

JPY

03/09/2014



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Market Research





Dominant Events for the Japanese Yen

Yellow Area

Aug 28

09:00 - 11:00

- German Unemployment Change, CPI
- U.S. GDP, Jobless Claims

Turquoise Area

Aug 29

06:00 - 15:00

- Eurozone CPI, Unemployment Rate
- U.S. Chicago PMI, Personal Spending
- Canada GDP

Blue Area

Sep 2

00:00 - 03:00

- Japan Pension Fund Reform
- RBA Meeting
- U.S. Manufacturing

JPY Currency Index Range

0.31%

0.27%

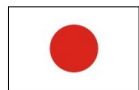
0.24%

Average JPY Volatility Index

1.59

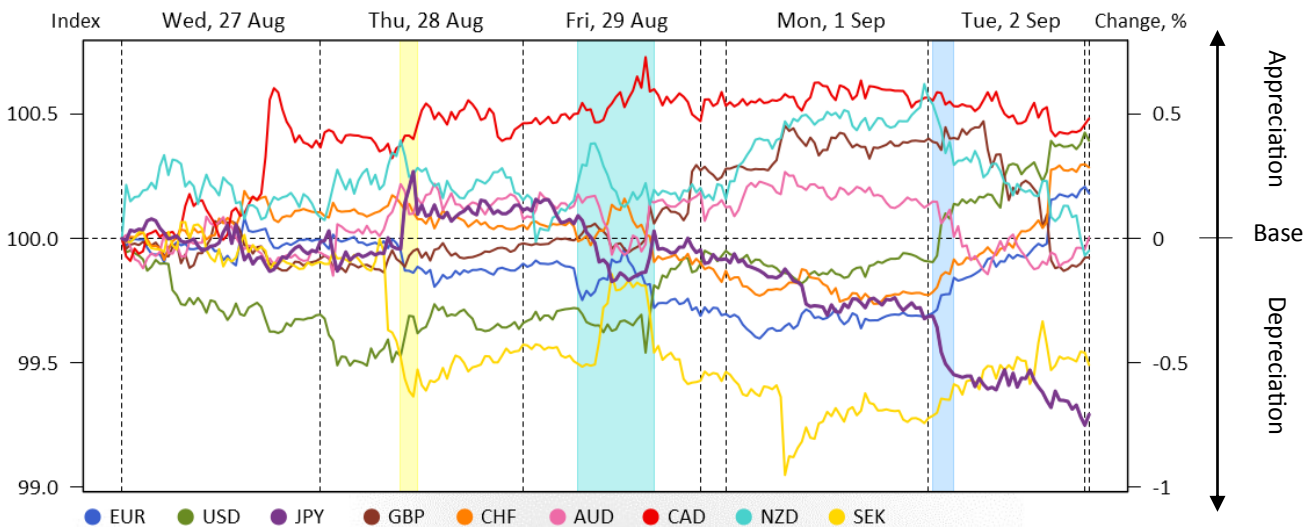
0.91

0.81



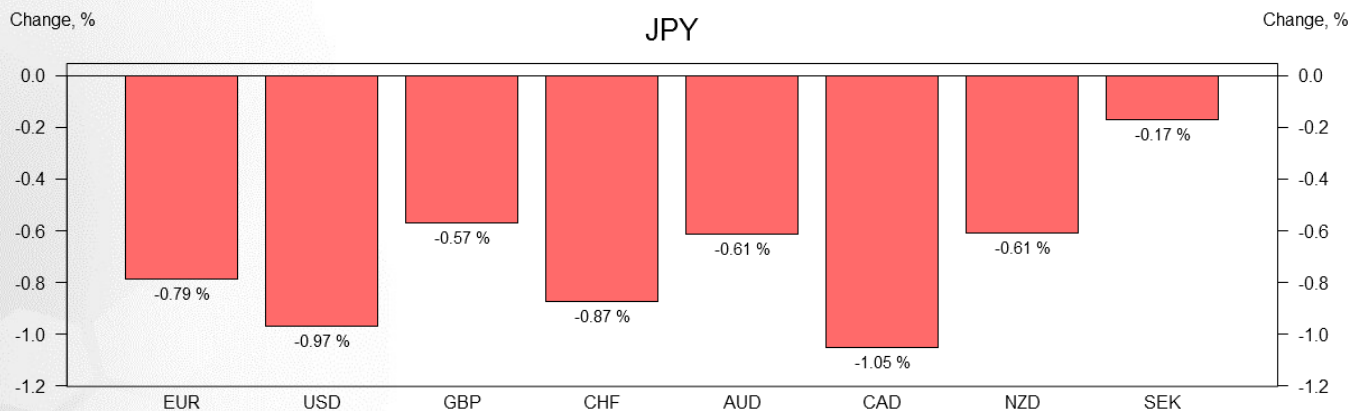
Relative Currency Strength

Currency Indices



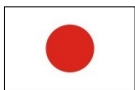
Though the markets were waiting for the Japanese Yen to start falling, it was not until the end of last week, when the bears finally took control of the situation and initiated a downward trend that still remains intact. Before that the value of the Yen was fairly stable, and even at some intervals it was attempting to gain some value, as was the case last Thursday, when continuously disappointing data from the Euro zone prompted investors into buying safer assets, and only surprisingly positive reading on the U.S. GDP prevented the Yen from appreciating even more. The next day proved to be critical for the Yen, as the risk-avoiding sentiment has somewhat subsided in the light of better worldwide macroeconomic background, heralding a new trend.

On Monday the Japanese Yen kept on moving downwards, as there were no game-changing events due to a banking holiday in the United States. But Tuesday was a different story, but rather than reacting to the RBA rate statement or U.S. manufacturing data that was published later that day, these were rumours regarding the management of the world's largest pension fund that triggered a massive exodus of money away from the Yen-denominated assets. The fund will now likely become more aggressive concerning its investment policy by diversifying more into foreign securities. As a result, the currency plunged 0.24% just within a few hours, with its index finishing the five-day period 0.7% below the base value. The loss was particularly substantial against the U.S. Dollar (-0.97%) and its Canadian counterpart (-1.05%), while the Swedish Krona was almost as bearish (-0.17%).



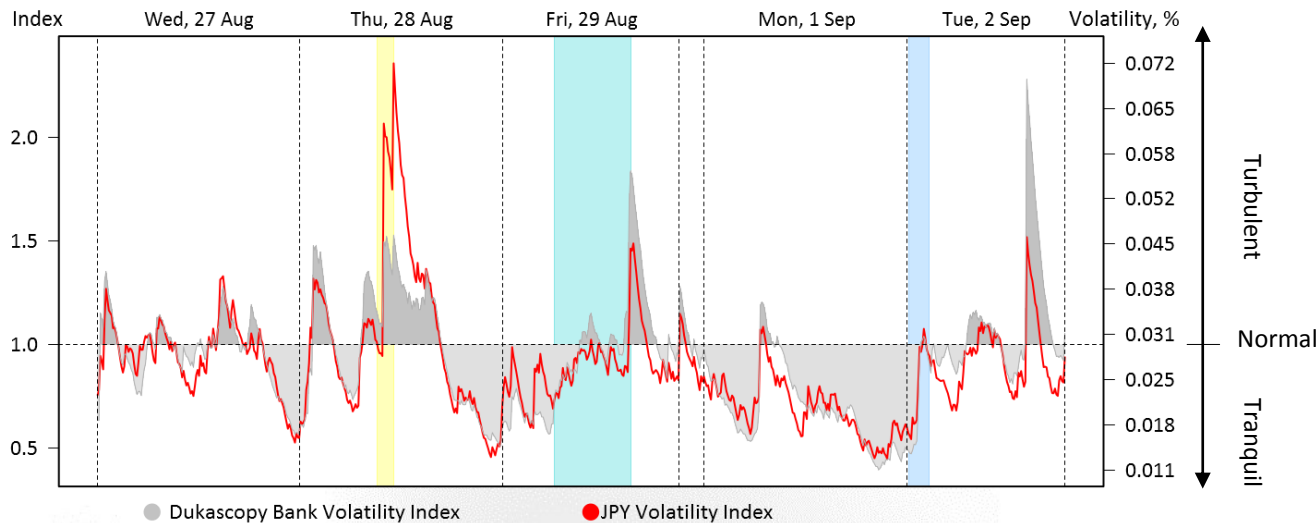
Currency Index Change

Days	EUR	USD	JPY	GBP	CHF	AUD	CAD	NZD	SEK
5	0.18%	0.39%	-0.71%	-0.08%	0.29%	0%	0.48%	-0.05%	-0.51%
20	-0.62%	1.48%	-1.43%	-1.19%	0.22%	1.17%	1.93%	-0.69%	-0.72%
130	-2.98%	2.04%	-1.32%	0.57%	-1.93%	6.43%	4.25%	0.97%	-7.41%
250	-0.58%	-0.11%	-6.17%	6.41%	1.8%	3.13%	-4.03%	6.51%	-6.93%



Volatility

Volatility



Plenty of important news were released this last period, which motivated traders to open new positions and keep the market's volatility elevated 36% of the time. Most elevated pairs were NZD/JPY and CHF/JPY with 39% and 37% elevated volatility respectively, while pairs, such as USD/JPY, GBP/JPY and AUD/JPY barely exceeded the 20% mark. It is also important to mention that the JPY was not the reason why the market was so volatile this last period, as its volatility was elevated only 26% of the time.

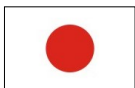
Without any significant news affecting the market the studied period started rather calmly. However, serenity was not long-lived, as on Thursday, August 28, HICP was released by the Statistical Office of the European Union, and the U.S. released their GDP and Jobless Claims figures. News made the JPY volatility index spike, reaching period's high at 2.36. On Monday the market seemed to be still asleep after the weekend, as its volatility was almost non-existent. Next day the Yen received a small jolt from the releases of Monetary Base and an increase in Average Cash Earnings. The period ended with a small spike in JPY volatility index and a larger spike in market's volatility index due to a positive ISM release in the United States.

Elevated Volatility (% of the observed period)

Market	JPY	EURJPY	USDJPY	GBPJPY	CHFJPY	AUDJPY	CADJPY	NZDJPY	SEKJPY
36	26	32	21	21	37	22	35	39	33

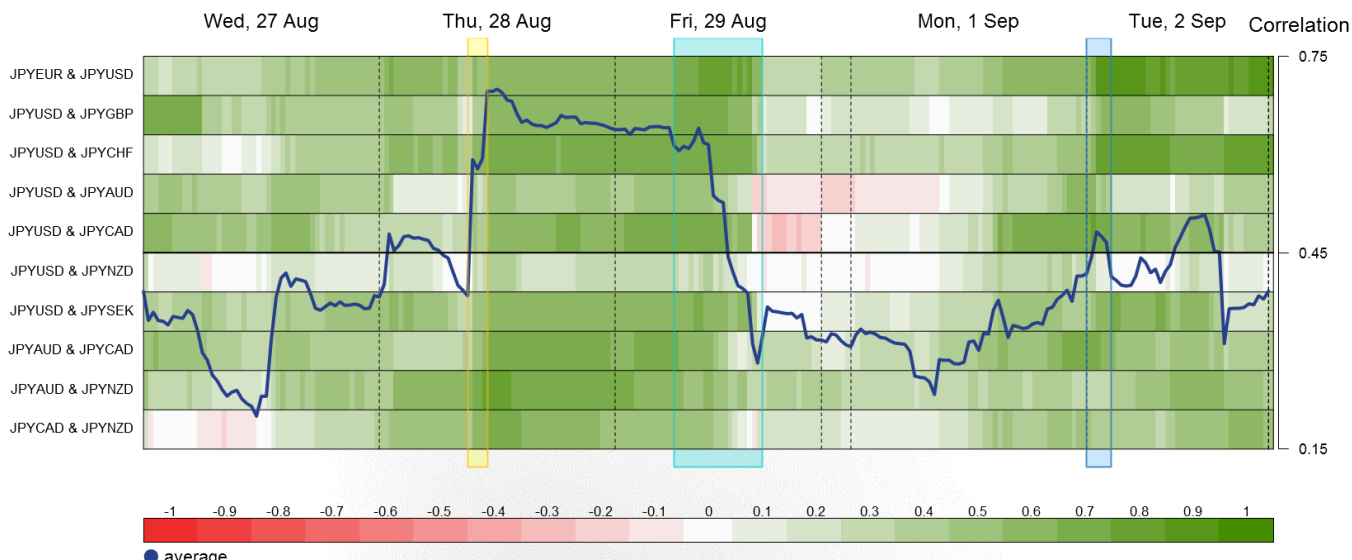
Volatility Index (for the observed period)

	Market	JPY	EURJPY	USDJPY	GBPJPY	CHFJPY	AUDJPY	CADJPY	NZDJPY	SEKJPY
Max	2.28	2.36	3.1	1.85	2.29	2.87	3.3	2.09	2.05	2.82
Min	0.39	0.45	0.32	0.21	0.39	0.38	0.32	0.17	0.31	0.25
Average	0.92	0.9	0.93	0.78	0.83	0.97	0.86	0.9	0.93	0.94



Currency Significance

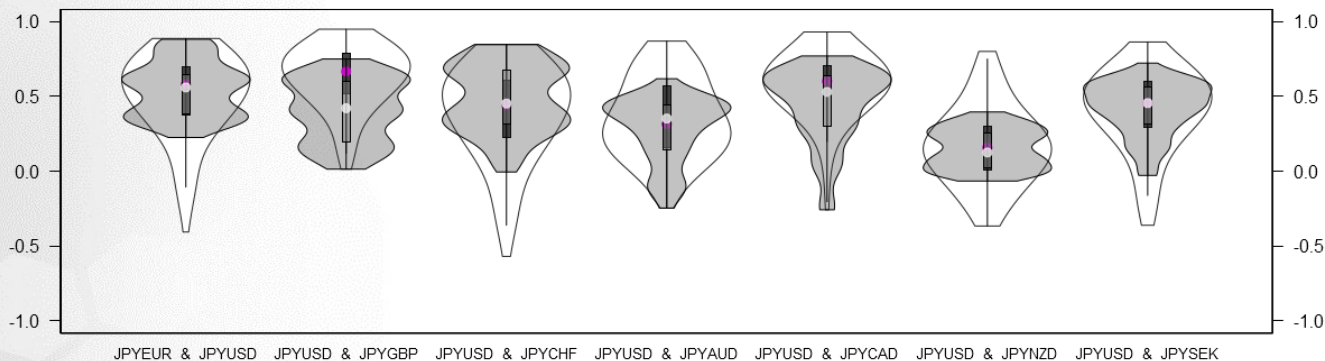
Correlations



Last week, resilience of the Japanese Yen and especially its effort to appreciate, was accompanied by a noticeable increase in the level of its significance, as shown by the average correlation coefficient that jumped from 0.2 to 0.7 between Wednesday and Thursday. However, at the time when the Yen started losing value, its importance in the market melted as well. The average correlation did recover to 0.4 this week, but it is relatively low, when compared to the Sterling's 0.65, Franc's 0.52 or Greenback's 0.46, meaning the price of the Japanese currency is mostly influenced by its peers than determined by the Yen itself.

As for the correlations between Yen's crosses, there are only few notable changes. Most of the median correlation values, such as in the case between JPYUSD and JPYSEK, coincide for both 5- and 20-day periods. On the other hand, if we analyse relationship between JPYUSD and JPYGBP, it becomes clear that the tendency of these pairs to move in unison has been compromised. While during the last 20 days most of the correlation values fell in the interval above the level of 0.5, now the opposite is true, and in many cases there was no co-movement observed at all. A similar tendency, but to a lesser extent, was also spotted in the correlation between JPYUSD and JPYAUD, as its average correlation for the last five days (0.28) is lower than the one for the last 20 days (0.35).

Correlations (5 vs 20 days)

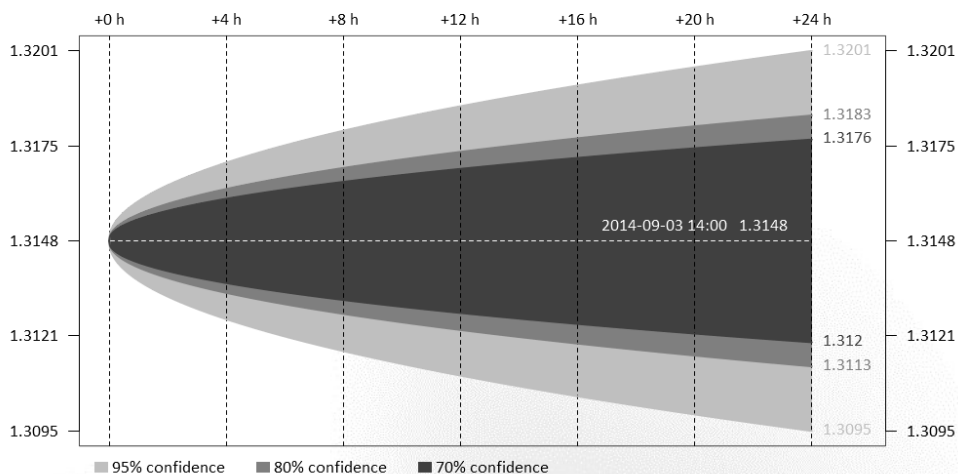


Mean Correlation Coefficient (with JPYUSD)

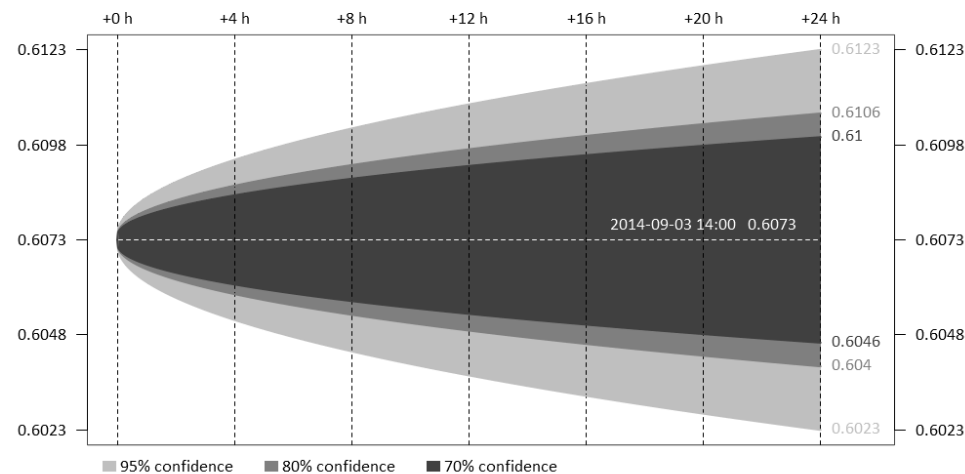
Days	JPYEUR	JPYGBP	JPYCHF	JPYAUD	JPYCAD	JPNZD	JPYSEK
5	0.55	0.41	0.49	0.28	0.43	0.15	0.42
20	0.51	0.63	0.39	0.35	0.58	0.17	0.41
130	0.62	0.64	0.5	0.4	0.58	0.28	0.47
250	0.66	0.67	0.53	0.44	0.64	0.35	0.51

Confidence Intervals for Next 24 Hours

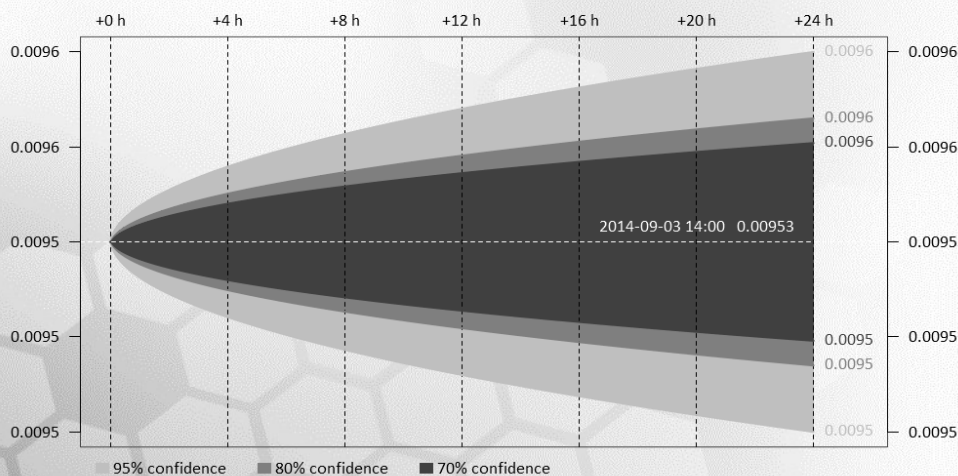
EURUSD Potential Rates



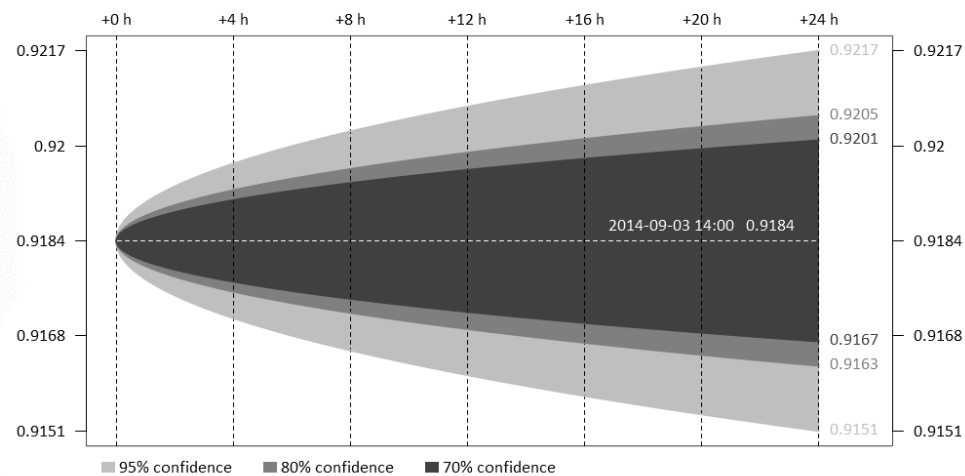
GBPUSD Potential Rates



USDJPY Potential Rates



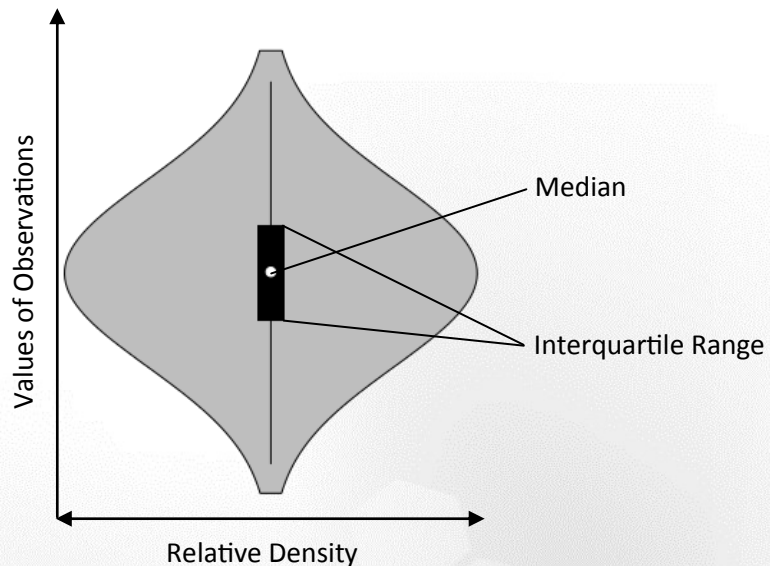
USDCHF Potential Rates



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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