

Forex Triangular Arbitrage Strategy



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In previous article I wrote about arbitrage Forex strategy but now I want writing about triangular trading strategy in some sources it called as cross currency arbitrage strategy too. Triangular Forex arbitrage system means that the aim to exploit discrepancies in the cross rates of different currency pairs.

Suppose that you buy EURUSD and SELL GBPUSD this is one basket and most time EURUSD and GBPUSD have the same correlation but in fact you are buying EURGBP If EURGBP goes up your basket will go to profit and if EURGBP go down your basket will go to lose!

Let me explain by an example by current market rate:

Symbol	Bid	Ask
GBPUSD	1.53771	1.53793
EURUSD	1.10609	1.10628
EURGBP	0.71923	0.71943

One lot buys EURUSD at means that you paid 110,628 US Dollar and now you have 100,000 EURO

One lot sell GBPUSD means that you bought US Dollar and sold 100,000 Pound it is equal to 153771 US Dollar

Well BUY EUR and SELL GBP! It means buy position on EURGBP!

How the EURGBP rate will calculate?

Look at the picture again

EURGBP means EURUSD/GBPUSD use your calculator please:

$1.10609/1.53771 = 0.71930$ look at EURGBP rate is same with a little difference!

The question:

Is it possible that some time EURGBP price will be different from divided EURUSD to GBPUSD prices?

The answer is yes some time it will happen but with very low difference anyhow it can help you to earn profit by using this arbitrage difference!

But the important question is:

If we found difference between their prices which one is not true? Or which one should change in the next seconds?

For Example:

EURUSD and GBPUSD and EURGBP exchange rates are 1.5000, 2.0000 and 0.7300 respectively.

Divided 1.500 to 2.0000 is equal to 0.7500 but now we don't know EURGBP price should go up to 0.7500 or EURUSD price should go down to 1.4600 or GBPUSD exchange rate should go up to 2.0540 ?

There is different way to understand it.

The best way is calculate other symbols and compare it with one of them for Example you can check EURUSD and USDJPY and EURJPY

If you get same price for EURUSD by divided EURJPY to USDJPY it means that EURUSD price is correct for example look at the table below:

Symbol	Market Price	Divided Price /Symbols	Difference	Opportunity
EURUSD	1.10097	EURGBP 0.71293	17 pips	BUY EURGBP for about 17 pips target!
GBPUSD	1.54428			
EURGBP	0.71121			
USDJPY	120.71	EURUSD 1.10106	0.9 Pip	
EURJPY	132.91			

This is only an example to be sure that EURGBP should go up because difference between EURJPY divided to USDJPY comparing with real EURUSD price is not high it means that EURUSD price is correct

To be sure about this you can check GBPUSD price by compare it with USDJPY and GBPJPY

The other strategy is buying and sells all currencies symbols when total difference is more than total spread

For instance EURUSD spread is 2 and GBPUSD is 3 and EURGBP is 3 total spread is $2+3+3=8$ when difference is more than 8 pips you can open these orders instantly to earn profit according to the above example:

Buy EURGBP

Sell EURUSD

Buy GBPUSD

Over the years, financial markets have becoming increasingly efficient because of computerization and connectivity. As a result, arbitrage opportunities have become fewer and harder to exploit anyhow it will happen a few times and only the clever traders can earn profit by using this system.

Beware Brokers Who Ban Arbitraging

Some brokers forbid clients from arbitraging altogether, if they understand that you are using arbitrage system they will remove your profit Especially they track your trades and if your profits positions be on the same time that they had anomalies in their quotes they will remove your profits.

However there is a lot of way to hide your arbitrage strategy from your broker and withdraw your profit!

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