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Market Research





Dominant Events of the Period

Wednesday, May 04, 2016

15:30 GMT

Yellow Area

April 27

01:30 - 09:30

- Australian CPI
- UK GDP
- FOMC Interest Rate Decision
- RBNZ Interest Rate Decision

Turquoise Area

April 28

02:00 - 14:30

- Japanese Industrial Production and Unemployment Rate
- Bank of Japan Interest Rate Decision
- German CPI and Unemployment Change
- US Advance GDP

Blue Area

April 29

10:30 - 16:30

- Euro zone CPI and GDP
- Canadian GDP
- US Chicago PMI and University of Michigan Consumer Confidence Index

Purple Area

May 3

02:00 - 14:30

- RBA Interest Rate Decision
- Australian Building Approvals
- UK Manufacturing PMI
- FOMC Members Lockhart and Williams Speak

AUD Currency Index Change

-1.82%

-0.26%

-0.45%

-1.68%

Max AUD Volatility Index

5.35

2.91

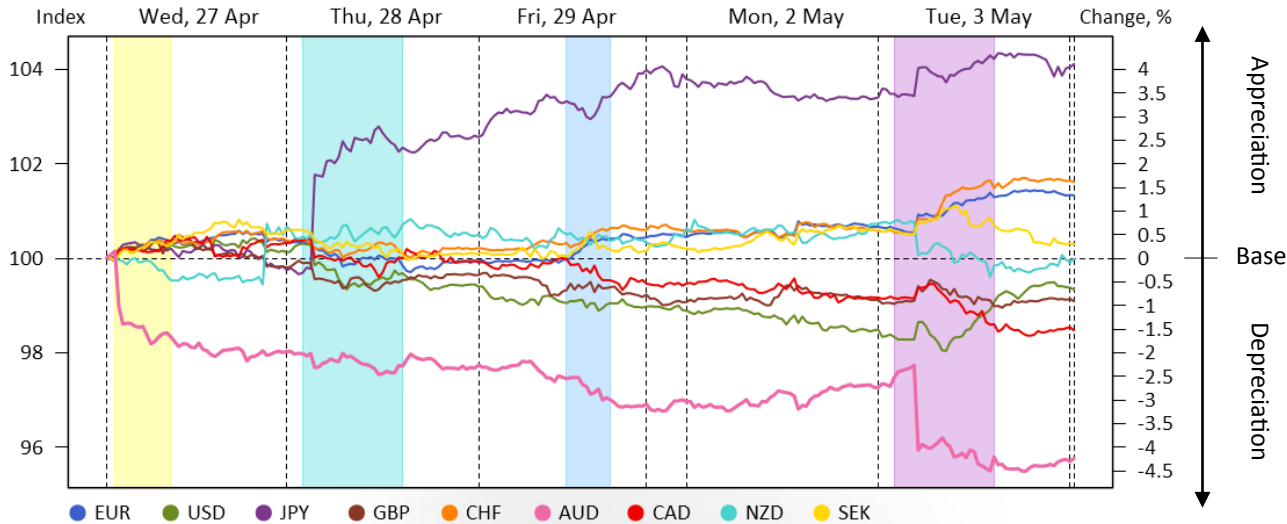
1.74

8.3



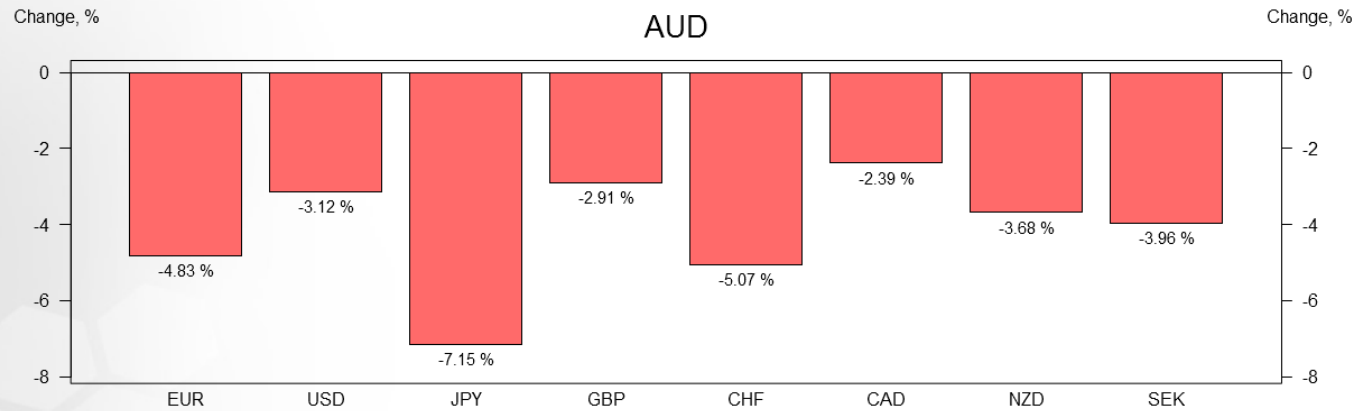
Relative Currency Strength

Currency Indexes



Australian Dollar and Japanese Yen are possibly the only two major currencies that are worth being discussed throughout this overview. The former had been the purest loser of the period ended May 3, while the latter continued to register massive value gains. AUD was hit twice, firstly after disappointing inflation figures and secondly in the wake of the RBA's decision to cut interest rates. In the meantime, hawkish Bank of Japan sent the Yen higher on April 28, as this central bank refrained from adding easing on the monetary policy side despite the most recent pan-market appreciation of JPY.

First slump of the Aussie of more than 1.5% took place during the very first moment of the observed time period, after consumer prices in Australia tumbled for the first time since 2009 in Q1 2016. On the back of that, the Reserve Bank of Australia surprisingly decided to curb the key interest rate by 25 basis points on May 3 and lowered it to 1.75%. Analysts had not estimated so quick response from the policymakers. The gap between AUD and JPY indices reached 7.15% by Tuesday. Overall, the Aussie tumbled by at least 2.30% against other G9 currencies. Following these abrupt changes, the South Pacific currency has almost eroded its 6-month advance, while the year-on-year value growth is negative at -4.26%. Meanwhile, the Yen remains the most overvalued currency with the annual positive change of 14%.



Currency Index Change

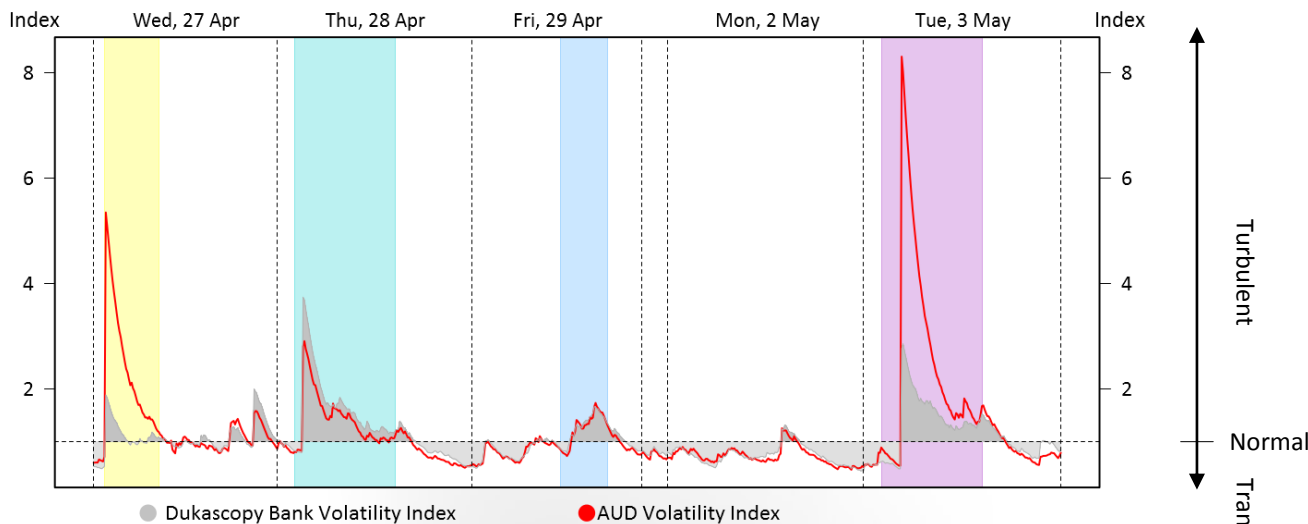
Days	EUR	USD	JPY	GBP	CHF	AUD	CAD	NZD	SEK
5	1.33%	-0.66%	4.11%	-0.91%	1.61%	-4.24%	-1.53%	-0.01%	0.3%
20	-0.3%	-1.63%	2.08%	1.51%	-1.25%	-2.54%	2.17%	0.37%	-0.39%
130	1.61%	-4.01%	9.95%	-10.06%	0.04%	0.66%	-1.08%	0.71%	2.65%
250	3.63%	0.39%	13.89%	-4.12%	-1.96%	-4.26%	-4.4%	-8.63%	5.46%



Volatility

Wednesday, May 04, 2016
15:30 GMT

Volatility



Very rarely the volatility indices of any currencies are climbing significantly beyond 2-3 points on the scale of the main Volatility chart. However, unexpected central bank events seem to be destroying this stereotype, because they manage to substantially move the markets and influence their behaviour. Besides central banks, however, hard data may also put pressure on the sentiment. This is exactly the case of the Aussie over the last week. Even though the elevated volatility was below the market average at 0.41 points, there are turbulence spikes worth paying attention to. Meanwhile, the most volatile crosses were AUD/NZD and AUD/CAD amid wide fluctuations of energy prices.

Falling consumer prices, published completely against the positive forecast, resulted in a surge of AUD Volatility Index up to 5.35 points, the second-record level over the researched period. CPI slid 0.2% in January-March, while analysts had anticipated the same change, just with a plus sign. Annual inflation fell to 1.3% from 1.7%. Another increase of Aussie's turbulence, before the RBA event, was observed on April 28 when the Bank of Japan announced its various policy decisions. However, compared with other events the volatility was much weaker (2.91 points) then. The weekly maximum skyrocketed to 8.30 points on Tuesday, as the Reserve Bank of Australia decreased the main benchmark rate to 1.75% from 2.00%, putting itself back on easing track.

Elevated Volatility (% of the observed period)

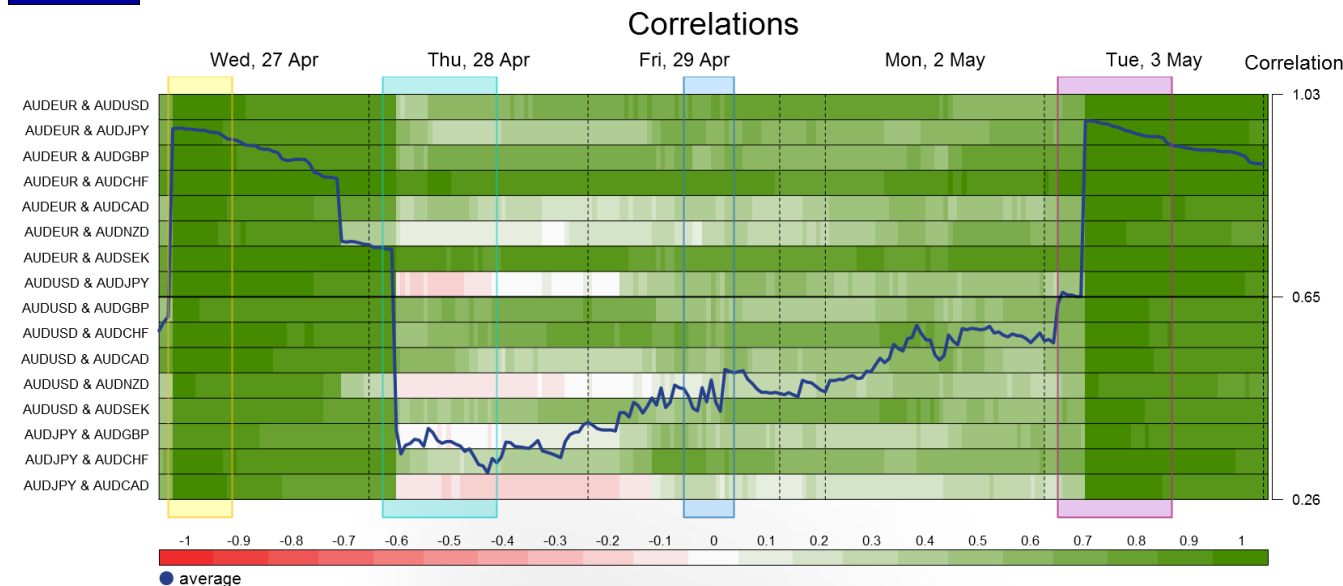
Market	AUD	EURAUD	AUDUSD	AUDJPY	GBPAUD	AUDCHF	AUDCAD	AUDNZD	AUDSEK	
	45	41	36	36	38	42	38	53	54	41

Volatility Index (for the observed period)

	Market	AUD	EURAUD	AUDUSD	AUDJPY	GBPAUD	AUDCHF	AUDCAD	AUDNZD	AUDSEK
Max	3.74	8.3	8.41	7.95	9.86	8.88	8.21	10.49	8.82	7.95
Min	0.45	0.47	0.41	0.4	0.34	0.4	0.39	0.53	0.44	0.41
Average	1.06	1.19	1.13	1.08	1.2	1.19	1.13	1.35	1.4	1.16



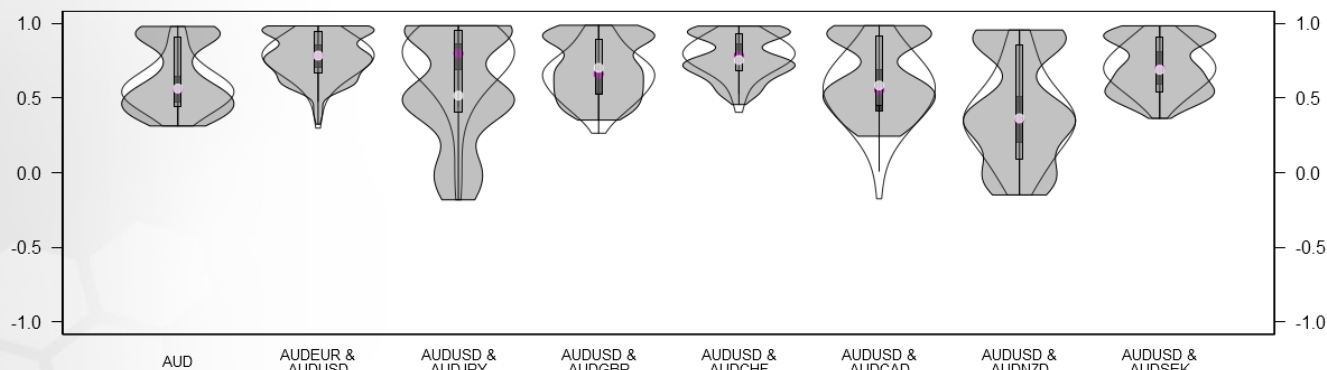
Currency Significance



Over at least 20 months AUD significance levels have never reached the area that is located so close to the upper bound of 1.00 for the composite. It seems that inflation numbers and the RBA interest rate decision have magically managed to greatly unite different crosses of AUD, as at that moment in time they were quite confident that the only way is to sell this currency. Owing to that, the mean correlation coefficient for the whole April 27-May 3 period rose to the 0.63 level, much above 0.56-0.58 averages that are seen on different historical time frames. As for distributions, particularly the AUD/USD & AUD/JPY component created a long tail amid divergence between US and some of Asia/Pacific currencies.

With consumer price data coming out, the AUD composite correlation coefficient soared to reach the 0.965 mark by 3:30 GMT on Wednesday of the last week. Later in the period, however, correlations between currency pairs of the Australian Dollar were forced to diminish in the run up to the RBA meeting. Some components, as it is also reflected in violin charts, were pushed to the red territory. The Yen reacted to the decision of the Bank of Japan and appreciated sharply, while the New Zealand Dollar used to be volatile on the back of the Reserve Bank of New Zealand's meeting. By Tuesday, May 3, the correlations started to revive and were as high as 0.65 points even before news from the RBA. After the RBA, however, the composite immediately rallied to hit 0.979 points during the peak moment.

Correlations (5 vs 20 days)



Mean Correlation Coefficient (with AUDUSD)

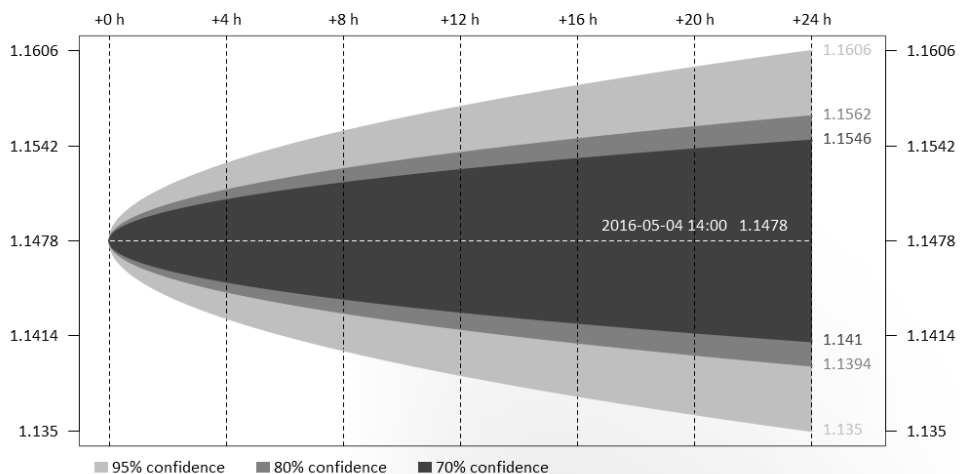
Days	AUD	AUDEUR	AUDJPY	AUDGBP	AUDCHF	AUDCAD	AUDNZD	AUDSEK
5	0.63	0.78	0.55	0.7	0.77	0.64	0.43	0.71
20	0.58	0.77	0.74	0.65	0.78	0.55	0.37	0.7
130	0.57	0.73	0.8	0.7	0.74	0.6	0.27	0.69
250	0.56	0.65	0.81	0.73	0.68	0.64	0.26	0.61

Confidence Intervals for Next 24 Hours

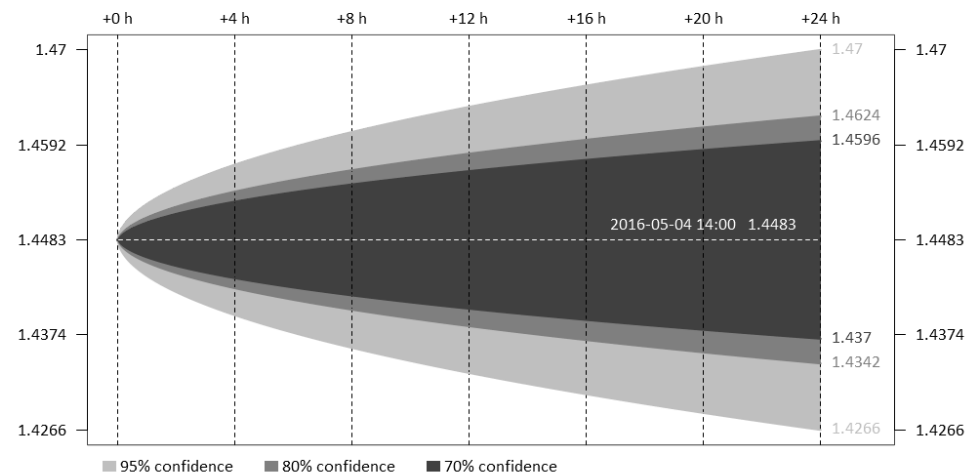
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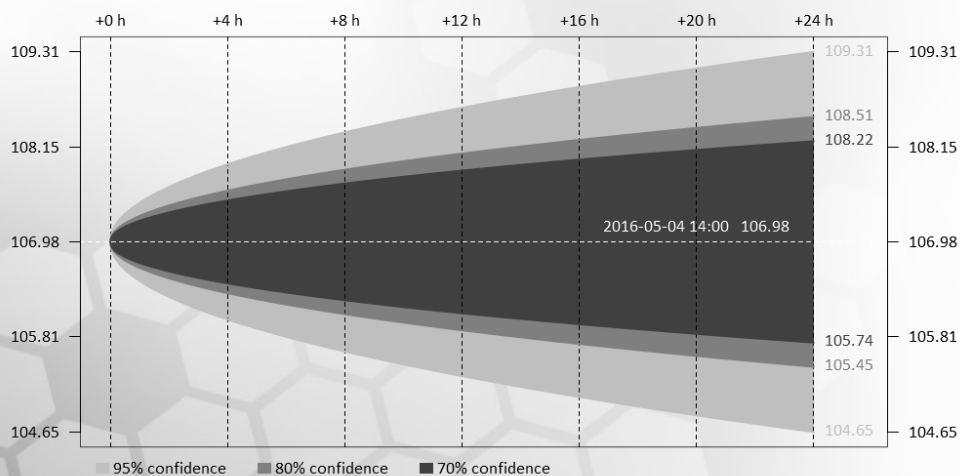
EURUSD Potential Rates



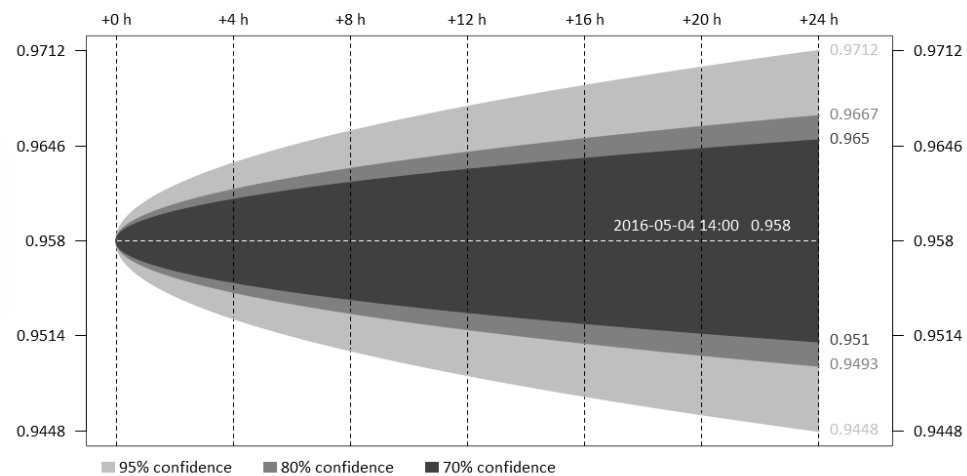
GBPUSD Potential Rates



USDJPY Potential Rates



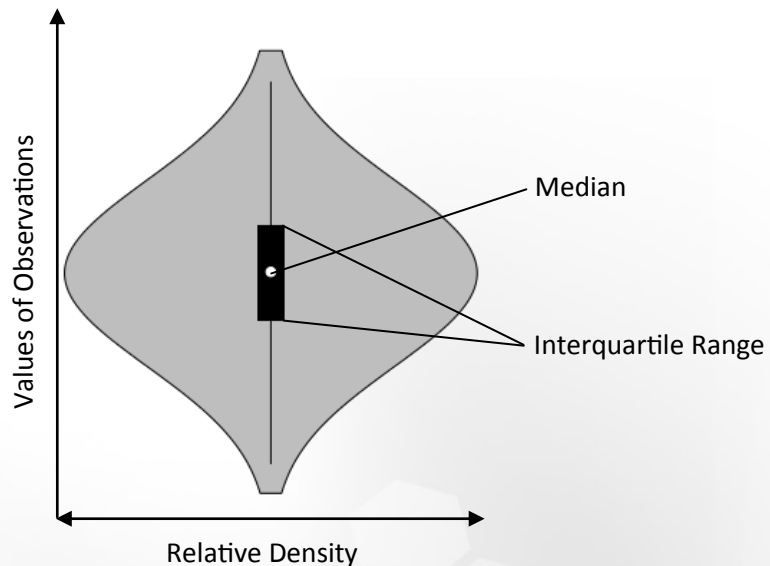
USDCHF Potential Rates



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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