



GBP

10/12/2014



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Market Research





Dominant Events of the Period

Yellow Area	Turquoise Area	Blue Area	Purple Area	Orange Area
<i>December 3</i>	<i>December 4</i>	<i>December 5</i>	<i>December 8</i>	<i>December 9</i>
<i>05:30 - 17:00</i>	<i>05:00 - 20:30</i>	<i>02:30 - 19:00</i>	<i>05:30 - 17:00</i>	<i>02:00 - 22:00</i>
<ul style="list-style-type: none"> ■ <u>UK Autumn Forecast Statement</u> ■ <u>US ADP Employment Change, ISM Non-Manufacturing PMI</u> ■ <u>Eurozone Retail Sales</u> 	<ul style="list-style-type: none"> ■ <u>BoE Interest Rate Decision and Asset Purchase Facility</u> ■ <u>Halifax HPI</u> ■ <u>ECB Interest Rate Decision and Press Conference</u> 	<ul style="list-style-type: none"> ■ <u>UK Consumer Inflation Expectations</u> ■ <u>Eurozone Q3 GDP</u> ■ <u>US Non-Farm Payrolls, Trade Balance</u> 	<ul style="list-style-type: none"> ■ <u>BoE Quarterly Bulletin</u> ■ <u>Euro-group Meeting</u> 	<ul style="list-style-type: none"> ■ <u>UK Manufacturing Production</u> ■ <u>UK NIESR GDP Estimate</u>

GBP Currency Index Range

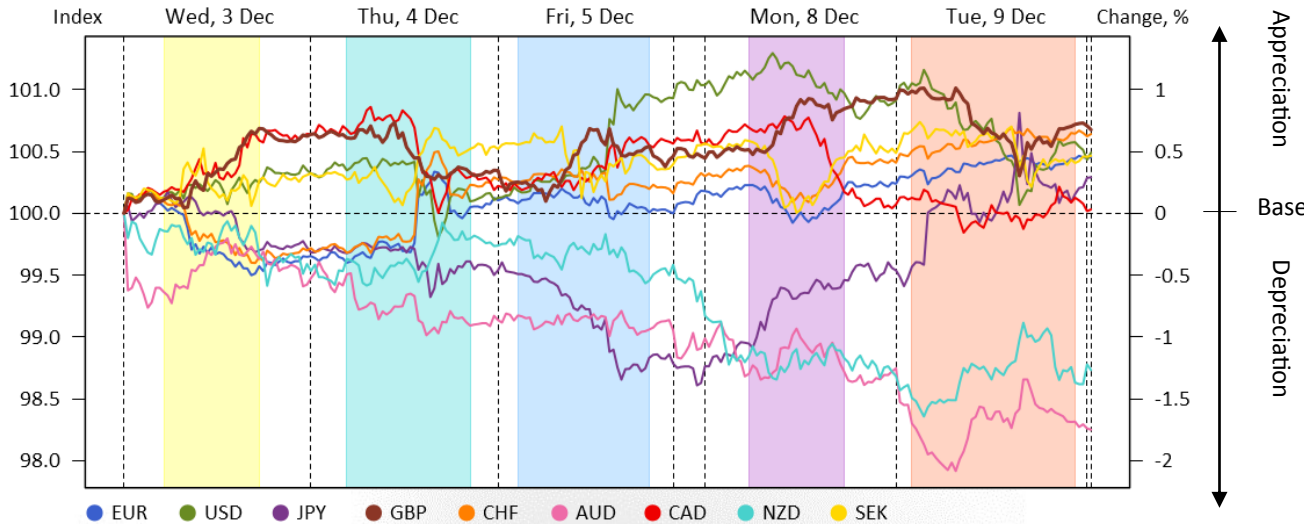
0.64%	0.46%	0.59%	0.45%	0.71%
1.46	1.8	2.57	1.25	2.06

Max GBP Volatility Index



Relative Currency Strength

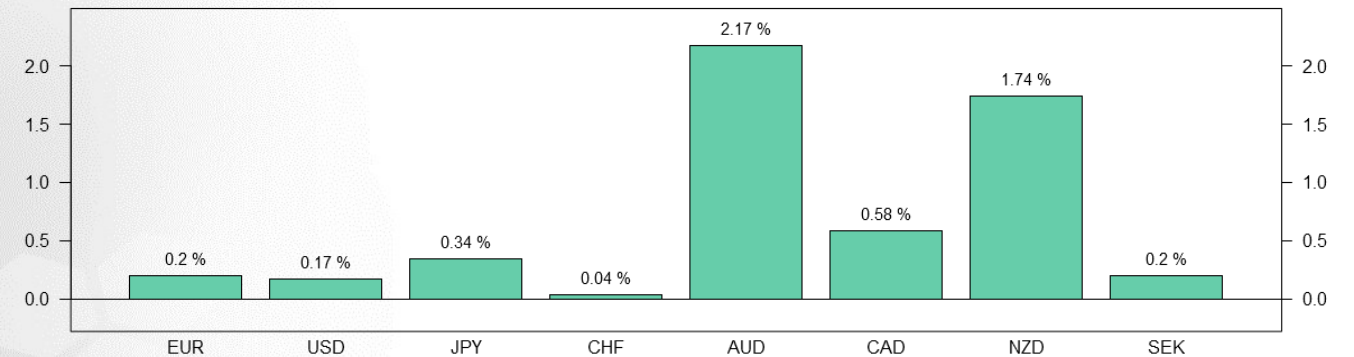
Currency Indexes



The GBP Index was hovering above the baseline for the whole December 3-9 time period on rather positive fundamental data, and at the end of the period posted its greatest weekly growth among all currencies. The index dominated its counterparts throughout the vast part of the period, and with a final 0.68% advance over the base value became the period's top performer, leaving the second-best CHF gauge behind with a 0.64% rise. However, the pound managed to advance more than 1% only against two currencies, the Australian dollar (+2.17%) and the Kiwi (+1.74%).

The GBP Index started the period on an uptrend, gaining around 0.5% already during the first day, following much better than estimated statistics on British Markit Services PMI, which surged up to 58.6 points in November. However, the Bank of England's decision to leave the main interest rate and volume of asset purchase facility unchanged pushed the currency to the downside, while the Euro surged above the baseline amid more hawkish tone of the ECB's President Draghi on future of the QE. Nevertheless, towards the end of the period the British currency recovered moderately, supported by stable consumer inflation expectations and positive 0.7% NIESR GDP estimate for the fourth quarter of the year.

Change, %



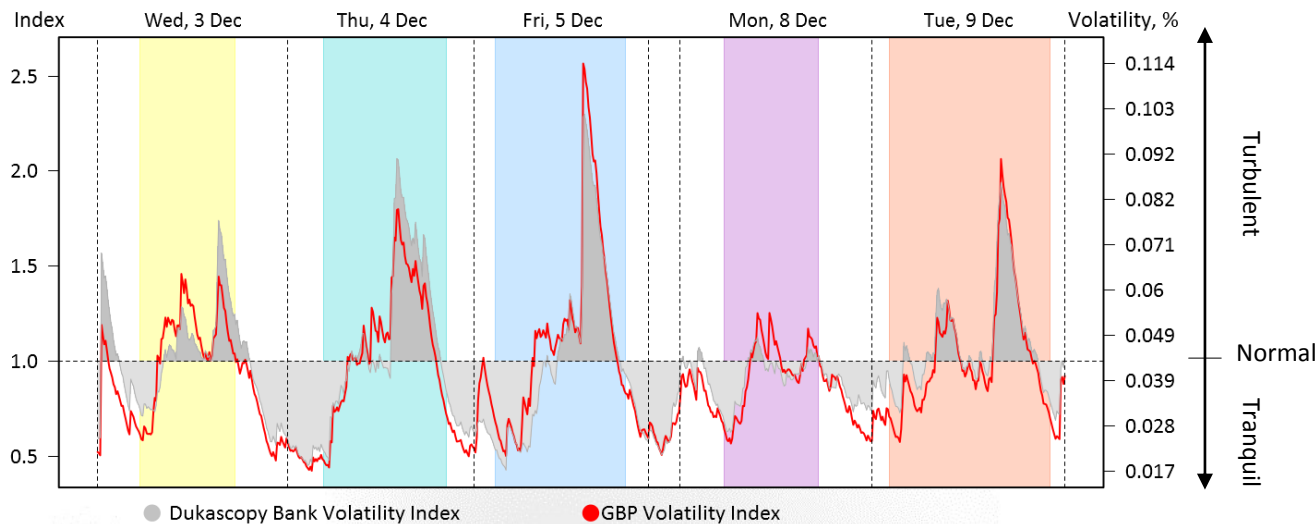
Currency Index Change

Days	EUR	USD	JPY	GBP	CHF	AUD	CAD	NZD	SEK
5	0.45%	0.49%	0.29%	0.68%	0.64%	-1.75%	0.03%	-1.27%	0.47%
20	1.15%	1.91%	-1.99%	0.25%	1.21%	-3.22%	0.91%	-0.45%	0.15%
130	-0.25%	9.82%	-7.56%	2.26%	1.25%	-4.02%	4.37%	-2.16%	-3.41%
250	-2.18%	9.51%	-6.75%	4.28%	-0.23%	-0.73%	1.29%	1.22%	-6.39%



Volatility

Volatility



From time to time, the period was notably turbulent, while the pound's Volatility Index has spent about more than 50% of the first three days above its historical level. The highest portion of elevated volatility in these days was observed in GBP/USD, GBP/SEK, and EUR/GBP around 40%. On the other hand, it is worth pointing out that the average GBP elevated volatility of 38% was just under the market average at 39%. Besides that, surprisingly one of the highest spikes of turbulence was reached by the Pound's cross with Swiss franc. All in all, the largest GBP volatility peak did not exceed 3 points, but managed to touch more than 2.5% on Friday.

The UK Chancellor's of Exchequer Autumn Forecast Statement and service PMI data lifted the GBP volatility at the very beginning of the period, but, against the background of the other events, it failed to produce any notable peaks. The BoE rate decision had much stronger impact on both the market and the GBP Volatility Indexes, with both gauges reaching above the 1.5 point mark. December 5 was marked by the report on CPI expectations and Eurozone's Final GDP for Q3. Fuelled by extremely positive statistics on job creation in the US, GBP Volatility Index reached the highest value of the week at 2.5 points. Monday was rather calm, while the spikes in the GBP volatility on Tuesday followed weak data on manufacturing production in the UK.

Elevated Volatility (% of the observed period)

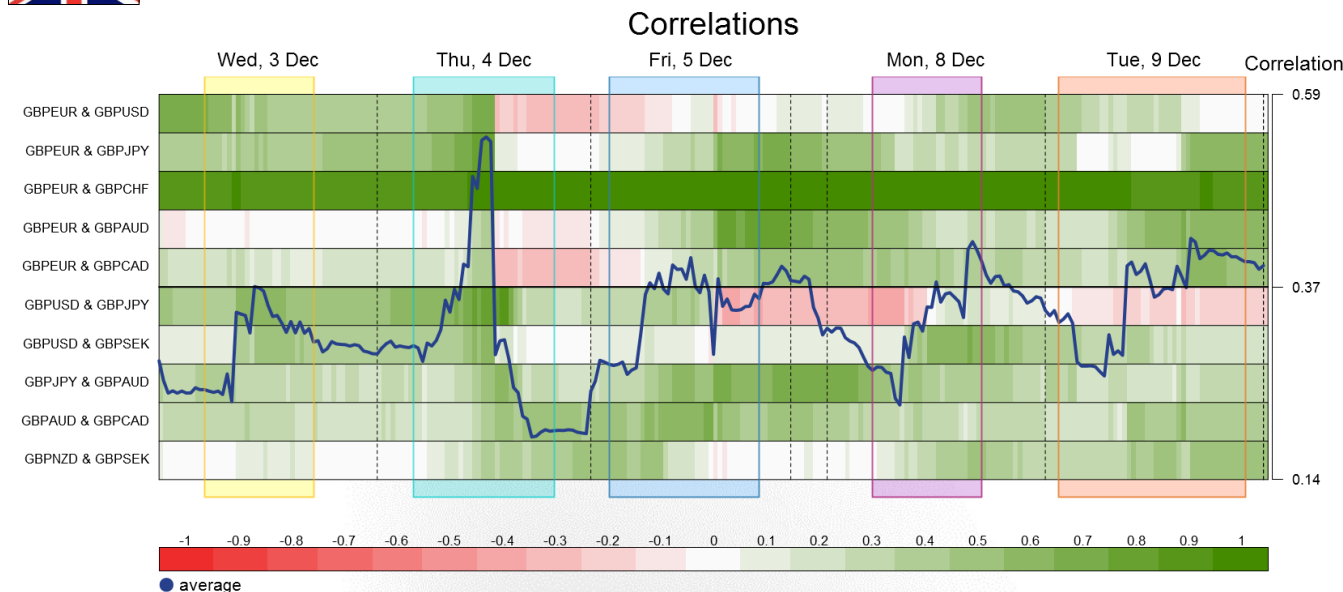
Market	GBP	EURGBP	GBPUSD	GBPJPY	GBPCHF	GBPAUD	GBPCAD	GBPNZD	GBPSEK
39	38	37	42	28	36	34	28	28	43

Volatility Index (for the observed period)

	Market	GBP	EURGBP	GBPUSD	GBPJPY	GBPCHF	GBPAUD	GBPCAD	GBPNZD	GBPSEK
Max	2.3	2.57	3.28	3.25	3.31	3.81	3.83	2.41	2.95	3.05
Min	0.43	0.43	0.27	0.29	0.29	0.28	0.39	0.31	0.4	0.27
Average	0.97	0.94	0.98	0.94	0.91	0.98	0.94	0.83	0.92	1.06



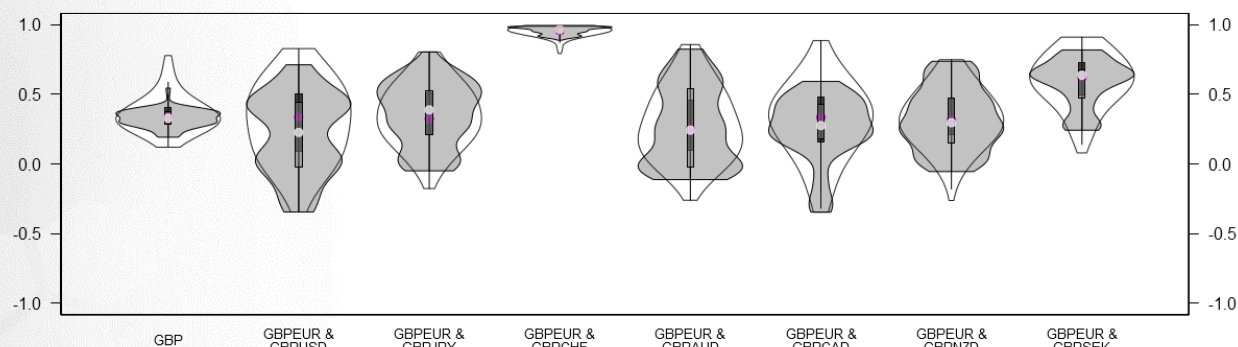
Currency Significance



The components of the British pound's significance measure showed rather small correlations over the observed period, while the overall GBP composite stayed around the average level for the vast part of the period. The short-term correlations during the period between GBP/EUR and other GBP crosses varied from 0.2 to 0.96. As seen from the main chart, the smallest correlation was with GBP/CAD and GBP/USD, particularly on Thursday when a drop below zero provided the component the weakest result of the week, as its correlations stood around 0.20. Compared to the 20-day values, most of the correlation pairs have lost 0.01-0.05 points, but GBP/USD pair tumbled 0.10.

Very small parts of the period were remarkable with very well synchronized developments in absolutely all pound's correlation components, as batches of fundamental news from different countries influenced only some particular currency pairs. The composite reached its maximum on Thursday in time of BoE interest rate announcement and then started to rapidly lose its positions, followed by a rapid change in some components. The weakening began with a dip of the GBP/EUR crosses when Mario Draghi said the ECB is due to reassess its policy decisions only next year. Nevertheless, at the end of the period the significance level approached the weekly average to close just above it at 0.39.

Correlations (5 vs 20 days)

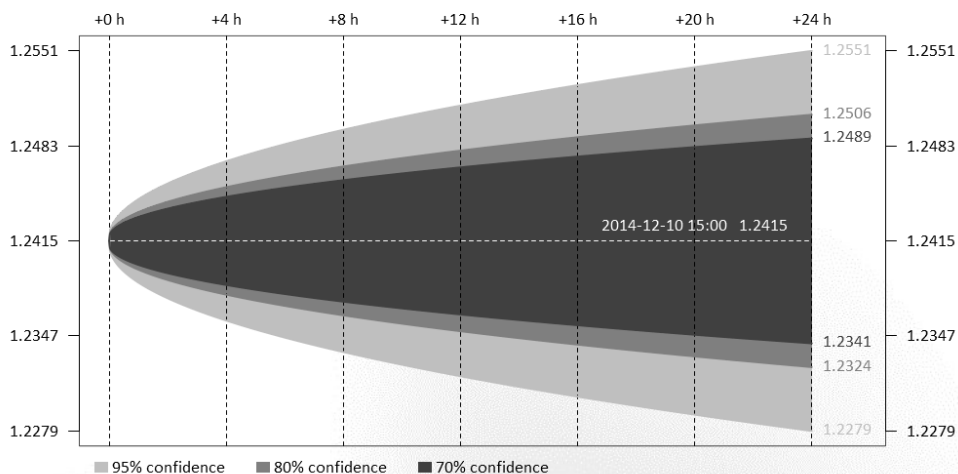


Mean Correlation Coefficient (with GBPEUR)

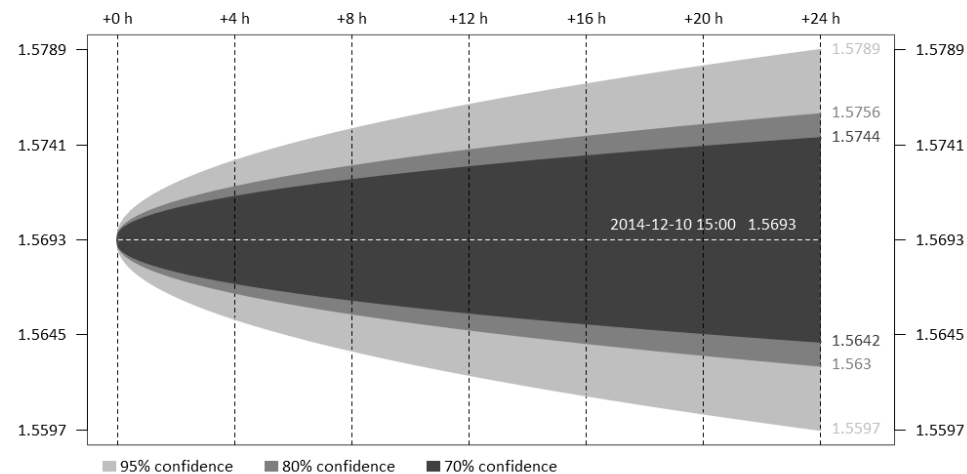
Days	GBP	GBPUUSD	GBPJPY	GBPCHF	GBPAUD	GBPCAD	GBPNZD	GBPSEK
5	0.33	0.2	0.36	0.96	0.27	0.25	0.32	0.58
20	0.36	0.3	0.35	0.95	0.29	0.3	0.33	0.6
130	0.42	0.39	0.47	0.92	0.36	0.38	0.36	0.62
250	0.41	0.43	0.43	0.89	0.34	0.37	0.34	0.61

Confidence Intervals for Next 24 Hours

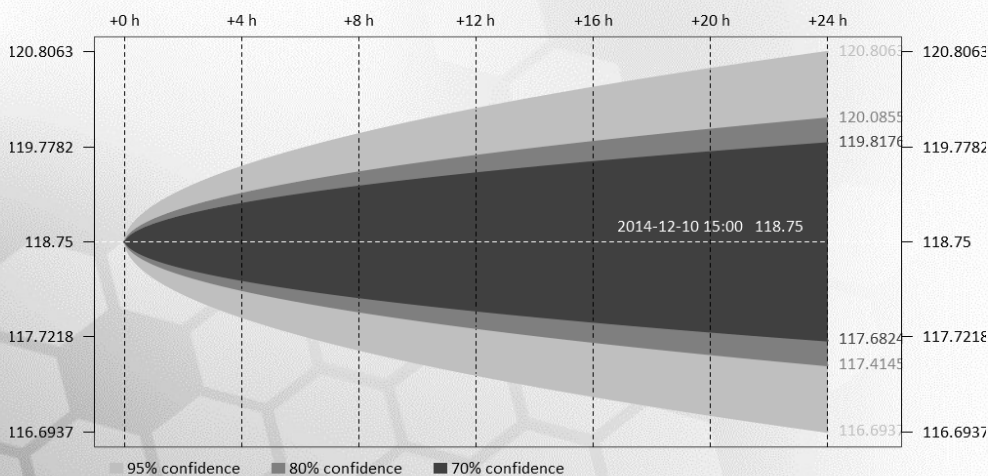
EURUSD Potential Rates



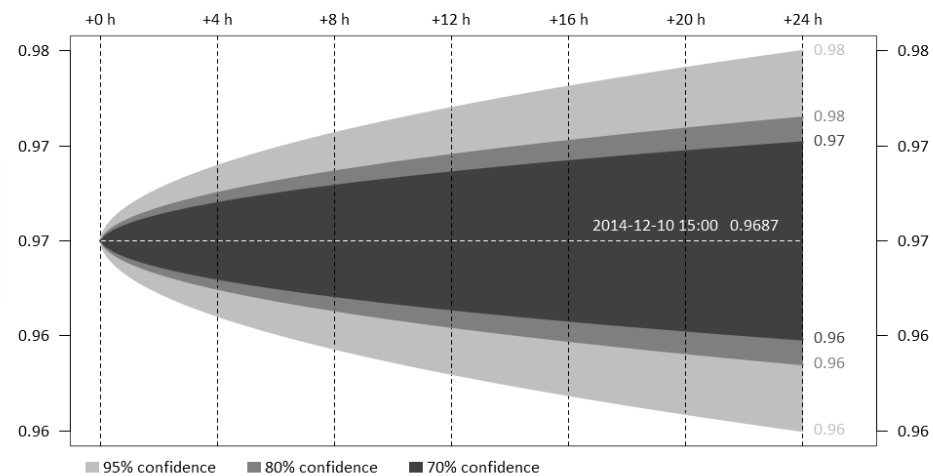
GBPUSD Potential Rates



USDJPY Potential Rates



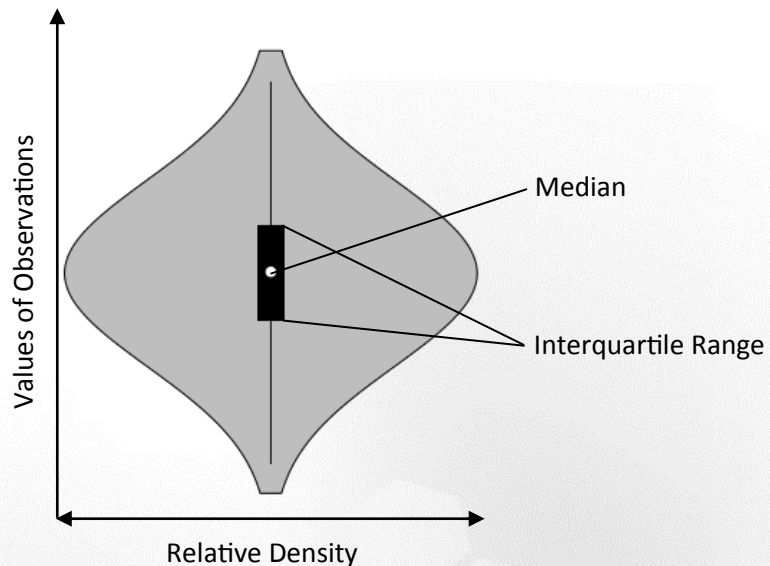
USDCHF Potential Rates



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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