Beginners – General Forex

What is Forex?

Forex is the abbreviation of Foreign Exchange. It is also referred to as FX or Currency Market or just forex. It is a global decentralized market for the trading of currencies. This includes all aspects of buying, selling and exchanging currencies at current or determined prices.

The amount of money being exchanged on daily basis worldwide reaches an average of $5 trillion traded. The forex market is bigger than stock exchanges or any other regulated market in the world. The fact that the forex market is big also makes it very liquid, which means that at all times you can find another hand on the other side willing to exchange money with you.

The forex market is composed of many participants. Retails traders, which is us, constitute around $2 trillion out of the $5 trillion traded daily.

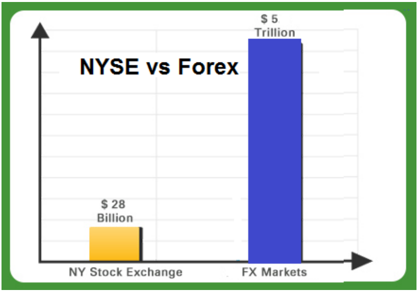

Figure 1 NYSE vs Forex Size

UNITED BANK FX
Financial Services

What moves the Forex Market?

There are many factors that can change the price of a currency against another currency. If that price changes, then it is said that the market has moved. If for example, US Dollar strengthens, then most probably it is became stronger against Euro, Sterling, Yen, etc.. As such, the whole market might move in one direction, i.e. US dollar strength.

The factors that affect the market or trading prices can have two types of effects: Either short term or long term. So there are factors that can cause a long term movement in the market, and factors that can have a short term (short lived) effect on the prices.

At the end of the day it is the reaction of the traders, the big market players, big banks, big hedge funds, and others who move the market. When they start buying a currency then that currency will start strengthening against other currencies.

The question now is what triggers such actions? Why would banks start buying or selling a certain currency? Usually geopolitical factors, economic releases, economic changes, changes in monetary policies of central banks, and other important factors can trigger such decision to buy or sell.

Some economic releases can have a spontaneous short term lived effect of prices and some might have a long term effect. Depending on the type of the news, the reaction, and how the market players perceive it, the result might be either short or long term lived.

Figure 2 Economic releases are usually market movers

Who, when, and why trade forex

Before 15 years, only big banks and big hedge funds had access to the forex market. Thanks to the internet and to various technology providers which made forex available to almost everyone. Individual traders are usually called retail traders. All they need is an internet connection, a computer or a smart phone, and an account with a broker.

Online brokers made forex trading easily accessible. While becoming a successfully trader and making profit might be hard to achieve, yet trading itself has been made easy.

Usually you will need an account with a forex broker, deposit funds to cover your trading needs, and start trading immediately. The beauty of Forex is that you can trade 24 hours a day 5 days a week. Since the forex market is a decentralized market (prices do not come from one place), prices and trading are available 24 hours a day. When banks in Europe close after hours, banks in USA are still open, and when banks in the USA close, banks in Asia are open. Having this mentality in place, means that the market and pricing will be available 24 hours a day.

FOREX MARKET SESSIONS

GMT

5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	1	2	3	4
		LONDON																					
							NEW YORK																
																SYDNEY							
																		TOKYO					

Figure 3 Forex Market Sessions

Figure 3 above shows how different countries / different banks cover the pricing and market availability for 24 hours.

You can access the forex market though your broker. Most brokers allow trading from 22:00 GMT Sunday and until 22:00 GMT Friday. (Times can vary a bit from broker to broker and depends also on summer and winter times.)

Finally, forex has become very popular over the last 15 years and many brokerage firms started offering online forex broker. The list below is just a few reasons why many retails traders decide to trade forex:

1. You can trade anytime during weekdays, day or night
2. You can trade from the comfort of your home
3. You can make profit if prices went down (also you can lose depending on your trade type) as opposed to stock market where you can only profit if market went up
4. Brokers give you purchase power or leverage, where you need to only deposit a fraction of the amount traded.

Currency Pairs

Currencies are traded in pairs. Before we explain this, you should understand how currencies are being represented. Look at the table below:

Currency Name	ISO	Nickname
Euro	EUR	--
Great British Pound	GBP	Cable
US Dollar	USD	Green back
Swiss Franc	CHF	Swissy
Japanese Yen	JPY	--
Canadian Dollar	CAD	Loonie
New Zealand Dollar	NZD	Kiwi
Australian Dollar	AUD	aussie

Figure 4 Currencies abbreviations and nicknames

Brokers will always show you the prices before you trade. The prices are shown for currency pairs. So if you want to trade EURO against the US Dollar, then you will need to trade the EUR/USD pair, most of the time represented as EURUSD.

If you want to trade the British Sterling against the US Dollar then you will need to look for GBPUSD on your trading platform.

Here are the most popular traded pairs:

EUR/USD
USD/CHF
GBP/USD
USD/CAD
USD/JPY
NZD/USD
AUD/USD

Figure 5 Popular currency pairs

EURUSD, GBPUSD, USDCAD, USDCHF and USDJPY are called the major currency pairs. AUDUSD, NZDUSD are usually called minor pairs. EURCHF, EURGBP, GBPJPY, GBPNZD, EURNZD etc… are called crosses, as they do not involve USD.

Other currency pairs such as USDMXN, USDZAR, USDNOK, EURMXN etc.. are called exotics.

Pricing and Quotes

Prices or rates are called Quotes. When you see on your trading platform that EURUSD is 1.2010 it means that every $1 is equal to 1.2010 euros. Currency pairs are usually quoted with either 4 or 5 digits after the decimal point in order to provide the most accuracy possible.

Spreads, pip, bid & ask

Have a look at the below figure

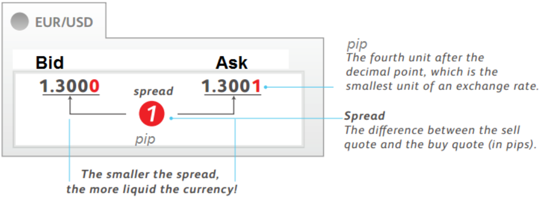

Figure 6 Spread and pip

The above figure is self-explanatory. Brokers quote the clients with two prices. The Bid and the Ask. The Bid is always the selling price (where clients sell) and the Ask is the buying price (where the client buys).

The difference between the bid and the ask is the spread. The smaller the spread the cheaper is for the client to trade.

The 4th unit after the decimal point is called the pip, while the 5th one (if it exists) is called the pipette, point or fraction of a pip.

Leverage

Leverage is purchase power. With leverage the broker gives you multiple times your account balance as purchase power.

Usually your broker will give you the freedom to choose the leverage you want from a set of available leverages. For example your broker might offer to choose leverage between 1:1 to 1:500. The higher the leverage the more power you have.
If your account has a 1:400 leverage, this means that you can buy or sell an amount equal to 400 times your account available funds.

For example if you deposit 1000 USD with your broker and your account is set to 1:400 leverage then you can buy or sell the amount of 1000 x 400 USD or 400.000 USD.

Now this is a huge amount. Buy or selling big amount can lead to huge profits or huge losses. As such, high leverage can work in the favor or against the trader.

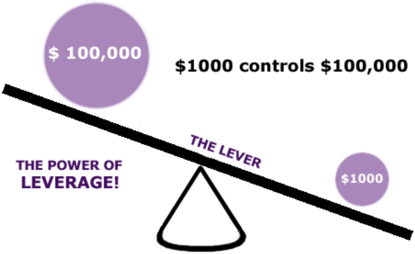

Figure 7 Leverage

Lots and pip value

The lot is defined as 100.000 units.

	Units of base currency	Volume	Pip Value (base: USD)
Standard Lot	100,000 units	1	1 pip = $10
Mini Lot	10,000 units	0.1	1 pip = $1
Micro Lot	1,000 units	0.01	1 pip = $0.10

Figure 8 Lot size and pip value for EURUSD

The above figure corresponds to EURUSD. If 100.000 units are to be traded, then this is equivalent to 1 lot, which is usually called volume. Once the trade is executed, any pip move is equal to $10 usd profit or loss depending on the direction of the move.

If you are to trade any currency against the USD, where USD is the quote currency (ex: XXXUSD), then each pip is equal to $10 for every lot.

If you are to trade any currency against the GBP for example EURGBP (ex: XXGBP), then every pip is equal to 10GBP for every lot.

If you are to trade any currency against the JPY for example USDJPY or EURJPY (ex: xxxJPY) then every pips is equal to 1000 JPY for every lot.

Understanding the structure of a trade

An open trade which has not been closed yet, is called a trading position or only an open position. An open position has a certain structure as below:

Order /	Time	Type	Size	Symbol	Price	S / L	T / P	Price	Swap	Profit
51759945	2015.10.30 11:30:42	buy	1.00	eurusd	1.10097	1.09102	1.11102	1.10073	0.00	-24.00

Order number: It is the unique number of your order. You can use this as a reference number whenever you have any enquiry with your broker.

Time: Is the accurate time of opening your position. It contains the Date and Time of opening the trade.

Type: Buy or Sell. Sometimes BUY is referred to as Long and Sell is referred to as Short

Size: Volume in Lots

Symbol: It is the traded currency pair

Price: Opening Price

S/L: It is the rate (price) at loss where you want the trade to be automatically closed if the market reached that level. This is the maximum loss you are willing to take.

T/P: It is the rate (price) at profit where you want the trade to be automatically closed if the market reached that level. This is the maximum profit you want the system to close your trade at.

Price: This is current market price

Swap: This is the overnight charge. If you leave your position open overnight, then you will be either charged or credited a small amount of money that will appear under this column.

Profit: It is the current profit or loss on the trade. This is called unreazlied profit/loss. It will only reflect on your balance after the trade is closed.