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DailyFX

Weekly Range-Breakout Barometer

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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	1.3431	**Breakout**
GBPUSD	1.9747	**Breakout**
USDJPY	121.52	**Breakout**
USDCAD	1.0750	**Range**
AUDUSD	0.8219	**Range**

EURUSD

Breakout suggestions continue to amass in euro implieds as the longer term measure again treks lower for the past week. Now priced in at 5.13 percent, the longer term implieds are considerably below last week's 5.28 percent, adding to support for the breakout scenario. Incidentally, the short long spread has contracted to a miniscule sliver, trading only 2 basis points wide. With current price action as it is, upside resistance will play a pivotal role in any technical breakout with 1.3400 to the bottomside. Event risk exists in the non-farm payrolls employment release set for later this week.

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GBPUSD

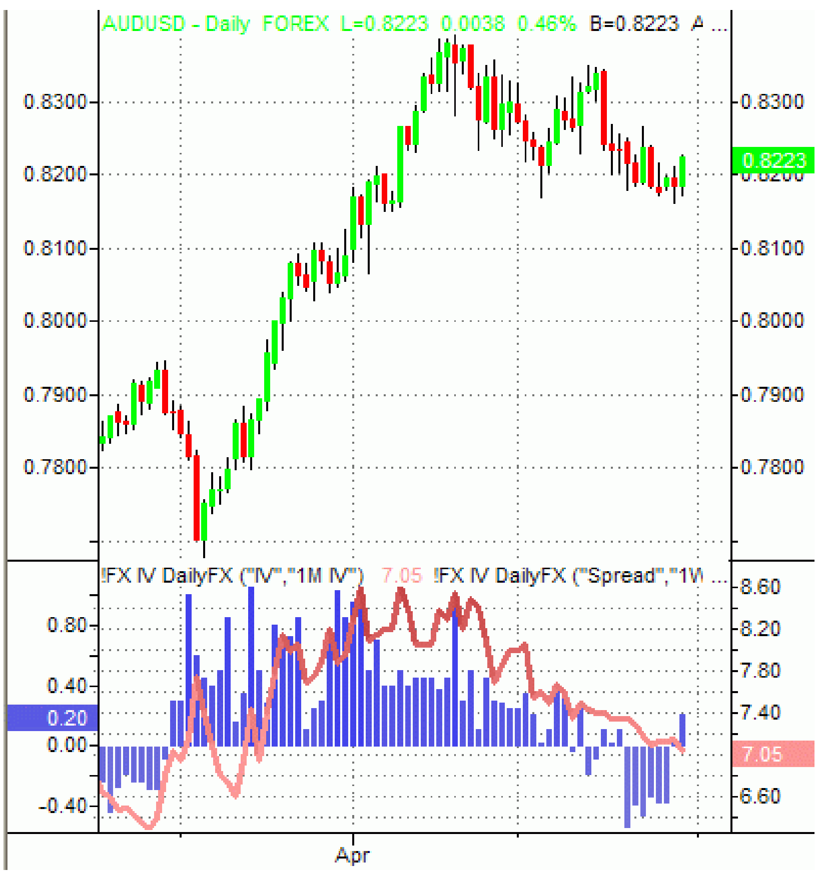
Sterling vols are additionally leaning towards a breakout scenario given the lackluster volatility scene. Longer term implieds have flatlined to 5.15 percent, a far cry from the almost 5.4 percent seen last week. Comparatively, the short long differential has pulled back from negative territory, however, remains well under water at 25 basis points to the downside. The price action has been accommodating to the implied scene, remaining relatively in line with previous range bound suggestions. As a result, taking everything into consideration, the 1.9700 technical level looks to remain in play on a break to the downside as event risk additionally hovers in the US employment report.

USDJPY

Similar to both pound and euro, Japanese yen implieds are also reflecting a plausible breakout scenario. Comparatively, longer term implieds moved slightly higher in the week against other major action, ticking to 6.48 percent compared to last week's 6.30 percent. The slight jump can be attributed to the slate of economic data over the past couple of sessions, keeping the focus on yen carry trades at the moment. Looming over the currency, as a result, is the 122 technical resistance figure. With a move above or below the level, implieds are surely to jump higher, driven by pure price action. However short terms are unreflective till now, dipping to trade 43 basis points wide to the downside.

USDCAD

As mentioned last week, volatilities jumped back higher to retest previous levels on a confirmed change in the Canadian interest rate environment. Suggesting that rate hikes may be needed in the short term, policy makers of the BoC added to already mounting speculation and angst, driving the spot price lower. Now reaching record levels, longer term implieds are suggesting a return to normalcy, and likely reversion to a range bound scenario on consolidation. Comparative to last week's action, longer terms are much higher at 6.6 percent as the short long spread has jumped to trade 35 basis points wide, indicative of short term activity.



AUDUSD

A range bound environment persists for the Australian dollar following the record surge all but a month ago. The short long spread is reflective of the dip in activity, now trading 20 basis points wide in the positive after dipping as far as 48 bps to the downside. Longer term implieds are trading at 7.05 percent, comparatively lower than the 7.18 percent last week. Now with little for the comm dollar to trade on, the current situation should persist rather convincingly. However, should the 0.8100 figure give way, it may inject some short term risks on a heightened implied condition.