



# FOREX



**RIGHT-TREND**

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# Necessary For a Forex Trader

- **The Four M**

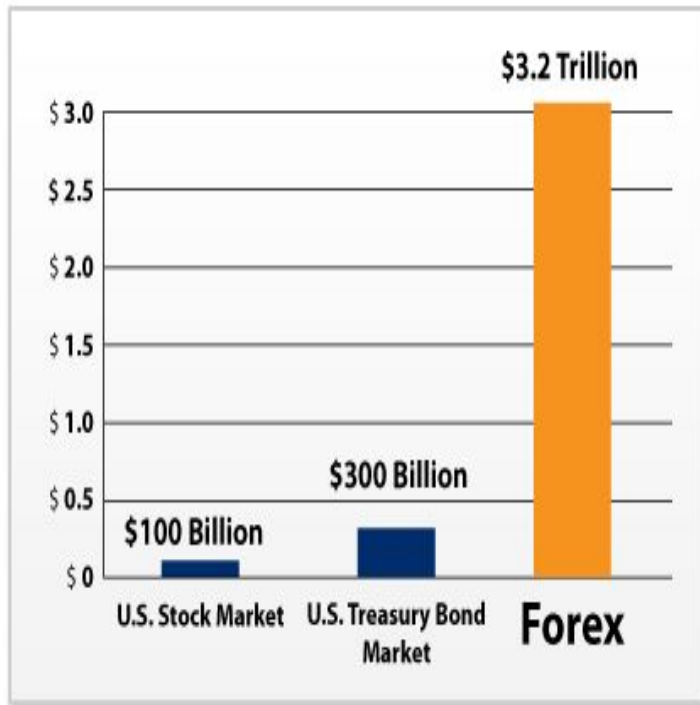
- Man (You)

- Material (Money for Capital)

- Machine (PC, Laptop, Internet Connection)

- Method (Trading System, Platform)

# WHAT IS FOREX?



- The Foreign Exchange market (also referred to as the Forex or FX market) is the largest financial market in the world, with the equivalent of over **\$3.2 trillion** changing hands daily; more than three times the aggregate amount of the US Equity and Treasury markets combined.

# WHAT IS FOREX?



- Unlike other financial markets that operate at a centralized location (i.e., the stock exchange), the worldwide Forex market does not have a central location. It is a global electronic network of banks, financial institutions and individual Forex traders, all involved in the buying and selling of national currencies.

# FOREX Trading Advantage



- A 24-hour market
- High Liquidity
- Low Transaction Cost
- Uncorrelated to the Stock Market
- Inter-bank Market
- No one can corner the Market

# Major Dealer Centers



- The major dealer centers and time zones are that of Sydney, Tokyo, London, and New York. Therefore, traders must consider which players are in the market, since in the modern interconnected financial world, events that occur at any hour, in any part of the globe, can affect some or all parts of the investment community.



# Business Hours of Financial Centers:

AM												PM													
1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12		
		London																							
						New York																			
																Sydney									
																				Tokyo					



- Forex, unlike other financial markets, is not tied to an actual stock exchange. Forex is an over-the-counter (OTC) or off-exchange market.



# Background



- Traditionally, Forex has been dominated by inter-world investment and commercial banks, money portfolio managers, money brokers, large corporations, and very few private traders.

# HOW THE CURRENCY VALUE IS DETERMINED?



- The exchange rate is determined through the interaction of market forces dealing with supply and demand.
- The value of a currency, in the simplest explanation, is a reflection of the condition of that country's economy with respect to other major economies.

# Factors Affecting Supply and Demand

- Two primary factors that affect supply and demand are **interest rates** and the **strength of the originating country's economy as a whole**.

Fundamental indicators, such as foreign investment, PPI, CPI, GDP, and the trade balance, echo the overall health of the economy, and alter the supply and demand for that currency.



# Operation



## The 8 Major Currencies:

- 1. U.S. Dollar (\$),
- 2. European Currency Unit (€),
- 3. Japanese Yen (¥),
- 4. British Pound Sterling (£),
- 5. Swiss Franc (Sf),
- 6. Canadian Dollar (Can\$),
- 7. Australian
- 8. New Zealand Dollars.

# Example of Listed Currency Pairs

- **The FOUR majors**

EUR/USD  
USD/JPY  
USD/CHF  
GBP/USD



- **Other majors**

AUD/USD  
USD/CAD

- **Currency Crosses**

EUR/CHF  
EUR/JPY  
GBP/JPY  
EUR/GBP

# How a Currency Trade Works?

- Reading a currency quote :

GBP/USD ; USD/CHF ; EUR/USD

- first listed currency is the 'BASE' currency – basis for buy or sell transaction.
  - second listed currency is called the 'Counter' or 'Quote' currency.
- 
- *E.g. A trader places a buy GBP/USD order. The action that takes place is the trader sell the USD and buy GBP.*



# FOREX Market Participants

## Central Banks



- They play an important role by keeping inflation low and steady by controlling money supply.
- Restore the order in the market in the event of excessive currency rate volatility.

# FOREX Market Participants



- **Banks**
- Interbank market provides commercial turnover and huge amounts of speculative trading on a daily basis.
- Bank trading are:
  1. On behalf of the bank customers.
  2. Proprietary trading where bank dealers trade bank capital to make a profit.

# FOREX Market Participants

- **Interbank Brokers**

- Before large FOREX broker facilitate interbank trading and matching for a fee. The internet revolution has forced this business to move to electronic system.

- **Customer Brokers**

- These are brokers that handle retail trades.
- They are the main driver for the increasing use of internet.
- The business is growing fast and very competitive, they provide dealing services, analysis and advice to customers.

- **Commercial Companies**

- Companies engaged in international trade they use currency market as a means of protecting themselves from unfavorable moves in the market.

# FOREX Market Participants

- Investors and Speculators

- It's estimated that the largest portion of the FOREX daily volume is from investors and speculators.
- A decade ago, this group are only the big and well funded traders. Since internet revolution, the field has changed that small investors can participate and take advantage of the same tools as big traders.

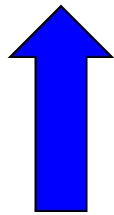


# FOREX Market Participants



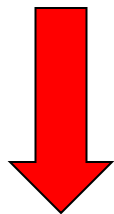
- **Hedge Funds Managers**
  - This is a managed investment where the fund manager is authorized to use derivative and borrowing with the aim of having higher return. They are well known for aggressive currency speculation in the recent years.

# THE TRADE



Buy

Sell



- Traders generate profits, or losses, by speculating whether a currency will rise or fall in value in comparison to another currency.
- A trader would buy the currency which is anticipated to gain in value, or sell the currency which is anticipated to lose value against another currency.



# TWO (2) ASPECTS OF TRADING

## Fundamental analysis

- Focuses on what ought to happen in a market
- Factors involved in price analysis:
  1. Supply and demand
  2. Seasonal cycles
  3. Weather
  4. Government policy

## Technical analysis

- Focuses on what actually happens in a market
- Charts are based on market action involving:
  1. Price
  2. Volume
  3. History

# Fundamental Analysis



- Thorough analysis of economic and political data with the goal of determining future movements in a financial market.

# The Importance of Fundamental Analysis

- A nation's **political condition**, along with its inflation and interest rates, impact the price of the nation's currency. Traders that use fundamental analysis can speculate on currency price movements by paying attention to the world news, economic reports, and indicators issued by the government.



# Technical Analysis



- Traders use these technical factors to **identify buying and selling opportunities**. Over long historical periods, currency behavior has produced trends and patterns that are identifiable.

# How Trading Works



- So how does the actual trading work? A complete transaction is the buying of one currency and selling of another at the same time.



**THANK YOU!**