



Welcome to Currency Trading Tutorial's

FREE eBook mini course!

Everything !!!!!

You need to fully understand the Forex trading
market!

How to make money!

How to read those confusing charts & graphs!

So without further ado let us get started!

Chapter 1

Forex Market Basics

Snapshot:

- _ What is a Forex market?
 - _ Understanding that speculation is the key!
 - _ Currencies traded across the world!
 - _ How financial markets and currencies climb!
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The Foreign Exchange Market trades currencies. **The Foreign Exchange Market (Forex) is the most traded financial market in the world.** The purpose of the Forex market is to facilitate international trade and investment. Various businesses want to convert one convert one currency to another, and Forex market helps in that. For example, it permits an Indian business to import American goods and pay Dollars, even though the business's income is in Indian Rupees.

Whether it's an Asian pension fund investing in American Treasury bonds, or a British conglomerate purchasing a Chinese manufacturing facility, each cross-border transaction passes through the Forex market at some stage. Moreover, **it's a market that never sleeps; it is open 27x7, enabling traders to act immediately to news and events.** It's a market where trade

worth **half-billion-dollar** can happen in a matter of seconds and the same may not reflect on prices, while the same is not the case with any other market.

Getting into Calculations

Can you imagine the volume of transactions in the Forex market per day? It is more than \$2 trillion. That's a mind-blowing number, isn't it?

To have a comparative overview, it is about 10 to 15 times the combined trading volume of all the world's stock markets.

Speculation is the key

The amount based on speculation is much more than the volumes of commercial and financial transactions in the currency market. Speculation is about traders buying and selling on a short-term basis depending on minute-to-minute, hour-to-hour, and day-to-day price fluctuations.

Estimates say that more of 90 percent of daily trading volume comes from speculation (meaning, commercial or investment-based transactions account for less than 10 percent of the average daily volume). This shows that the liquidity of the overall Forex market is incomparable to any other global financial market in the world. The majority of spot currency trading, approximately 75 percent, happens to take place in the "major currencies," i.e. the currencies of world's largest and most developed countries. Moreover, activity in the currency market

majorly functions on a regional “currency bloc” basis, where the bulk of trading takes place between the USD bloc, JPY bloc, and EUR bloc.

Getting liquid without getting soaked

Liquidity refers to the level of buying and selling volume available at any given point of time for a particular asset or security. The higher the liquidity, the easier and faster it is to buy or sell a security. From a trading point of view, liquidity is an important consideration because it tells us how fast the prices can move between trades. Since Forex is a highly liquid market, it can see transactions worth millions of dollars without any significant price changes. On the other hand, an illiquid market tends to see price fluctuations more quickly even on relatively lower trading volumes.

Around the World in a Trading Day



The Forex market operates 24x7 when it opens on Monday morning in the Asia-Pacific time zone up to Friday at the close of business hours in New York. At any given point in time, depending on the time zone, some or the other global financial centres — such as Sydney, Hongkong, or London — are active, and the currency trading desks in those financial centres are open in that market. Currency trading is active on holidays also, unlike other financial markets, like stock exchange or futures and options market. For e.g. although it’s a holiday in Tokyo,

Sydney, London, and Hong Kong may still be active. There is one common holiday across the world that is the New Year's Day, but even that may occur at different points of time in different countries.

The opening of the trading week

There is no official starting time to the trading day or week as such, but for all intents the market kicks off when the first financial centre west, Wellington, New Zealand, of the international dateline, opens on Monday morning local time. It roughly corresponds to early Sunday afternoon in North America, Sunday evening in Europe and very early Monday morning in Asia.

In North America the trading session opens on a Sunday afternoon where currency markets resume after the Friday close of trading (5 p.m. Eastern time). This is the point where Forex market reacts to news and events that could have happened over the weekend. The prices at which the market may have closed in New York may not remain same over weekend and when it opens again on Sunday, the trading may start at a completely different level.

Trading in the Asia-Pacific Session

As per the 2004 survey, the currency trading volumes in the Asia-Pacific session are approximately 21 percent of total global volume per day. The principal trading centres are Wellington, New Zealand; Sydney, Australia; Tokyo, Japan; Hong Kong; and Singapore. If we look at the most traded currency pairs, the predictions say that it is going to be from New

Zealand, Australia, and Japan. On account of the huge size of the Japanese market and the importance of Japanese data to the market, a lot of the action at the Asia-Pacific session is focused on the Japanese yen currency pairs, such as USD/JPY i.e. the U.S. dollar/Japanese yen and similarly the EUR/JPY and AUD/JPY. Since the Japanese financial institutions are also most active during this session, so we can actually get a sense of what the Japanese market is doing based on price movements. For individual traders, the information about overall liquidity in the major currency pairs is more than enough. There are some non liquid currencies like GBP/USD or USD/CAD where price movements may be more erratic or nonexistent, depending on the environment.

Trading in the European/London session

European financial centres begin to open up when the Asian market is at its midway. As per the 2004 survey, European financial centres and London handle approximately 50 percent of total global trading volume in a day, while London alone accounts for about one-third of the average total global volume per day. The time when European market opens the market interest and liquidity is at its absolute peak. News and data from Europe zone (and individual countries like Germany and France), Switzerland, and the United Kingdom is typically released in the early-morning hours of the European session. Hence, a lot of active trading happens in the European currencies (EUR, GBP, and CHF) and among the euro cross-currency pairs. In the late morning session of Europe, the Asian trading centres begin to wind down, while North American trading session comes in a few hours later, around 7 a.m. ET.

Trading in the North American Session

As we now know that there is a significant overlap time in trading sessions of Europe and North America, hence the trading volumes during this session are much more as compared to other times. Some of the most significant transactions take place during this cross-over time. The North American trading session alone accounts for roughly about 22 percent of global trading volume per day. The key economic data is released in the North American morning and this is the time when the Forex market makes decisions on the value of the U.S. dollar. Let us have a look at the timings when the North American data is released: Most of the U.S. data reports are released at 8:30 a.m. ET, Canadian data reports are also released between 7 and 9 a.m. ET, a few of the U.S. economic reports that variously come out at noon or 2 p.m. ET, livening up the New York afternoon market. By this time, London and the European trading sessions begin to wind up their daily trading operations around noon eastern time (ET) each day. On most days, during North American afternoon the market liquidity and interest fall off significantly, this can make for challenging trading conditions.

Currencies and Other Financial Markets

There are various other markets apart from the Forex market. These are not water tight compartments and other markets like oil, gold, stocks etc are interrelated to each other. To understand markets better, one must always study the correlation between two different markets over a period of time. We must remember that all these markets work independently depending on the news, events and sentiments. They have their own independent sentiment. Do these markets interact with each other? Or is there any correlation between them? Let us have a look in detail and then reach to conclusions.

Gold

Gold is generally a hedge against inflation and a store of value in times of economic or political uncertainty. The relationship between the USD and gold is seen to be inverse, the weaker the USD the higher the gold price, and vice versa. However, these trends are shown only in long run while in the short run, each market has its own dynamics and liquidity, which makes short-term trading relationships generally tenuous. Extreme movements in gold prices tend to attract the attention of currency traders and hence influence the dollar generally in an inverse fashion.

Oil

Some countries are oil producers, so their currencies are positively (or negatively) affected by increases (or decreases) in the price of oil. If the country is an importer of oil, its currency will be hurt by higher oil prices. As per the various correlation studies, it seems that there is no

significant relationship to that effect, especially in the short run, which is where most currency trading is focused. The best way to look at oil is with its relation to inflation and impact on overall economic growth. The higher the price of oil, the higher inflation is likely to be and the slower an economy is likely to grow and vice versa.

Stocks

Stocks are microeconomic securities, which rise and fall in response to individual corporate results and prospects, while currencies are essentially macroeconomic securities, which fluctuate in response to wider-ranging economic and political developments. Long-term correlation studies show that there is little or no correlation between the major USD pairs and U.S. equity markets over the last five years. The two markets occasionally intersect, though this is usually only at the extremes and for very short periods.

Bonds

The bond market is the fixed-income market and is generally more intuitively connected to the Forex market because they're both heavily influenced by interest rate expectations. Sometimes the Forex market reacts first and fastest depending on shifts in interest rate expectations. At other times, the bond market more accurately reflects changes in interest rate expectations, with the Forex market later playing catch-up. Overall, as currency traders, one definitely needs to keep an eye on the yields of the benchmark government bonds of the major-currency countries to better monitor the expectations of the interest rate market.

