Forex Trading Course The purpose of this e-book is to introduce the Forex market to you. As with many markets, there are many derivatives of the central market such as futures, options and forwards. For the purpose of this book we will only be discussing the main market sometimes referred to as the Spot or Cash market.The word FOREX is derived from Foreign Exchange and is the largest financial market in the world. Unlike many markets, the FX market is open 24 hours per day and has an estimated $1.5 Trillion in turnover every day. This tremendous turnover is more than the combination of all the worlds' stock markets on any given day. This tends to lead to a very liquid market and thus a desirable market to trade.Unlike many other securities (any financial instrument that can be traded) the FX market does not have a fixed exchange. It is primarily traded through banks, brokers, dealers, financial institutions and private individuals. Trades are executed through phone and increasingly through the Internet. It is only in the last few years that the smaller investor has been able to gain access to this market. Previously, the large amounts of deposits required precluded the smaller investors. With the advent of the Internet and growing competition it is now easily in the reach of most investors. You will often hear the term INTER BANK discussed in FX terminology. This originally,as the name implies, was simply banks and large institutions exchanging information about the current rate at which their clients or themselves were prepared to buy or sell a currency. INTER meaning between and Bank meaning deposit taking institutions normally made up of banks, large financial institutions, brokers or even the government.The market has progressed to such a degree that the term inter bank now means anybody who is prepared to buy or sell a currency. It could be two individuals or your local travel agent offering to exchange Euros for US Dollars. You will, however, find that most of the brokers and banks use centralized feeds to insure reliability of quote. The quotes for Bid (buy) and Offer (sell) will all be from reliable sources. These quotes are normally made up of the top 300 or so large institutions. This insures that if they place an order on your behalf that the institutions they have placed the order with is capable of fulfilling the order.Now although we have spoken about orders being fulfilled, it is estimated that anywhere from 70%-90% of the FX market is speculative. In other words, the person or institution that bought or sold the currency has no intention of actually taking delivery of the currency. Instead, they were solely speculating on the movement of that particular currency. When you see FX quotes you will actually see two numbers. The first number is called the bid and the second number is called the offer (sometimes called the ASK). If we use the EUR/USD as an example you might see 0.9950/0.9955 the first number 0.9950 is the bid price and is the price traders are prepared to buy Euros against the USD Dollar. The second number 0.9955 is the offer price and is the price traders are prepared to sell the Euro against the US Dollar. These quotes are sometimes abbreviated to the last two digits of the currency such as 50/55. Each broker has its own convention and some will quote the full number and others will show only the last two. You will also notice that there is a difference between the bid and the offer price and that is called the spread. For the four major currencies the spread is normally 5 give or take a pip (we will explain pips later). To carry on from the symbol conventions and using our previous EUR quote of 0.9950 bid, that means that 1 Euro = 0.9950 US Dollars. In another example if we used the USD/CAD 1.4500 that would mean that 1 US Dollar = 1.4500 Canadian Dollars. The most common increment of currencies is the PIP. If the EUR/USD moves from 0.9550 to 0.9551 that is one Pip. A pip is the last decimal place of a quotation. The Pip or POINT as it is sometimes referred to depending on context is how we will measure our profit or loss.As each currency has its own value it is necessary to calculate the value of a pip for that particular currency. We also want a constant so we will assume that we want to convert everything to US Dollars. In currencies where the US Dollar is quoted first the calculation would be as follows. Example JPY rate of 116.73 (notice the JPY only goes to two decimal places, most of the other currencies have four decimal places) In the case of the JPY 1 pip would be .01 therefore USD/JPY: (.01 divided by exchange rate = pip value) so .01/116.73=0.0000856 it looks like a big number but later we will discuss lot (contract) size. USD/CHF: (.0001 divided by exchange rate = pip value) so .0001/1.4840 = 0.0000673 USD/CAD: (.0001 divided by exchange rate = pip value) so .0001/1.5223 = 0.0001522 In the case where the US Dollar is not quoted first and we want to get to the US Dollar value we have to add one more step. In the case where the US Dollar is not quoted first and we want to get to the US Dollar value we have to add one more step. EUR/USD: (0.0001 divided by exchange rate = pip value) so .0001/0.9887 = EUR 0.0001011 but we want to get back to US Dollars so we add another little calculation which is EUR X Exchange rate so 0.0001011 X 0.9887 = 0.0000999 when rounded up it would be 0.0001. GBP/USD: (0.0001 divided by exchange rate = pip value) so 0.0001/1.5506 = GBP 0.0000644 but we want to get back to US Dollars so we add another little calculation which is GBP X Exchange rate so 0.0000644 X 1.5506 = 0.0000998 when rounded up it would be 0.0001. By this time you might be rolling your eyes back and thinking do I really need to work all this out and the answer is no. Nearly all the brokers you will deal with will work all this out for you. They may have slightly different onventions but it is all done automatically. It is good however for you to know how they work it out. In the next section we will be discussing how these seemingly insignificant amounts can add up. **To read More Please download the book.** Download This Book