DailyFX

Weekly Range-Breakout Barometer

July 4, 2007

Daily FX Research Team
Richard Lee
Currency Analyst
1.212.897.7660
1.888.50.FOREX (36739)

Implied volatility is one of the most tried and true methods for objectively measuring expected volatility in the spot market. Derived from currency options with different maturities, implied volatilities are used to help predict potential movements in the spot market and is one of the most popular strategies of systems traders and other professional hedge funds.

At its most fundamental, the basic and intuitive interpretation of this implied data is often the most telling for traders. Taken alone, a steady rise in the longer-term implied volatility (**the red line**) is indicative of a strengthening trend; while inversely, a decline often reveals that a period of range or consolidation in spot is ahead or already in place. Additionally, the histogram or spread between the shorter and longer-term implied volatilities (**the blue colored bars**) tells a different perspective. As the histogram rises, volatility is expected to pick up faster in the near future relative to the longer-term range. Ultimately, this increases the probability of a breakout scenario in the underlying currency.

Volatility Situation

Currency	Spot Price	Barometer Reading
EURUSD	1.3608	**Breakout**
GBPUSD	2.0161	**Breakout**
USDJPY	122.42	**Breakout**
USDCAD	1.0610	**Range**
AUDUSD	0.8541	**Breakout**

EURUSD

Euro implieds ticked higher in all aspects as the short-long spread moved closer to the zero line over the course of the week, with the longer term volatility rising higher compared to the previous gauge. The longer terms moved higher by 13 basis points as the spread improved to trade just 3 bps short of the zero benchmark. With the tick higher, vols continue to purport a breakout environment in the price action for the umpteenth week. Incidentally, the suggestion is in technical coordination as the underlying euro currency is set to test the record high set back in the beginning of the year, just short of the 1.3700 figure. A subsequent penetration above the resistance would be reason enough for a tick higher in activity ahead of the ECB meeting.

GBPUSD

Pound sterling implied improved in tandem with euro components as the long term proceeded to improve by an impressive 30 basis points to 5.2 percent this week. Subsequently, the spread additionally improved to trade just shy of the zero line at 8 basis points under. Similar factors are supportive of the breakout scenario as recent price action also coincides with the vol implied picture. Rising above the $2.0000 figure, the British pound is set to test the $2.0200 level in the near term. As in the euro technical picture, such a move above may likely bolster an acceleration higher to the $2.0400 figure as well as inject further advancement potential in implieds ahead of the Bank of England announcement.

USDJPY

Implied vols in the Japanese yen pared back a bit in the week, as the underlying currency made an effort to break through the recent range bound scenario. According to the longer picture, however, there may be more in store for the underlying pair as implieds continue to remain above ground. Currently trading approximately 65 basis points weaker, the implied spread remains positive at 30 basis points above the benchmark zero line with the longer term implied being priced in at 7.15 percent. Nonetheless, even softer numbers are apparent, breakout scenarios continue to remain on the technical support. Should the 122.00 floor fail to hold, vols will likely jump on a move to 120.00.

USDCAD

Implieds moved ever higher even as the underlying currency continued to consolidate during the week. Now at 8.07, long terms are 57 basis points higher as the spread was taken back a bit on short term lackluster activity. Currently trading 23 basis points wide, the spread is considerably lower by a full percentage point. As a result, range bound suggestions continue for the USDCAD currency pair as the price action is being restricted to the 1.08-1.06 channel. The current environment is likely to persist as the market awaits the BOC decision on July 10th. With both sides, bulls and bears, pricing in central bank rates, the decision will ultimately spark directional bias. Until then, barriers are looking formidable on both sides.

AUDUSD

Similar to Canadian dollar action, the Australian dollar has remained in a relatively tight trend channel moving higher. The advance looks likely to be exacerbated as implieds are moving higher in tandem with the price action. However, for the week, both measures have pared back gently, with the longer term pricing in at 7.65 percent compared to 7.75 percent last week. Incidentally, the spread has contracted on short term weakness, now trading 50 basis points wide, just 15 down from the last week of June. At this point, with RBA set to keep rates steady, speculation is residing on any further hawkish bias that can be ascertained by central bank speak. Should monetary authorities continue to purport the reigning theme, look for activity to heighten along with speculative ground in the price action.

FXCM, L.L.C.®	NEW YORK	1.212.897.7660	TOKYO	81.3.3556.5541
	LONDON	44.(0)20.7464.8408	HONG KONG	852.2119.0116