



USD

19/05/2014



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RESEARCH PRODUCTS



Market Research



Dominant Events for the U.S. Dollar

Yellow Area

May 13

07:00 - 18:30

- Germany ZEW Economic Sentiment
- Eurozone ZEW Economic Sentiment
- US Retail Sales
- US Business Inventories

Turquoise Area

May 14

06:30 - 16:30

- UK Unemployment Rate, Claimant Count Change and Claimant Count Rate
- Eurozone Industrial Production
- BOE's Quarterly Inflation Report and Governor speech
- US PPI

Blue Area

May 15

06:30 - 19:00

- ECB Monthly Report
- Eurozone CPI
- US CPI
- US Initial Jobless Claims
- US Industrial Production
- US Manufacturing Index

Purple Area

May 16

07:00 - 16:00

- Eurozone Trade Balance
- US Building Permits
- US Housing Starts
- US Preliminary Consumer Sentiment

USD Currency Index Range

0.23%

0.11%

0.31%

0.09%

Average EUR/USD
Volatility Index

1.42

1.06

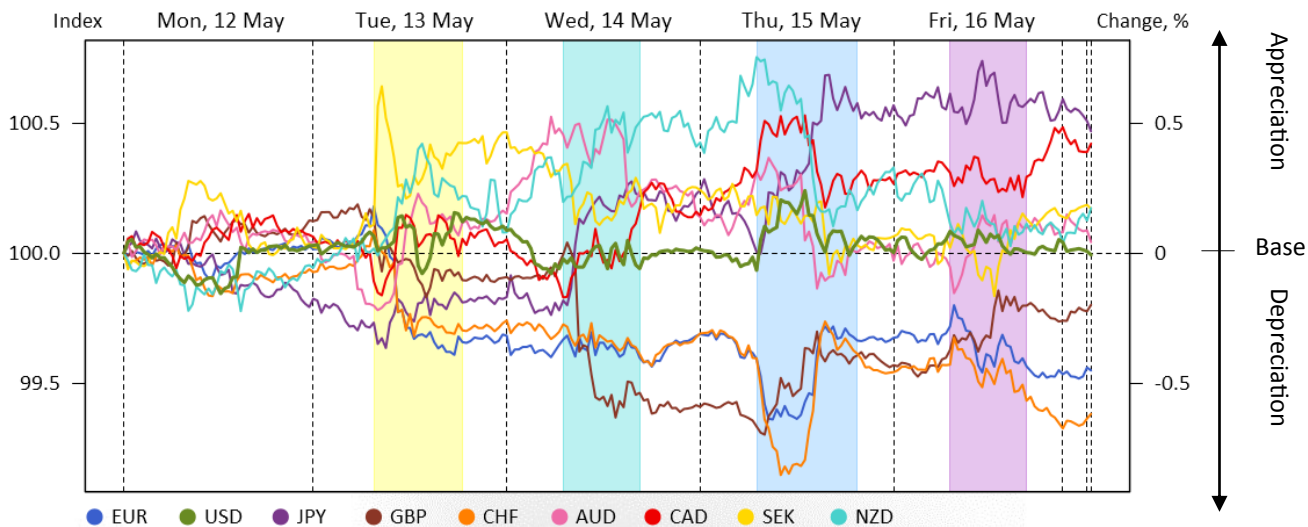
1.47

1.16



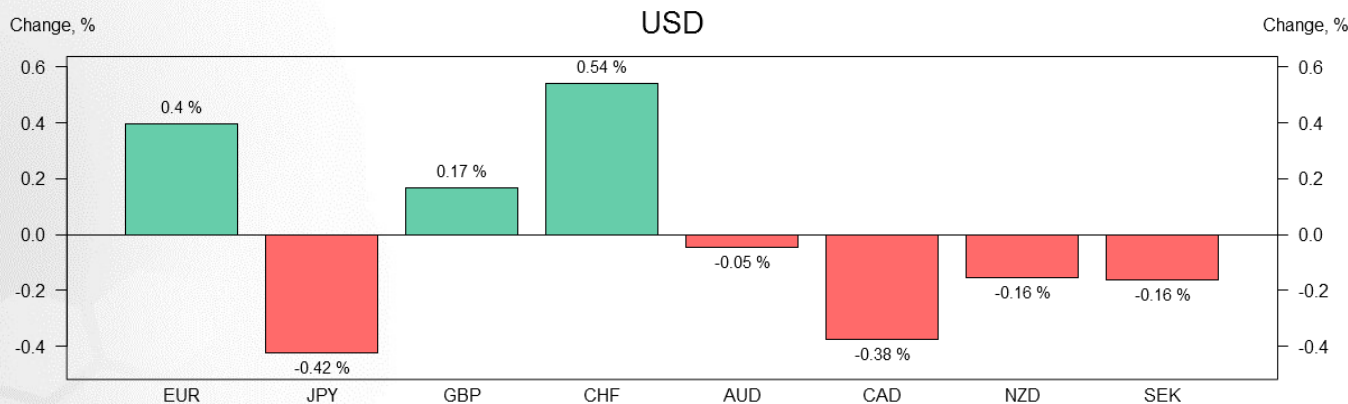
Relative Currency Strength

Currency Indices



Monday once again proved to be a calm day with practically all major currencies remaining around the base value. During the remaining four days of the last week, however, currencies were highly volatile. The single currency and the Swiss Franc were the main losers over the period, with performances of both currencies being almost the same. Disappointing German ZEW index and weak inflation resulted in about 0.5% loss for both currencies. At the same time, budgets from New Zealand and Australia had muted impact on corresponding indices, however can provide additional long-term boost for the kiwi and stop Aussie's appreciation.

USD index was fluctuating around the base value for most of the time and posted only a 0.05% on Friday. The only spikes into positive territory were observed on May 13 and 15. On Tuesday, the greenback benefited from disappointing statistics from Europe, however, later gains were erased by weaker-than-expected retail sales from the world's largest economy, indicating weaker consumer spending, which accounts for majority of overall economic activity. A pickup in inflation was welcomed by markets, with USD index rising 0.23%. Friday's building permits and consumer sentiment from the University of Michigan had almost no impact on the currency, as investors switched their focus to this week's speeches from policymakers and FOMC minutes that will be released on May 22.



Currency Index Change

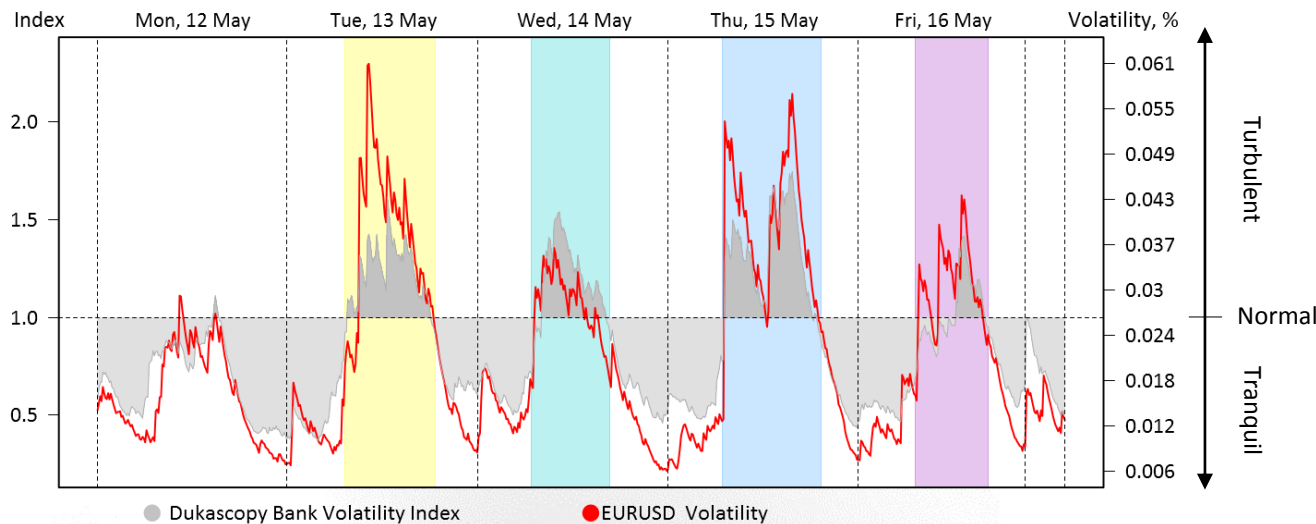
| Days | EUR | USD | JPY | GBP | CHF | AUD | CAD | SEK | NZD |
|------|--------|--------|--------|--------|--------|--------|--------|--------|-------|
| 5 | -0.43% | -0.05% | 0.45% | -0.17% | -0.53% | 0% | 0.4% | 0.23% | 0.19% |
| 20 | -1.16% | -0.33% | 0.83% | -0.05% | -1.31% | 0.08% | 1.48% | 0.39% | 0.42% |
| 130 | 0.69% | -1.22% | -3.01% | 3.82% | 1.61% | -0.81% | -5.5% | 0.33% | 3.52% |
| 250 | 4.17% | -3.1% | -1.97% | 8.43% | 6.3% | -7.76% | -9.34% | -0.89% | 4.16% |



Monday, May 19, 2014
15:30 GMT

Volatility

Volatility



Over the second week of May markets were trading in the turbulence zone only for 28% of the time. The main reason for such a low figure is lack of movement in crosses with South Pacific currencies like the kiwi and Aussie. While both NZD/USD and AUD/USD stabilized around 0.8650 and 0.9360 respectively, the pause can be only temporary, keeping in mind the fact New Zealand budget will reach a surplus of \$372 million in 2014-15, while Oz economy will return to surplus only in the beginning of the next decade. In contrast, the cable has been the most volatile currency pair, as labour market data fell short of analysts' expectations, while Inflation Report was not able to offer the expected message, sending the cable to 1.6732.

The most traded currency couple entered the turbulence zone each of the five trading days, with the most remarkable spikes in volatility observed on May 13 and 15. On Monday, May 12, a move to 1.11 was only speculative, as both currencies remained almost unchanged in the subdued trade. A day later, worrying news from Europe's powerhouse pushed the volatility index to 2.29, once again supporting the case the whole 18-nation's bloc is highly dependent on German economy. At the same time, inflation and GDP figures for the whole bloc were able to boost the index only to 1.92. A separate report from the United States that showed inflation moved closer to the official Fed target helped EUR/USD volatility to move to 2.14. On Friday volatility has been provoked by EU trade balance as well as U.S. building permits and consumer sentiment.

Elevated Volatility (% of the observed period)

| Market | EURUSD | USDJPY | GBPUSD | AUDUSD | USDCAD | USDCHF | EURJPY | EURGBP | EURCHF | USDSEK | NZDUSD |
|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 28 | 29 | 27 | 34 | 23 | 29 | 26 | 32 | 31 | 31 | 26 | 20 |

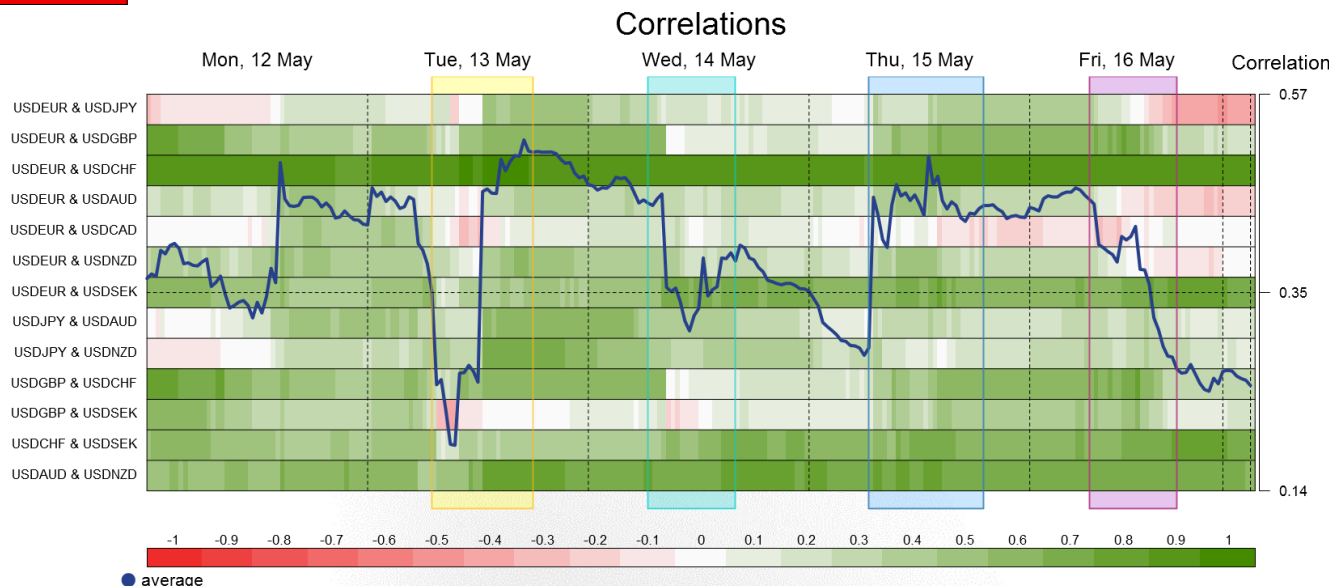
Volatility Index (for the observed period)

| | Market | EURUSD | USDJPY | GBPUSD | AUDUSD | USDCAD | USDCHF | EURJPY | EURGBP | EURCHF | USDSEK | NZDUSD |
|---------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Max | 1.7 | 2.3 | 2.5 | 3.6 | 2.2 | 2 | 2.3 | 2.5 | 3.2 | 2.5 | 2.8 | 2.1 |
| Min | 0.4 | 0.2 | 0.4 | 0.3 | 0.3 | 0.2 | 0.2 | 0.3 | 0.2 | 0.3 | 0.2 | 0.3 |
| Average | 0.8 | 0.8 | 0.9 | 0.9 | 0.8 | 0.8 | 0.8 | 0.9 | 0.8 | 0.9 | 0.8 | 0.8 |



Monday, May 19, 2014
15:30 GMT

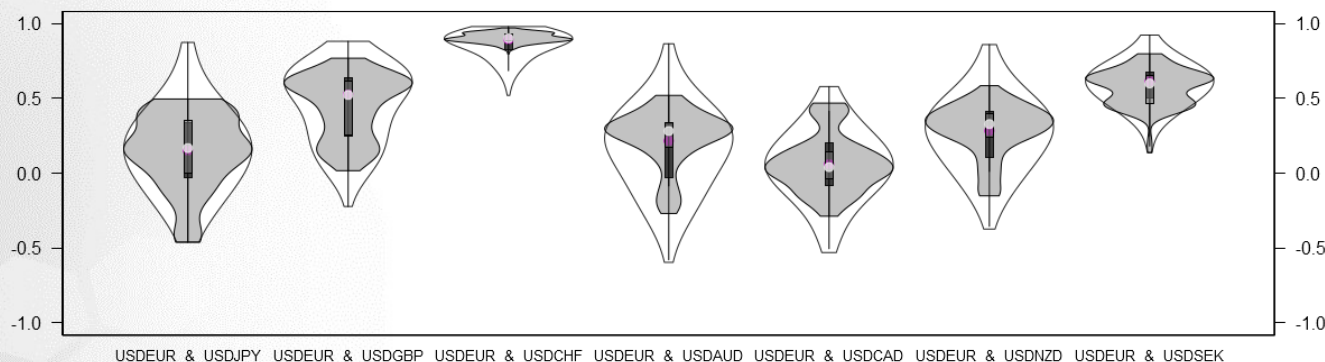
Currency Significance



As it was expected, the level of USD significance has improved compared with the previous week, when the average correlation coefficient has been constantly moving to the south. This time the currency has been supported by an abundance of economic data from the world's largest economy, even though the weekly change was not impressive. On Monday the correlation coefficient almost hit period's high, approaching 0.457 as markets got attracted by FOMC Plosser's speech and demand for havens. The interest was supported by the release of the Federal budget balance, however, later the attention was switched to Europe.

It was not a surprise that a report from German ZEW, that provoked the highest spike in volatility, pushed the average USD correlation coefficient to 0.185, the lowest level over the week. Retail sales report from the Census Bureau was not able to provide a significant boost to the Dollar itself, however, pushed the average correlation coefficient to 0.520, helping to return the interest back. While inflation report provided a support only to 0.503, investors were not interest in the consumer sentiment from the University of Michigan, even though it was able to provide an insight on consumer spending in May, suggesting retail sales can miss the forecast for the second straight month. The short- and medium-term correlation with EUR/USD remained broadly unchanged over the observed period.

Correlations (5 vs 20 days)



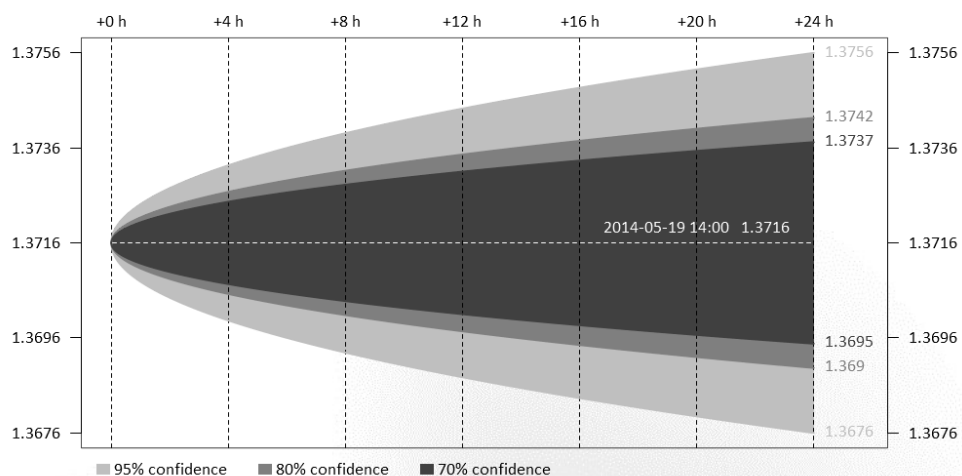
Mean Correlation Coefficient (with EURUSD)

| Days | USDJPY | USDGBP | USDCHF | USDAUD | USDCAD | USDNZD | USDSEK |
|------|--------|--------|--------|--------|--------|--------|--------|
| 5 | 0.14 | 0.45 | 0.9 | 0.23 | 0.06 | 0.29 | 0.57 |
| 20 | 0.15 | 0.45 | 0.86 | 0.16 | 0.05 | 0.27 | 0.6 |
| 130 | 0.16 | 0.45 | 0.84 | 0.24 | 0.16 | 0.27 | 0.6 |
| 250 | 0.23 | 0.52 | 0.84 | 0.31 | 0.26 | 0.32 | 0.62 |

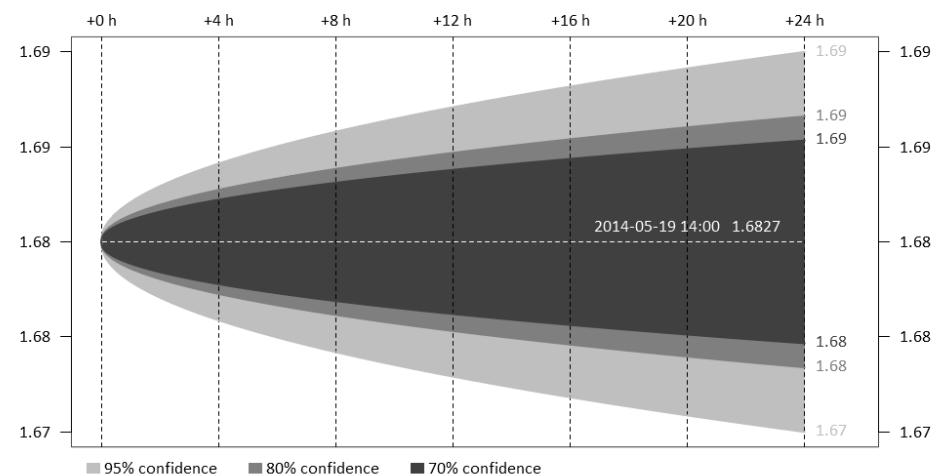
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Confidence Intervals for Next 24 Hours

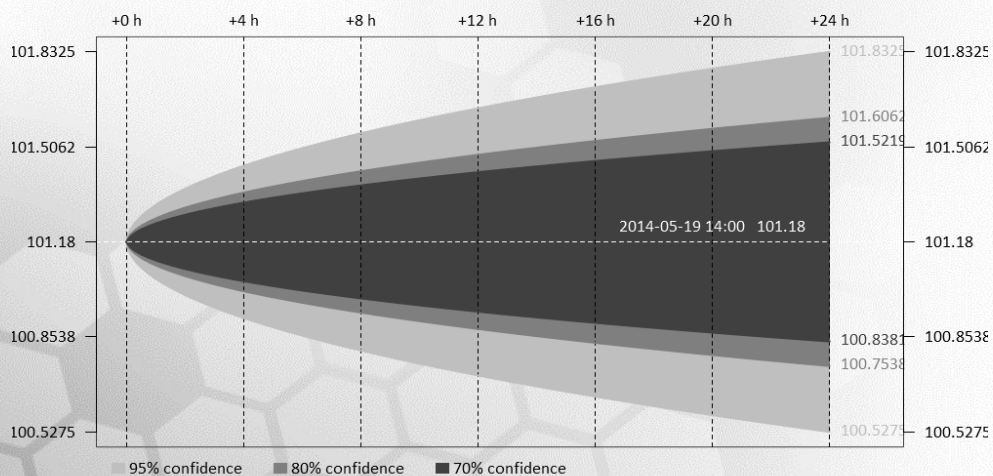
EURUSD Potential Rates



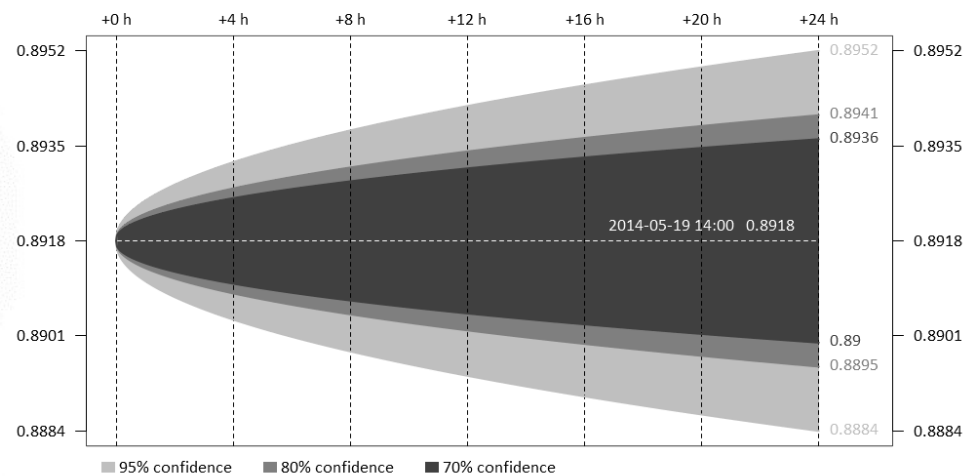
GBPUSD Potential Rates



USDJPY Potential Rates



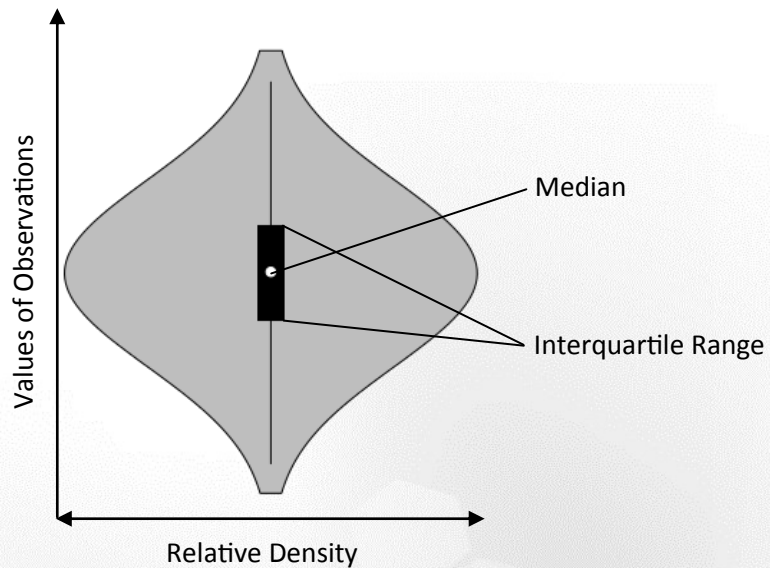
USDCHF Potential Rates



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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