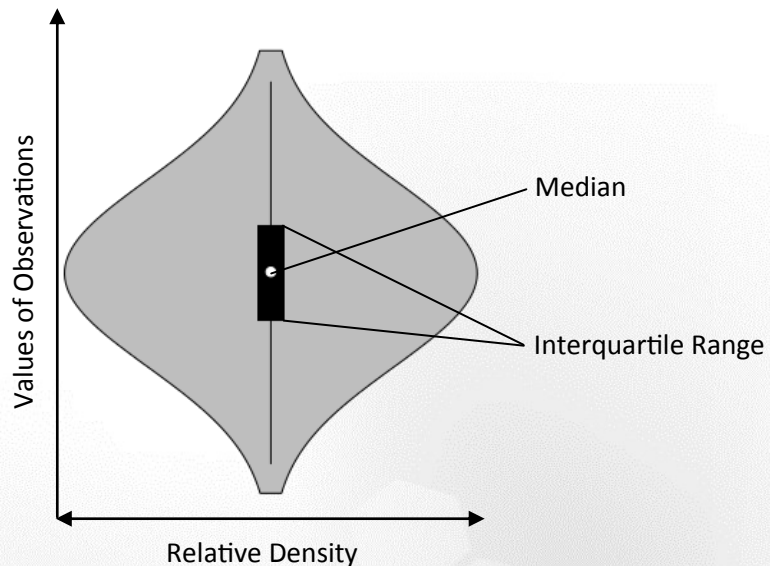
USDCHF Potential Rates



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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