



Is Forex Correlation Trading Correct or Not?



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Understanding and knowing forex symbols correlation will help us to improve our analysis accurately but sometime I see that forex traders try to earn a profit by hedge the market by buy or sell symbols according to their movement relation.

For example, they buy GBPUSD and Sell EURUSD or sometimes they Buy USDCHF and buy EURUSD they believe that because GBPUSD and EURUSD have same direction most time we can hedge these currencies and wait till our resultant become positive but what will happen when you buy EURUSD and buy USDCHF?

Or what will happen when we sell gold on forex market how we can sell something that we did not buy it!?

You must know that we don't sell or buy anything directly in fact, the broker will do it for us and we send our order to our dealer.

When we deposit an amount for example 1000\$ to our forex account now broker will accept our orders and this is our guarantee for the forex broker

When you send order to a broker to sell Euro the broker will sell his own EUR for you and receive the commission or spread. For broker it's not important that EUR will go up or down when you close your sell position the broker will buy the soled EUR again if EUR value increased the broker will receive his lose from your deposit and if EUR value decreased the broker will increase your deposit because the broker profit is spread only even you lose or win they will get their spread.

Now you can understand when you sell EURCHF what will happen.

The broker will sell EUR according to your order when you ask the broker to close your order the broker will not sell EURO to buy gold or GBP or USD the broker will buy CHF because at the first time you mention that I want change it to CHF later.

Now we understand the behind forex market and know what happen when we send our order to broker but you should know that many forex broker don't buy or sell our request in real market! Anyhow, this is not our subject now

Forex correlation trader tries to buy or sell most same direct movement symbol or most opposite movement symbols

Here I want to show you that is it good strategy or not

For instance, look at prices:

EURUSD: 1.1293

USDCHF: 0.9707

EURUSD and USDCHF are famous forex symbols in correlation strategy many traders buy both of them or sometimes they sell both of them because USDCHF and EURCHF has opposite movement direction.

The first problem is pip value on EURUSD is 10\$ but on USDCHF is 9.7\$ it means If EURUSD go down 10 pips and USDCHF go up 10 pips because pip value is different I am in 97\$ profit with my USDCHF and -100\$ with my EURUSD order then my total profit will be negative.

The second problem is when we are talking about USDCHF and EURUSD correlation we are talking about market direction not pip movement!

in other hand when EURUSD go up 100 pips and USDCHF fall down 50 pips we will say these symbols have opposite correlation but market movements in pips are not equal.

The third problem!

When I buy EURUSD and USDCHF at same time one lot EURUSD equal to 112930\$ and one lot USDCHF equal to 100000\$.

well it means that I paid 12930\$ more in my first position compare with my second position.

We buy 100,000 EUR and will convert it to USD
buy 100,000\$ and will convert it to CHF

Look carefully please

what is EURCHF price? The EURCHF price is 1.0963 do you know how it will calculate?

It's simple! EURUSD price * USDCHF price = EURCHF price

We pay 112930\$ for 100,000 EUR then we should convert EUR to USD when we close our position.

We pay 100,000\$ to buy USD and sell CHF when we want close it we should buy CHF and sell USD

What will happen when we buy EURCHF?

We pay 112930\$ to buy EUR and then we will sell EURO to buy CHF again then again CHF will convert to USD and it will add to our balance.

Then what do you think about this strategy?! When we buy EURUSD and buy USDCHF in fact we bought EUR/CHF.

Another example:

Buy GBPUSD

Sell EURUSD

When buy GBPUSD it means we bought 100,000 GBP and we will sell them to USD.

When Sell EURUSD it means we Sold 100,000 EUR and we will buy them to USD.

Now when we sell EURGBP!

It means we sold EUR and we will buy GBP it's just look like GBPUSD buy and EURUSD Sell at the same time!