



GBP

20/08/2014



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RESEARCH PRODUCTS



Market Research





Dominant Events of the Period

Yellow Area

August 13

05:00 - 15:30

- German CPI, HICP
- Euro zone Industrial Production
- Swiss ZEW Survey Expectations
- UK Claimant Count Change, BoE Quarterly Inflation Report, Carney speech
- U.S. Retail Sales

Turquoise Area

August 14

04:30 - 15:00

- German Preliminary GDP
- Euro zone CPI, Preliminary GDP, ECB Monthly Report
- U.S. Jobless Claims
- Canadian NHPI

Blue Area

August 15

08:30 - 16:00

- UK Preliminary GDP
- U.S. PPI, TIC Flows, Industrial Production, Capacity Utilization, Preliminary Reuters/ Michigan Consumer Sentiment Index

Purple Area

August 19

05:30 - 15:30

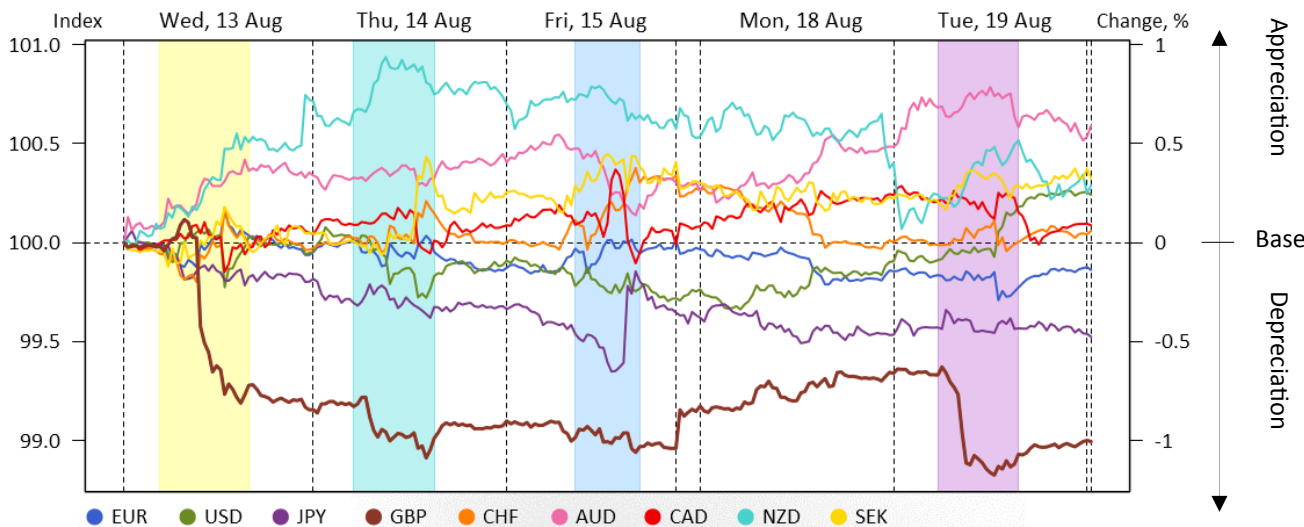
- UK CPI, PPI, Retail Price Index
- U.S. CPI, Housing Starts

GBP Currency Index Range	0.93%	0.31%	0.13%	0.55%
Average GBP Volatility Index	1.92	1.12	1.19	1.29



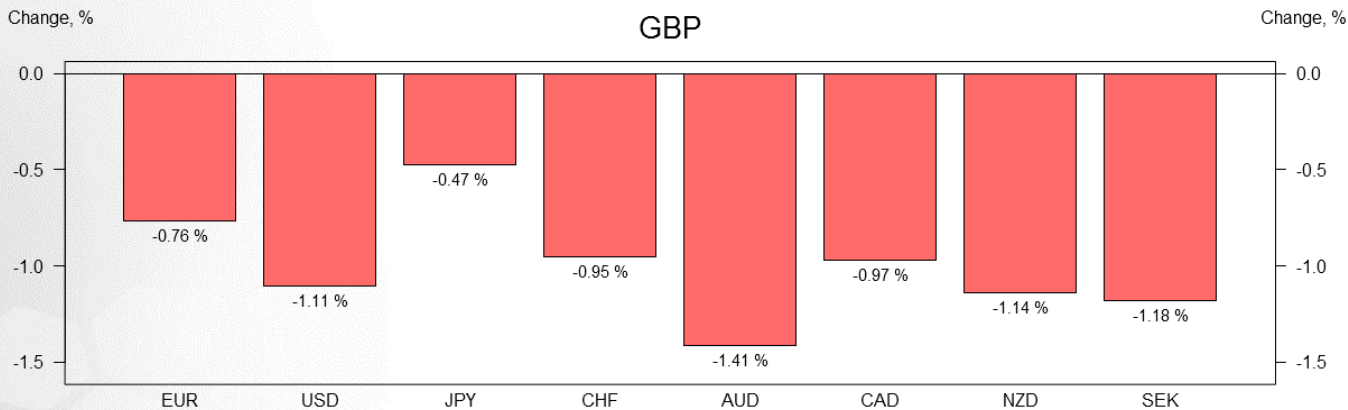
Relative Currency Strength

Currency Indices



The past period was extremely discouraging for the British pound, deepening the recent downtrend of the index and causing the currency to lose around 1% of its opening value. As a result, the GBP Index ended up being the period's worst performer, and posted the second-greatest loss over the past 20 trading days. Longer term changes also lost some of their optimism, but managed to remain positive. Compared to the period ending on August 12, the long-term gap between current and past GBP Index' values tightened by around 2%, with half-yearly growth slipping to 0.5% and yearly increase barely holding above 7%.

The BoE quarterly report, released on the very first day of the period, served as a defining force behind the GBP Index' debasement. As the wage-growth estimates got lowered and inflation estimates were cut, a near future interest rate increase became less likely, sending the pound in a plunge against its peers. The index lost 0.45 points over the news, suffering the sharpest change of the period. The second quarter's faster-than-expected expansion of the economy, reported in the Friday's GDP numbers, failed to shift the mood, and the index ended the week on a slow downtrend. Over the weekend, Mark Carney's hawkish comments did manage to lift the pound, pushing it to start the new week with a recovery, but the momentum was lost in disappointing inflation data on Tuesday.



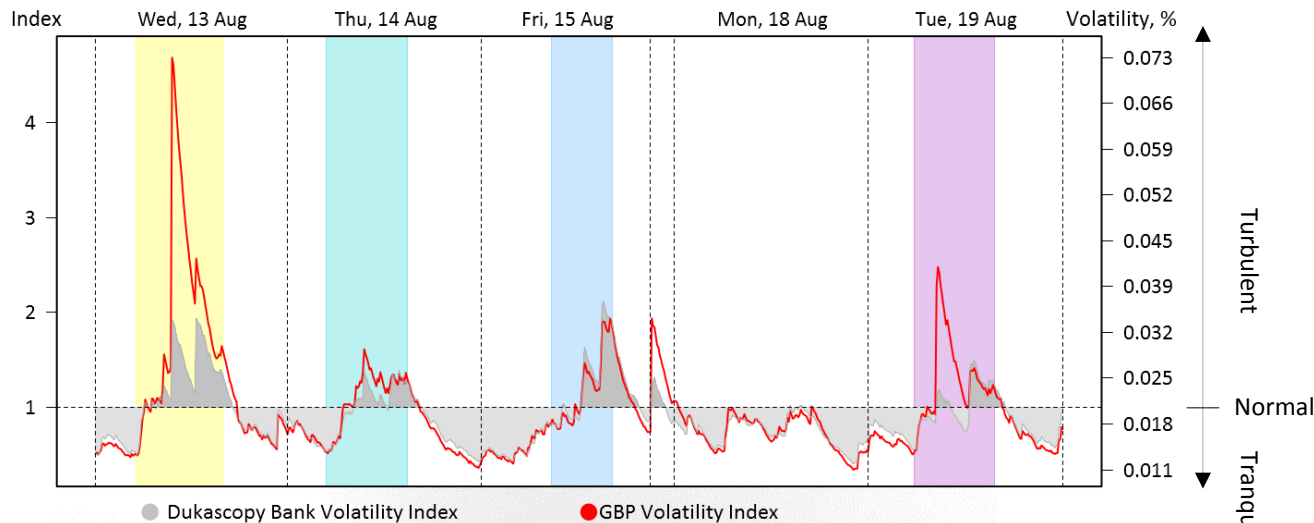
Currency Index Change

Days	EUR	USD	JPY	GBP	CHF	AUD	CAD	NZD	SEK
5	-0.14%	0.24%	-0.48%	-1%	0.06%	0.59%	0.09%	0.29%	0.32%
20	0.25%	1.48%	-0.13%	-1.37%	0.61%	0.46%	-0.65%	-1.58%	1.16%
130	-2.62%	0.97%	0.33%	0.51%	-1.63%	4.49%	1.2%	2.55%	-5.62%
250	0.11%	0.24%	-5.67%	7.02%	2.11%	2.64%	-6%	5.34%	-5.82%



Volatility

Volatility



In terms of maximum peaks and highest average levels of volatility index, the pound was the most turbulent currency of the period. It also had third highest portion of elevated volatility, surpassed only by the New Zealand dollar and the Swiss franc. And while the periods of elevated volatility were largely affected by foreign events, the massive spikes were all reached in response to the British fundamentals. Among the pound's crosses, GBP/CHF, GBP/NZD, and EUR/GBP spent the most time in the turbulent area, all holding their volatility indexes above 1.

The BoE quarterly report and the CPI data proved to be the most shocking UK releases of the period, lifting the GBP Volatility Index to its two highest peaks — 4.69 and 2.48. At the same time, much as with the currency index, neither the UK employment data released on Wednesday nor the GDP estimates reported on Friday managed to reasonably affect the pound's turbulence. The rest of the GBP volatility peaks coincided with the ones of the market, signalling that the turbulence was a global occurrence not inspired by the British currency.

Elevated Volatility (% of the observed period)

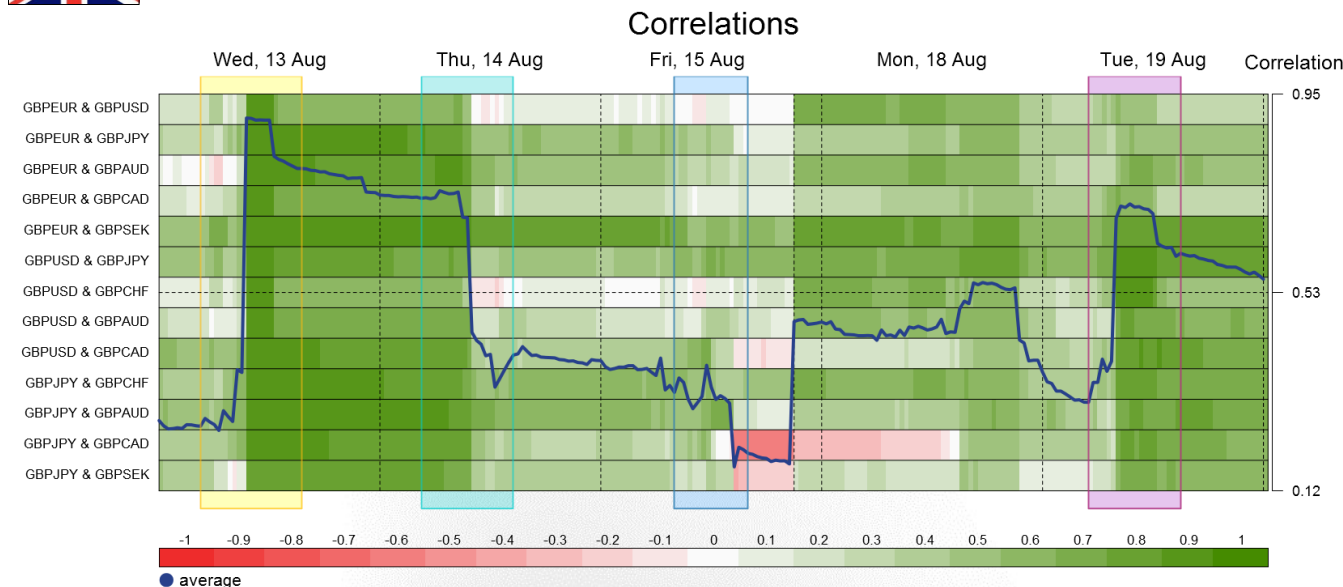
Market	GBP	EURGBP	GBPUSD	GBPJPY	GBPCHF	GBPAUD	GBPCAD	GBPNZD	GBPSEK
29	32	41	32	25	44	31	30	41	32

Volatility Index (for the observed period)

	Market	GBP	EURGBP	GBPUSD	GBPJPY	GBPCHF	GBPAUD	GBPCAD	GBPNZD	GBPSEK
Max	2.11	4.69	6.66	5.92	4.4	6.26	4.1	4.6	3.23	3.82
Min	0.4	0.34	0.23	0.26	0.26	0.21	0.32	0.28	0.3	0.2
Average	0.89	0.96	1.1	0.97	0.88	1.08	0.92	0.92	1.01	0.87



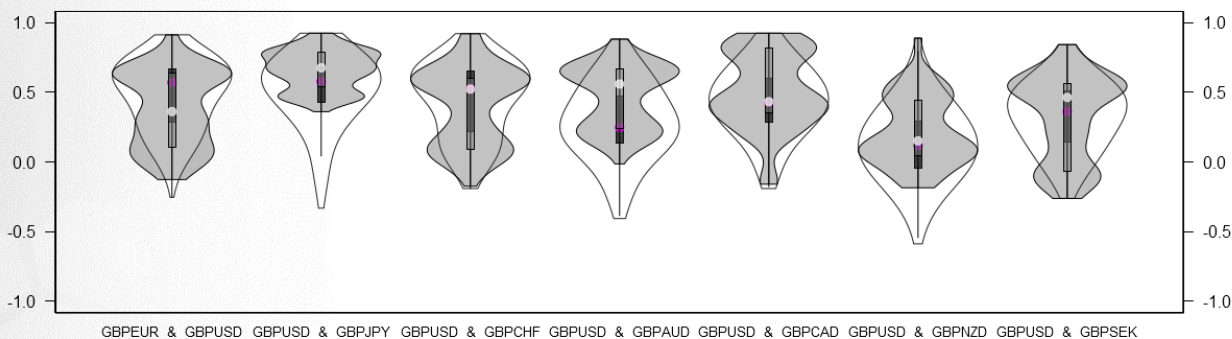
Currency Significance



The short-term average correlations between GBP/USD and other observed pound crosses were rather close to long-term values, and varied between 0.22 and 0.66. The relatively high average correlations indicated solid positive relations between the pound's pairs. There were only a few cases of negative correlation. Namely, Friday's raise of the yen caused the weakening of bonds between the GBP/JPY and other GBP crosses, pushing the pair's correlations with GBP/CAD and GBP/SEK to drop to -0.64 and -0.43 levels respectively. The overall significance measure of the pound had a lot of ups-and-downs during the period, and was fluctuating in a range from 0.17 to 0.90.

Starting the week at the rather low level of 0.25, the composite followed the BoE quarterly report and Mark Carney's speech and jumped to the week's highest mark of 0.9. Holding at the level of 0.76 till Thursday, the measure has lost 0.41 point right after lower-than-expected Euro zone CPI and GDP came out. The disappointing news has resulted in weakening of the bond between all the observed components. The most noticeable lowering was observed in correlations between GBP/USD and the pound crosses with European currencies. The beginning of the new week was marked by the increase of the GBP Index, and, in turn, correlations also have strengthened and risen to 0.47 mark. On Tuesday, the lowering of the UK CPI has managed the measure to jump to the 0.71, but it ended the period at the mark of 0.56.

Correlations (5 vs 20 days)

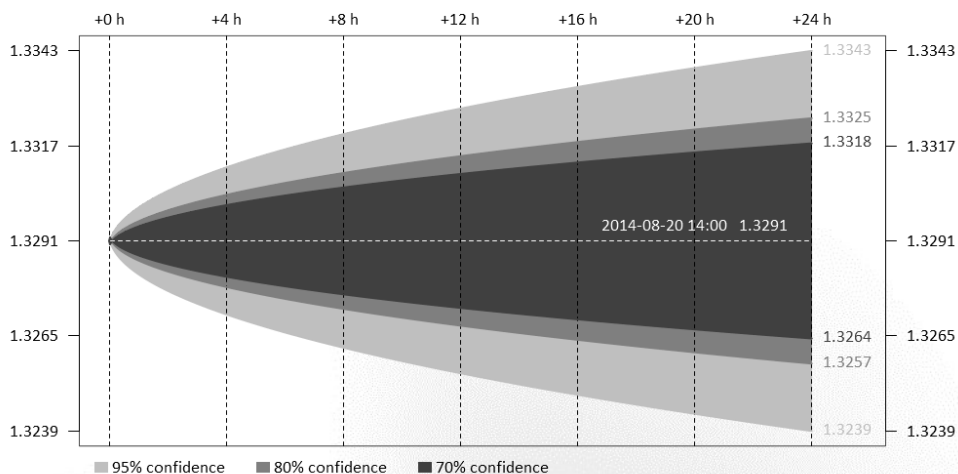


Mean Correlation Coefficient (with GBPUSD)

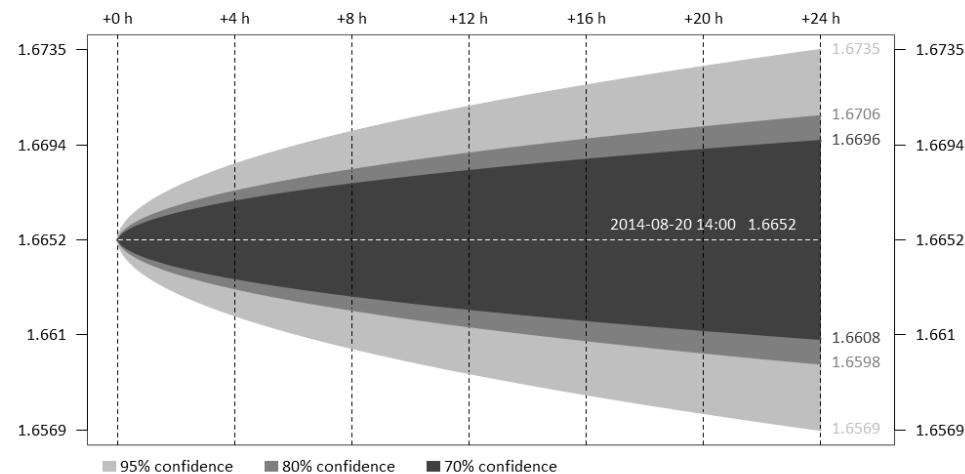
Days	GBPEUR	GBPJPY	GBPCHF	GBPAUD	GBPCAD	GBPNZD	GBPSEK
5	0.38	0.66	0.4	0.47	0.51	0.22	0.32
20	0.48	0.52	0.45	0.28	0.43	0.13	0.33
130	0.47	0.55	0.41	0.35	0.56	0.27	0.3
250	0.48	0.54	0.38	0.34	0.6	0.27	0.31

Confidence Intervals for Next 24 Hours

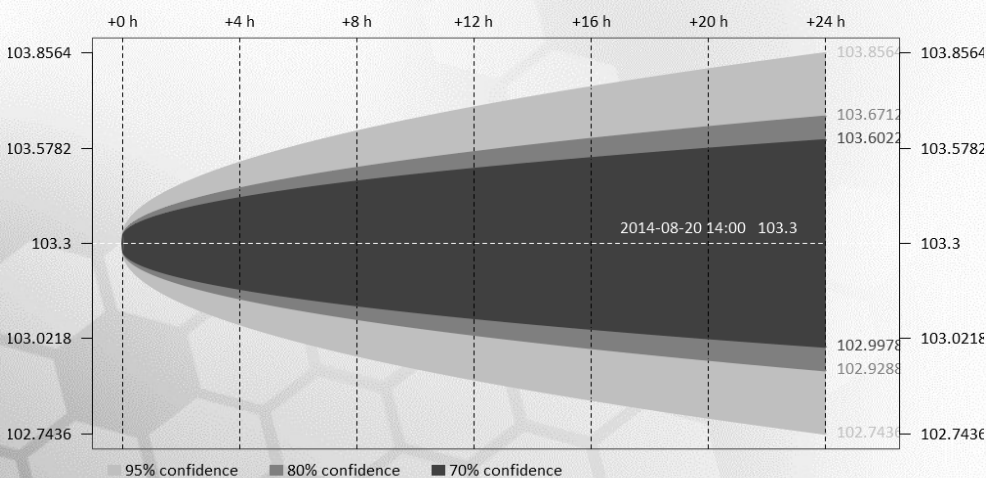
EURUSD Potential Rates



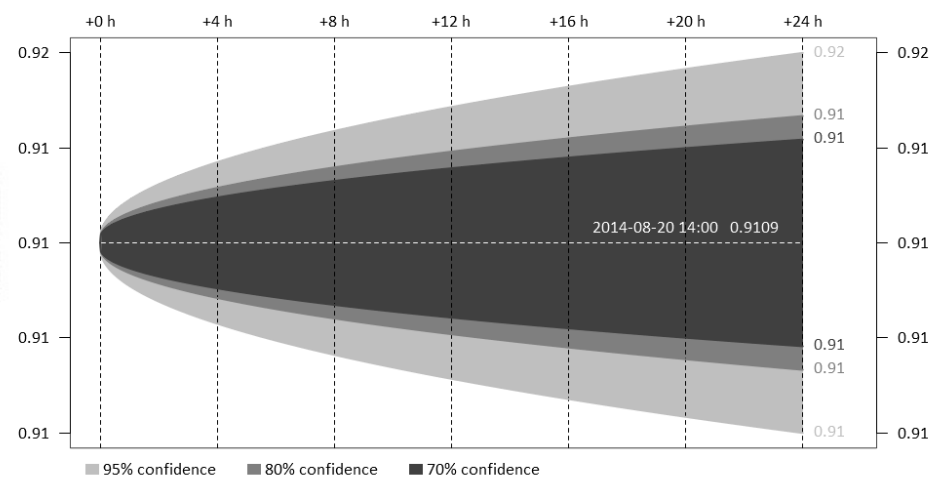
GBPUSD Potential Rates



USDJPY Potential Rates



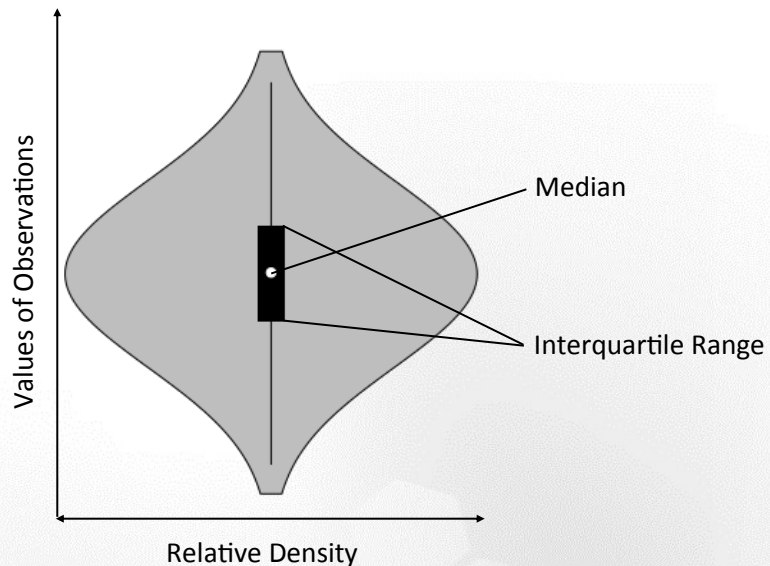
USDCHF Potential Rates



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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