



USD

12/05/2014



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Market Research





Dominant Events for the U.S. Dollar

Yellow Area

May 05

06:00 - 11:00

- Eurozone Sentix Investor Confidence
- EU Economic Growth Forecasts
- Eurozone PPI
- US Final Services PMI
- US Non-Manufacturing PMI

Turquoise Area

May 06

07:00 - 17:00

- UK Services PMI
- Eurozone Retail Sales
- US Trade Balance
- Canada Trade Balance
- Canada PMI
- ECOFIN Meetings

Blue Area

May 07

12:00 - 17:00

- Canada Building Permits
- US Nonfarm Productivity
- US Prelim Unit Labor Costs
- Fed Chairman Testifies

Purple Area

May 08

11:00 - 21:00

- BoE Interest Rate Decision
- ECB Interest Rate Decision
- ECB Monetary policy statement and press conference
- US Unemployment Claims

Orange Area

May 09

07:00 - 18:00

- UK Manufacturing Production
- Canada Employment Change and Unemployment Rate
- US Job Openings

USD Currency Index Range

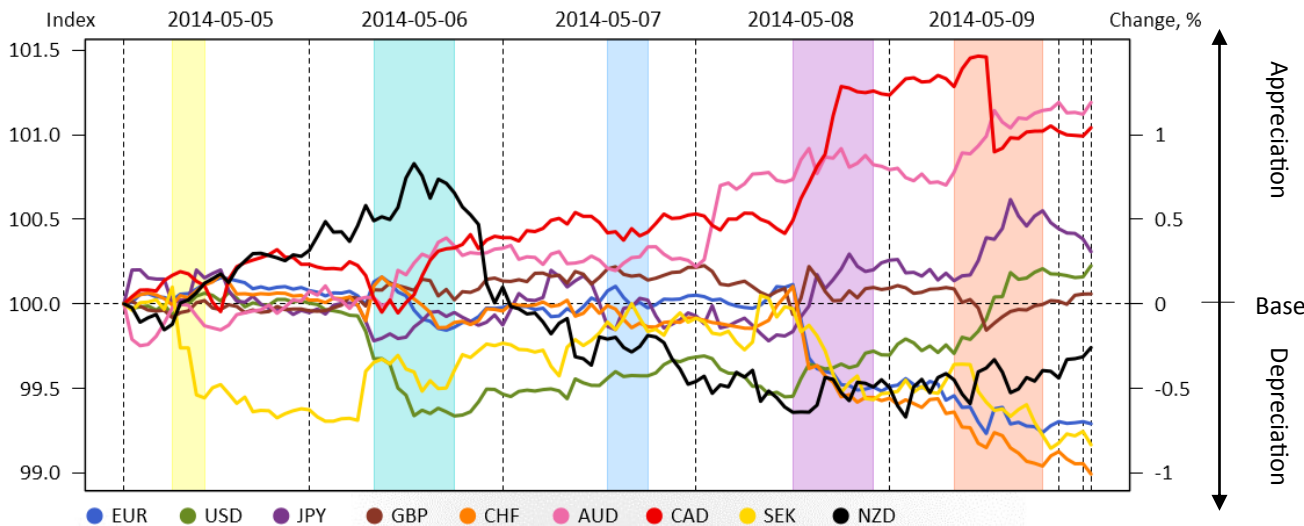
0.13%	0.34%	0.04%	0.27%	0.5%
0.92	1.39	0.97	2.56	1.23

Average EUR/USD Volatility Index



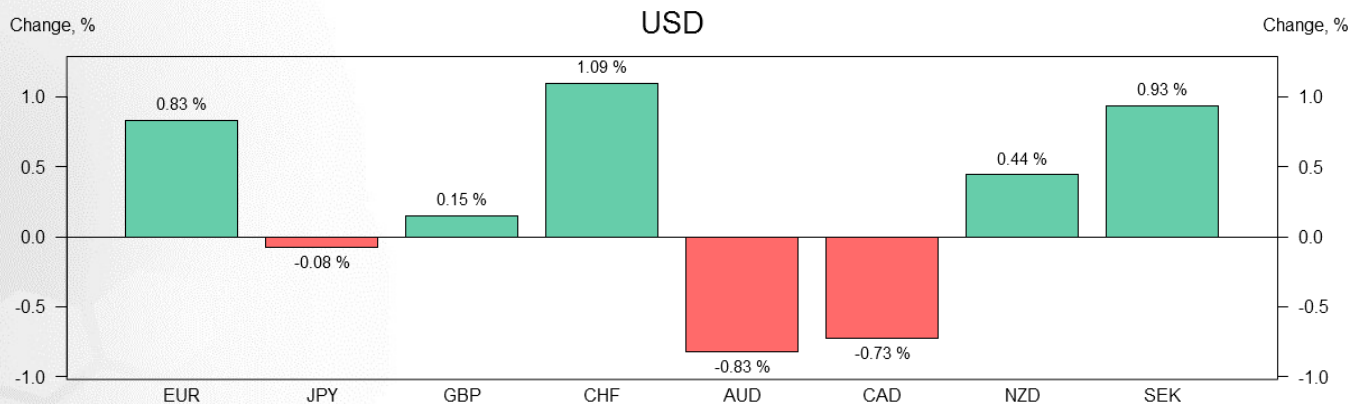
Relative Currency Strength

Currency Indices



Last week's main highlight was ECB's press conference and the minimum bid rate announcement on Thursday. Draghi's pledge to act in June pushed the single currency 0.69% lower over the week and what is more important, the currency is likely to remain under the pressure until the next policy meeting. In contrast, the Aussie soared 1.54% on the back of stronger-than-expected Chinese fundamentals as well as better domestic jobs data. At the same time, the RBA's May meeting and the gathering of the Bank of England had muted impact on markets, as policymakers at both countries reduced speculations for a revision of their monetary policies any time soon.

It was a relatively calm week for the U.S. Dollar, with only services PMI, trade balance, jobless claims and Janet Yellen's speeches on the economic calendar. A report from the ISM had almost no impact on markets, with the currency index standing around the base value. On Tuesday, the currency remained under pressure ahead of the trade balance, which missed markets' forecasts, while exports still posted a bigger gain than imports. The reaction was not really impressive, however, the index reached the lowest level in a week, hitting 99.33. The second half of the week was slightly more optimistic for the Dollar, as Yellen said policymakers are hoping for a highly anticipated spring revival in economic growth, which is likely to receive a boost from increased business hiring and consumer spending. This resulted in a 0.26% gain.



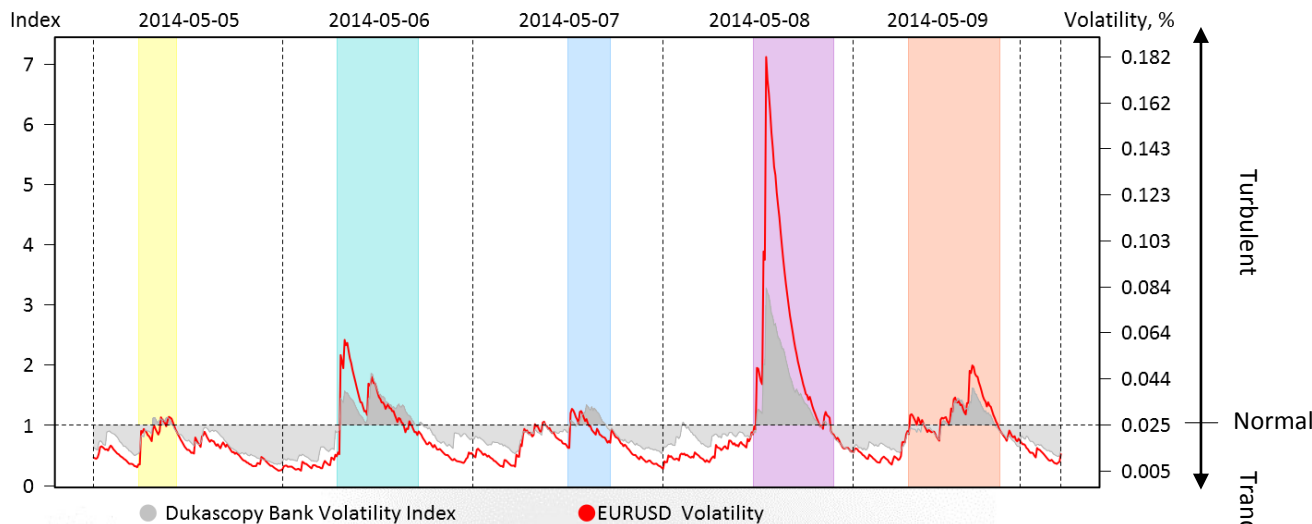
Currency Index Change

Days	EUR	USD	JPY	GBP	CHF	AUD	CAD	SEK	NZD
5	-0.69%	0.26%	0.11%	0.04%	-0.96%	1.54%	1.11%	-0.8%	-0.23%
20	-0.5%	0.3%	-0.21%	1.02%	-1%	-0.17%	1.32%	-0.24%	-0.35%
130	2.18%	-0.54%	-4.93%	4.53%	2.87%	-1.69%	-5.38%	-1.12%	3.5%
250	4.06%	-2.79%	-3.03%	9.45%	6.97%	-7.39%	-9.22%	-1.65%	3.61%



Volatility

Volatility



As we already mentioned, there was a lack of important fundamentals from the world's largest economy last week. Hence, the most traded currency pair was mostly driven by events from Europe. Overall, markets were calm as well, even despite three policy meetings over the period. The elevated market volatility was observed only in 28% of the time, meaning that investors are less interested in policymakers' comments. Weak disappointing statistics from Sweden, as well as comments from the central bank that eight largest banks are underlined the risks from borrowing. These worrying signs made the USD/SEK currency pair the most volatile among others, with the pair trading in a turbulence zone for 39% of time.

On Monday the most traded currency pair remained in the tranquil zone, as EU economic forecasts and services PMI from the U.S. appeared to be weak catalysts for the pair. On Tuesday, statistics offices from European countries released a bunch of stronger-than-expected figures from the retail and services sectors. The data diminished hopes for fresh stimulus and provided a solid boost to the single currency. On Wednesday, the EUR/USD pair climbed higher, as analysts predicted the ECB to stay pat on the monetary policy. The decision to keep rates on hold pushed the single currency higher, however, the press conference showed readiness to act in June. As a result EUR/USD volatility rocketed to 7.1, while the pair extended a decline on Friday, hitting 1.3745, the lowest since April 8.

Elevated Volatility (% of the observed period)

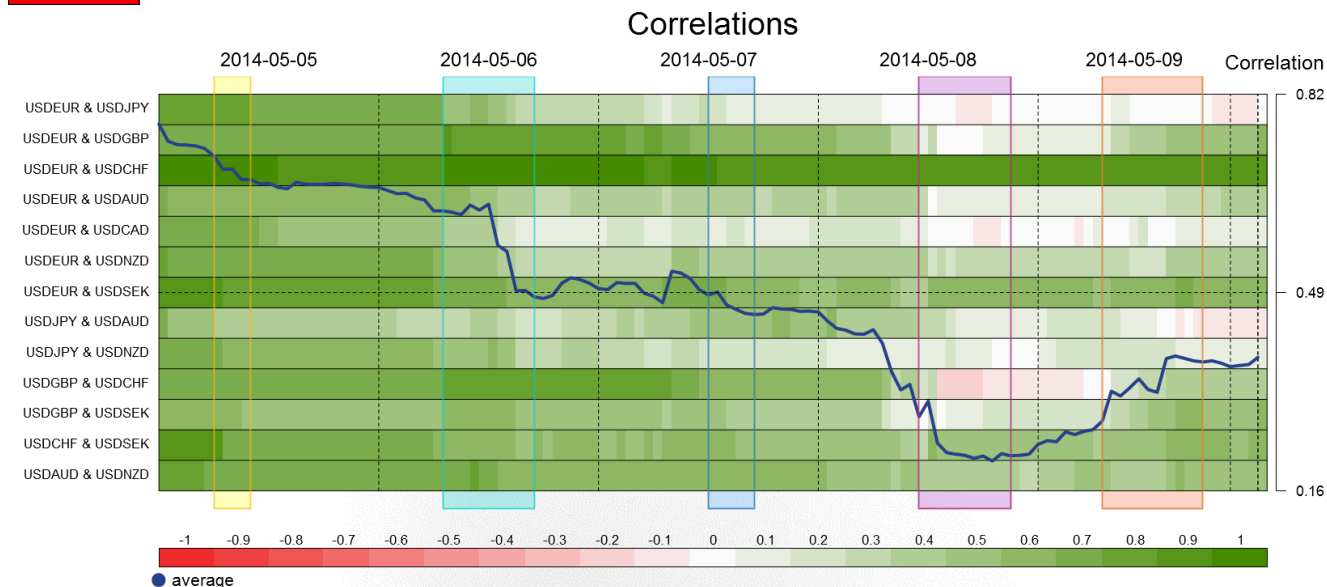
Market	EURUSD	USDJPY	GBPUSD	AUDUSD	USDCAD	USDCHF	EURJPY	EURGBP	EURCHF	USDSEK	NZDUSD
	28	25	30	27	27	36	22	37	22	31	39

Volatility Index (for the observed period)

	Market	EURUSD	USDJPY	GBPUSD	AUDUSD	USDCAD	USDCHF	EURJPY	EURGBP	EURCHF	USDSEK	NZDUSD
Max	3.3	7.1	2.3	2.5	2.8	4.1	5.9	5.4	6.5	2.3	3.7	3.2
Min	0.4	0.2	0.4	0.3	0.4	0.3	0.2	0.3	0.2	0.3	0.2	0.3
Average	0.9	0.9	0.9	0.8	0.9	1	0.8	1	0.8	0.8	0.9	0.9



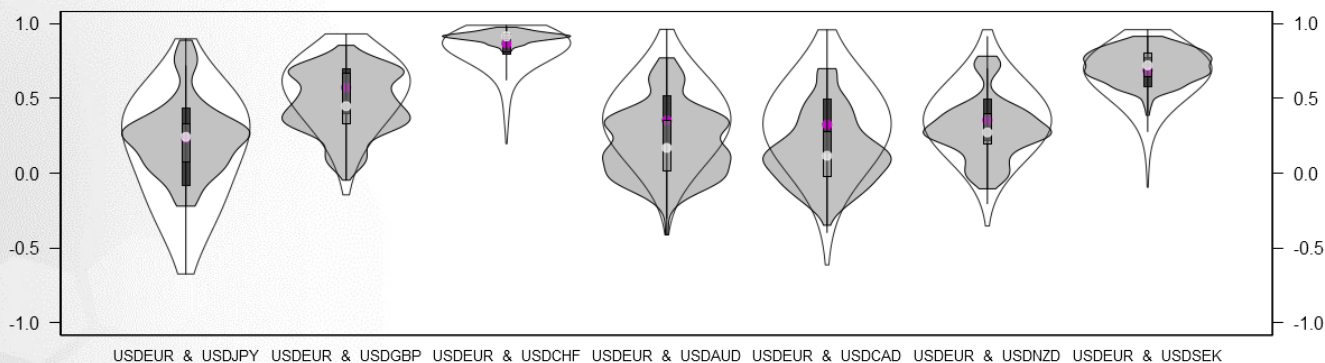
Currency Significance



The U.S. Dollar was not driving markets last week, as investors were focusing on the ECB's meeting on Thursday, which was expected to shed light on future moves. This week, however, the Dollar can become the main attention grabber, as inflation retail sales, inflation and consumer sentiment readings can support the case the economy has shrugged off the winter slump and will be building up steam in the coming months. Moreover, keeping in mind dovish ECB, the most traded currency pair can perform an impressive rally to the downside and hit 1.36-mark in the nearest future.

A set of fundamentals from the United States had muted impact on markets. This idea echoes with the average correlation coefficient, which was constantly decreasing all over the observed period. The lowest level was reached immediately after the ECB's press conference, with the average correlation coefficient hitting 0.2058 on May 8. The focused changed fast, as on Friday, the gauge inched higher, with investors focusing on this week's bunch of important economic reports from the world's largest economy. Interesting, that in almost all other USD crosses, the short-term correlation with EUR/USD increased, representing a great opportunity to hedge. The correlation with USD/SEK decreased, due to the increased attention to the indicators for Sweden. Weak fundamentals increase the chance the Riksbank will pull the trigger.

Correlations (20 vs 130 days)

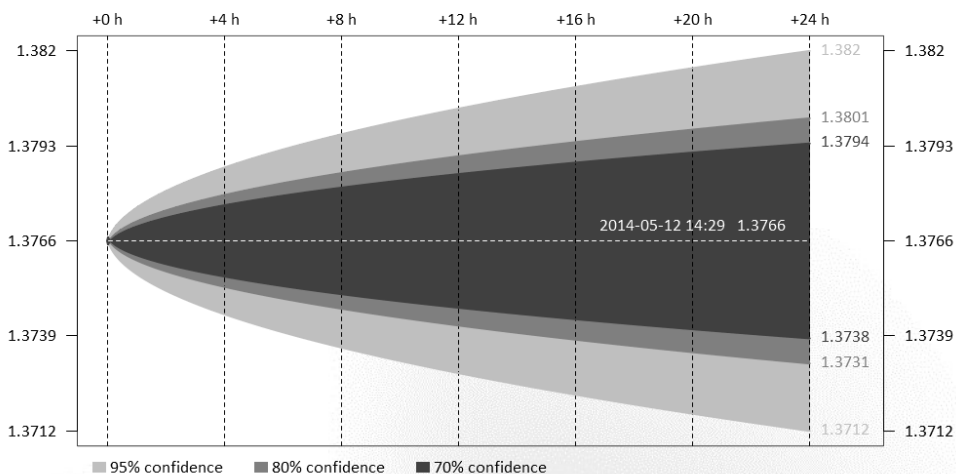


Mean Correlation Coefficient (with EURUSD)

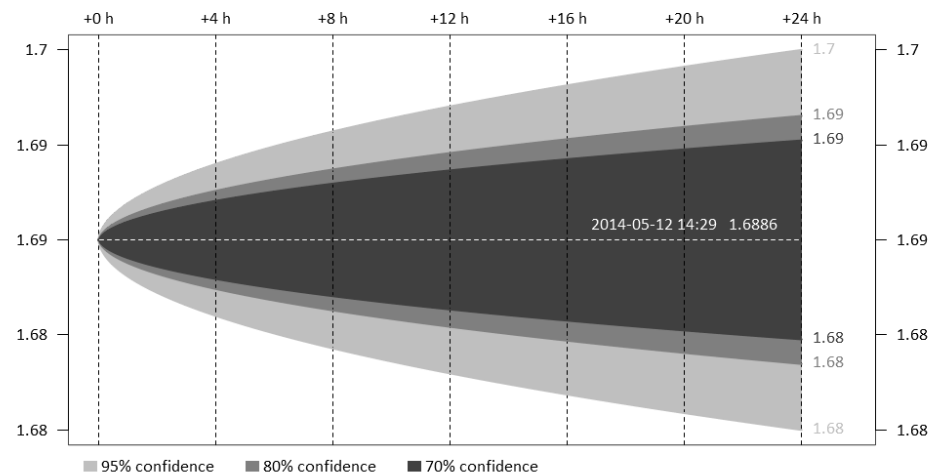
Days	USDJPY	USDGBP	USDCHF	USDAUD	USDCAD	USDNZD	USDSEK
5	0.28	0.54	0.93	0.39	0.22	0.44	0.64
20	0.24	0.46	0.91	0.2	0.14	0.29	0.72
130	0.19	0.46	0.87	0.25	0.16	0.29	0.62
250	0.28	0.55	0.86	0.33	0.28	0.34	0.64

Confidence Intervals for Next 24 Hours

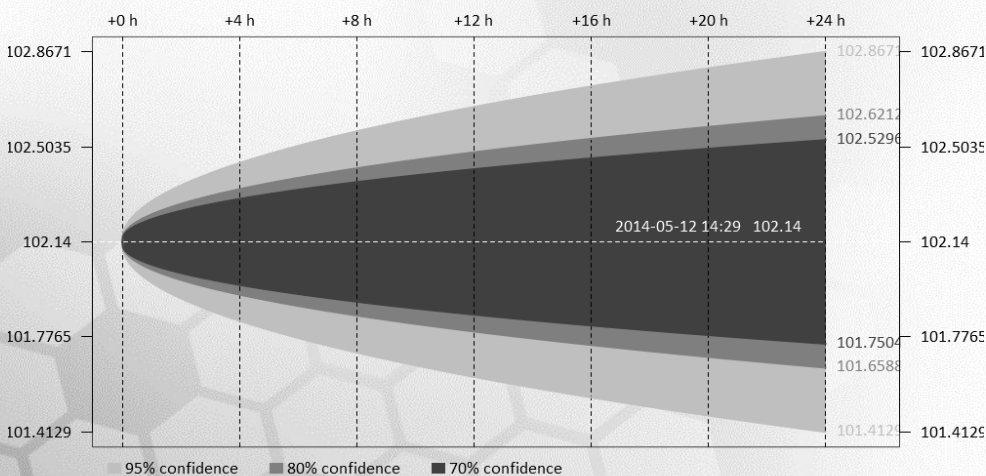
EURUSD Potential Rates



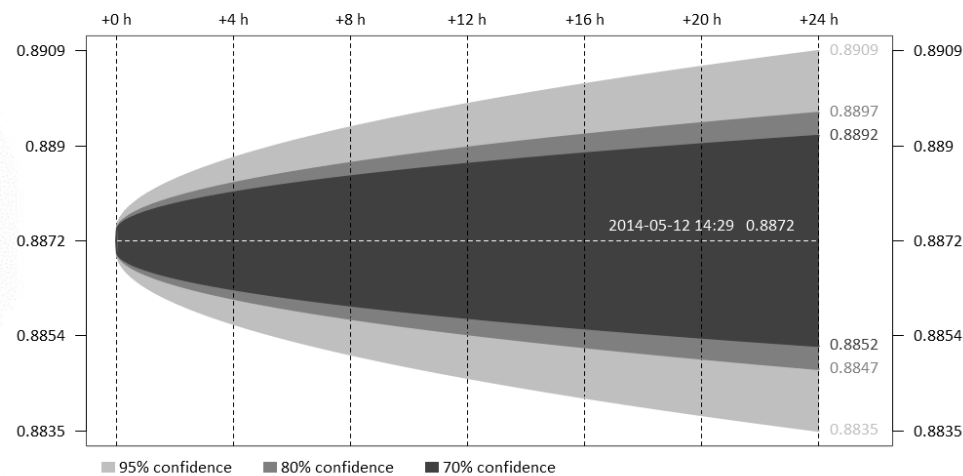
GBPUSD Potential Rates



USDJPY Potential Rates



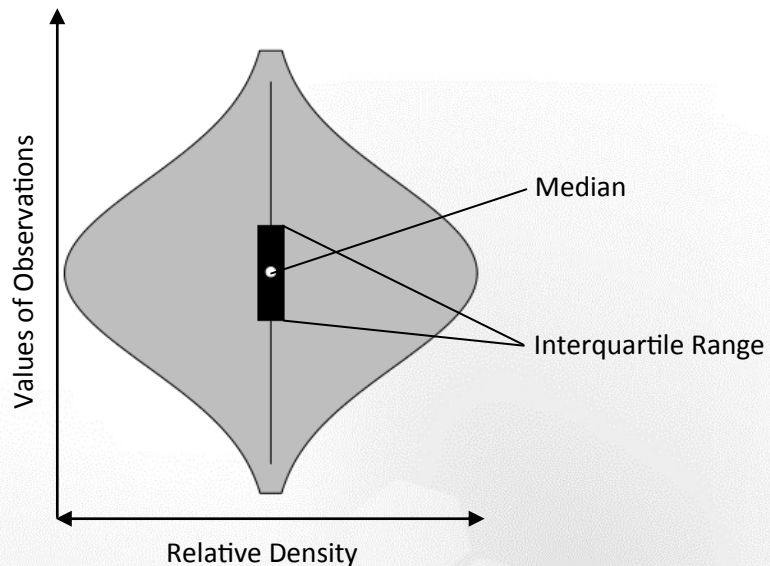
USDCHF Potential Rates



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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