



DailyFX

Weekly Range-Breakout Barometer

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August 8, 2007

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.



EURUSD

Volatility pared back in the Euro implieds, both long and short components. Long term measures pulled back to trade at 5.78 percent versus last week's more impressive 5.88 percent. Short term have declined as well, purporting a tighter spread of 47 basis points. Ultimately, with implieds on the decline, short term consolidation should persist in the next couple of sessions before the trend resumes course. A break of the 1.3851 high should set things into motion.

SPOT PRICE	READING
1.3803	Trend Continuation

LAST WEEK'S SPREAD
0.75

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GBPUSD

Sterling implieds raged higher as a result of further interest rate speculation. Longer term components are trading higher above last week's 6.2 percent reading, currently at 6.48 percent. Short-long differentials have also pulled ahead higher, trading 78 basis points wide compared to last week's below zero figure. As a result, our model continues to purport trend continuation in the volatility measure, supported by price action closing in on the 2.0400 resistance figure. Breaks above would bolster further activity till the next barrier at 2.0500.

SPOT PRICE	READING
2.0366	Trend Continuation

LAST WEEK'S SPREAD
-0.25



USDJPY

Japanese yen vols have pulled back on consolidation following the previous week's plummet on carry trade liquidation. Longer terms are now a full 55 basis points below last week's print at 9.2 percent, with the differential lower on the decline in short term activity. The differential is now trading 1.10 basis points wide compared to last week's 1.45 bps. At such an extreme level, our model continues to support a range bound suggestion for the underlying currency, setting aside a break below 118 support. The notion would boost implieds to a longer term high of 10.5 percent.

SPOT PRICE	READING
119.76	Range

LAST WEEK'S SPREAD
1.45



USDCAD

Rangebound indications continue to be suggested in the USDCAD implied picture. Although longer terms did spike up a bit to 8.5 percent, the short long differential narrowed throughout the week. Currently trading at 25 basis points wide, the figure pales in comparison to the previous week's 70 bps spread. As a result, range bound barriers between 1.0400 and 1.0600 are expected to remain intact for the rest of the week.

SPOT PRICE **READING**
1.0493 **Range**

LAST WEEK'S SPREAD
0.70



AUDUSD

Additionally paring back on the week were Australian implieds as the longer term measure dipped to 9.25 percent from the 10.3 percent print seen last week. Short terms have also dropped off precipitously to lend to a narrower spread, currently 55 bps wide compared to last week's more than double figure of 1.20. Although the range bound scenario has merit in the longer term, the model purports a short term trend continuation in the volatility picture. Confirming the notion would be breaks above the 0.8650 figure as speculation drives a test of the 0.8900 trendline resistance.

SPOT PRICE **READING**
0.8616 **Trend Continuation**

LAST WEEK'S SPREAD
1.20

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