



23/12/2015



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RESEARCH PRODUCTS



Market Research



Dominant Events of the Period

Wednesday, December 23, 2015
16:30 GMT

Yellow Area

December 16

05:00 - 22:30

- UK Claimant Count Change and Unemployment Rate
- Euro zone Manufacturing and Services PMI
- Euro zone Final CPI
- FOMC Interest Rate Decision
- US Industrial Production

Turquoise Area

December 17

05:30 - 19:00

- UK Retail Sales
- German IFO Business Climate
- US Current Account and Philadelphia Fed Manufacturing Index

Blue Area

December 18

03:00 - 17:30

- BOJ Monetary Policy Statement
- Canadian CPI and Wholesale Sales
- FOMC Member Lacker Speaks

Purple Area

December 21

06:30 - 18:30

- Bundesbank Monthly Report
- Euro zone Consumer Confidence

Orange Area

December 22

06:30 - 16:30

- UK Public Sector Net Borrowing
- US Final GDP, Personal Spending and Existing Home Sales
- New Zealand Trade Balance

GBP Currency Index Change

-0.33%

-0.06%

-0.4%

-0.4%

-0.83%

Max GBP Volatility Index

1.94

1.93

1.48

1.4

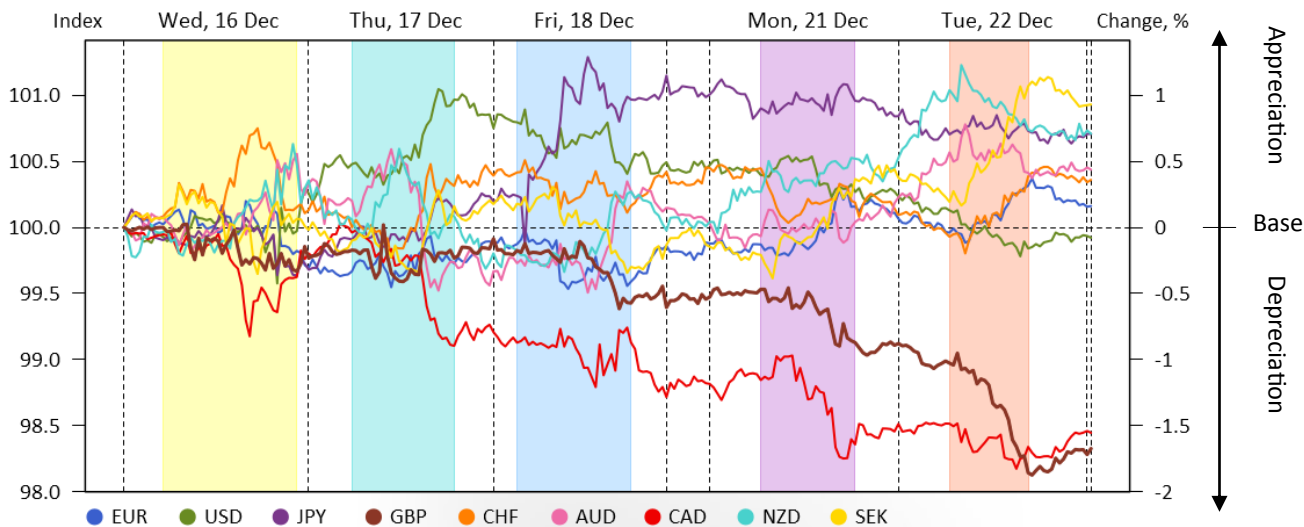
1.06



Relative Currency Strength

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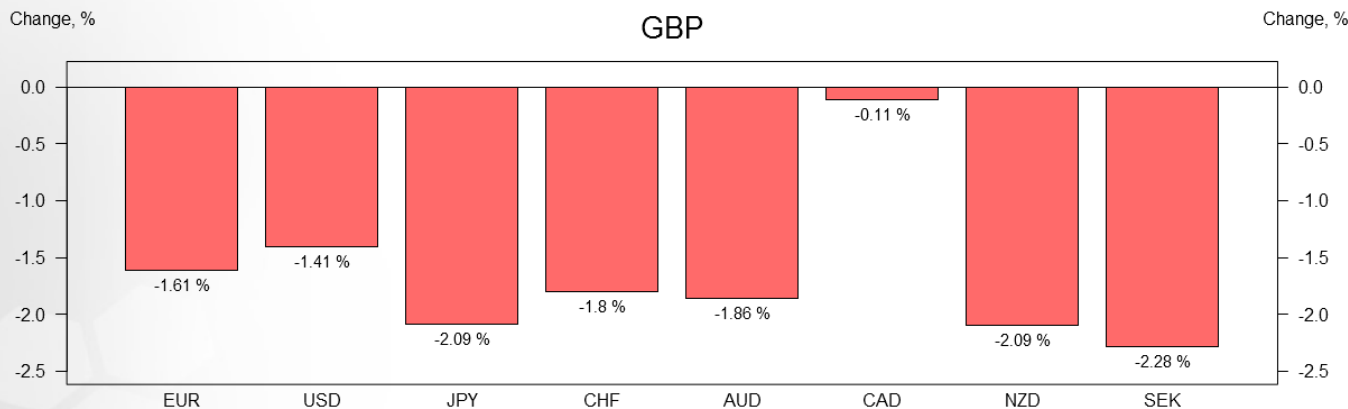
Currency Indexes



The Swedish Krona was the best weekly performer amid quite hawkish news from the Riksbank, which decided to keep the interest rate unchanged last Tuesday and refrained from adding more monetary support. The SEK Index continued to gain value throughout the period and managed to rally by 0.93% in five days.

As for the Pound, it failed to reflect positive news coming from the Office for National Statistics on Wednesday and Thursday. Unemployment rate in the UK dipped to 5.2%, while retail sales grew three times faster than expected. However, all positive changes were temporary. Two days of the sharpest losses were Monday and Tuesday when the GBP Index lost 0.4% and 0.83%, respectively.

The Sterling was a clear under-performer during the previous trading period ended Tuesday, December 22. This currency was pressured by the bears, even though the fundamental front was much more optimistic than pessimistic. The GBP Index spent all of the period's time below the major base line, meaning this component was losing value every single day. At the same time, until Tuesday the worst weekly performer was the Canadian Dollar; however, disappointing UK fundamentals on Tuesday pushed the Pound Index below the CAD Index. Therefore, the aggregate 5-day spread between two currencies reached 11 basis points by Tuesday evening.



Currency Index Change

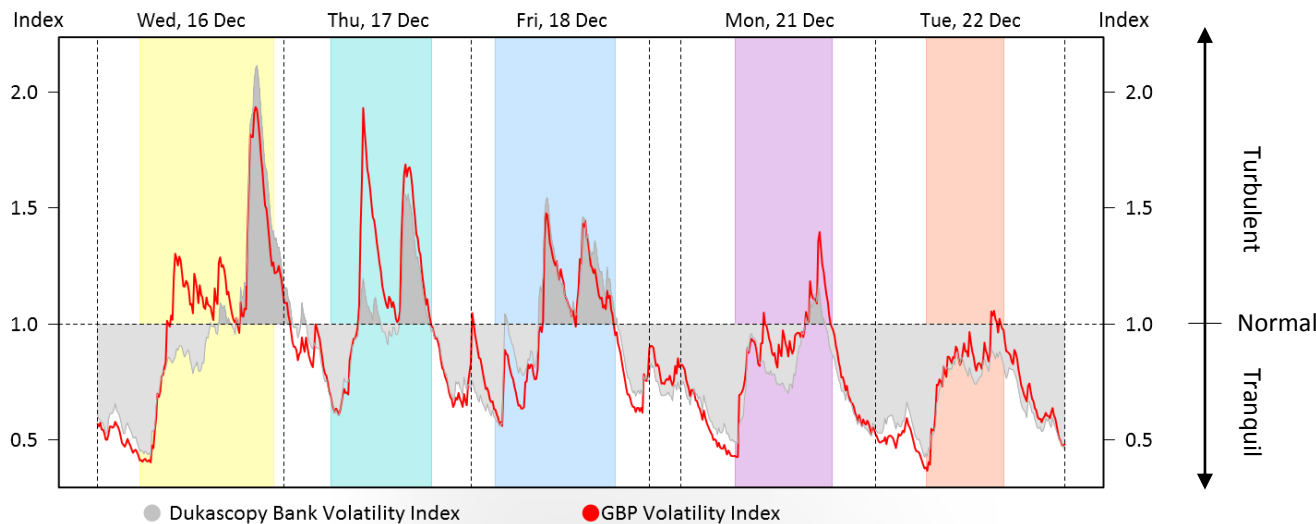
Days	EUR	USD	JPY	GBP	CHF	AUD	CAD	NZD	SEK
5	0.16%	-0.08%	0.71%	-1.67%	0.36%	0.44%	-1.55%	0.71%	0.93%
20	2.8%	-0.99%	0.35%	-2.74%	2.55%	-1.58%	-6.48%	3.27%	3.07%
130	1.91%	4.05%	6.26%	-2.44%	-1.66%	-3.29%	-9.58%	3.05%	1.89%
250	-4.01%	8.38%	7.56%	2.82%	7.97%	-4.72%	-11.76%	-5.95%	-0.3%



Volatility

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Volatility



Given that the beginning of this Christmas week was very poor on any fundamentals, especially on Monday, the vast part of volatility was observed during three days from Wednesday to Friday. Without any doubt, the highest spike was seen on Wednesday when the Federal Reserve made a historical interest rate decision. It hiked the target range for the Federal funds rate by 25 basis points to 0.25-0.5%. The decision was, however, largely expected and partly priced into markets. However, Janet Yellen's press conference revealed that the Fed is on course to raise interest rates four times in 2016. While the market assumes only two hikes next year, this divergence caused most of the last week's turbulence.

In the meantime, the Pound's personal volatility was the highest on Thursday when the retail sales data came out strongly better than expected. Sales grew 1.7% in November of this year, even though the analysts had anticipated a moderate increase of only 0.6%. Moreover, the previous month's decline was revised upwards from a drop of 0.6% to -0.5%. Volatility of the Sterling touched 1.93 points, falling slightly short of 1.94 points posted on Wednesday during the Fed event. As a result of both data releases, the currency's elevated volatility spiked to 31%, outpacing the market average of 23%. The most volatile currency pair, however, used to be GBP/JPY (50%). This particular cross was vulnerable after the Bank of Japan's decision to include more assets into its QE programme.

Elevated Volatility (% of the observed period)

Market	GBP	EURGBP	GBPUSD	GBPJPY	GBPCHF	GBPAUD	GBPCAD	GBPNZD	GBPSEK
23	31	21	37	50	26	27	45	19	26

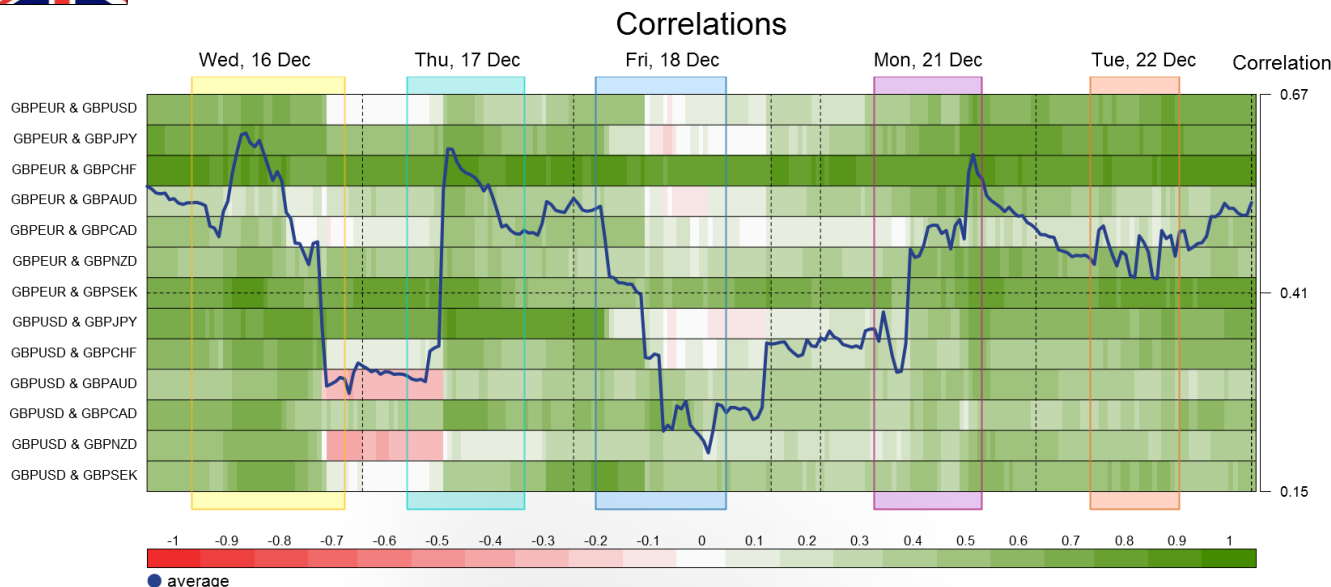
Volatility Index (for the observed period)

	Market	GBP	EURGBP	GBPUSD	GBPJPY	GBPCHF	GBPAUD	GBPCAD	GBPNZD	GBPSEK
Max	2.11	1.94	2.17	3.56	3.51	2.45	2.43	3.53	2	1.66
Min	0.42	0.37	0.27	0.28	0.37	0.26	0.39	0.24	0.39	0.23
Average	0.85	0.88	0.77	0.96	1.1	0.83	0.86	1	0.82	0.79



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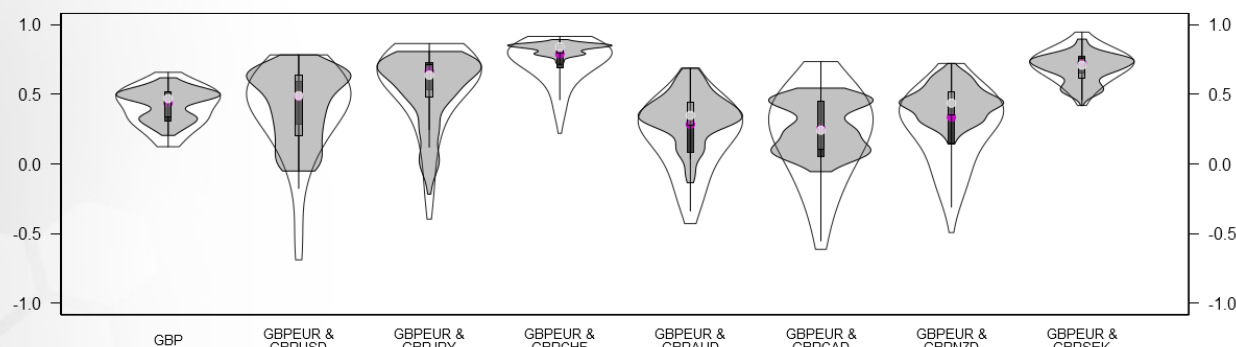
Currency Significance



Significance of the UK currency was relatively high last week, and it was reflected in the readings for the mean correlations coefficient. On average, the correlation amounted to 0.43 points during the researched period. On the basis of the last 20 days, the mean correlation was 0.41 points, while falling to just 0.37 and 0.36 points on six-month and yearly time frames, respectively. The best-correlated component included the Swiss Franc, while those with commodity-linked currencies were sometimes posting correlations strongly below zero. The longest tail, however, was showed by the GBP/EUR & GBP/USD component amid the Fed's event, which caused large volatility on Wednesday.

Correlations among different currency pairs of the British Pound were solid from the very beginning of the observed period. The weekly high was touched on Wednesday 9:30 GMT when the UK labour market data provided some information about a decline of the unemployment rate to 5.2%. The following Fed rate decision was successful in driving the Dollar away from other components. However, one of the most vulnerable crosses included the Aussie and Kiwi, which fell deeply into the red. While the Pound accelerated its post-Fed slump against the Greenback, the US currency weakened versus the others. In the meantime, there were additional periods of positive correlations in course of the week. It took place on Thursday during the data release on UK retail sales, while on Monday the green correlations were mainly generated by the lack of global volatility catalysts.

Correlations (5 vs 20 days)



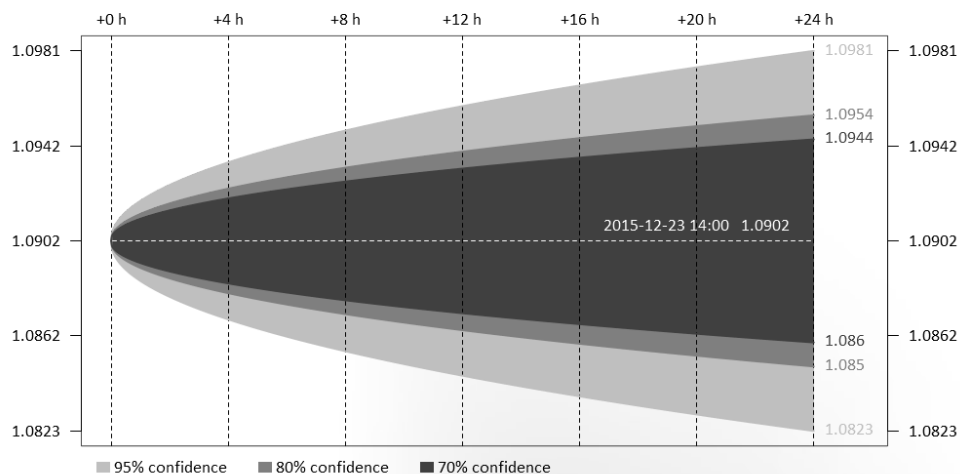
Mean Correlation Coefficient (with GBPEUR)

Days	GBP	GBPUSD	GBPJPY	GBPCHF	GBPAUD	GBPCAD	GBPNZD	GBPSEK
5	0.43	0.42	0.54	0.83	0.35	0.26	0.44	0.69
20	0.41	0.39	0.57	0.74	0.21	0.21	0.27	0.71
130	0.37	0.25	0.47	0.7	0.24	0.25	0.27	0.72
250	0.36	0.18	0.37	0.65	0.3	0.27	0.33	0.69

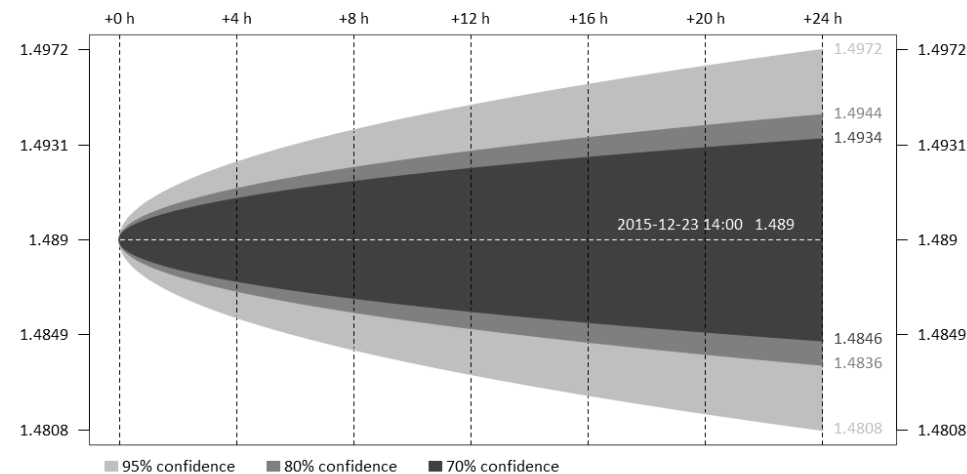
Confidence Intervals for Next 24 Hours

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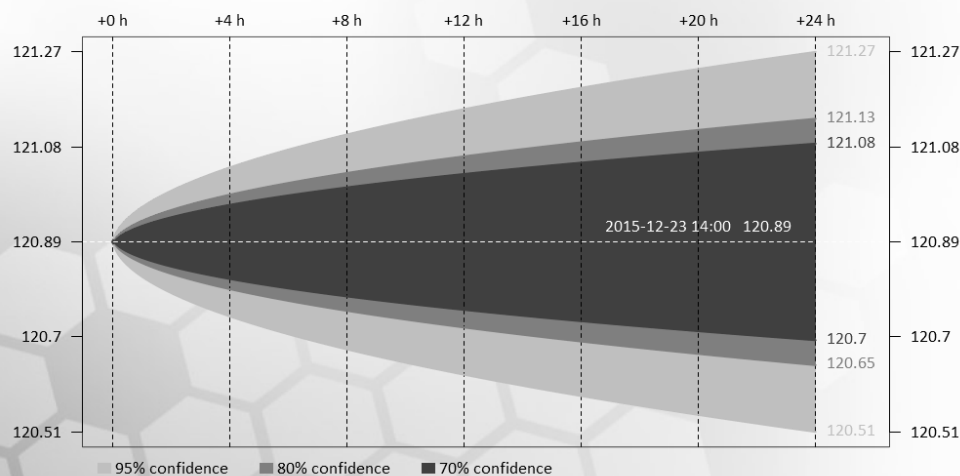
EURUSD Potential Rates



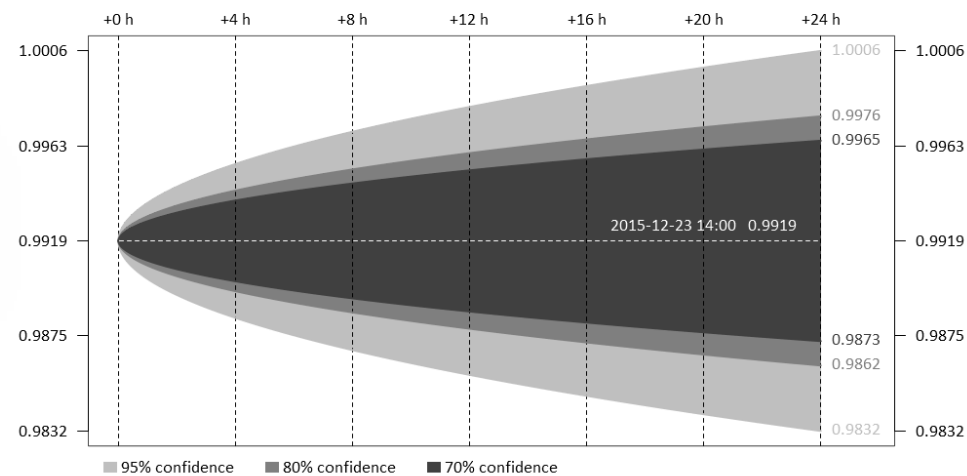
GBPUSD Potential Rates



USDJPY Potential Rates



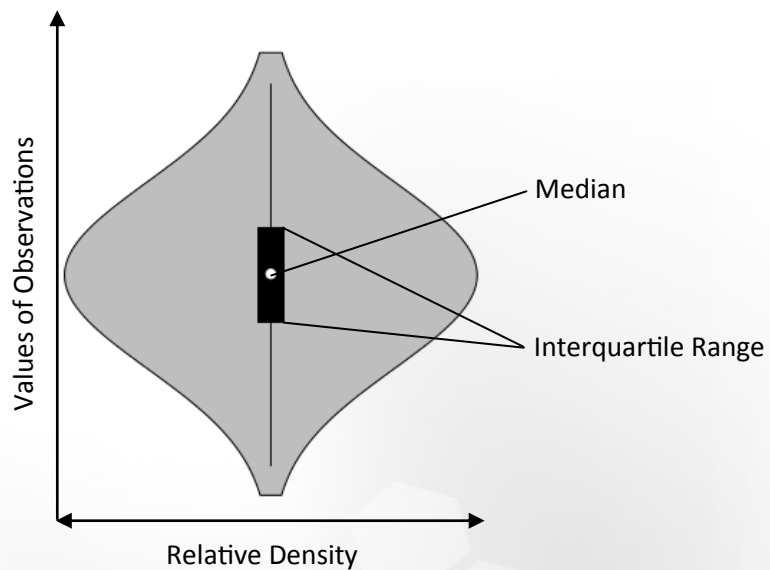
USDCHF Potential Rates



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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