



GBP

28/01/2015



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Market Research





Dominant Events of the Period

Yellow Area	Turquoise Area	Blue Area	Purple Area	Orange Area
January 21	January 22	January 23	January 26	January 27
07:00 - 16:30	07:30 - 22:00	07:30 - 21:00	06:30 - 17:30	07:00 - 20:00
<ul style="list-style-type: none"> <u>UK Claimant Count Change and Unemployment Rate</u> <u>Bank of England Meeting Minutes</u> <u>Bank of Canada Interest Rate Decision</u> <u>World Economic Forum, Day 1</u> 	<ul style="list-style-type: none"> <u>UK Public Sector Net Borrowing</u> <u>ECB Interest Rate Decision and Monetary Policy Statement</u> <u>US Unemployment Claims</u> <u>World Economic Forum, Day 2</u> 	<ul style="list-style-type: none"> <u>UK Retail Sales</u> <u>Germany Manufacturing PMI</u> <u>Eurozone Manufacturing PMI</u> <u>US Manufacturing PMI</u> <u>World Economic Forum, Day 3</u> 	<ul style="list-style-type: none"> <u>Bank of Japan Monetary Policy Meeting Minutes</u> <u>Germany IFO Business Climate</u> 	<ul style="list-style-type: none"> <u>UK BBA Mortgage Approvals and Gross Domestic Product</u> <u>US Durable Goods Orders, Markit Services PMI and Consumer Confidence</u>

GBP Currency Index Range

0.9%	0.36%	0.67%	0.71%	0.67%
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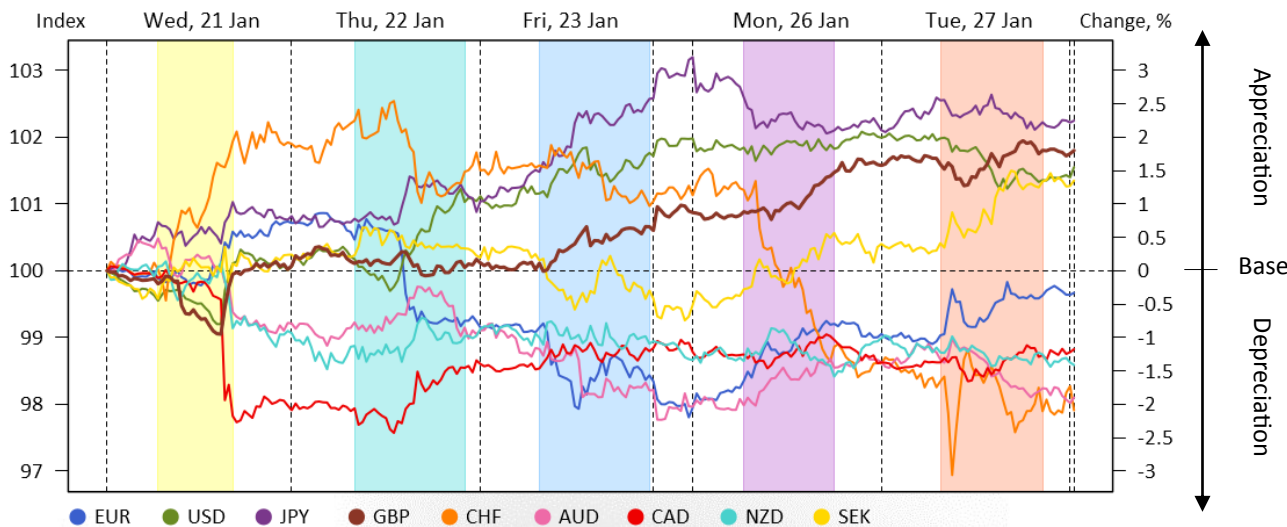
Max GBP Volatility Index

3.28	2.08	2.12	1.47	1.61
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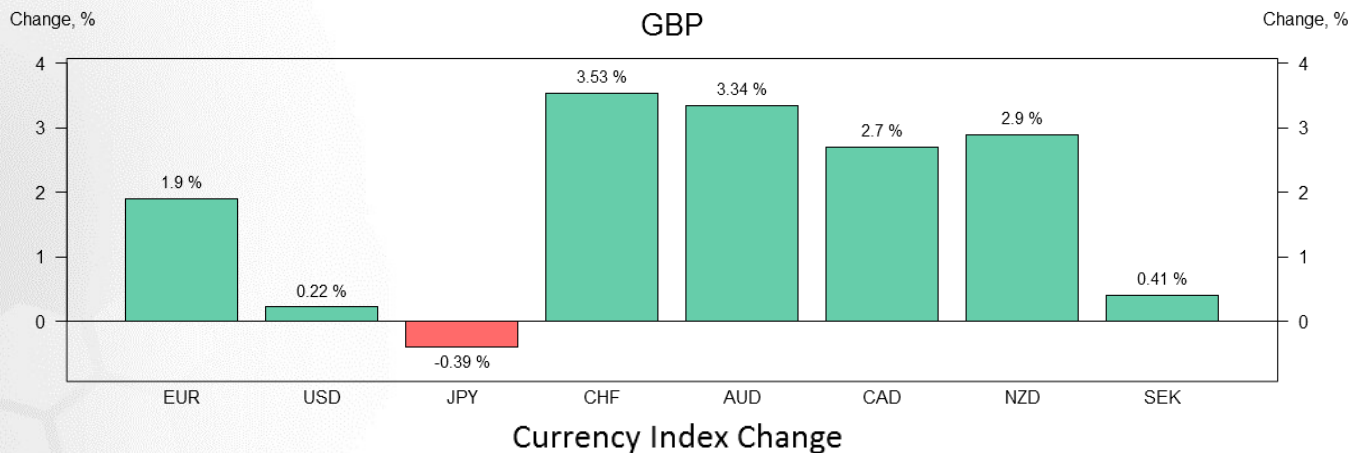
Relative Currency Strength

Currency Indexes



During last period ended January 27, the Pound used to be one of the best performers among major currencies on the foreign exchange market. The British currency was hovering above the baseline for most part of the period, only except January 21. As a result, the currency was only outperformed by the Japanese yen in terms of weekly gains, while GBP/JPY lost 0.39% in five working days from Wednesday till Tuesday. The most noticeable gainers among GBP pairs were GBP/CHF and GBP/AUD which advanced 3.53% and 3.34% last week, correspondingly.

At the same time, beginning of the period was marked by Pound's weakness compared to its counterparts. Currency posted the second biggest decline on Wednesday, following more dovish BoE meeting minutes which showed that two MPC members changed their minds in favour of holding the main interest rate unchanged. Therefore, the weekly GBP Index's minimum was hit around 99 points. Following that, however, a strong appreciation started, fuelled by very optimistic data concerning labour market and retail sales in the United Kingdom. Even worse than estimated numbers on Q4 GDP were unable to change positive sentiment of the currency, which ended the week with a rise of 1.8%.

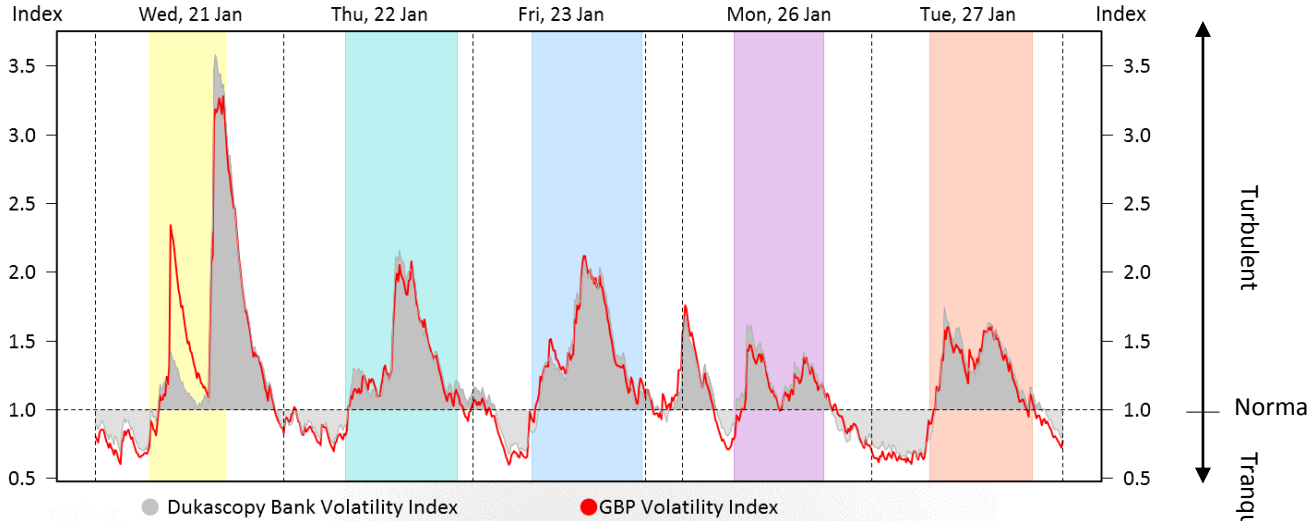


Days	EUR	USD	JPY	GBP	CHF	AUD	CAD	NZD	SEK
5	-0.33%	1.55%	2.25%	1.8%	-2.09%	-1.9%	-1.17%	-1.41%	1.35%
20	-5.61%	2.05%	4.3%	-0.31%	12.64%	-1.2%	-4.77%	-3.23%	-3.8%
130	-5.87%	13.41%	-3.24%	0.55%	13.6%	-5.81%	-2.31%	-2.36%	-7.77%
250	-8.71%	12.19%	-3.46%	2.25%	11.26%	1.06%	-0.23%	0.93%	-15.25%



Volatility

Volatility



For the vast time of the period the British Pound's volatility stayed well above the average level, only making small exceptions on Friday's and Tuesday's mornings. This fact can be also proved by the elevated volatility index. Judging from it, the Pound used to be turbulent in 63% of all time during the period, even though the mean market volatility of 66% was not surpassed. Major turbulence increases were, as usually, strengthened by very specific fundamental data releases, which included, for instance, the Bank of England's meeting minutes and unexpected decision of the Bank of Canada to decrease the main interest rate to 0.75%, while the volatility of

GBP/CAD currency hit 10.16 points at its maximum. Both BoE and BoC decisions made the GBP volatility skyrocket to 3.28 points at the peak-time. Moreover, the European Central Bank has finally unveiled its plan to buy sovereign bonds under its expanded asset purchases programme, It plans to purchase 60 billion euros of securities per month from March 2015. This decision could be observed in Pound's turbulence on Thursday when it reached 2 points, with EUR/GBP only posting a maximum of 5.29. The same situation happened on Friday, in time of GDP data release which said the UK economy rose 2.6% in 2014, slightly less than initially projected. Therefore, much of the currency's nervousness took place during last three days of the previous week.

Elevated Volatility (% of the observed period)

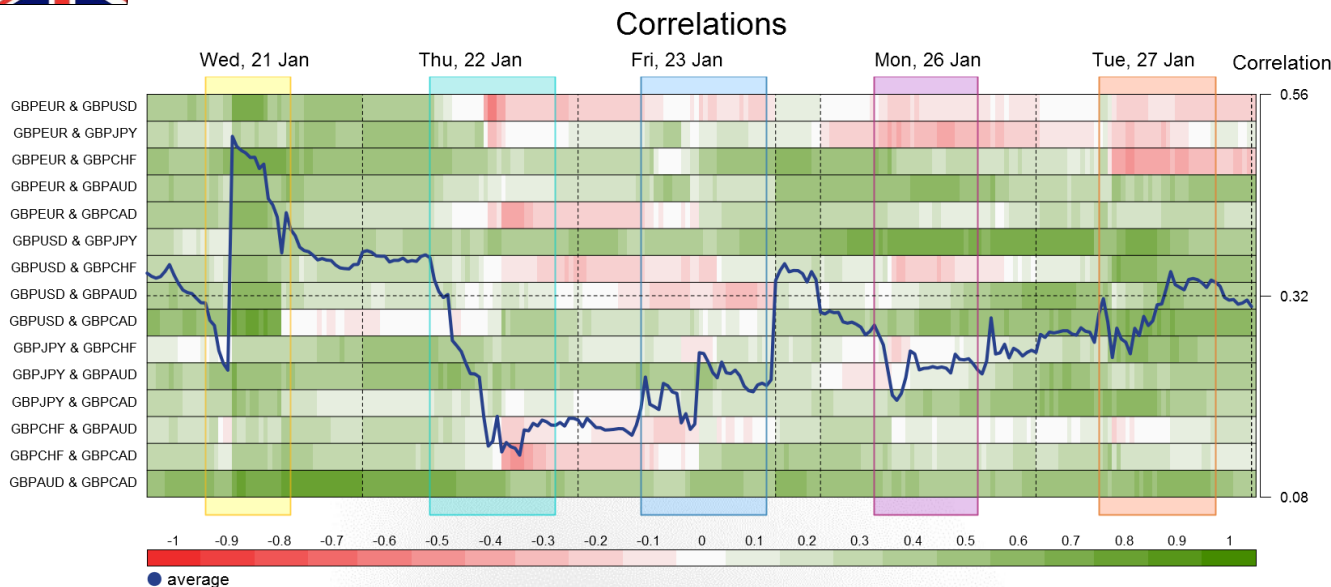
Market	GBP	EURGBP	GBPUSD	GBPJPY	GBPCHF	GBPAUD	GBPCAD	GBPNZD	GBPSEK
66	63	67	49	57	51	65	58	71	55

Volatility Index (for the observed period)

	Market	GBP	EURGBP	GBPUSD	GBPJPY	GBPCHF	GBPAUD	GBPCAD	GBPNZD	GBPSEK
Max	3.58	3.28	5.29	2.95	2.58	2.67	3.09	10.16	3.75	3.08
Min	0.65	0.6	0.44	0.36	0.47	0.23	0.43	0.36	0.6	0.3
Average	1.21	1.19	1.53	1.07	1.1	1.13	1.21	1.33	1.27	1.06



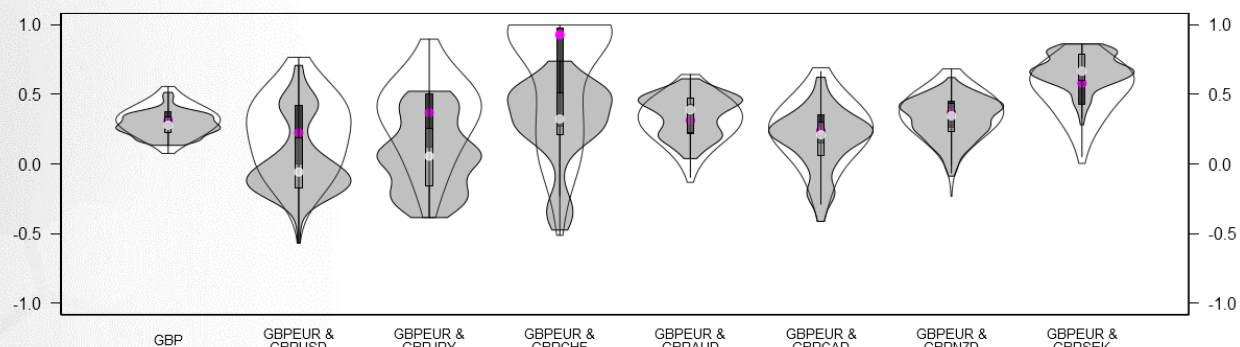
Currency Significance



As was seen in both Currency and Volatility Indexes, the main catalyst for the Pound was news exactly from the United Kingdom, mainly due to high importance of indicators released. On other hand, having a look at significance measures of the GBP, which is calculated as an average correlation between all Pound's crosses, we should notice that main drivers here used to be factors from outside Britain. The significance measure itself was located below the baseline for more than 70% of all time in the period, even though the average level itself was not high and stood only at 0.32 points. There was only one episode of collective strengthening in the component correlations—on Wednesday

when the Bank of England released meeting minutes of its last meeting which showed a surprising unanimous in keeping the main rate unchanged, thus postponing a potential rate hike. It pushed the composite up to 0.51 points. However, on that stage relatively close correlations came to the end. Decision on expanded asset purchases which was taken on Thursday by the ECB sent all Euro crosses down, thus creating divergence for different GBP currency pairs as well. On that day, the composite reached its minimum at just 0.13 points. Still, it managed to recover towards the end of the period, but remained below the baseline at 0.31 on Tuesday of the this week.

Correlations (5 vs 20 days)

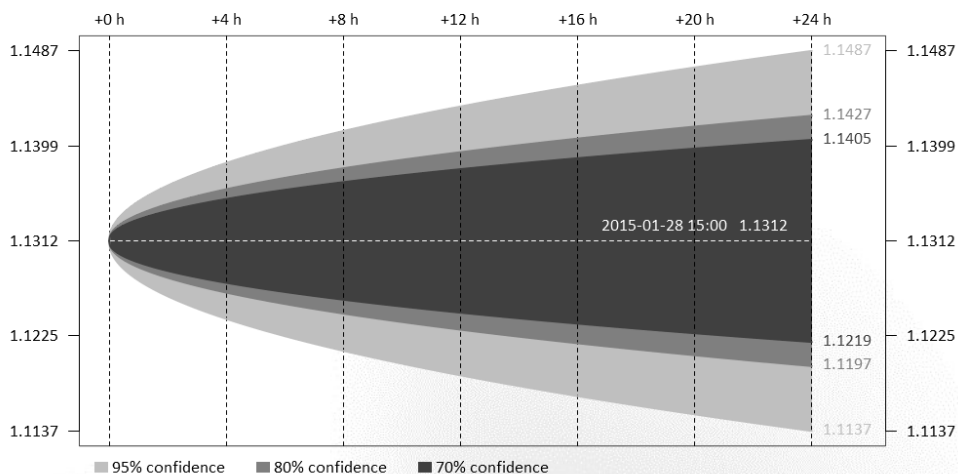


Mean Correlation Coefficient (with GBPEUR)

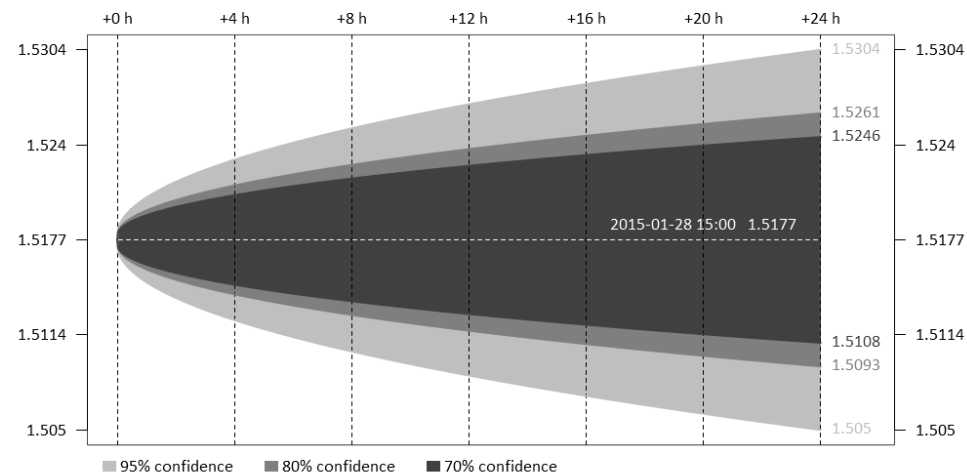
Days	GBP	GBPUSD	GBPJPY	GBPCHF	GBPAUD	GBPCAD	GBPNZD	GBPSEK
5	0.28	0.03	0.06	0.29	0.36	0.17	0.32	0.67
20	0.31	0.21	0.32	0.63	0.31	0.22	0.35	0.55
130	0.39	0.31	0.45	0.88	0.35	0.34	0.37	0.61
250	0.4	0.39	0.42	0.88	0.33	0.34	0.34	0.6

Confidence Intervals for Next 24 Hours

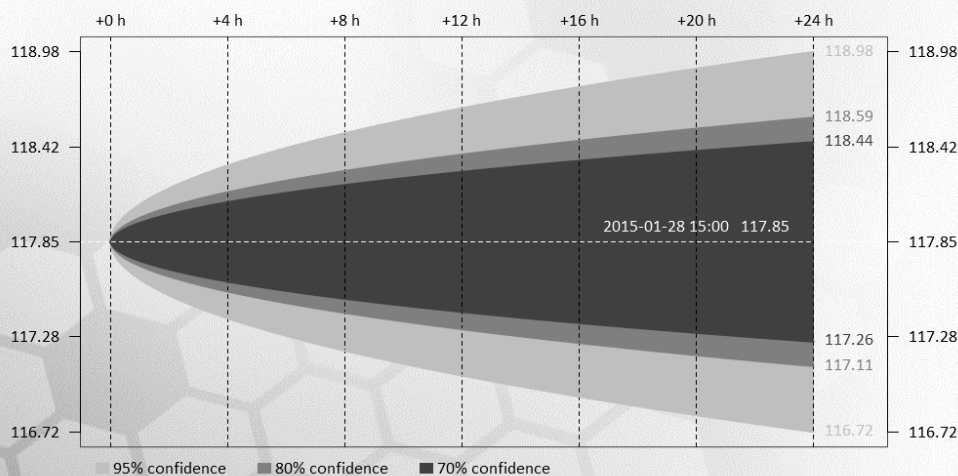
EURUSD Potential Rates



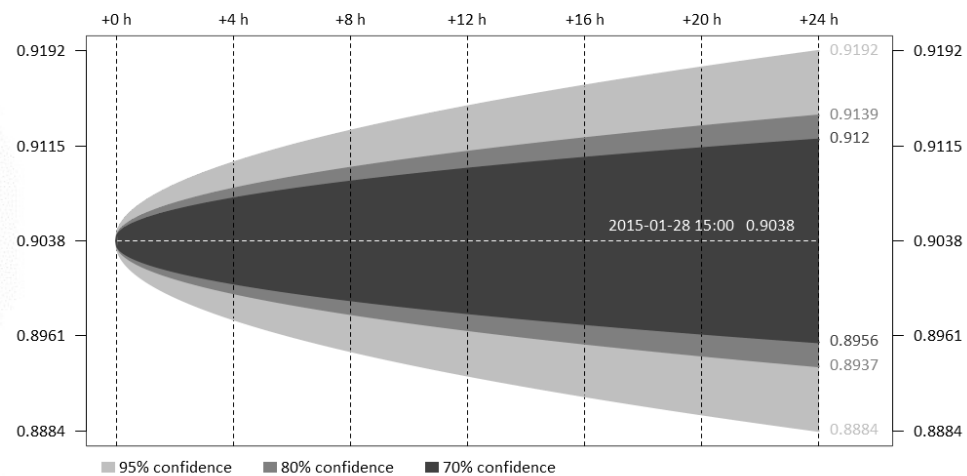
GBPUSD Potential Rates



USDJPY Potential Rates



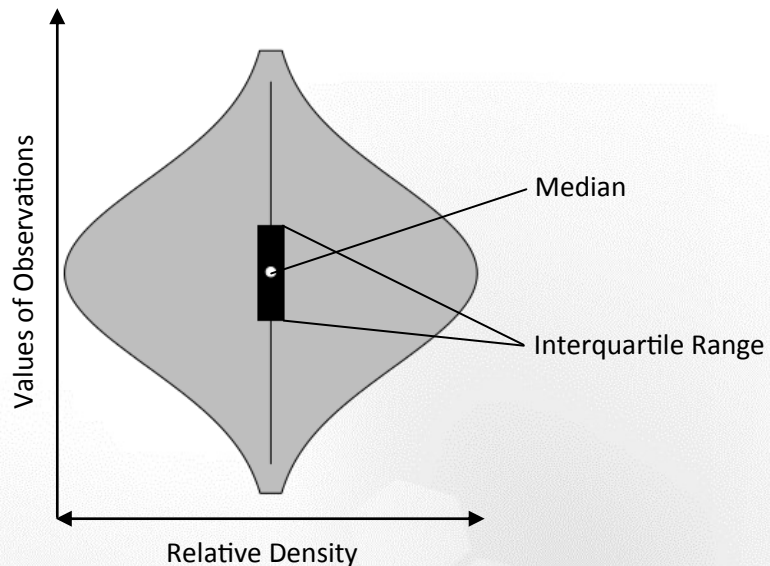
USDCHF Potential Rates



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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