

USD

07/04/2014



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Market Research





Dominant Events for the U.S. Dollar

Yellow Area

March 31

08:00 - 18:00

- UK Net Lending to Individuals
- Eurozone CPI Flash Estimate
- Canada GDP
- US Chicago PMI
- Fed Chairman Speaks
- BOE Governor Speaks

Turquoise Area

April 01

14:00 - 17:00

- US Manufacturing PMI
- US Construction Spending
- US Economic Optimism
- US Manufacturing Prices

Blue Area

April 02

08:00 - 16:00

- UK Construction PMI
- Eurozone Final GDP
- Eurozone PPI
- MPC Member Cunliffe Speaks
- US Non-Farm Employment Change
- ECOFIN Meetings

Purple Area

April 03

11:00 - 18:00

- ECB Minimum Bid Rate and Press Conference
- US Trade Balance
- US Unemployment Claims
- ECB President Speaks
- US Non-Manufacturing PMI

Orange Area

April 04

12:00 - 18:00

- US Non-Farm Employment Change
- US Unemployment Rate
- US Average Hourly Earnings

USD Currency Index Range

0.3%

0.08%

0.24%

0.25%

0.06%

Average EUR/USD Volatility Index

1.35

0.92

0.96

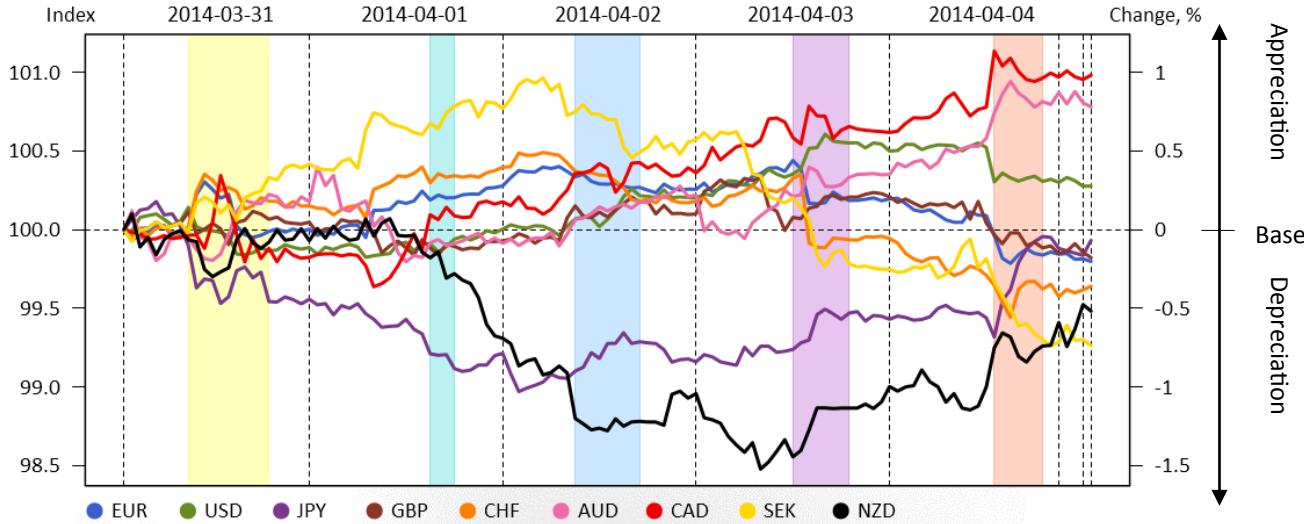
1.6

1.6



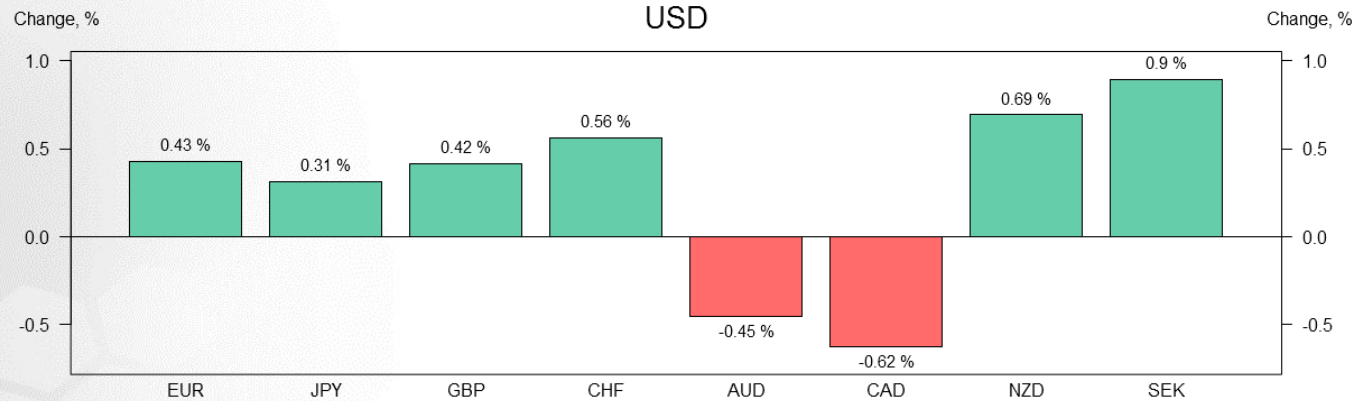
Relative Currency Strength

Currency Indices



After starting a week at a base value, almost all major currencies ended a period with a high level of divergence, with three currencies posting gains, while six remaining logged modest losses. For a second straight week, the Aussie and loonie were the top performers, adding 0.75% and 1.09% respectively. At the same time, Swedish Krone and New Zealand Dollar recorded losses around 0.6%. Regarding the USD index, the currency logged a 0.29% gain, depreciating only versus two out of 8 major currencies. It is important to mention, that even despite hints of the quantitative easing programme from the ECB, the single currency lost only 0.12%.

The U.S. Dollar remained around its base value on Monday and Tuesday, and even Janet Yellen's pledge to continue stimulating the world's largest economy were not able to push the currency lower. Yellen cited still weak labour market as the main reason for a prolonged period of asset-buying. First major move was recorded on April 2 after a release of the ADP payrolls that surprised markets to the downside, however, still posting a solid gain. The index advanced 0.25% and continued its appreciation later on during the week. Last week's main highlight was Friday's jobs report, while Thursday's jobless claims only made the situation for the Fed more complicated. Nonetheless, the USD index hit its weekly high of 100.60. Friday's statistics came almost in line with analysts' forecasts, disappointing markets, and resulting in a USD's drop.



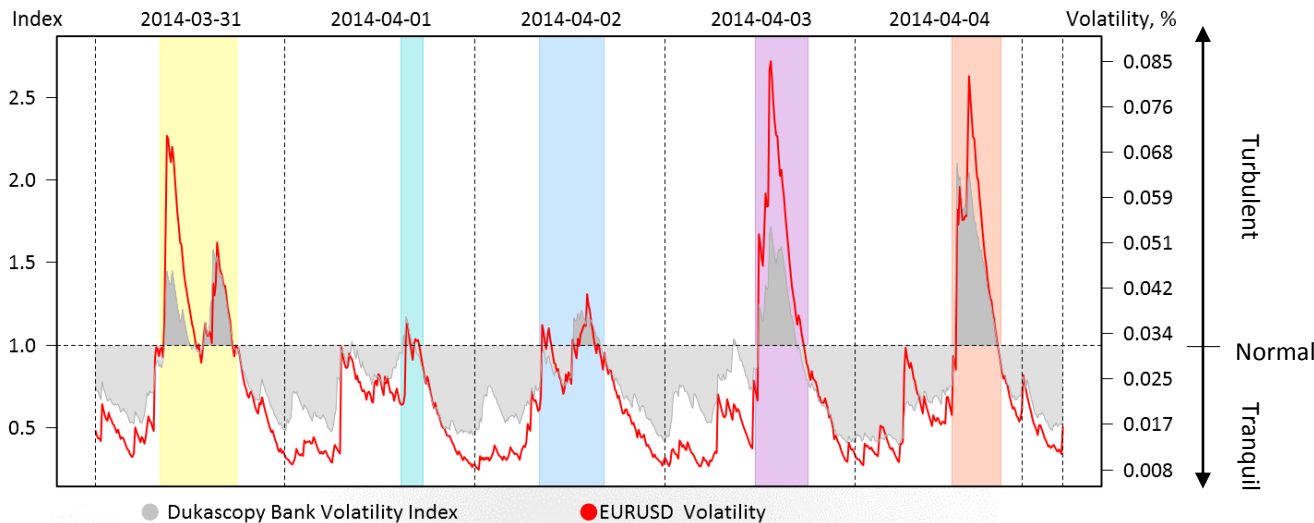
Currency Index Change

Days	EUR	USD	JPY	GBP	CHF	AUD	CAD	SEK	NZD
5	-0.12%	0.29%	-0.14%	-0.11%	-0.3%	0.75%	1.09%	-0.66%	-0.6%
20	-1.25%	0.13%	-0.07%	-0.87%	-1.52%	3.73%	1.68%	-2.86%	2.06%
130	1.7%	1.13%	-5.56%	3.74%	2.05%	-0.33%	-5.86%	-2.48%	5.34%
250	5.78%	0.31%	-5.29%	9.44%	5.39%	-11.3%	-7.29%	0.04%	2.91%



Volatility

Volatility



Flash CPI from the Eurozone, Janet Yellen's comments, RBA's rate decision, Mario Draghi's comments and important fundamental data from the U.S. All these events were not able to shake markets, while elevated market volatility was observed only in 18% of the time. What is more important, that the most traded currency pair remained relatively calm even despite clear dovish comments from Mario Draghi and less confident Janet Yellen's statement. At the same time, the EUR/GBP pair was the most volatile, as weak manufacturing, construction and services PMI resulted in sharp losses of the Sterling, while Carney warning provided additional boost to the Britain's currency. BoE's Governor claimed markets should prepare for higher rates soon.

The first major spike in EUR/USD's volatility was recorded on Monday, as inflation rate from Europe came at a four-year low at 0.5%, intensifying the view the ECB will have to pull the trigger soon. On Tuesday and Wednesday, EUR/USD's volatility remained subdued, suggesting Yellen's comments and European unemployment rate has little impact on the markets. It was not a surprise that maximum volatility was recorded on Thursday, April 3, during the ECB minimum bid rate announcement and Mario Draghi's press conference. While average Dukascopy volatility index hit 1.71, volatility of the most traded currency pair soared to 2.71, as hints of the upcoming U.S.-style stimulus programme had strong influence on the single currency. On Friday, U.S. unemployment rate and payrolls had almost the same impact on the EUR/USD.

Elevated Volatility (% of the observed period)

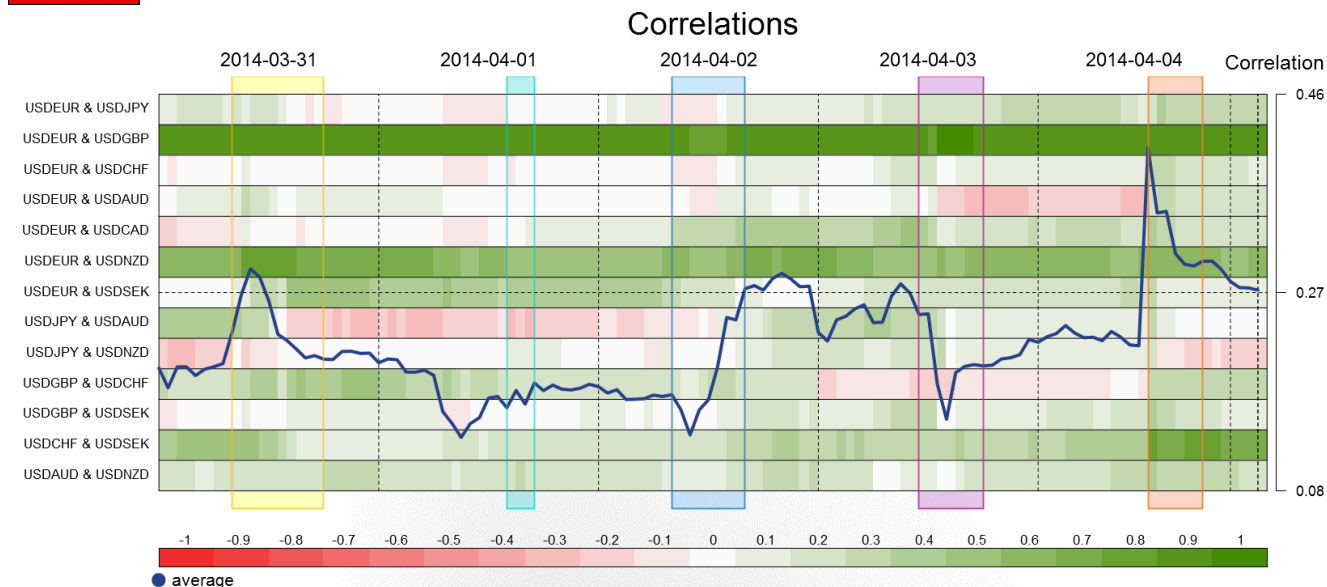
Market	EURUSD	USDJPY	GBPUSD	AUDUSD	USDCAD	USDCHF	EURJPY	EURGBP	EURCHF	USDSEK	NZDUSD
	18	20	25	18	17	23	20	35	24	32	25

Volatility Index (for the observed period)

	Market	EURUSD	USDJPY	GBPUSD	AUDUSD	USDCAD	USDCHF	EURJPY	EURGBP	EURCHF	USDSEK	NZDUSD
Max	2.1	2.7	2.3	2	1.9	3.9	3.4	2.5	2.8	3.4	2.7	2.4
Min	0.4	0.2	0.3	0.2	0.4	0.2	0.2	0.3	0.2	0.3	0.2	0.4
Average	0.8	0.7	0.8	0.7	0.8	0.7	0.8	0.8	0.9	0.9	0.8	0.9



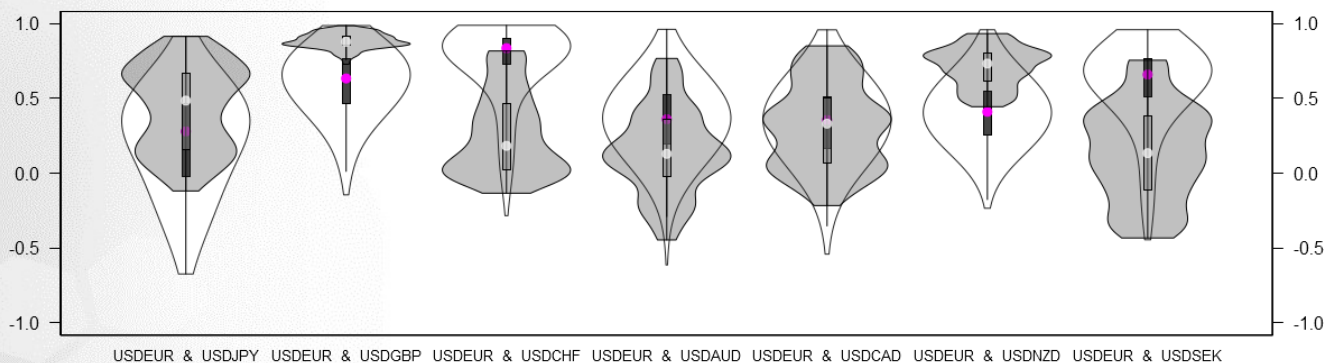
Currency Significance



During the observed period the strongest correlation between EUR/USD and the cable, suggesting these pairs were highly attractive for hedging and attempting to control risk. At the same time, a level of significance of the U.S. Dollar remained rather low. Moreover, there was a high difference between last week's correlation with several major crosses and a long-term correlation. Correlation with such crosses like USD/JPY, USD/CHF and AUD/USD was almost unnoticeable, suggesting all three currency pairs were driven not by the U.S. Dollar, even despite a slew of fundamental data from the world's largest economy. Risk-on sentiment was boosted by Yellen's comments.

A level of USD significance was steadily increasing over the period ahead of the Friday's jobs report. Economy's ability to create jobs is one of the most important indicators of the economic health. Moreover, a recent drop in the unemployment was mostly led by the fact people were dropping out of the labour force, while participation rate remained around record-low. This time, even despite the fact the number of non-farm payrolls fell short of analysts' expectations, they still came close to 200,000, suggesting companies are starting to shrug off negative weather effects. Moreover, the participation rate picked up. Soon after the release of the data, the average correlation coefficient soared to the highest level over the week, hitting 0.405, the strength, however, appeared to be short-lived.

Correlations (20 vs 130 days)

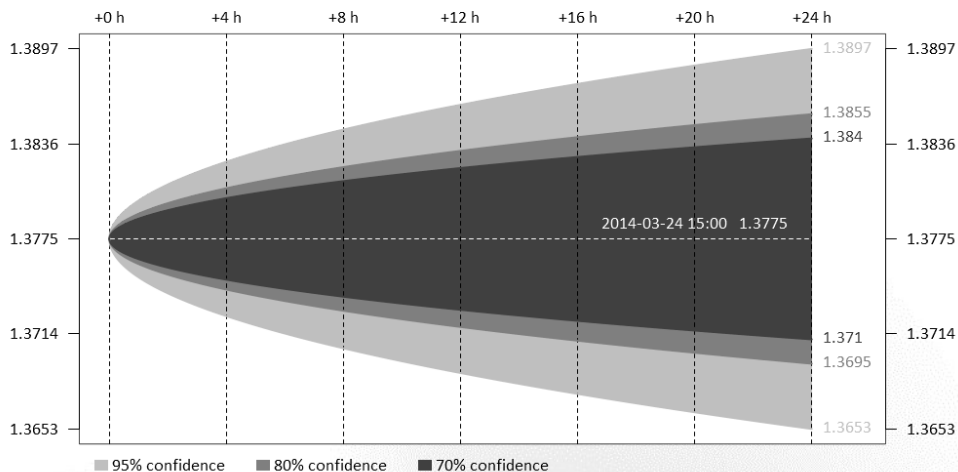


Mean Correlation Coefficient (with EURUSD)

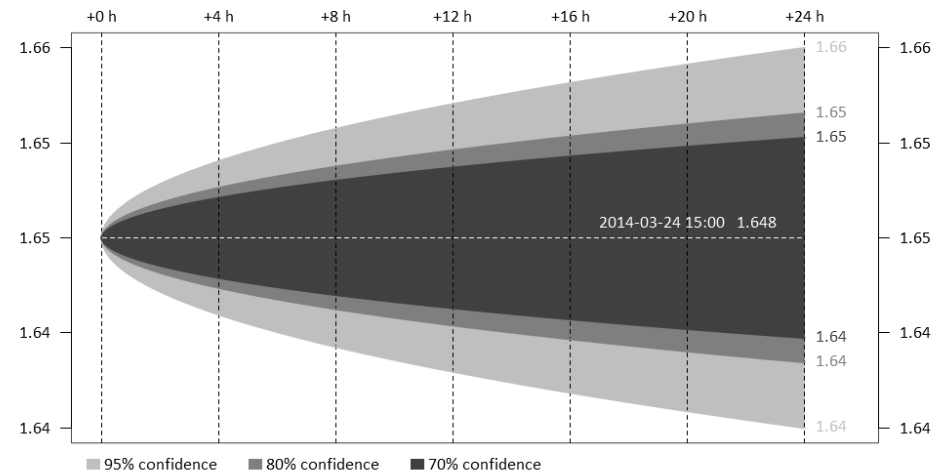
Days	USDJPY	USDGBP	USDCHF	USDAUD	USDCAD	USDNZD	USDSEK
5	0.12	0.89	0.05	0.01	0.15	0.59	0.25
20	0.44	0.88	0.26	0.14	0.31	0.71	0.14
130	0.34	0.64	0.64	0.26	0.23	0.44	0.41
250	0.34	0.64	0.73	0.34	0.33	0.42	0.53

Confidence Intervals for Next 24 Hours

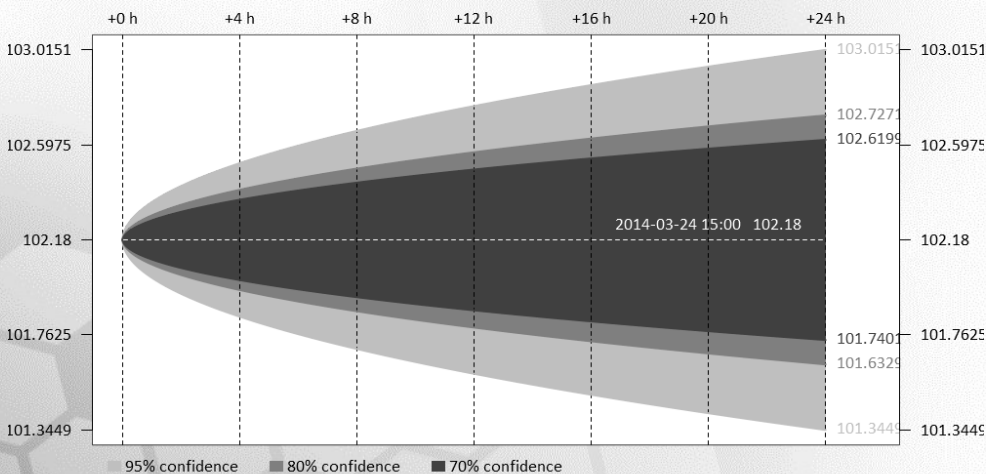
EURUSD Potential Rates



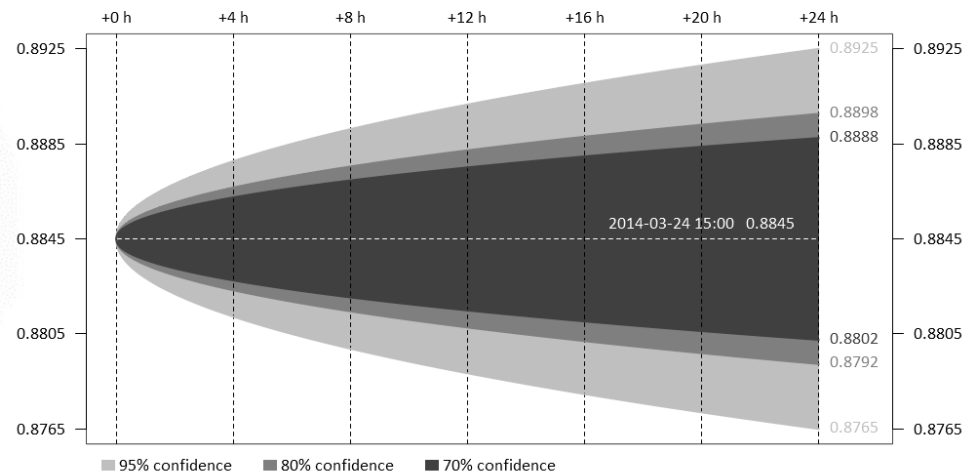
GBPUSD Potential Rates



USDJPY Potential Rates



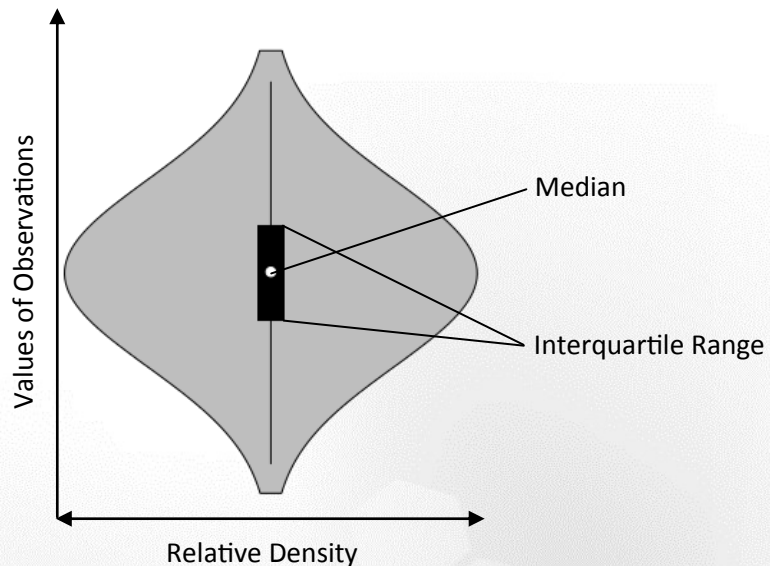
USDCHF Potential Rates



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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