



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.



EURUSD

After a week of fairly tight ranges, the spread between short and longer-term implied volatilities has contracted to breach the 0.00 mark. In the past, this has signaled a likely breakout in the underlying currency pair. Progressively smaller trading ranges typically give way to larger price movements. We remain wary of potentially strong directional moves in the EURUSD through the coming week of trade.

SPOT PRICE	READING
1.4125	Breakout

LAST WEEK'S SPREAD
0.95

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GBPUSD

There has been a significant shift in the volatility curve for the British Pound, with longer-term options now fetching 0.4 points above their shorter-dated counterparts. Last week we called for range trade through the following week of price action, and a relatively unchanged spot price through the period suggests that the GBPUSD has indeed remain constrained. Yet conditions now call for a subsequent breakout in the sterling, with the short-long vol spread into negative territory.

SPOT PRICE READING
2.0155 Breakout

LAST WEEK'S SPREAD
1.38



USDJPY

Last week we were premature in calling for a breakout in the Japanese Yen, but a further flattening in the volatility curve suggests that such a move may happen within the coming week of trade. The underlying spot price has likewise traded within a narrowing wedge formation—a strong signal of potential breakout in price. Though we could theoretically see shorter-term vols fall further from recent lows, it seems likely that a breakout in price will occur sooner than later.

SPOT PRICE READING
115.89 Breakout

LAST WEEK'S SPREAD
1.22



USDCAD

Shorter dated volatility on the USDCAD has become very expensive, leaving the short-long spread near recent heights. This suggests that traders may leave the currency to trade within progressively narrower ranges through the short term. Consolidation likewise seems likely from a pure price standpoint, as traders may need time to digest the pair's impressive directional moves.

SPOT PRICE READING
1.0040 Range

LAST WEEK'S SPREAD
-0.45



AUDUSD

The front-end of the vol curve has likewise become very expensive for the AUDUSD, with a consolidation period likely to come after strong directional moves. Though longer-dated options are still fetching an impressive 12.0 percent, experience suggests that Aussie price movements will slow through the coming week of trade.

SPOT PRICE READING
0.8761 Range

LAST WEEK'S SPREAD
1.13

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