



DailyFX

Weekly Range-Breakout Barometer

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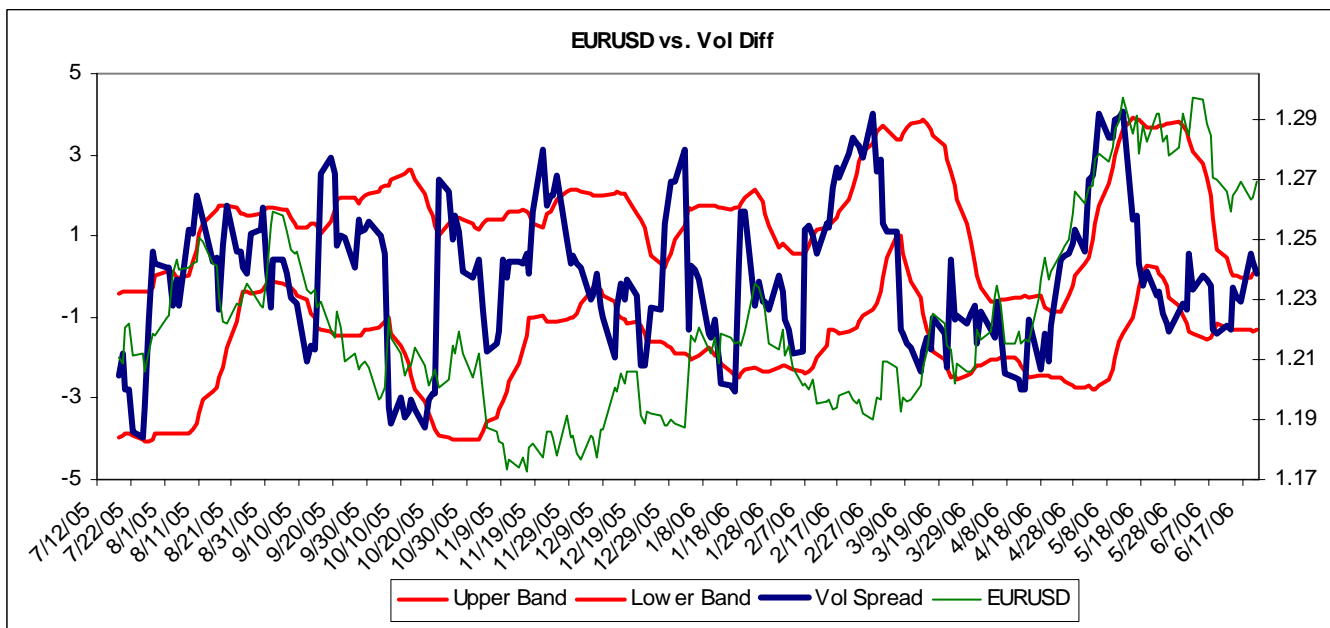
June 21, 2006

Using option volatilities to help predict potential movements in the spot market is one of the most popular strategies of systems traders and other professional hedge funds.

- **Blue Line Pierces Upper Band > Expect Range Trading**
- **Blue Line Pierces Lower Band > Expect Breakouts**

Weekly Changes in Volatility

Currency	Spot Price	Implied Spread	Weekly Difference	Barometer Reading
EURUSD	1.2670	0.091	1.322	RANGE
GBPUSD	1.8457	1.092	3.872	RANGE
USDJPY	114.72	2.192	1.253	RANGE
USDCHE	1.2324	0.682	1.926	RANGE
USDCAD	1.1043	4.428	2.402	NEUTRAL
AUDUSD	0.7380	0.391	2.366	RANGE

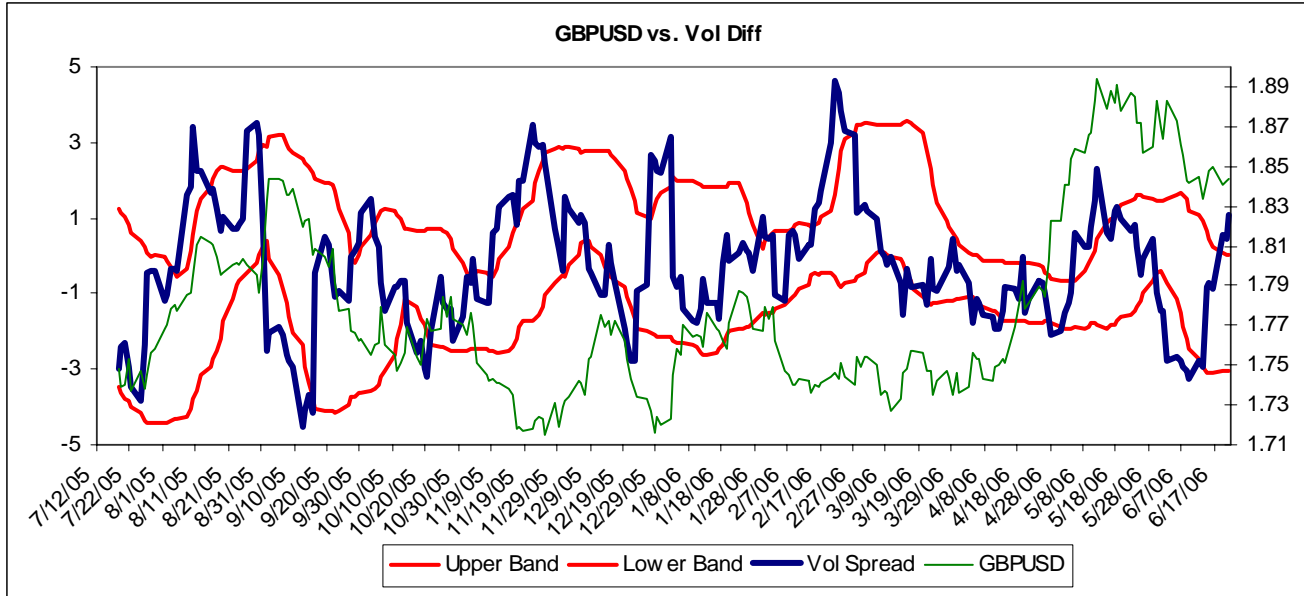


EURUSD

Volatilities dropped on the week and were reflective of the thin data schedule as the underlying currency stayed in a narrow range for the most part. In accordance with the rather dead week, implieds dropped 13 percent while actuals dropped even further below, plunging a whole 24 percent. This now brings the two components closer together and provides a temporary ceiling or visual top in our model. Now, tipping back towards the upper band, suggestions are emerging of a more range bound environment following the explosive climb in the previous week. The indication could not be farther from the truth as near term event risk runs light heading into the weekend and the scheduled Federal Reserve decision next week.

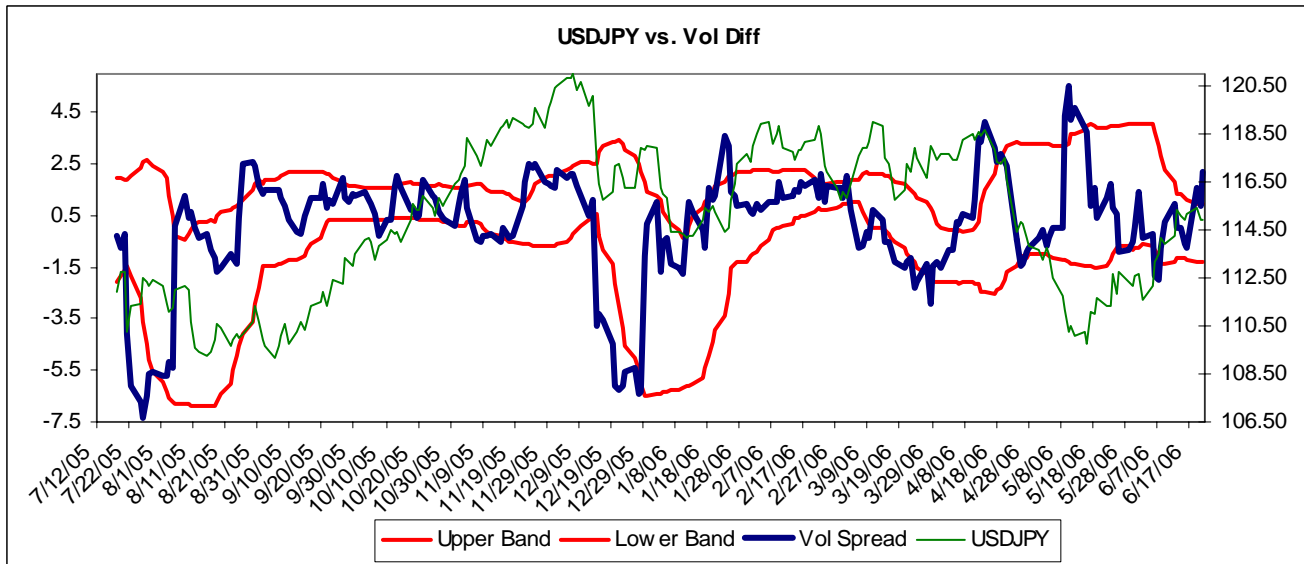
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GBPUSD

Sterling implieds dropped slightly on the week, leading the differential higher as actuals plunged the most of all the major currency pairs. For the week, actuals reflected a rather inactive market by declining 44 percent. The decrease now places the differential in positive territory at a plus 1.09 and places the visual above the upper band. However, with event risk thinning as we approach month's end, a range bound suggestion may emerge as the spread looks to be stalling after the previous rise. At this point, traders should be aware of the potential shift in conditions, but wait for a retrace in the spread for confirmation of the switch.

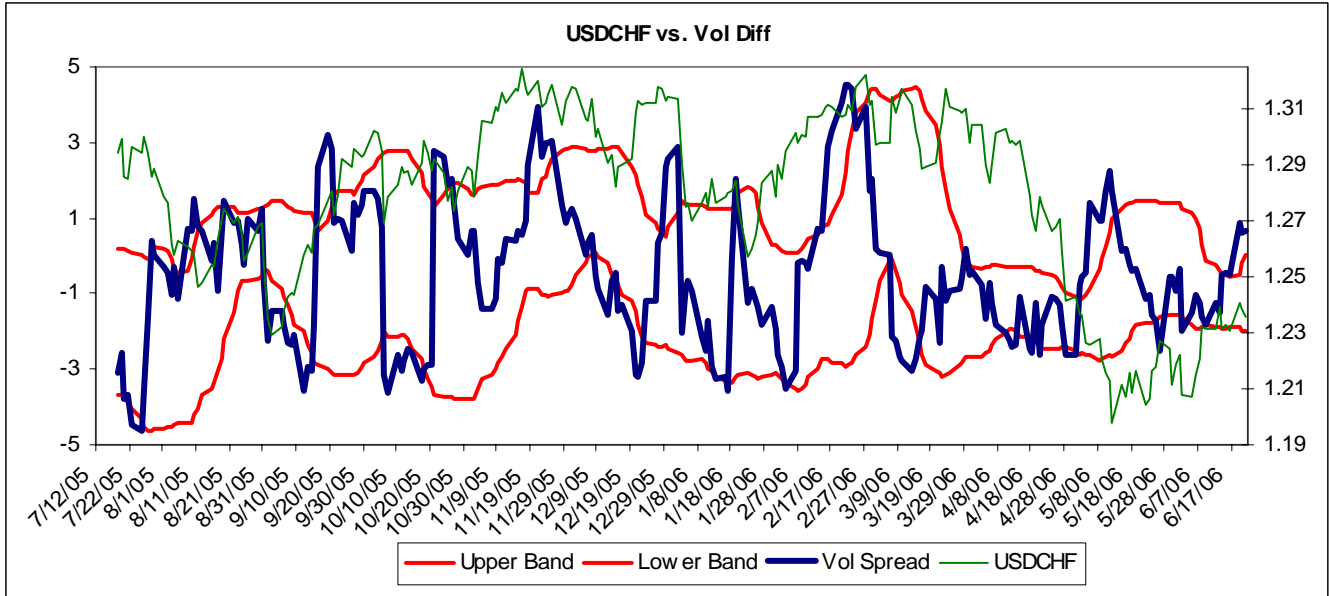


USDJPY

The components of the Japanese yen spread acted in similar fashion to the Pound studies with implieds remaining relatively stable on the week. Comparably, the actuals did nothing but the opposite, dropping 24 percent and widening the spread between the two. As a result, the differential is creeping ever higher above the zero line into positive territory and above the upper band of our model. However, like sterling volatilities, the suggestions look to be stalling right above and could shift to a more ranging environment. In hindsight, the scenario remains highly probably with similar situations in the middle of February. The only caveat seems to be heightened possibility of revaluation efforts by the People's Bank of China. A remote possibility at best, this would cause a higher spike on implieds over the next week.

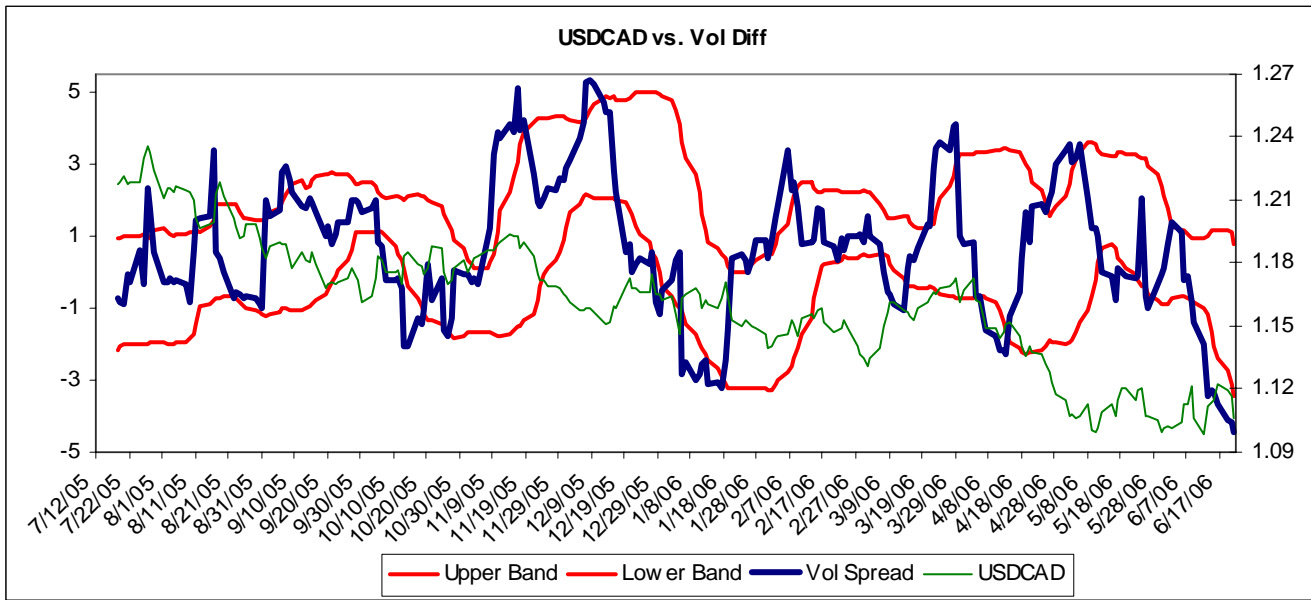
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USDCHF

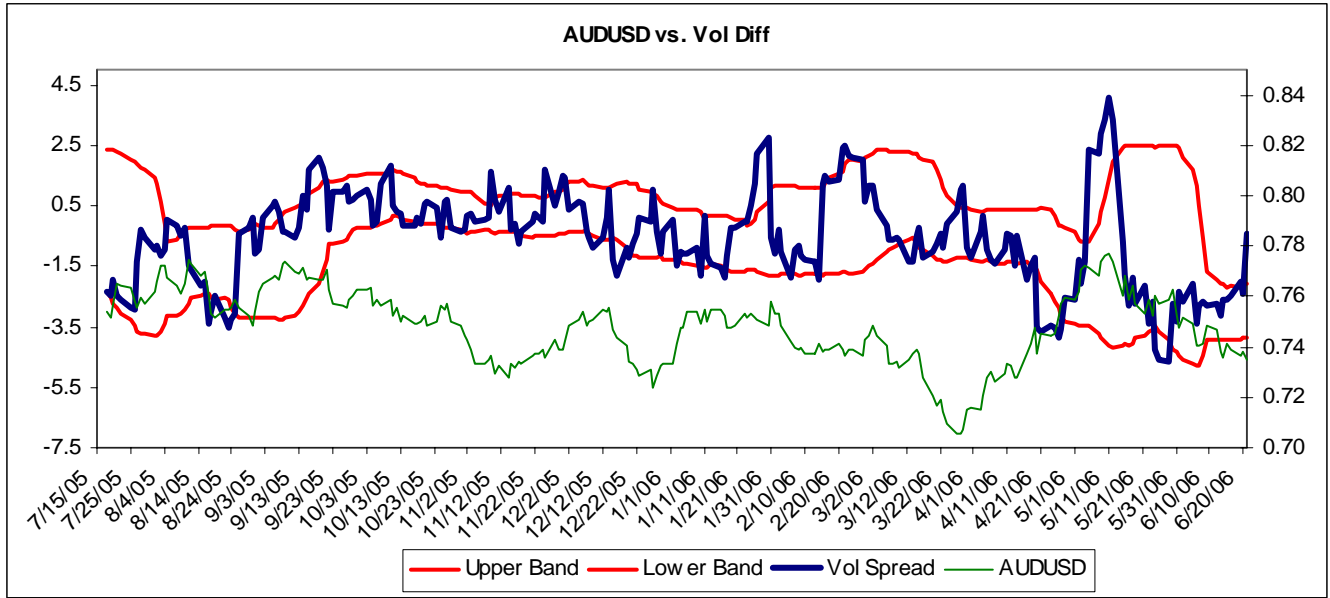
Actuals suffered yet again in the Swissie measure, declining the second highest of the pairs over the course of the week. For the record, actuals dipped by 29 percent as implied kept pace, declined only 13 percent. The widened spread has, as a result, tipped the visual into positive territory and pierced the topside barrier. However, like most of the pairs that we have seen, the spread climb has signs of stalling and may drop back to test the barrier. This would consequently signal a confirmed range bound scenario, not far from the truth as volatilities look to dry up till next week's Fed decision. Nonetheless, this Friday's durable goods orders report may add some further upside, being the only real report of focus for the week.



USDCAD

On the reverse, actuals climbed on the week, widening the spread between the two components and leading the overall measure lower through the bottomsides barrier. Signaling a potential shift to another breakout leg in the overall pair's decline, traders should wait for a confirmed take back in our model before proceeding with any initiatives at this point. For the week, actuals improved a whopping 23 percent and posted the only positive rise of the six major pairs. Meanwhile, implied kept relatively unchanged on the week and were reflective of the prolonged ranging witnessed in the spot price. With commodities speculation still contributing, along with positive data seen over the past couple of sessions, the measure may continue to remain overextended in the near term.

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AUDUSD

The two components to the Aussie differential closed in together during the course of the week with actuals dropping 20 percent while implieds remained relatively untouched. This has pulled the spread wider and to the upside as the reading continues to inch towards the equilibrium zero line and above the upper barrier. At this point, in similar fashion to previously mentioned pairs, traders would be wise to hold out for a confirming dip in the spread before taking any initiatives in the consolidating major pair.

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