



**USD**

02/06/2014



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# Dominant Events for the U.S. Dollar

## Yellow Area

May 26

06:00 - 08:00

- GfK German Consumer Climate
- ECB President Draghi Speaks

## Turquoise Area

May 28

07:00 - 17:00

- German Unemployment Change
- Eurozone Consumer Confidence
- U.S. 52-week Bill auction

## Blue Area

May 29

07:00 - 17:00

- U.S. Gross Domestic Product Annualized
- Unemployment Claims
- Pending Home Sales
- Tokyo Consumer Price Index

## Purple Area

May 30

06:00 - 23:00

- German Retail Sales
- Canada Gross Domestic Product
- U.S. Core PCE Price Index
- FOMC Member Pinalto Speaks

USD Currency Index Range

0.05%

0.32%

0.19%

0.13%

Average EUR/USD Volatility Index

1.08

1.23

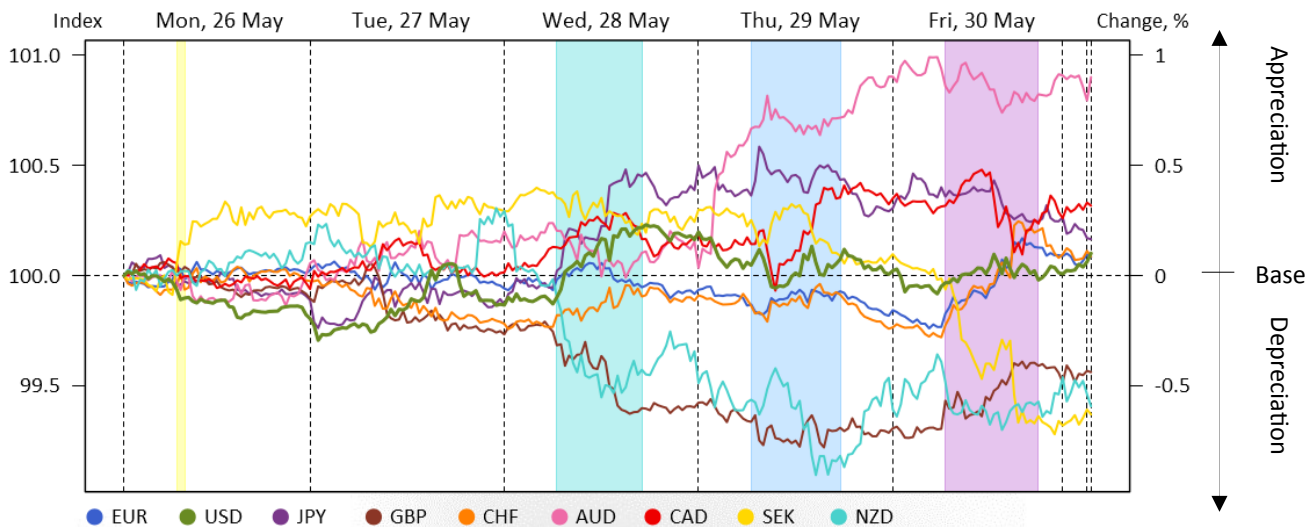
1.13

1.13



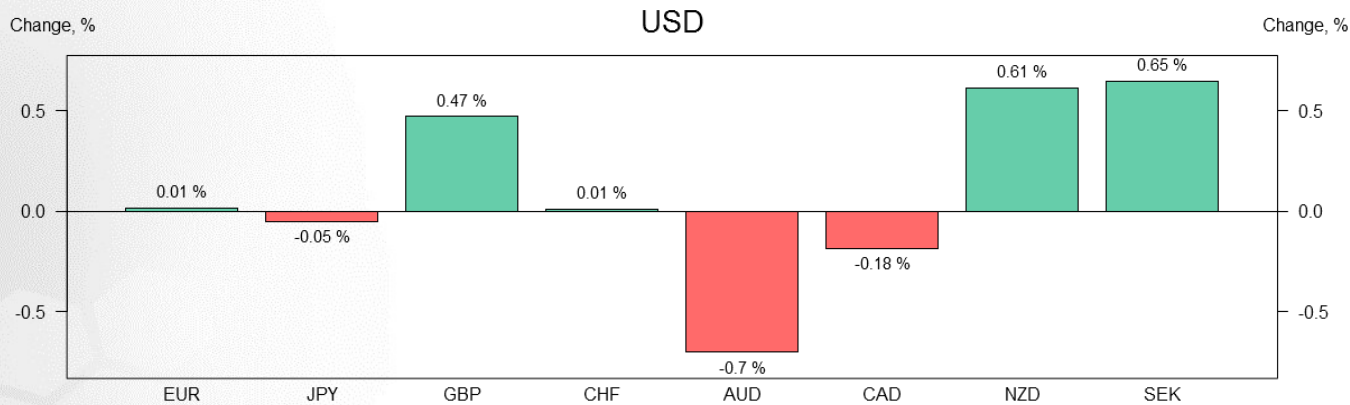
# Relative Currency Strength

## Currency Indices



The U.S. Dollar was not able to benefit amid Euro's weakness, posting just a 0.1% appreciation, as fundamentals were weak, while U.S. Treasury yields plunged. Meanwhile, the Australian Dollar added to earlier gains, with AUD index posting 0.9% gain, as there were some bright spots in capital expenditure, with promising indicator of investment in equipment. At the same time, the Swedish Krone, New Zealand Dollar and Sterling were among main losers, each posting around 0.5% drop. It will be also worth mentioning, that the single currency was performing above expectations, posting a 0.08% gain, as despite looming ECB meeting, fundamentals were not as disappointing.

The U.S. Dollar was supported by bearish sentiment towards the single currency, as the world's largest economy is not as strong as it was claimed by officials. After staying mostly in the negative territory on Monday, the greenback managed to benefit from stronger-than-expected demand for durable goods, meaning companies are still willing to make huge purchases. The report pushed the index to 100.05, while on Wednesday the currency moved even higher on the back of Euro's depreciation, caused by weak German statistics. Surprising that despite a 1.0% contraction in the first quarter and a steep decline in Treasury yields, the Dollar has surged among a basket of other major currencies, including the Sterling, Kiwi and Swedish Krone. Some explain it by month-end needs.



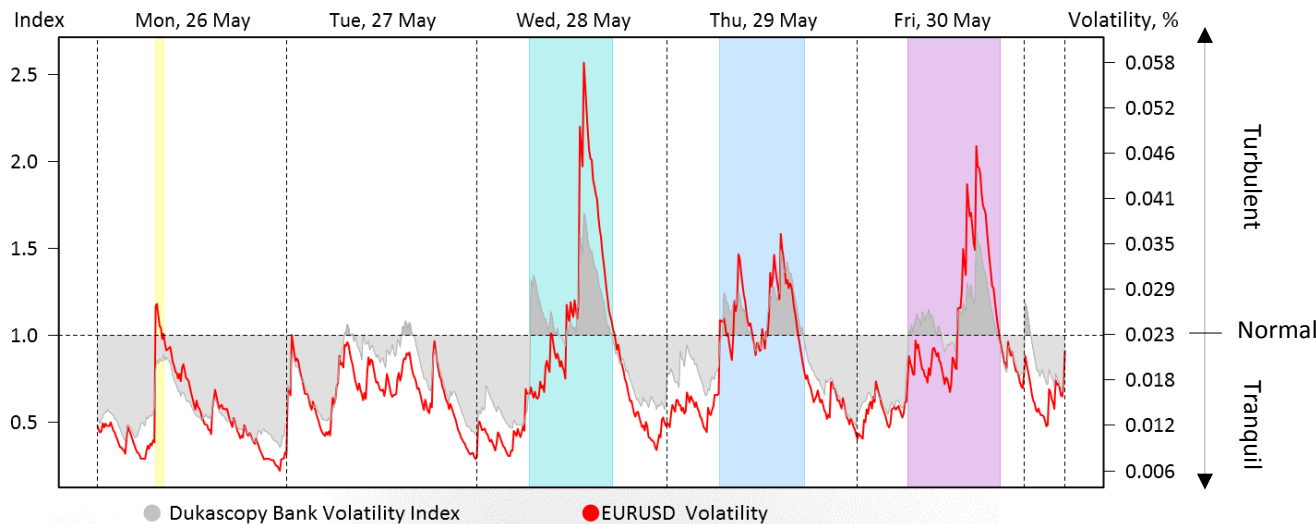
### Currency Index Change

| Days | EUR    | USD    | JPY    | GBP    | CHF    | AUD    | CAD    | SEK    | NZD    |
|------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 5    | 0.08%  | 0.1%   | 0.17%  | -0.44% | 0.09%  | 0.9%   | 0.32%  | -0.63% | -0.59% |
| 20   | -1.02% | 1.02%  | 1.35%  | 0.12%  | -1.24% | 1.26%  | 2.54%  | -2.11% | -1.31% |
| 130  | -0.58% | -0.77% | -0.42% | 1.92%  | 0.43%  | 1.92%  | -3.65% | -3.13% | 4.11%  |
| 250  | 3.18%  | -2.16% | -3.68% | 8.76%  | 5.3%   | -5.76% | -7.34% | -3.28% | 4.99%  |



# Volatility

## Volatility



There is always a clam before the storm. This is how can be explained mostly tranquil volatility on the major currency crosses last week. This Thursday the ECB is expected to slash all three main interest rates, and provoke a massive sell-off of the single currency. Furthermore, Draghi's comments can cause massive market turmoil in case he provides hints about the U.S.-style quantitative easing. That is why the most traded currency pair was trading in the turbulence zone only in 19% of the time, while overall market volatility was recorded in the turbulence zone in just 28% of the observed period. Meanwhile, the cable was the most volatile currency cross, as abundance of news from the U.S. and Mark Carney's comments appeared to be major catalysts.

On Monday and Tuesday the most traded currency pair and market in general was trading only in the tranquil zone, as everyone was waiting for results of the meeting in Lisbon and general European elections. Even Mario Draghi's comments and German consumer sentiment index had little impact on the currency. A day later, however, the most traded currency pair plunged to its 15-week low as the ECB meeting was approaching and comments from central bank's officials only added fuel to the fire. Investors have finally sensed the inevitable monetary support from the ECB and pushed the EUR/USD currency pair to 1.3588, causing a high level of divergence between EUR/USD and overall market's volatility. EUR/USD volatility hit the highest level over the period at 2.56.

### Elevated Volatility (% of the observed period)

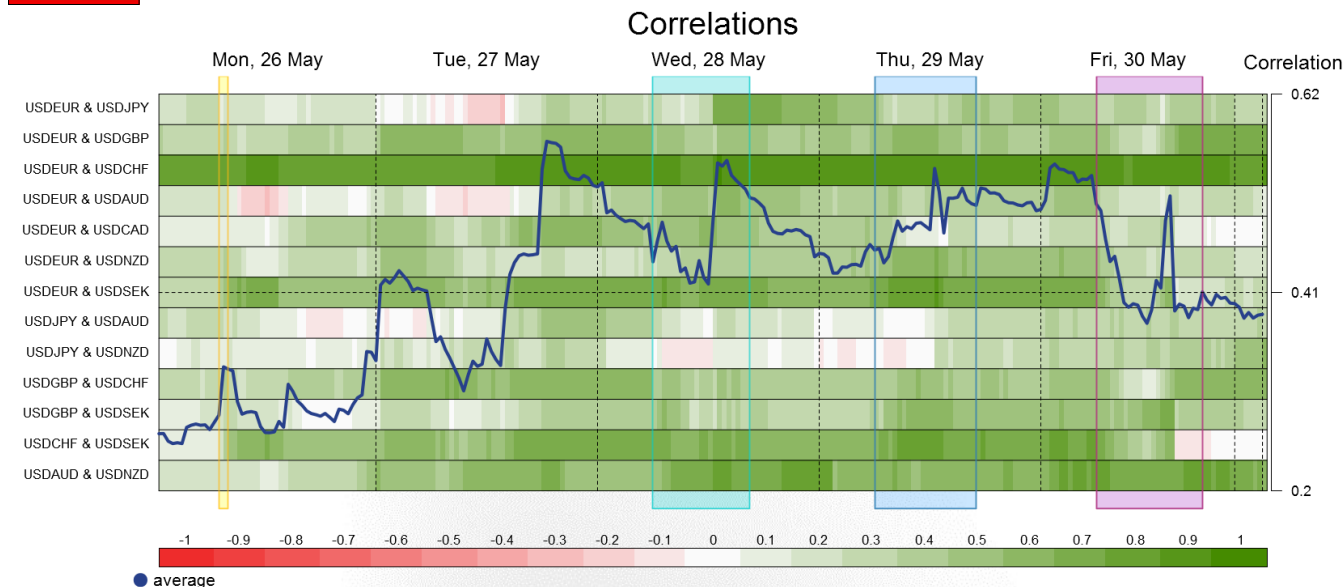
| Market | EURUSD | USDJPY | GBPUSD | AUDUSD | USDCAD | USDCHF | EURJPY | EURGBP | EURCHF | USDSEK | NZDUSD |
|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 28     | 19     | 28     | 34     | 30     | 29     | 22     | 26     | 27     | 22     | 25     | 21     |

### Volatility Index (for the observed period)

|         | Market | EURUSD | USDJPY | GBPUSD | AUDUSD | USDCAD | USDCHF | EURJPY | EURGBP | EURCHF | USDSEK | NZDUSD |
|---------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Max     | 1.7    | 2.6    | 2.1    | 1.8    | 2.9    | 2.5    | 2.8    | 1.9    | 1.8    | 2.4    | 1.7    | 2.9    |
| Min     | 0.4    | 0.2    | 0.2    | 0.3    | 0.3    | 0.3    | 0.2    | 0.2    | 0.3    | 0.2    | 0.3    | 0.4    |
| Average | 0.8    | 0.7    | 0.7    | 0.8    | 0.9    | 0.8    | 0.8    | 0.7    | 0.7    | 0.8    | 0.8    | 1      |



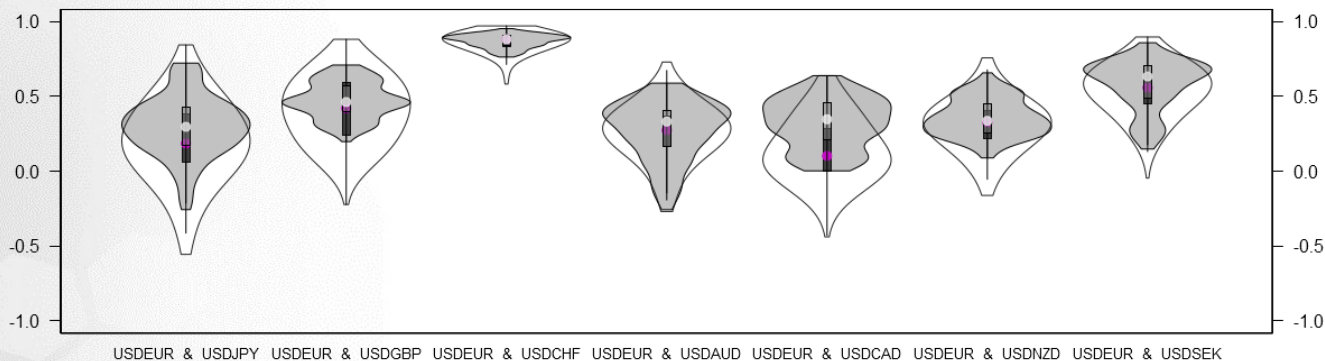
# Currency Significance



In the anticipation of the U.S. GDP report the level of USD significance has climbed higher, with several major spikes in the average correlation coefficient caused by other important news releases. Ahead of the U.S. durable goods data and the consumer confidence, investors forgot about the upcoming GDP report, as the average correlation coefficient was pushed to 0.42-mark. Later on, stronger demand for long-lasting goods and a pickup in consumer confidence outweighed looming GDP report and the average correlation coefficient was able to soar to 0.56, hitting the highest over the period.

Everyone, including the Fed were confident the world's largest economy has lost momentum in the first quarter, hence, officials were already ready to write it down and claim for the improvement in the upcoming months. The economy performed below analysts' expectations, however, keeping in mind the report has already been priced in, the average correlation coefficient jumped to 0.5375 and immediately eased back to 0.5128. Short- and medium-term mean correlations remained broadly unchanged, except with USD/CAD, as GDP reports from both sides strengthened the interdependence among two currencies. This week, the importance of American currency is expected to remain low, mostly due to the upcoming events from Australia, Britain and the 18-nation's bloc.

## Correlations (5 vs 20 days)

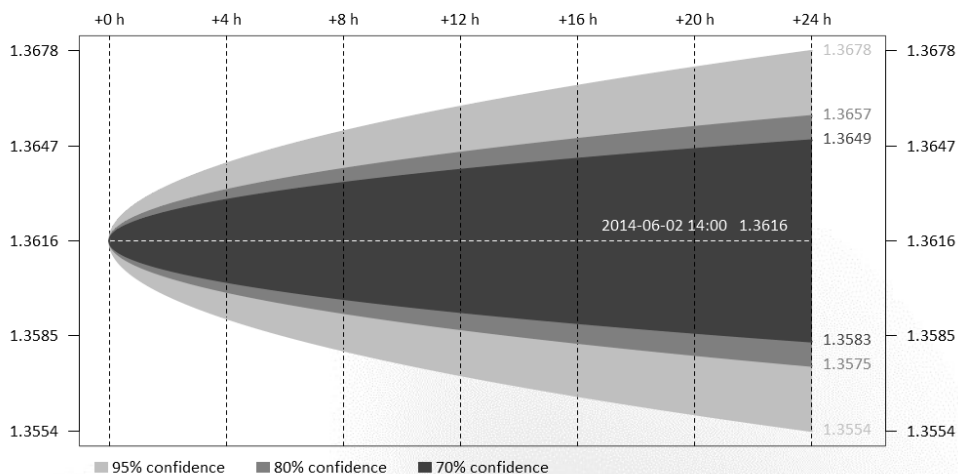


## Mean Correlation Coefficient (with USDEUR)

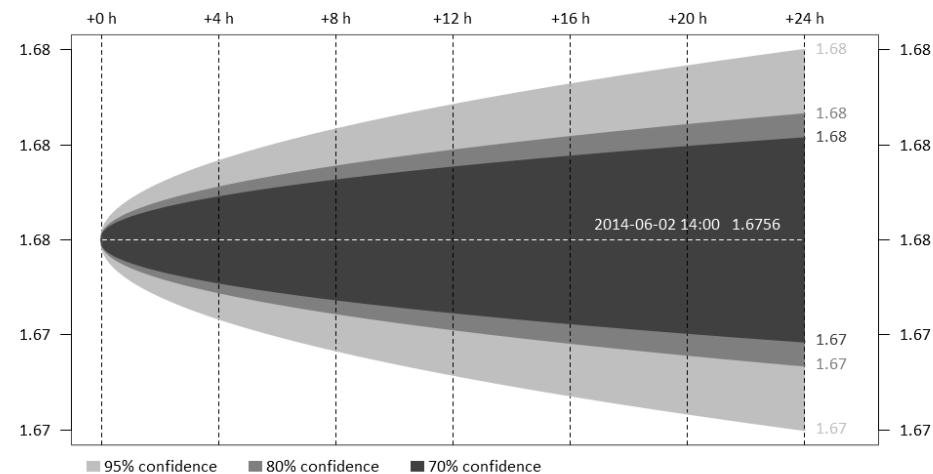
| Days | USDJPY | USDGBP | USDCHF | USDAUD | USDCAD | USDNZD | USDSEK |
|------|--------|--------|--------|--------|--------|--------|--------|
| 5    | 0.3    | 0.47   | 0.87   | 0.27   | 0.32   | 0.36   | 0.58   |
| 20   | 0.2    | 0.41   | 0.87   | 0.25   | 0.14   | 0.31   | 0.54   |
| 130  | 0.16   | 0.44   | 0.83   | 0.23   | 0.15   | 0.27   | 0.59   |
| 250  | 0.23   | 0.51   | 0.84   | 0.3    | 0.24   | 0.31   | 0.61   |

# Confidence Intervals for Next 24 Hours

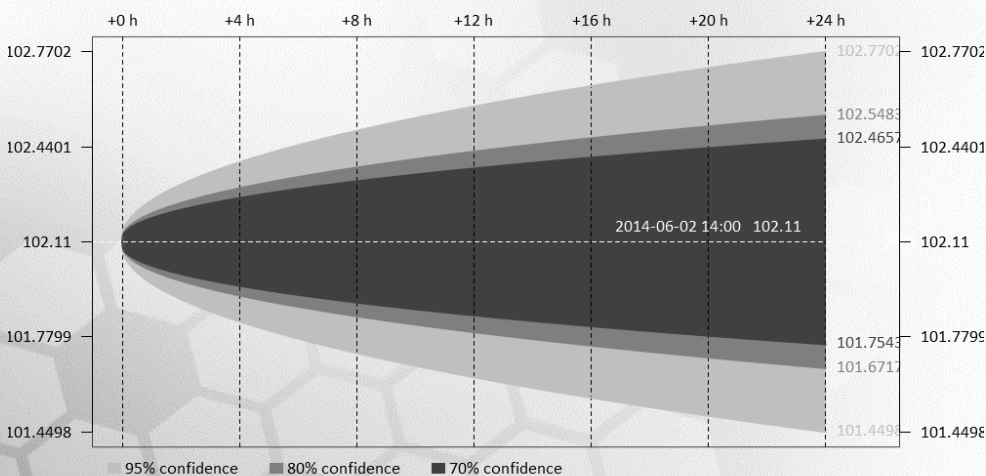
EURUSD Potential Rates



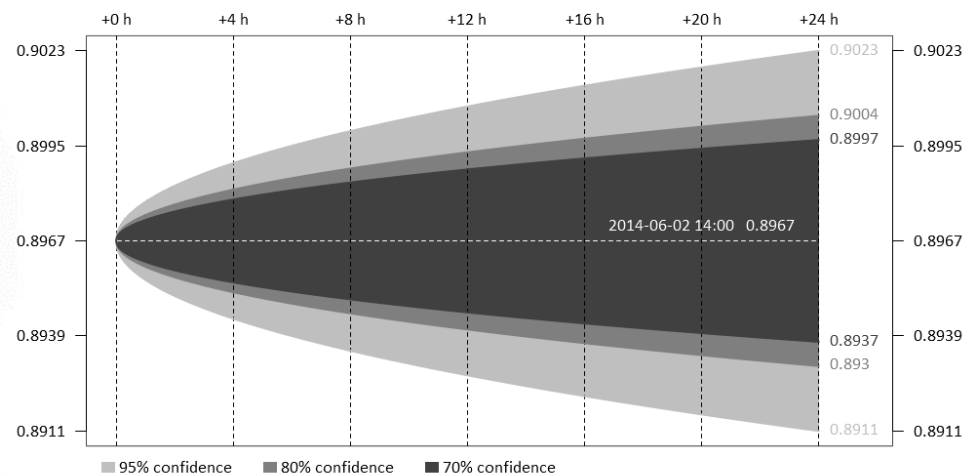
GBPUSD Potential Rates



USDJPY Potential Rates



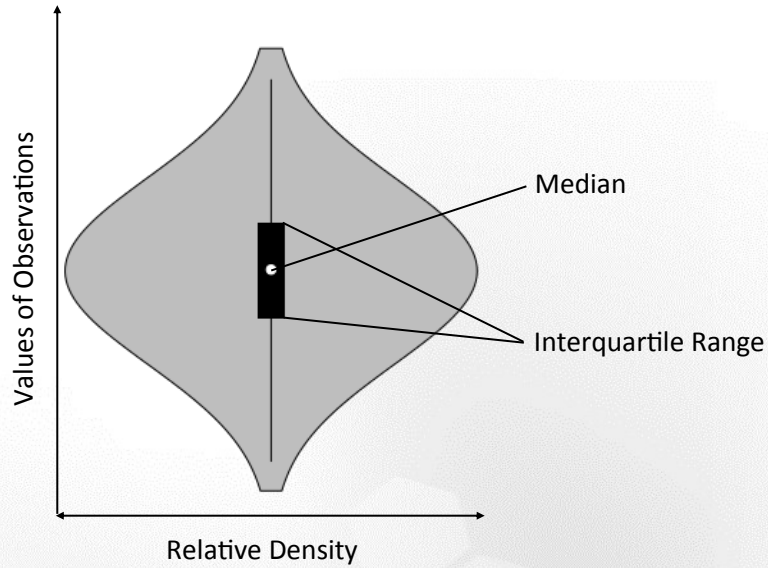
USDCHF Potential Rates



# 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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