



GBP

27/08/2014



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RESEARCH PRODUCTS



Market Research





Dominant Events of the Period

Yellow Area

August 20

02:30 - 18:30

- Japanese All Industry Activity Index
- BoE Minutes
- FOMC Minutes

Turquoise Area

August 21

07:00 - 15:00

- German and Euro zone Flash Markit PMI
- UK Retail Sales
- Euro zone Flash Consumer Confidence
- US Jobless Claims, Flash Markit PMI, CB Leading Indicator, Existing Home Sales, Philadelphia Fed

Blue Area

August 22

09:30 - 19:00

- Canadian CPI, Retail Sales
- Jackson Hole Symposium

Purple Area

August 25

12:00 - 15:00

- U.S. Flash Markit Services and Composite PMI, New Home Sales

GBP Currency Index Range

0.41%

0.16%

0.2%

0.12%

Average GBP Volatility Index

1.17

1.08

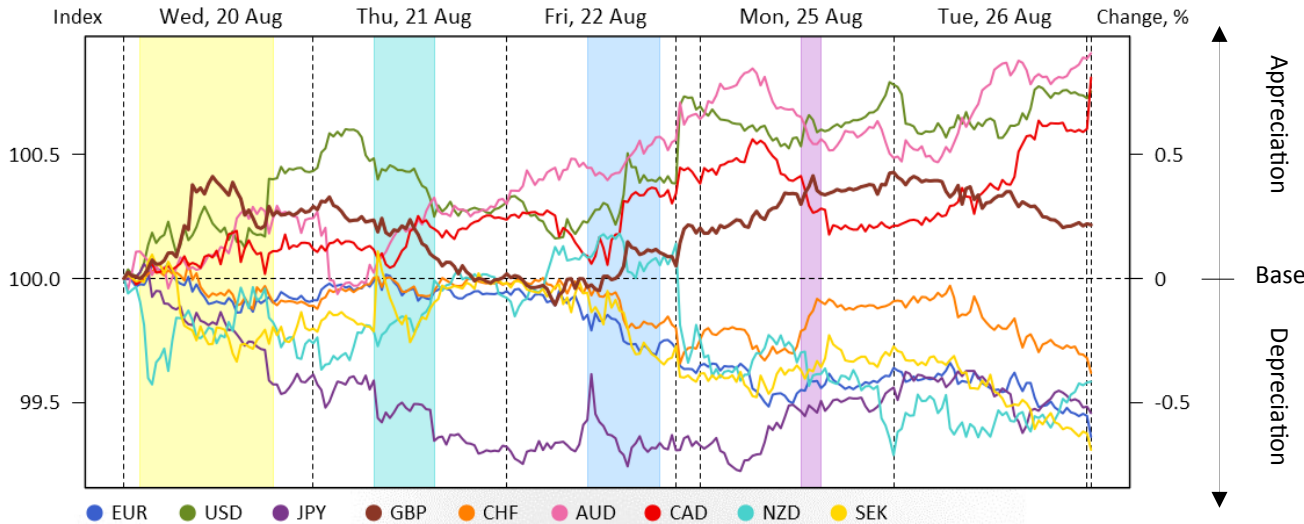
1.01

1



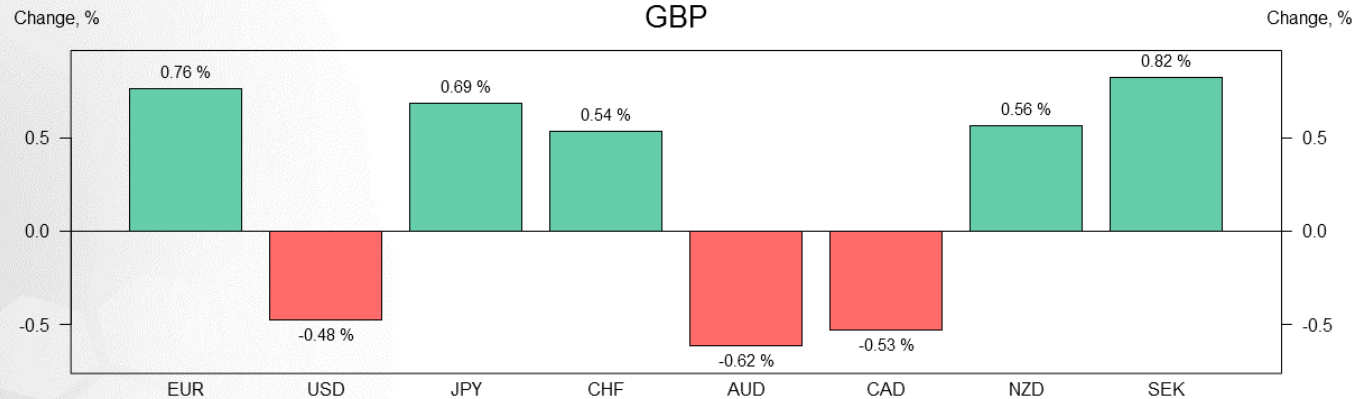
Relative Currency Strength

Currency Indices



The pound's evolution throughout the past five trading days was wavy, but, after the plunge on August 19 CPI data, the base value for the currency was not high, and the GBP Index managed to hold above the baseline for most of the period. The index posted a 0.22% weekly gain, significantly improving its results compared to the past few periods. Three of the observed currencies — the U.S., the Australian, and the Canadian dollars, — were steadily surpassing the pound, and ended up reporting greater advances. The other currency indexes finished the period well below the baseline. Meanwhile, the monthly change of the GBP Index remained negative.

The most influential British news of the period was the result of the MPC vote on rate hike released on Wednesday. As the BoE minutes revealed that two of the policy makers unexpectedly supported the immediate rise in interest rate, the pound skyrocketed against its peers, bringing the GBP Index 0.38 points above the base value. Weaker-than-expected growth in retail sales reported the next day did not have such pronounced influence, and the index lost only 0.06 points — a change, almost indistinguishable among other movements. Afterwards there were no fundamentals to guide the pound, and the index proceeded to gradually strengthen against the background of the Jackson Hole symposium.



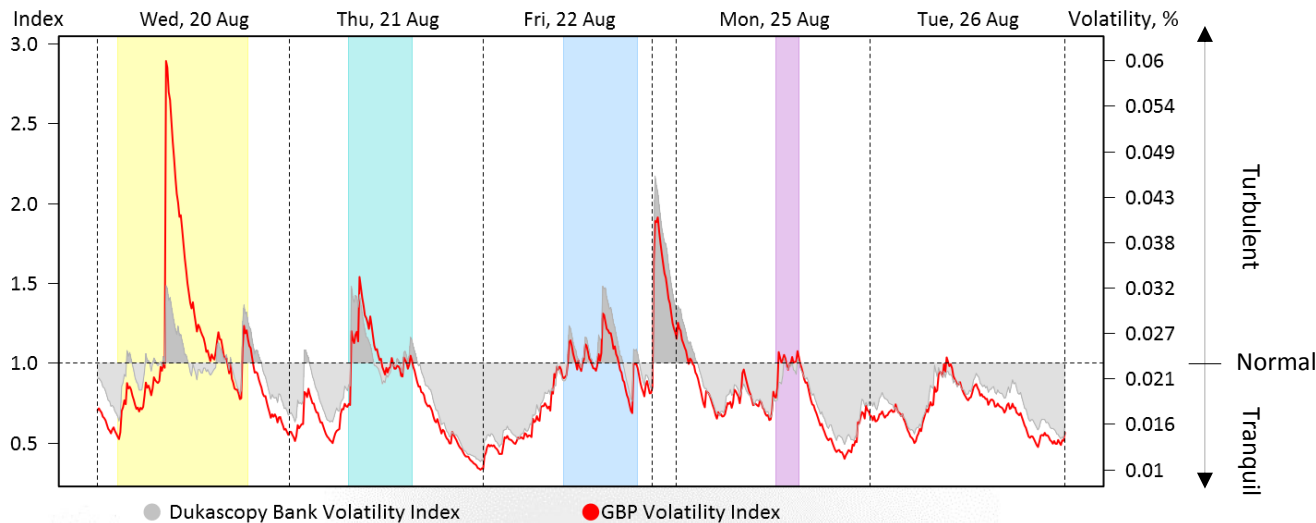
Currency Index Change

Days	EUR	USD	JPY	GBP	CHF	AUD	CAD	NZD	SEK
5	-0.64%	0.76%	-0.54%	0.22%	-0.38%	0.91%	0.81%	-0.42%	-0.69%
20	-0.58%	1.61%	-0.69%	-1.07%	0.16%	0.74%	0.8%	-0.64%	-0.21%
130	-3.28%	1.6%	-0.6%	0.61%	-2.26%	5.4%	3.36%	1.69%	-6.3%
250	-1.69%	0.22%	-6.49%	6.94%	0.53%	4.34%	-4.19%	7.5%	-7.17%



Volatility

Volatility



The period was modest in terms of volatility, with both the market and GBP indexes holding above historical average for only one fifth of the time. GBP/NZD was the only pound's cross with the portion of elevated volatility greater than 30%, and with that posted the greatest average volatility index value. Meanwhile, the EUR/GBP and GBP/CHF indexes reached the period's highest peaks, both against the background of the BoE minutes release.

The BoE minutes fuelled surge of the pound was well observed in the currency's turbulence, causing the GBP Volatility Index to reach the period's maximum as most of its components spiked to their highest peaks. The release of the UK retail sales on Thursday coincided with another spike in the index, but, as the day was filled with news from various countries and the market volatility was also elevated, it is unlikely that the shock was caused solely by the British fundamentals. The rest of the period was relatively calm, with the GBP Volatility Index holding below that of the market in absence of the specifically pound-related events.

Elevated Volatility (% of the observed period)

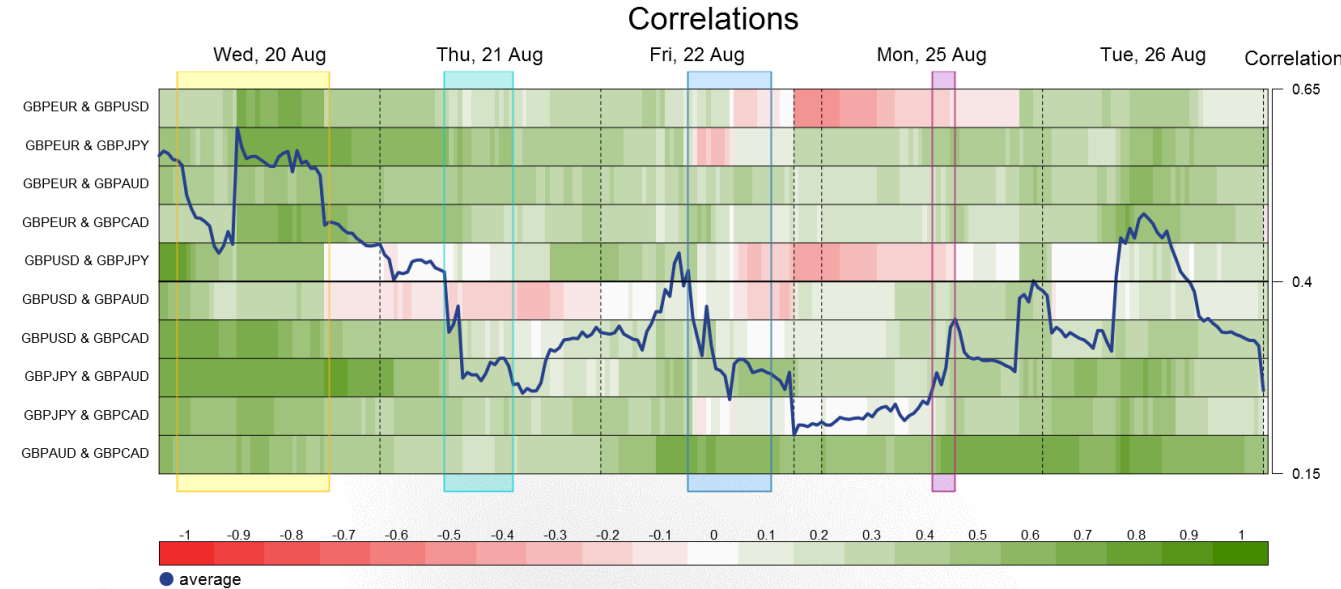
Market	GBP	EURGBP	GBPUSD	GBPJPY	GBPCHF	GBPAUD	GBPCAD	GBPNZD	GBPSEK
23	22	21	21	25	21	25	20	31	24

Volatility Index (for the observed period)

	Market	GBP	EURGBP	GBPUSD	GBPJPY	GBPCHF	GBPAUD	GBPCAD	GBPNZD	GBPSEK
Max	2.17	2.89	3.73	3.43	2.82	3.72	2.65	2.93	2.93	2.95
Min	0.38	0.33	0.18	0.29	0.32	0.24	0.33	0.27	0.38	0.23
Average	0.87	0.83	0.78	0.83	0.85	0.79	0.87	0.78	0.95	0.79



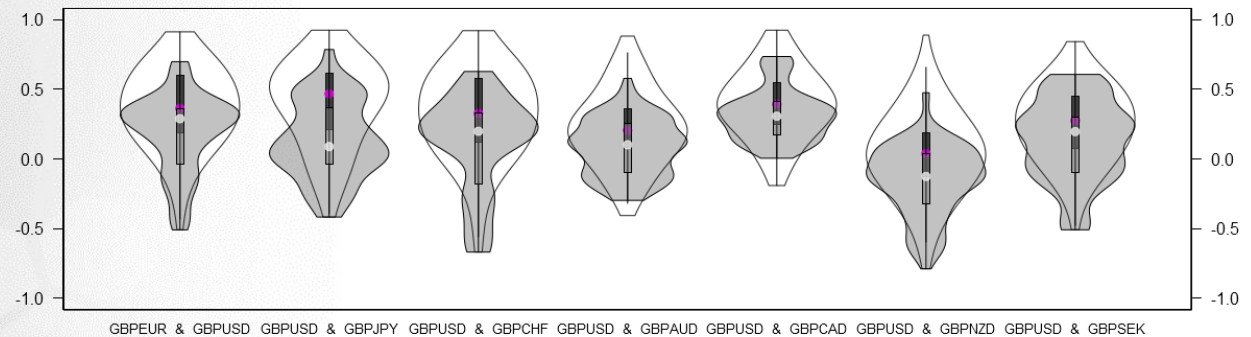
Currency Significance



The observed period was marked with low correlations of GBP/USD and GBP crosses. All the distributions were significantly skewed down, which brought mean correlations closer to zero. One reason for that could be the period covering only a few UK data releases in contrast with a host of data from other countries. Thus, the average correlation of GBP pairs, which measures significance of the currency, started the period on a relatively strong 0.56 position, but weakened shortly and was varying in range from 0.20 to 0.48 for the rest of the time.

The gauge reached its maximal value of 0.60 on Wednesday, when the UK pound surged against its counterparts following the release of BoE latest minutes. GBP significance started to weaken when the FOMC Minutes made the Greenback a market driver. The measure continued to decline on Thursday as lower-than-expected UK Retail Sales turned out to be insignificant against the background of Sweden employment data, which notably influenced the domestic currency, and Jackson Hole Symposium, which drew attention to several currencies. As the current trading week started with a Bank Holiday in the UK, GBP significance was on its low, but retrieved after the release of unexpectedly low number of mortgage approvals of Tuesday.

Correlations (5 vs 20 days)

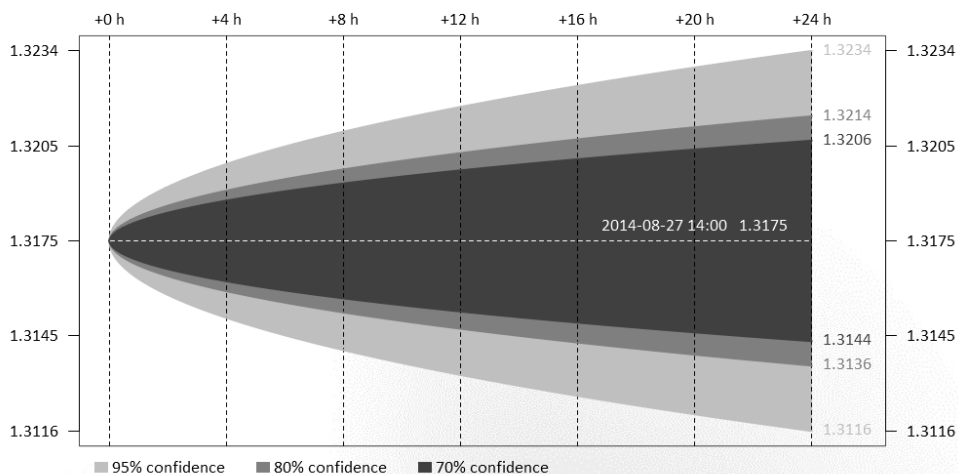


Mean Correlation Coefficient (with GBPUSD)

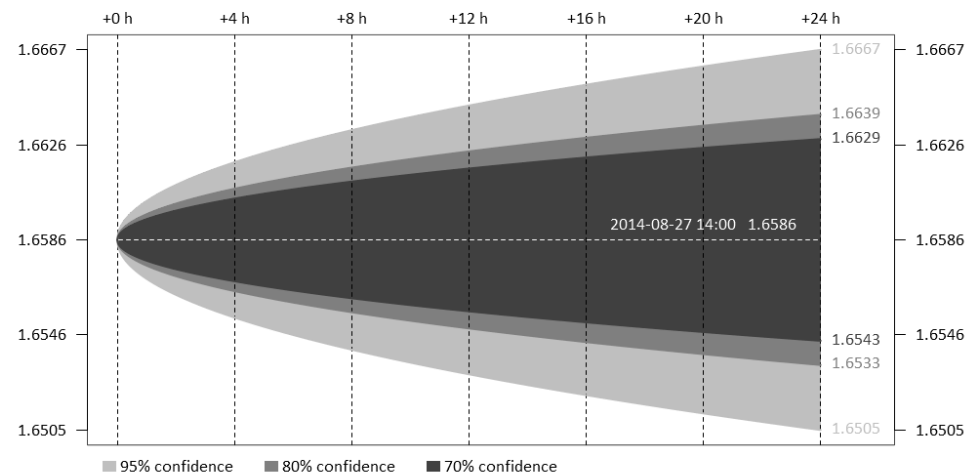
Days	GBPEUR	GBPJPY	GBPCHF	GBPAUD	GBPCAD	GBPNZD	GBPSEK
5	0.18	0.13	0.1	0.08	0.31	-0.16	0.12
20	0.36	0.39	0.31	0.22	0.39	0.03	0.24
130	0.45	0.53	0.39	0.33	0.55	0.24	0.29
250	0.47	0.53	0.38	0.34	0.59	0.27	0.31

Confidence Intervals for Next 24 Hours

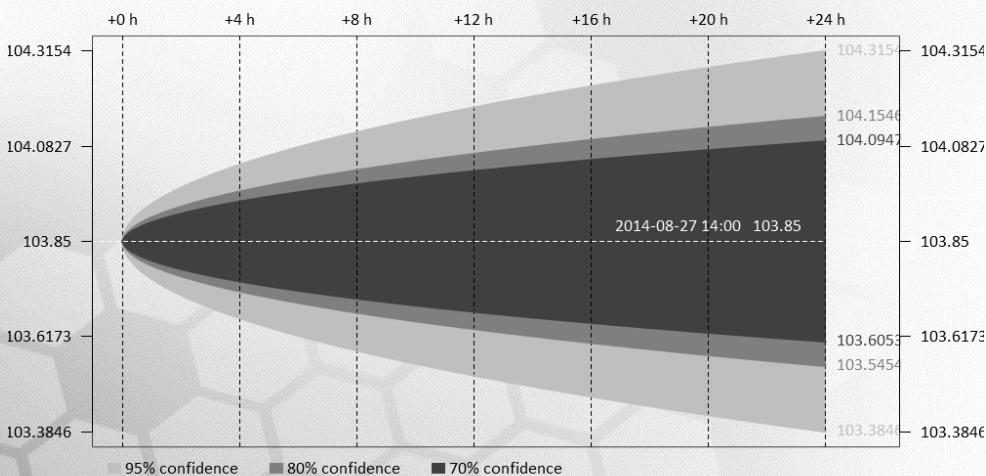
EURUSD Potential Rates



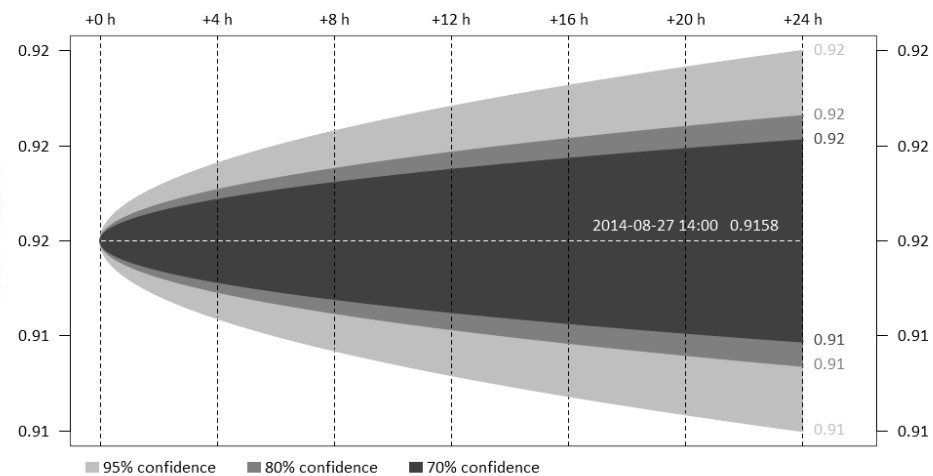
GBPUSD Potential Rates



USDJPY Potential Rates



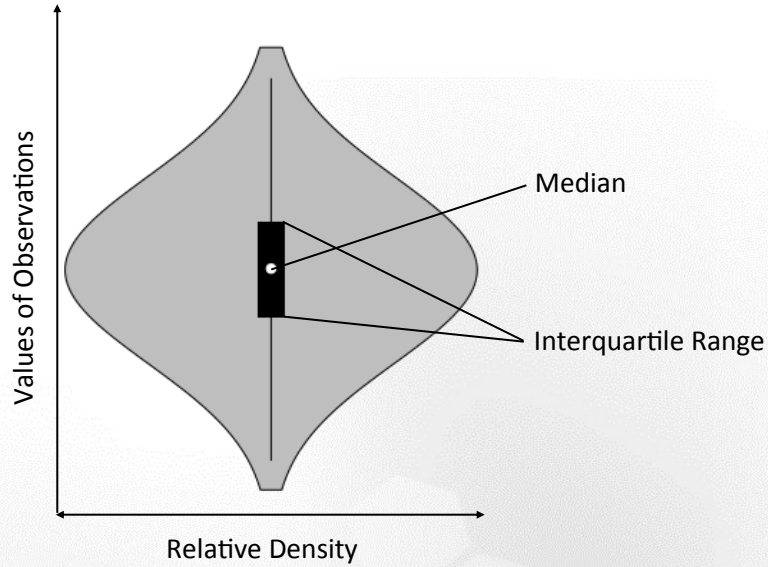
USDCHF Potential Rates



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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