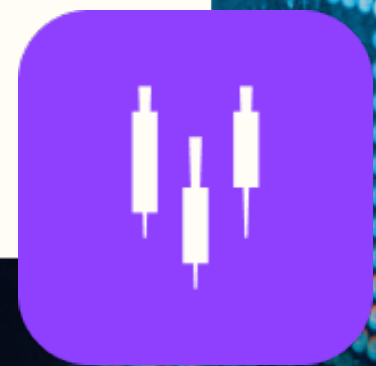


Mastering Currency Risk: A Brief Guide to EUR/USD





Preamble

Declining profitability, shrinking margins, bankruptcies: the consequences of poor currency risk management can be dire for companies operating internationally. While it is impossible to predict currency fluctuations, are there underlying rules to best anticipate key movements in the forex market?

This is precisely why Ivo Mertens, Chief Revenue Officer at iBanFirst, and his team of FX experts analyzed the EUR/USD pair's fluctuations in detail over the past five years. They extracted three key insights, compiled here to help businesses and CFOs make informed decisions.

By **Ivo Mertens**, Chief Revenue Officer at iBanFirst

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What is the best time of day to place an order?

We examined in detail how **EUR/USD** behaves throughout the day. The following graph illustrates the average movements per hour during a working day in Europe.

The purple bar (Hi-Lo) represents the average distance between the highest and lowest levels during each hour.

The green bar (movement) represents the amplitude of the movement between the start and end of each hour. This movement is expressed in absolute value, meaning it can be either upward or downward.

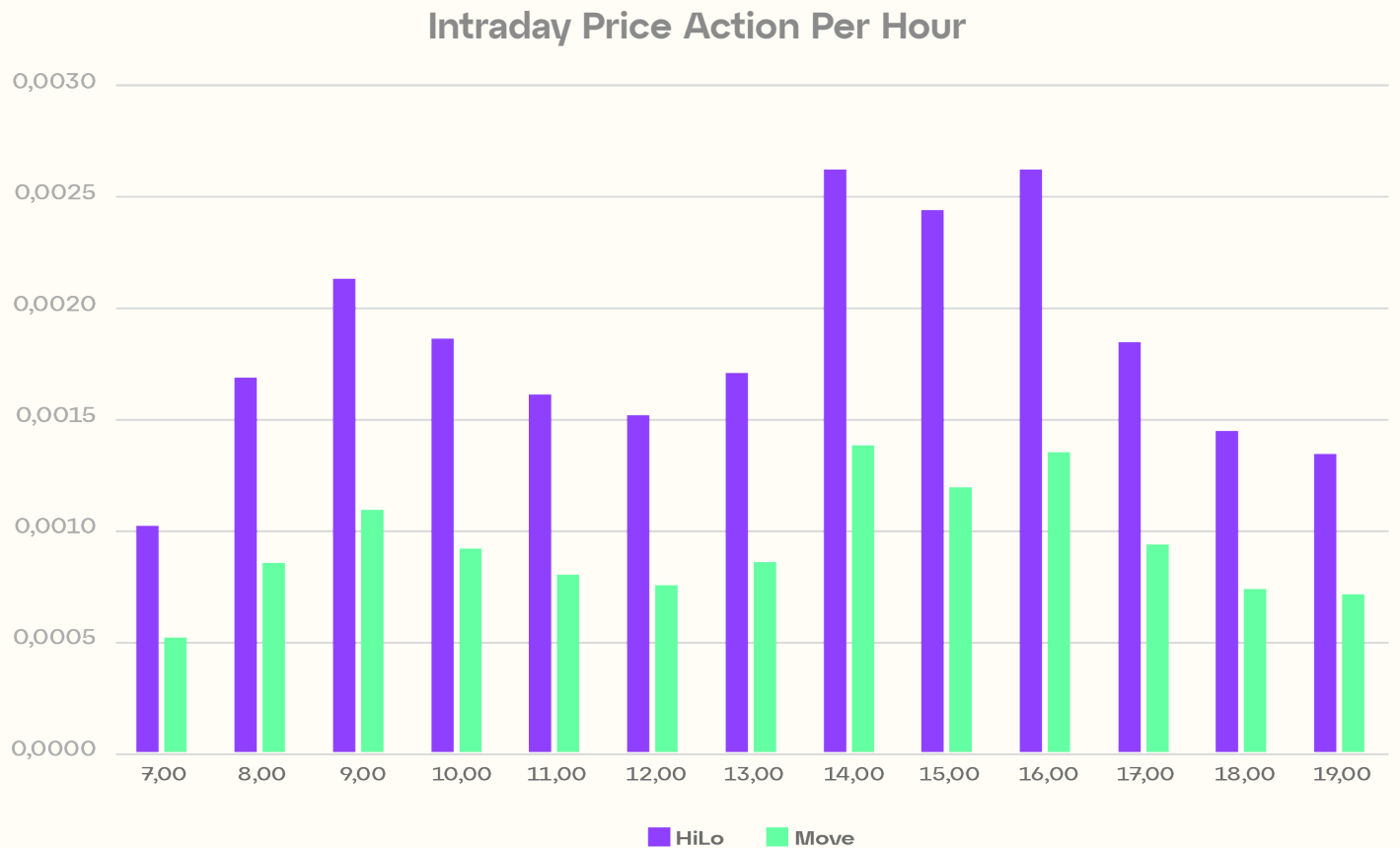
The most favorable time (for price takers) to place an order without fear of major price fluctuations would be between 12 PM and 1 PM in Europe.



Example

If at 9 AM, the EUR/USD is quoted at **1.1022** and by **10 AM** it moves to either **1.1002** or **1.1042**, in both cases the “move” will be of **20 pips**.

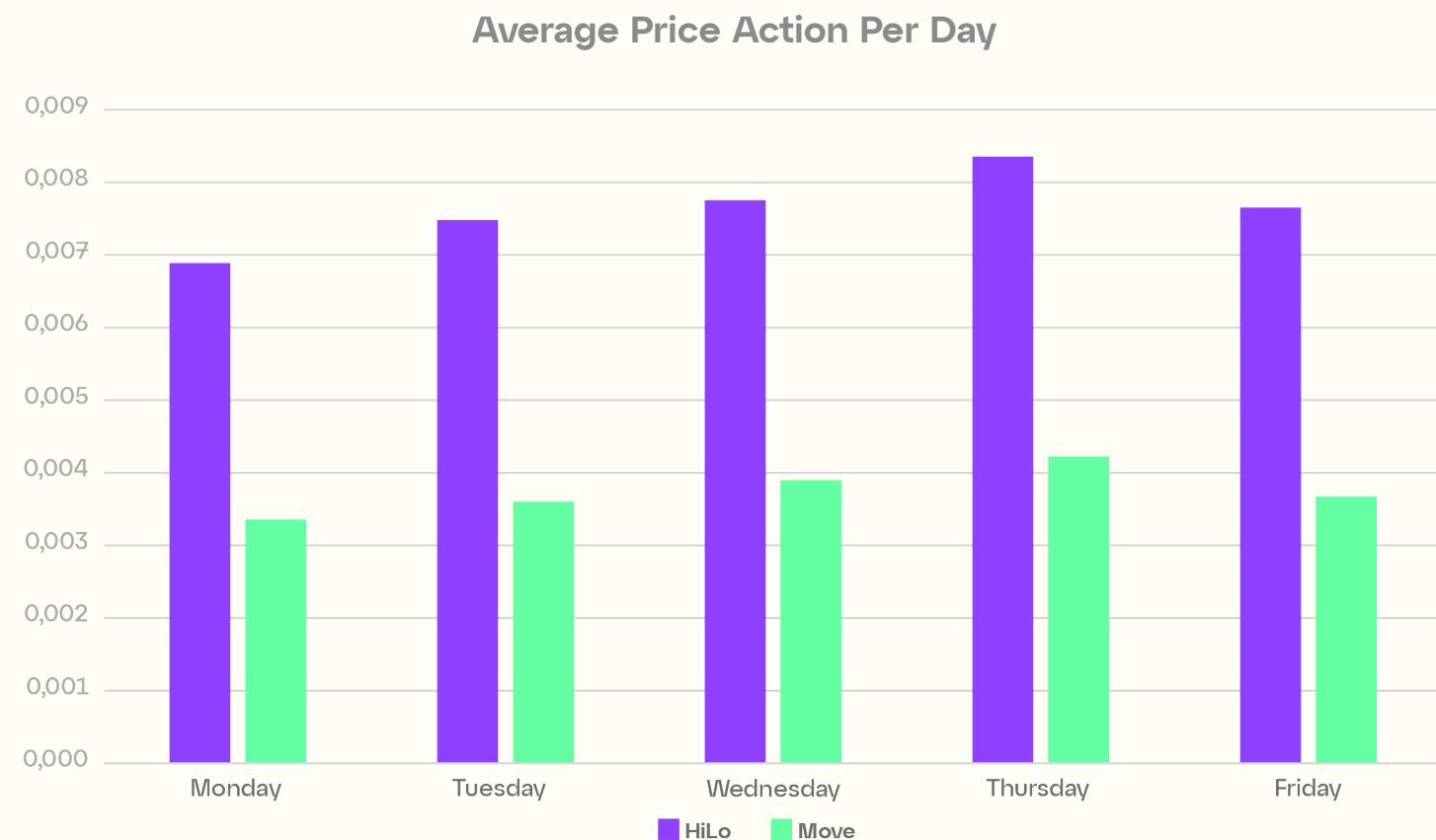
If between these two hours, the highest observed level is **1.1050**, and the lowest is **1,0990**, the “**Hi-Lo**” will then be **60 pips**. When we examine how these two indicators fluctuate throughout the day, we notice they evolve in parallel.



Below are some patterns we observed:

- In Europe, the market is more active in the early hours of the day and sees a slight increase around 9 AM.
- Prices then stabilize for a few hours but become more volatile again when the US markets open around 2 PM.
- The most significant price movements occur between 2 PM and 5 PM, when all market players in the US, UK, and Europe are fully active.

We can conclude that the most favorable time (for price takers) to place an order without fear of major price fluctuations would be between 12 PM and 1 PM in Europe.



If we conduct a similar analysis over a working week, we observe a clear pattern where markets usually start the week calmly; price action intensity gradually increases each day, peaking on Thursday. On Friday, markets calm down again in anticipation of the weekend. However, the variations are not pronounced enough to justify changing execution strategies.

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This principle also applies to hourly observations. This is perfectly logical... Because if the opposite were true, hedge fund models would have detected it long ago, and the effect would have already been arbitrated.

Ivo Mertens
Chief Revenue Officer



How long can a trend (upward or downward) be sustained?

How long can the EUR/USD pair move in the same direction? To answer this question, we analyzed the pair’s fluctuations on both an hourly and daily basis.

On a daily basis: The longest upward trend lasted 9 working days, from March 31 to April 12, 2022. During this period, the US dollar maintained its rise, and the euro fell from 1.1159 to 1.0828. Including weekend days, we had a 13-day trend without any pause or correction. We also saw the euro appreciated for 9 consecutive days, between May 25 and June 4, 2020, resulting in a rise from 1.0897 to 1.1338.

On an hourly basis: The longest uninterrupted movement lasted 15 hours, from August 2 to August 3, 2022. Although the pair did not experience a drastic drop (the EUR/USD fell by only 80 pips), its price steadily decreased a little more each hour.

What about a possible correction after a long series of movements in the same direction? Some believe that the longer the movement lasts, the more likely it is that a correction will follow. Others argue that when a currency pair moves firmly in one direction, it is more likely to continue its momentum. In reality, both perspectives are incorrect.

According to the efficient market theory, the probability of the EUR/USD rising or falling at any time is 50%. Thus, even if the pair has increased for 4, 5, or 6 consecutive days, the probability of an increase the next day remains about 50%. This principle also applies to hourly observations. This is perfectly logical... Because if the opposite were true, hedge fund models would have detected it long ago, and the effect would have already been arbitrated.



How erratic are price movements?

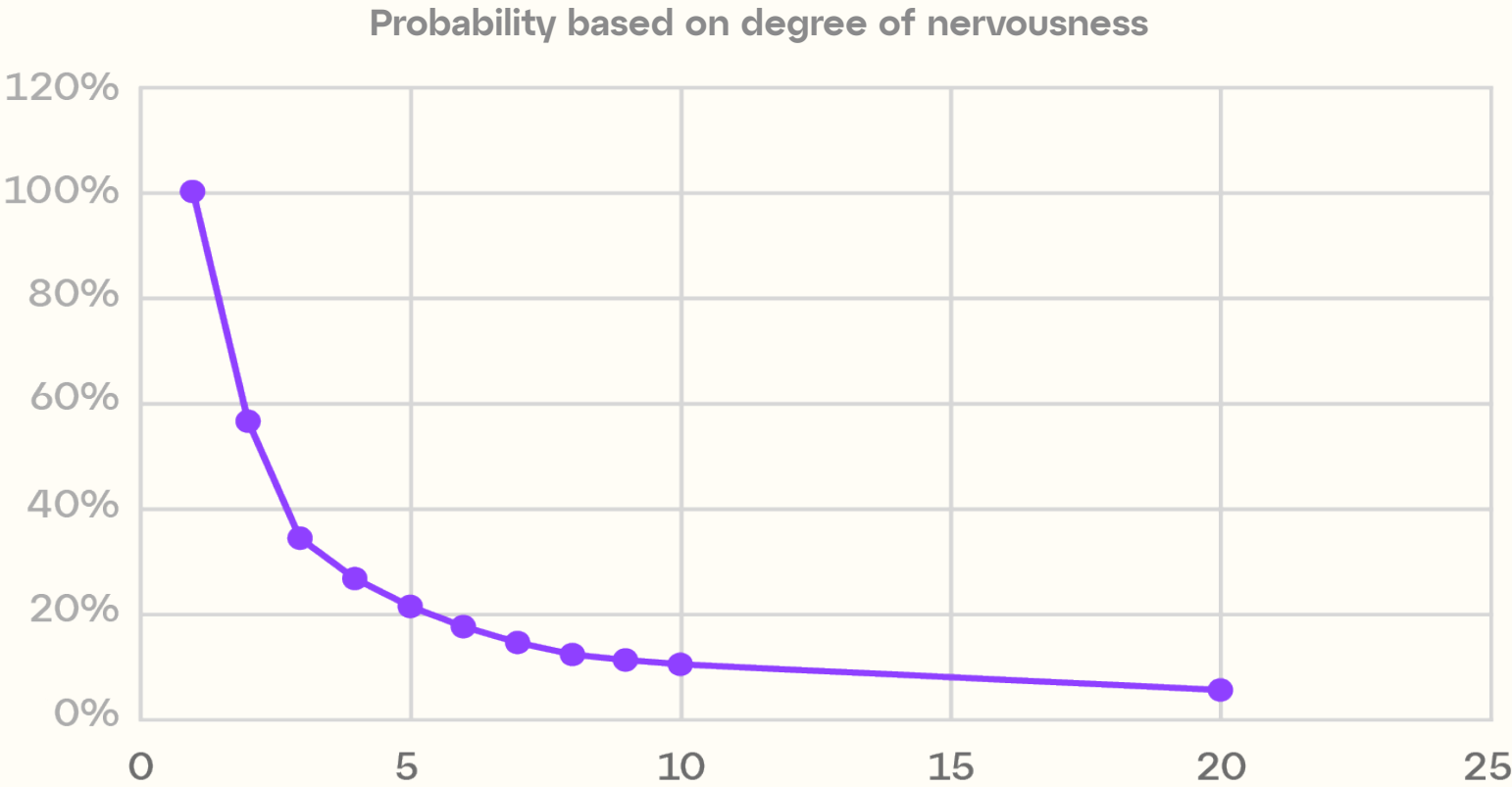
Market participants often panic when they observe prices moving rapidly in one direction or the other. This often leads to hasty buying or selling reactions under unfavorable conditions, even though prices return to their initial level by the end of the day. This phenomenon is known as the “erratic” behavior of market prices, characterized by impulsive movements that subsequently resolve without significant change.

Even in seemingly calm markets, significant intra-day fluctuations can be observed. Therefore, it can be opportune to place orders at specific times of the day to take advantage of substantial movements.



We assess the degree of nervousness during a day by examining the factor (the difference) between the “movement” and “Hi-Lo” indices. For example, if the “Hi-Lo” is 100 pips and the movement is 50 pips, the factor is 2.

Here’s an interesting fact: the probability of having a degree of nervousness of X is equal to 1/X. In other words, the chance of having a 10-to-1 ratio between “Hi-Lo” and “movement” on any given day is 1/10, or 10%.



Most participants assume that during the day, prices do not deviate significantly from the opening or closing price. However, even in seemingly calm markets, significant intra-day fluctuations can be observed. Therefore, it can be opportune to place orders at specific times of the day to take advantage of substantial movements.



The new standard for cross-border transactions

About us

Founded in 2016, iBanFirst has quickly established itself as the leading alternative for businesses that trade and carry out international payments. iBanFirst offers a next-generation cross-border payment experience that combines a powerful platform and the support of FX experts. With iBanFirst, executives and finance teams can get direct access to currency markets, receive, send and track payments and develop tailored hedging strategies.

With more than 350 employees in 10 European countries, processing a volume of transactions worth more than €1.4 billion each month, and listed by the Financial Times as one of Europe's fastest growing companies, iBanFirst became in less than 10 years a trusted partner for SMEs across borders.

iBanFirst has the financial backing of the French public investment bank (bpiFrance), European venture capital leaders (Elaia, Xavier Niel), and the American investment fund Marlin Equity Partners (more than 8 billion dollars of capital under management).

Regulated by the National Bank of Belgium as a payment institution, iBanFirst is authorised to operate throughout the European Union. Member of the SWIFT network and SEPA certified, iBanFirst holds AISP and PISP accreditations under PSD2.

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