



# DailyFX

## Weekly Range-Breakout Barometer

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

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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	1.3549	Breakout
GBPUSD	1.9969	Breakout
USDJPY	119.77	Breakout
USDCAD	1.1051	Range
AUDUSD	0.8286	Range



### EURUSD

Implieds continue to suggest a breakout in the price action as the EURUSD currency pair continues to consolidate near the 1.3600. For the week, implieds dropped yet again, falling to 5.38 percent in the longer term measure. Subsequently, the decline helped the near term component tick slightly higher, remaining positive for most of the week. With short term implieds advancing, the short-long differential jumped above the zero line, pricing in at 22 basis points wide. With implieds at this level, the currency is looking ready for some action comparative to the last time we saw these levels. As it is, the lull coincides with the upcoming risk events involving the US Federal Reserve and European Central Bank.

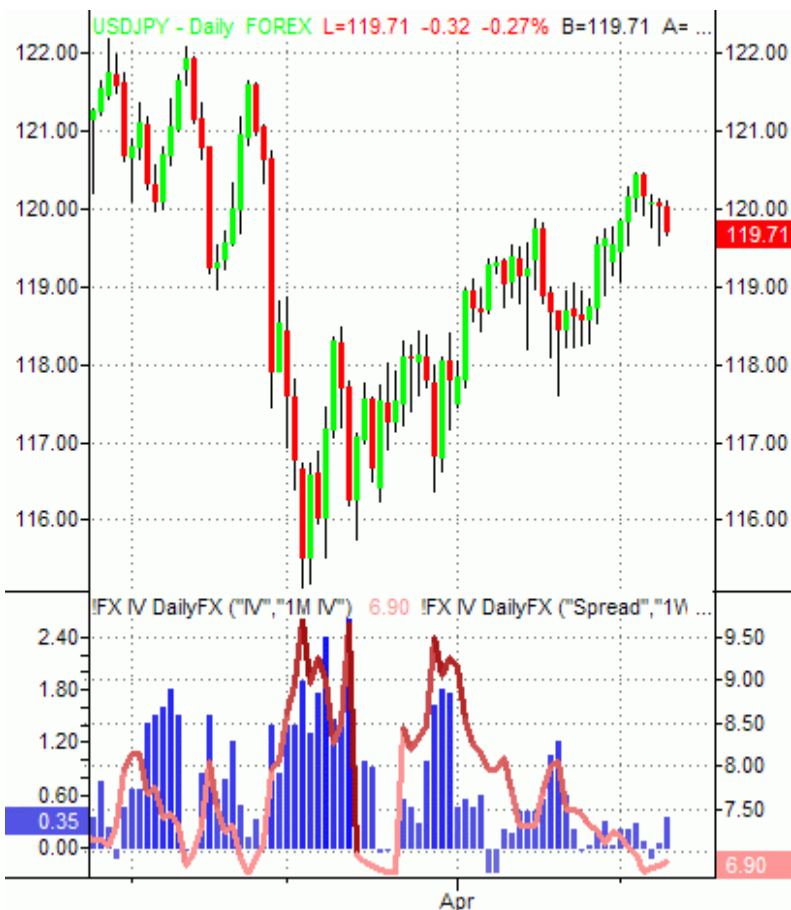
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	LONDON	44.(0)20.7464.8408	HONG KONG	852.2119.0116



### GBPUSD

In similar fashion, sterling volatilities remained low on the week, dropping below last week's gauge at 5.9 percent. Priced in at 5.85 percent in the longer term measure, the short-long differential remains hovering just above the zero line, basically unchanged from last week's zero line print. The landscape is likely to change in the near term, however, with implieds trading at such low levels. Attributed to the pick up will be the Bank of England decision. With the market already pricing in the 25 basis point decision, the question surrounds the plausibility of an aggressive 50 basis point hike in the near term. Notably, the last time vols were this low, back in March, the price action bounced on heavy support to make a charge to 2.0000.



### USDJPY

Yet again, Japanese yen volatilities dipped as the currency consolidated around the 120.00 figure over the course of the week. Falling further, longer term implieds fell through 7 percent to currently price in at 6.9 percent. However, short terms managed to spike through towards the end of the week, remaining relatively unchanged compared to last week's score. Currently, differentials are 35 basis points wide. The picture remains the same as the pair also looks for directional bias from the week's triple central bank threat. The search for directional bias and low implieds environment sets the pair up for a near term breakout potential.



### USDCAD

Volatilities surged on the week, following the breakout through ranges. However, now with the currency falling through key support figures, consolidation may be in store for the underlying currency, trading just above the 1.1000 figure. Longer term implieds have pulled back some, reaching as high as 6.5 percent, the measure is now at 6.45 percent. The short long differential has also declined to trade 25 basis points wide compared to last week's rise from about 35 basis points. Although event risk does come in the form of the Federal Reserve decision, the effects may be minimal as technical support emerges heavy, lending to a more range bound scenario in the pair.



### AUDUSD

Vols have pulled back considerably in the Australian dollar even as the underlying price action continues to show upside promise. Now trading lower at 7.6 percent, the longer term has given way, for a short term vols advance. As a result, the short-long differential has widened to trade 50 basis points. An improvement to early week action, the gauge still falls somewhat short of the previous week's 55 basis point wide trade. With the volatility outlook continuing to trend lower, the range bound scenario continues to loom over the currency pair. However, the landscape may change, dependant on this week's event risk potential as the 0.8300 technical resistance comes into play.

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