

Ultimate Forex Guide

By: InstaForex Africa.

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INTRODUCTION

You are aware, there are many international markets operating around the globe. And with advent of internet, a lot of them are almost available to the players and potential players from any where in the world. As with many markets, there are many derivatives of the central market such as futures, options and forwards. This book is designed to introduce you to the most liquid and multifaceted of them all known as FOREX MARKET. We will only be discussing Forex Market as it is the main market sometimes referred to as the Spot or Cash market.

The word FOREX is an acronym derived from Foreign currencies Exchange and is the largest financial market in the world. Unlike many markets, the FX market is open 24 hours per day, 5 days (Monday to Friday) per week and has an estimated \$1.6 Trillion in turnover every day. This tremendous turnover is more than the combined turnover of all the worlds' stock markets on any given day. The Forex market has no physical location or central exchange. It is an over-the-counter market where buyers and sellers including banks, corporations, and private investors conduct business. A true 24-hour market, Forex trading begins each day in Sydney, and moves around the globe as the business day begins in each financial center, first to Tokyo, London, and New York. In this financial market, investors can respond to currency fluctuations caused by economic, social and political events at the time they occur - day or night. The huge number and diversity of players involved make it difficult for even governments to control the direction of the market, the unmatched liquidity and around-the-clock global activity make the ideal market for active traders.

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MARKET PRICE MOVEMENT

As trading the Forex market, or any other market for that matter is about price movement, it is essential that every trader gets a feel for how this happens. We all know that the price moves up and down (trending) and range bounding, but we need to get to know how it moves and when it moves.

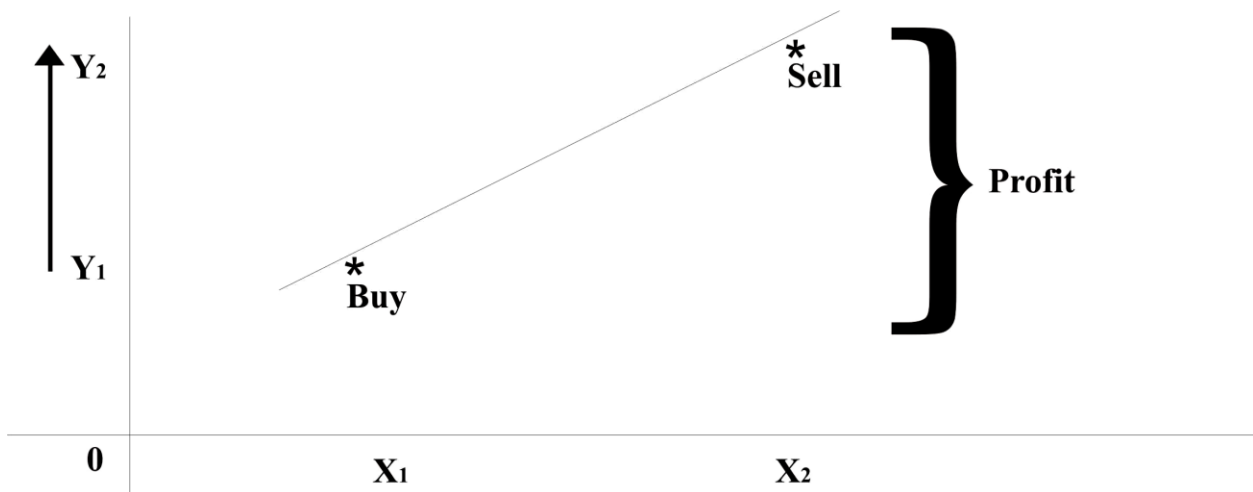
I know that after a strong move, the price is likely to retrace to a predictable level. **I know that the price moves strongly during the European session** and especially during the news releases in the NY Session but can drift quietly during the Asian session. I know that price tends to stall at certain levels, such as round numbers and at the "20" and "80" price levels on any currency chart. It's desirable to recognize patterns which you can come to rely on in future trades. Spend time watching the charts and how the price moves at certain times of the day and you will be surprised at how much you will pick up. There are several price movement patterns which are quiet noting. They include:

- (a) The market never moves in one direction for too long – it always retraces or corrects at some stage. We can trade towards the correction or after the correction.
- (b) The corrections begin when the probability for continued price movement in the same direction drops
- (c) The corrections often stop at predictable levels
- (d) Reversals are heralded by reversal patterns

These are the principles which will help you to become a profitable trader. The Forex market is very similar to the Stock Market and so if you have previous knowledge trading stocks, you are at an advantage. This does not mean that if you do not have knowledge of the stock market you are disadvantaged; all you have to do is to put more effort into learning and studying all that will be coming to you.

As in the stock market, there is one thing you always want to do,

BUY LOW AND SELL HIGH CHART



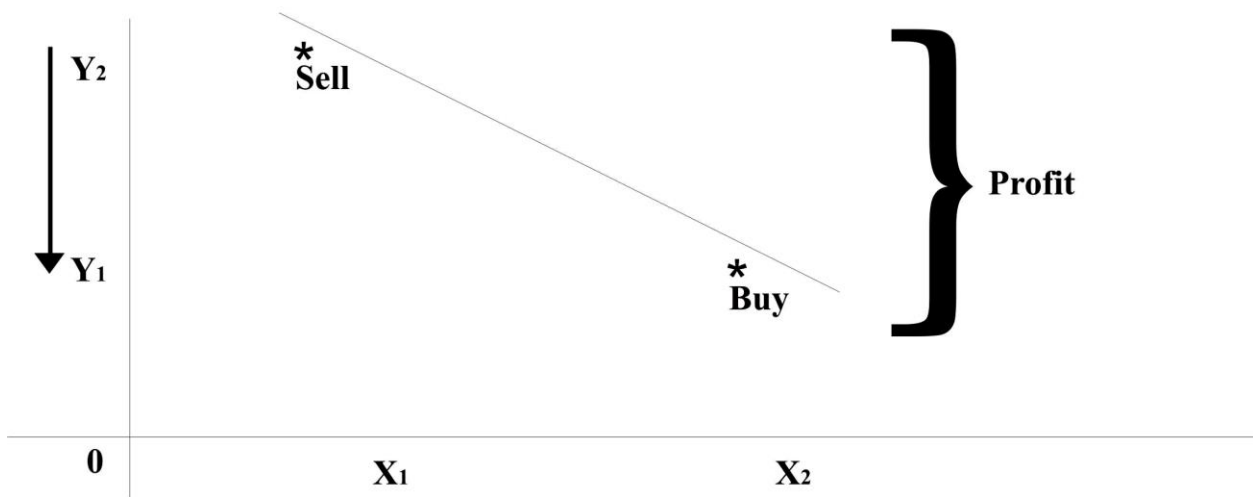
The diagram above means that a position is opened by buying. In other words, you opened a "BUY POSITION" or "LONG POSITION" at a low price (Y_1) and sold or closed the position at a high price (Y_2) to make a profit - **Upward Movement of Price.**

This applies perfectly to the Forex market with a little inclusion

BUY LOW AND SELL HIGH, SELL HIGH AND BUY BACK LOW.

The diagram below shows, "**SELL HIGH AND BUY BACK LOW CHART:**

BUY LOW AND SELL HIGH CHART



The diagram above means that a position is opened by selling. In other words, you opened a "SELL POSITION" or "SHORT POSITION" at a high price (Y_1) and bought back or closed the position at a low price (Y_2) to make a profit. - **Downward Movement of Price.**

I hope this is not confusing in anyway. Don't worry; you would soon be used to the fact that in Forex, you gain trading in both directions. You buy a currency when it is low, and then sell when the price goes up; and then you sell a currency when you feel the price is high and then buy it back when the price goes down. 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 excluded the smaller investors. With the advent of the Internet and growing competition, it is now easily in the reach of most investors located anywhere in the world, with our Nigeria inclusive.

INTERBANK: You will often hear the term 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 institution, brokers or even the government. The market has moved on to such a degree now that the term interbank 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. This is to ensure that you make money from price fluctuations in buying and selling of currencies. As you can see from the a table below over 90% of all currencies are traded against the US Dollar.

Market Activity

currency	1989 (%)	1992(%)	1995(%)	2000(%)	2007(%)
US Dollar	90	82.0	83.3	87.3	90.4
Euro					37.6
Japanese Yen	27	23.4	24.1	20.2	22.7
Pound Sterling	15	13.6	9.4	11.0	13.2
Swiss Franc	10	8.4	7.3	7.1	6.1

The four next most traded currencies are the Euro (EUR), Japanese Yen (JPY), Pound Sterling (GBP) and Swiss Franc (CHF). As currencies are traded in pairs and exchanged one for the other when traded, the rate at which they are exchanged is called the exchange rate. These four currencies traded against the US Dollar make up the majority of the market and are called major currencies or the majors.

FOREX BROKERS:

They are financial institutions licensed and regulated by authorities of countries of their establishments, who enable traders (margin accounts or not) to access and trade Forex market. They play intermediary roles between the Forex market and the traders all over the world. They are all over Europe, America, Asia and Africa; but not yet in Nigeria. Their services are online and know no bounds.

Their Services to Traders:

- Provide state-of-the-art Forex market platform to traders with market structures, charts, indicators, expert advisors, Forex news and fundamentals (MEGATRADER 4 & 5).
- Provide traders with a leverageable (loan) facility to help them participate in the market with small deposit, which will serve as collateral.
- Open traders' Forex account (Standard or Mini) and receive traders' deposits to participate in the market.
- They execute market orders initiated by traders.
- They also pay interest on traders' deposit not used for some time, keep funds and facilitate withdrawal by traders
- They also provide new traders with some learning materials to enable them know more about the market.
- They also send traders daily account statements for their confirmation.

Note: Brokers are online, their services are free and traders just need to choose reputable ones, I will be giving some recommendations later on. But do not forget that they charge spread (the difference between bid and ask prices of a quote) on each position opened.

CURRENCY PAIRS:

So now we know that the FX market is the largest in the world and that your broker or institution that you are trading with is collecting quotes from a centralized feed or individual quotes

comprising of interbank rates. So how are these quotes made up? Well, as we previously mentioned currencies are traded in pairs and are each assigned a symbol. For the Japanese Yen it is JPY, for the Pounds Sterling it is GBP, for Euro it is EUR and for the Swiss Franc it is CHF. So, EUR/USD would be Euro-Dollar pair. GBP USD would be pounds Sterling- Dollar pair and USD/CHF would be Dollar-Swiss Franc pair and so on. You will always see the USD quoted first with few exceptions such as Pounds Sterling, Euro, Australia Dollar and New Zealand Dollar, The first currency quoted is called the base currency while the second currency quoted is called the counter currency.

Currency Symbol/Product	Currency Pair
EUR/USD	Euro / US Dollar
GBP/USD	Pounds Sterling / US Dollar
USD/JPY	US Dollar / Japanese Yen
USD/CHF	US Dollar / Swiss Franc
USD/CAD	US Dollar / Canadian Dollar
AUD/USD	Australian Dollar / US Dollar

When you see FX quotes, you will actually see two numbers. The first number is called the bid price and the second number is called the offer price (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 3 give or take a pip (a **PIP** is known as the **Price Interest Point**). 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.

PRICE INTEREST POINT (PIP):

PIP is the most common movements either increment or decrement of currencies. 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.

Calculation of PIP Value: 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:

Formula 1

Example 1: 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.

Example 2: USD/CHF at exchange rate 1.4840: (.0001 divided by exchange rate = pip value). So $.0001/1.4840 = 0.0000673$

Example 3: USD/CAD at exchange rate 1.5223: (.0001 divided by exchange rate = pip value). So $.0001/1.5223 = 0.0001522$

Formula 2

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.

Example 4: EUR/USD at exchange rate 0.9887: (0.0001 divided by exchange rate = pip value). So $.0001/0.9887 = \text{EUR } 0.0001011$.

But we want to get back to US Dollars so we add another little calculation which is EUR X Exchange rate
So $0.0001/0.9887 \times 0.9887 = 0.0000999$ approximately 0.0001.

Example 5: GBP/USD: (0.0001 divided by exchange rate = pip value). So $0.0001/1.5506 * \text{GBP } 0.0000644$. But we want to get back to US Dollars so we add another little calculation which is GBP X Exchange rate.
So $0.0001/1.5506 \times 1.5506 = 0.0000998$ approximately 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 conventions 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.

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LOT SIZE OR CONTRACT SIZE

This simply means the size of amount required for a trade or position. Spot Forex is traditionally traded in lots also referred to as contracts. The standard size for a lot is \$100,000. Later on, a mini lot size was introduced of \$10,000 and now, a smaller lot size has been introduced in the market. It is known as Micro lot size of \$1,000. This again may change in the years to come. As we mentioned previously, currencies are measured in pips, which is the smallest movement of the price of that currency. To take advantage of these tiny movements, it is desirable to trade large amounts of a particular currency in order to see any significant profit or loss.

We shall cover leverage later but for the time being let's assume we will be using \$100,000 lot size. We will now recalculate some examples to see how it affects the pip value.

From example 1: USD/JPY at an exchange rate of 116.73 ($.01/116.73$) X \$100,000 = \$8.56 per pip

From example 2: USD/CHF at an exchange rate of 1.4840 ($0.0001/1.4840$) X \$100,000 = \$6.73 per pip

In cases where the US Dollar is not quoted first the formula is slightly different.

From example 4: EUR/USD at an exchange rate of 0.9887. So ($0.0001/0.9887$) X EUR 100,000 = EUR 10.11 to get back to US Dollars we add a further step EUR 10.11 X Exchange rate which looks like EUR 10.11 X 0.9887 = \$9.9957 approximately \$10 per pip.

From example 5: GBP/USD at an exchange rate of 1.5506. So ($0.0001/1.5506$) X GBP 100,000 = GBP 6.44 to get back to US Dollars we add a further Step GBP 6.44 X Exchange rate which looks like GBP 6.44 X 1.5506 = \$9.9858864 approximately \$10 per pip.

As we said earlier your broker may have different convention for calculating pip value relative to lot size but however they do it, they will be able to tell you what the pip value for the currency you are trading is at that particular

time. Remember that as the market moves so will the pip value depending on what currency you trade.

So now we know how to calculate pip value lets have a look at how you work out your profit or loss. Let's assume you want to buy US Dollars and Sell Japanese Yen. The rate you are quoted is 116.70/116.75 because you are buying the USD, you will be working on the 116.75, the rate at which traders are prepared to sell. So you buy 1 lot of \$100,000 at 116.75. A few hours later the price moves to 116.95 and you decide to close your trade. You ask for a new quote and are quoted 116.95/117.00. As you are now closing your trade and you initially bought to enter the trade, you now sell in order to close the trade and you take 116.95; the price traders are prepared to buy at. The difference between 116.75 and 116.95 is .20 or 20 pips. Using our formula from above, we now have $(.01/116.95) \times \$100,000 = \8.55 per pip $\times 20$ pips = \$171. In the case of the EUR/USD, you decide to sell the EUR and are quoted 0.9885/0.9890, you take 0.9885. Now don't get confused here. Remember you are now selling and you need a buyer. The buyer is bidding 0.9885 and that is what you take. A few hours later the EUR moves to 0.9805 and you ask for a quote. You are quoted 0.9805/0.9810 and you take 0.9810. You originally sold EUR to open the trade and now to close the trade you must buy back your position. In order to buy back your¹ position, you take the price traders are prepared to sell at which is 0.9810. The difference between 0.9810 and 0.9885 is 0.0075 or 75 pips.

Using the formula from above, we now have $(.0001/0.9810) \times \text{EUR } 100,000 = \text{EUR}10.19$: $\text{EUR } 10.19 \times \text{Exchange rate } 0.9810 = \9.99 (\$10) so $75 \times \$10 = \750 .

To reiterate what has gone before, when you enter or exit a trade at some point you are subject to the spread in the bid/offer quote. As a rule of thumb when you buy a currency you will use the offer price and when you sell you will use the bid price. So when you buy a currency **you pay the spread as you enter the, trade but** not as you exit and when you sell a currency you pay no spread when you enter but only when you exit.

LEVERAGE

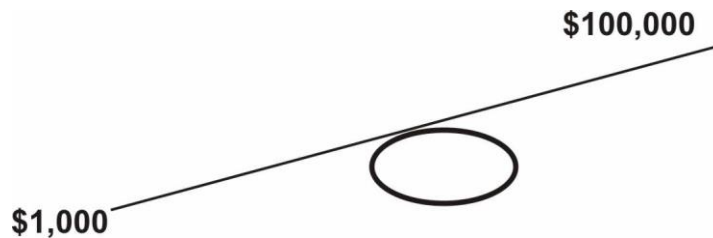
Leverage financed with credit, such as that purchased on a margin account is very common in Forex. A margined account is a leverageable account in which Forex can be purchased for a combination of cash or collateral depending what your brokers will accept. The loan (leverage) in the margined account is collateralized by your initial margin (deposit), if the value of the trade (position) drops sufficiently, the broker will ask you to either put in more cash, or sell a portion of your position or even close your position. Margin rules may be regulated in some countries, but margin requirements and interest vary among broker/dealers so always check with the company you are dealing with to ensure you understand their policy.

Leverage Level

Up until this point you are probably wondering how a small investor can trade such large amounts of money (positions). The amount of leverage you use will depend on your broker and what you feel comfortable with. There was a time when it was difficult to find companies prepared to offer margined accounts but now, you can get leverage from 1% to as high as 0.2% with some brokerages.

1% leverage level means you could control \$100,000 with only \$1,000. Typically the broker will have a minimum account size also known as account margin or initial margin e.g. \$10,000. Once you have deposited your money you will then be able to trade. The broker will also stipulate how much they require per position (lot) traded. In the example above for every \$1,000 you have, you can take a lot of \$100,000 so if you have \$5,000 they may allow you to trade up to \$500,000 of Forex.

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0.5% **leverage level** means you could control \$200,000 with only \$1,000.

0.3% **leverage level** means you could control \$300,000 with only \$1,000.

And 0.2% **leverage level** means that you could control \$500,000 with only \$1,000.

Note: the higher leverage level you use, the higher, the probability of your risk/reward.

MARGIN ACCOUNT

So your account size will determine the amount of money you would be able to control in the Forex market. But you could start with as little as \$5. The minimum security (Margin) for each lot will vary from broker to broker. In the example above the broker required a one percent margin. This means that for every \$100,000 traded the broker wanted \$1,000 as security on the position.

Margin call: is also something that you will have to be aware of. If for any reason the broker thinks that your position is in danger e.g. you have a position of \$100,000 with a margin of one percent (\$1,000) and your losses are approaching your margin (\$1,000). He will call you and either ask you to deposit more money, or close your position to limit your risk and his risk. If you are going to trade on a margin account it is imperative that you talk with your broker first to find out what their policies are on this type of accounts.

Variation Margin: is also very important. Variation margin is the amount of profit or loss your account is showing on open positions. Let's say you have just deposited \$10,000 with your broker. You take 5 lots of USD/JPY which is \$500,000. To secure this the broker needs \$5,000 (1%). The trade goes bad and your losses equal \$5001, your broker may do a margin call. The reason he may do a margin call is that even though you still have \$4,999 in your account the broker needs that as security and allowing you to use it could endanger yourself and him. Another way to look at it is this, if you have an account of \$10,000 and you have a 1 lot (\$100,000) position. That's \$1,000 assuming a (1% margin) is no longer available for you to trade. The money still belongs to you but for the time you are margined the broker needs that as security. Another point of note is that some brokers may require a higher margin at the weekends. This may take the form of 1% margin during the week and if you intend to hold the position over the weekend it may rise to 2% or higher. Also in the example we have used a 1% margin. This is by no means standard. I have seen as high as 0.5% and many between 3%-5% margin. It all depends on your broker. There have been many discussions on the topic of margin and some argue that too much margin is dangerous. This is a point¹ for the individual concerned. The important thing to remember as with all trading is that you thoroughly understand your brokers policies on the subject and you are comfortable with and understand your risk.

CHART

A chart is a graphical representation of price movement over a specific period of time and is composed of an x-axis (time) and a y-axis (price). The choice of the time frame employed depends on the user's need. It is obvious that an intra-day scenario will not be based on a monthly chart. There are types of charts use to analyze

the Forex market by the technical analysts namely line, bar and candlestick charts.

Line Chart

A line chart shows a line connecting the "closing prices". The closing is the last price recorded at the end of a specific period of time (session). Line charts are better used for tracing "Resistance - Support Levels" and for filtering market spikes.



THE BAR CHART

The Bar Chart provides detailed information compared to the line chart. It not only shows the closing, but also the opening price, highest price, and lowest price during a specific time frame. E.g. to you 15 minutes chart it means that every price movement within 15 minutes time frame is represented by one single bar. The length of each bar indicates the price range of the single bar. Infact a long bar indicates a large difference between the highest and lowest prices.

The left tab or dot, shows the opening price, and the right tab or dot represent the closing price Bar Charts printed on paper (for short periods) can be difficult to read, but brokers charts usually have a zoom function that makes it easier to read closing space bars.

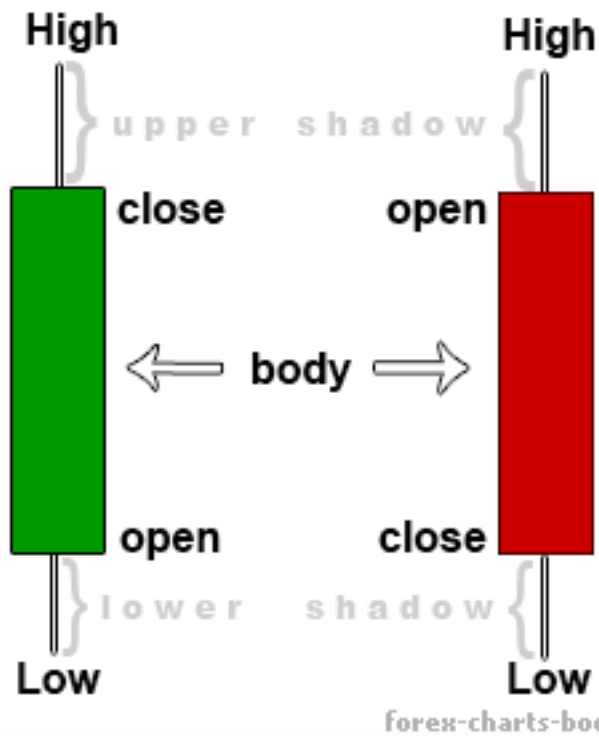


CANDLESTICKS



Candlestick charts have the same characteristics as bar charts, as they also provide open high, low and closing prices, within one bar.

The main difference is the ease of interruption. Also the difference between the opening and closing prices from the body of a box which is displayed with a colour inside it. It could be white or black or as each trader may decides.



We can easily interpret the bullish and bearish markets from the colour of the bodies.

The green candle above means that the opening price is moving uptrend/ bullish). It also comprises of the upper shadow (tail) and lower shadow (tail). The peak of the upper shadow (tail) represents the highest price within the time frame, while the lower shadow (tail) represents the lowest price within the same time frame.

The contrary is true for the red body.

ROLLOVERS

Even though the mighty US dominates many markets most of Spot Forex is still traded through London in Great Britain. So for our next description we shall use London time. Most deals in Forex are done as Spot deals. Spot deals are nearly always due for settlement one business day. This is referred to as the *VALUE DATE OR DELIVERY DATE*. On that date, the counterparties take delivery of the currency they have sold or bought. In Spot FX, the majority of the time, the end of the business day is 21:59 (London time). Any positions still open at this time are automatically rolled over to the next business day, which again

finishes at 21:59. This is necessary to avoid the actual delivery of the currency. As Spot FX is predominantly speculative most of the time the trades never wish to actually take delivery of the actual currency. They will instruct the brokerage to always rollover their position. Many of the brokers nowadays do this automatically and it will be in their policies and procedures. The act of rolling the currency pair over is known as TOM, NEXT which, stands for tomorrow and the next day. Just to go over this again, your brokers will automatically rollover your position unless you instruct him that you actually want delivery of the currency. Another point noting is that most leveraged accounts are unable to actual "deliver of the currency as there is insufficient capital there to cover the transaction.

Remember that if you are trading on margin, you have in effect got a loan from your broker for the amount you are trading. If you had a 1 lot position you broker has advanced you the \$100,000 even though you did not actually have \$100,000. The broker will normally charge you the interest differential between the two currencies if you rollover your position. This normally only happens if you have rolled over the position and not if you open and close the position within the same business day.

To calculate the broker's interest he will normally close your position at the end of the business day and again reopen a new position almost simultaneously. You open a 1 lot (\$100,000) EUR/USD position on Monday 15th at 11:00 at an exchange rate of 0.9950.

During the day the rate fluctuates and at 22:00 the rate is 0.9975. The broker closes your position and reopens a new position with a different value date. The new position was opened at 0.9976 a 1 pip difference. The 1 pip difference reflects the difference in interest rates between the US Dollar and the Euro. In our example you are long Euro and short US Dollar. As the US Dollar in the example has a higher interest rate than the Euro you pay the premium of 1 pip.

Now the good news, if you had the reverse position and you were short Euros and long US Dollars you would gain the interest differential of 1 pip. If the first named currency has an overnight interest rate lower than the second currency then you will pay that interest differential if you bought that

currency. If the first named currency has a higher interest rate than the second currency then you will gain the interest differential.

To simplify the above, if you are long (bought) a particular currency and that currency has a higher overnight interest rate you will gain. If you are short (sold) the currency with a higher overnight interest rate then you will lose the difference.

I would like to emphasize here that although we are going a little in-depth to explain how all this works, your broker will calculate all this for you. The purpose of this book is just to give you an overview of how the Forex market works.

ACCOUNTS

Although the movement today is towards all transactions eventually finishing in a profit and loss (in US Dollars) it is important to realize that your profit or loss may not actually be in US Dollars. From my observation the trend is more pronounced in the US as you would expect. Most US based traders assume



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they will see their balance at the end of each day in US Dollars. I have even spoken with some traders who are oblivious to the fact that their profit might have actually been in Japanese Yen.

Let me explain a little more. You sell (go short) USD/JPY and as such are short USD and Long (bought) JPY. You enter the trade at 116.10 and exit 116.90. You in fact made 80,000 Japanese Yen (1 lot traded) not US Dollars. If you traded all four major currencies against the US Dollar you would in fact have made or lose in EUR, GBP, JPY and CHF. This might give you a ledger balance at the end of the day or month with four different currencies. This is common in London. It will stay in that currency until you instruct the broker to exchange the currency you have a profit or loss into your own base currency. This actually happened to me. After dealing with mainly US based brokers it had never occurred to me that my statement would be in anything other than US Dollars. This can work for you or against you depending on the rate of exchange when you change back into your home currency. Once I knew the convention, I simply instructed the broker to change my profit or loss into US Dollars when I closed my position. It is worth checking how your broker approaches this and simply ask them how they handle it.

A small point but worth noting

It's a sad fact that for many years the Forex market largely remained unregulated. Even today there are many countries that still don't regulate companies that trade Forex. London has been regulated for many years and the US is now getting its act together and has also started regulating companies dealing Forex. It was only recently in the US you could with no more than an Internet site and a few thousand dollars set up your own Forex operation and give the impression that you were larger than you are. I am all for the entrepreneurial flair and everyone need to

start somewhere but when dealing with people's money it is imperative that the company you choose is solid.

Preferably you want a company that is regulated in the country that it operates, insured or bonded and has some kind of track record. Most of the regulatory authorities will have a list of brokers that fall within their jurisdiction and will give you a list. They probably won't tell whom to use but at least if the list came from them you can have some confidence in those companies. When you open an account with a broker you will have to fill in some forms basically stating your acceptance of their policies. (All these you would print out from the internet). Take the time to read through these documents and make a list of things you don't understand or want explained. Your involvement with your broker is largely up to you. As a Forex trader you will probably spend long hours staring at the screen without talking to anyone. You may be the sort of person who likes this or you may be the sort of person who likes to chat with the dealer in the trading room.

STATEMENTS

Before we move on to account statements I just want to touch on segregation of funds. In times past there was a danger that traders who deposited money with their broker who did not segregate their clients' money from their own companies' money were at some risk. The problem arose if the broker misused the deposited funds to either reinvest or otherwise manipulated these deposits to enhance their own standing. There were also instances where the broker became insolvent and many complications ensued as to what was the clients' money and what was the broker's money. With the advent of regulation most brokers now segregate their clients' funds from the brokerage funds. Deposits are normally held with banks or other large financial institutions that are also regulated and bonded or insured. This protects your money.

should anything happen to your broker. The deposit taking institution is normally aware that these deposits are client's funds.

Depending on regulation in the particular country you live, each client may have their own segregated account or for smaller depositors they may be pooled. The point is that segregation of funds is a safeguard.

Just as with a bank you are entitled to interest on the money you have on deposit. Some brokers may stipulate that interest is only payable on accounts over a certain amount but the trend today is that you will earn interest on any amount you have that is not being used to cover your margin. Your broker is probably not the most competitive place to earn interest but that should not be the point of having your money with him in the first place.

Payment on your account that is not being used and segregation of funds all go to show the reputability of the company you are dealing with.

NB: To open an account with a broker in the United States, you do not need to be there, all you need is open a domiciliary account here in Nigeria with a reputable bank (though they are now all reputable with the N25 billion capitalization) the bank will now in turn wire your money to a bank in the United States which will hold your account to you for your brokerage. Similarly, when you start making money from Forex, all you need do is go to your bank here in Nigeria and withdraw your money in Dollars.

Alternatively, if you find it difficult to open a foreign currency domiciliary account because of its involvements in respect of acquisition of international passport and minimum balance, you can use any of the e-currency method of payments that is acceptable by the broker, you are using.

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In this section, I will discuss briefly the basic account statement. I have to keep this basic as there are as many flavors of account statements as you can imagine. Just about every broker has their own way of presenting this. The most important thing is to know where you stand at the end of each day or week. Just because your broker is Internet based and has all the bells and whistles does not mean they are infallible. Many of the actions taken before information is imputed are still done by hand and if humans are involved, there will be a mistake at some point. The responsibility lies with you. It is your money so make sure that all the transactions are correct. The account statement is send to the traders through e-mail daily or otherwise depending on the broker's convention. It is your obligation as a trader to confirm the statement.

Normally there is an order number to help identify the trade. You will always find the time and date of the trade. The value date if the currency were to be delivered. You should always see the direction of the trade, buy or sell (Long or Short). The amount and rate you bought or sold. Balance to let you know, if you made a profit or a loss. You should also see any open positions, you may have and the margin requirements for that position. A lot of the more modem systems will show your open position as though it has been closed just to give you an up to the minute balance.

THE MAIN PLAYERS

Central Banks and Governments

Policies that are implemented by governments and central banks can play a major roll in the FX market. Central banks can play an important part in controlling the country's money supply to insure financial stability.

Banks

A large part of FX turnover is from banks. Large banks can literally trade billions of dollars daily. This can take the form of a

service to their customers or they themselves speculate on the FX market.

Hedge Funds

As we know the FX market can be extremely liquid which is why it can be desirable to trade. Hedge Funds have increasingly allocated portions of their portfolios to speculate on the FX market. Another advantage Hedge Funds can utilize is a much higher degree of leverage than would typically be found in the equity markets.

Corporate Businesses

The FX market mainstay is that of international trade. Many companies have to import or exports goods to different countries all around the world. Payment for these goods and services may be made and received in different currencies. Many billions of dollars are exchanged daily to facilitate trade. The timing of those transactions can dramatically affect a company's balance sheet.

The Man In The Street

Although you may not think it the man in the street also plays a part in today's FX world. Every time he goes on holiday overseas he normally need to purchase that country's currency and again change it back into his own currency once he returns. Unwittingly he is in fact trading currencies. He may also purchase goods and services whilst overseas and his credit card company has to convert those sales back into his base currency in order to charge him.

Another typical example is prominent here in Nigeria, a lot of us have relatives and friends in the US who send us money and after collecting Western Union, we go to the Mallams or the Beaurau de change to change it to Naira. It is also a part of Forex done on a small scale. You are about to learn it on a full large scale.

Speculators/Investors

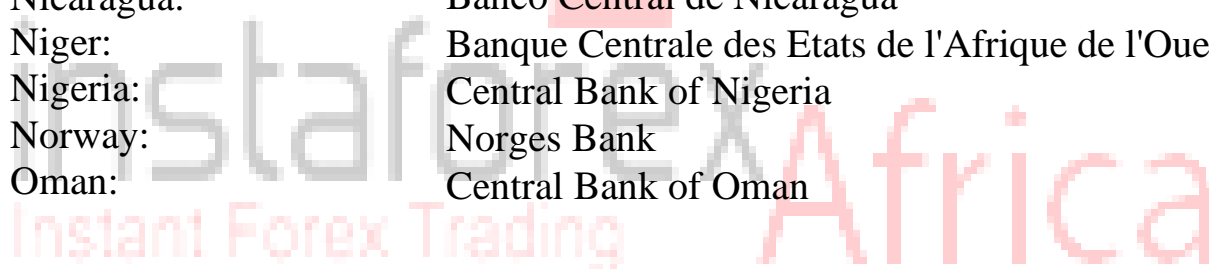
We shall differentiate speculator from investors here with the definition that an investor has a much longer time horizon in which he expects his investment to yield a profit. Regardless of the difference both speculators and investors will approach the FX market to exploit the movement in currency pairs. They both will have their reason for believing a particular currency will perform better or worse as the case may be and will buy or sell accordingly. They may decide that the Euro will appreciate against the US Dollar and take what is called a long position in Euro. If the Euro does in fact gain ground against the US Dollar they will have made a profit.

Below you will find a list of Central Banks.

Albania:	Bank of Albania
Algeria:	Bank of Algeria
Argentina:	Banco Central de la Republica Argentina
Armenia:	Central Bank of Armenia
Aruba:	Centrale Bank van Aruba
Australia:	Reserve Bank of Australia
Austria:	Oesterreichische Nationalbank
Azerbaijan:	National Bank of Azerbaijan
Bahamas:	Central Bank of the Bahamas
Bahrain:	Bahrain Monetary Agency
Bangladesh:	Bangladesh Bank
Barbados:	Central Bank of Barbados
Belarus:	National Bank of the Republic of Belarus
Belgium:	Nationale Bank van Belgie - Banque Nationale de Belgique
Benin:	Banque Centrale des Etats de l'Afrique de l'Ouest
Bolivia:	Banco Central de Bolivia
Bosnia:	Central Bank of Bosnia and Herzegovina
Botswana:	Bank of Botswana
Brazil:	Banco Central do Brasil
Bulgaria:	Bulgarian National Bank

Burkina Faso:	Banque Centrale des Etats de l'Afrique de l'Ouest
Canada:	Bank of Canada - Banque du Canada
Cayman Islands	:Cayman Islands Monetary Authority
Chile:	Banco Central de Chile
China:	The People's Bank of China
Colombia:	Banco de la Republica
Costa Rica:	Banco Central de Costa Rica
Cote d'Ivoire:	Banque Centrale des Etats de l'Afrique de l'Ouest
Croatia:	Croatian National Bank
Cyprus:	Central Bank of Cyprus
Czech Rep.:	Ceska Narodni Banka
Denmark:	Danmarks Nationalbank :
Dominican Rep.:	Banco Central de la Republica Dominicana
East Caribbean area:	The East Caribbean Central Bank
Ecuador:	Banco Central del Ecuador
Egypt:	Central Bank of Egypt
El Salvador:	The Central Reserve Bank of El Salvador
Estonia:	Eesti Pank
European Union:	European Central Bank
Fiji:	Reserve Bank of Fiji
Finland:	Suomen Pankki
France:	Banque de France
Georgia:	National Bank of Georgia
Germany:	Deutsche Bundesbank
Ghana:	Bank of Ghana
Greece:	Bank of Greece
Guatemala:	Banco de Guatemala
Guinea Bissau:	Banque Centrale des Etats de l'Afrique de l'Ouest
Honduras:	Banco Central de Honduras
Hong Kong:	Hong Kong Monetary Authority
Hungary:	National Bank of Hungary
Iceland:	Central Bank of Iceland Reserve
India:	Bank of India
Indonesia:	Bank of Indonesia
Ireland:	Central Bank of Ireland

Israel:	Bank of Israel
Italy:	Banca d'Italia
Jamaica:	Bank of Jamaica
Japan:	Bank of Japan
Jordan:	Central Bank of Jordan
Kazakhstan:	National Bank of Kazakhstan
Kenya:	Central Bank of Kenya
Korea:	Bank of Korea Central
Kuwait:	Bank of Kuwait National
Kyrgyzstan:	Bank of the Kyrgyz Republic
Latvia:	Bank of Latvia
Lebanon:	Banque du Liban
Lithuania:	Lietuvos Bankas
Luxembourg:	Banque Centrale du Luxembourg .
Macedonia:	National Bank of the Republic of Macedonia
Malaysia:	Bank Negara Malaysia
Malawi:	Reserve Bank of Malawi
Mali:	Banque Centrale des Etats de l'Afrique de l'Ouest
Malta:	Central Bank of Malta
Mauritius:	Bank of Mauritius
Mexico:	Banco de Mexico
Moldova:	The National Bank of Moldova
Mongolia:	The Bank of Mongolia
Morocco:	Bank Al-Maghrib
Mozambique:	Bank of Mozambique
Namibia:	Bank of Namibia
Nepal:	Nepal Rastra Bank
Netherlands:	De Nederlandsche Bank
Netherlands Antilles:	Bank van de Nederlandse Antillen
New Zealand:	Reserve Bank of New Zealand
Nicaragua:	Banco Central de Nicaragua
Niger:	Banque Centrale des Etats de l'Afrique de l'Ouest
Nigeria:	Central Bank of Nigeria
Norway:	Norges Bank
Oman:	Central Bank of Oman


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Pakistan:	State Bank of Pakistan
Papua New Guinea:	Bank of Papua New Guinea
Paraguay:	Banco Central del Paraguay
Peru:	Banco Central de Reserva del Peru
Philippines:	Bangko Sentral ng Pilipinas
Poland:	National Bank of Poland
Portugal:	Banco de Portugal
Qatar:	Qatar Central Bank
Romania:	National Bank of Romania
Russia:	Central Bank of Russia
Rwanda:	Banque Nationale du Rwanda
Saudi Arabia:	Saudi Arabian Monetary Agency
Senegal:	Banque Centrale des Etats de l'Afrique de l'Ouest
Sierra Leone:	Bank of Sierra Leone
Singapore:	Monetary Authority of Singapore
Slovakia:	National Bank of Slovakia
Slovenia:	Bank of Slovenia
South Africa:	South African Reserve Bank
Spain:	Banco de Espana
Sri Lanka:	Central Bank of Sri Lanka
Sudan:	Bank of Sudan
Suriname:	Centrale Bank van Suriname
Sweden:	Sveriges Riksbank
Switzerland:	Schweizerische Nationalbank
Tanzania:	Bank of Tanzania
Thailand:	Bank of Thailand
Togo:	Banque Centrale des Etats de l'Afrique de l'Ouest
Trinidad and Tobago:	Central Bank of Trinidad and Tobago
Tunisia:	Banque Centrale de Tunisie
Turkey:	Tiirkiye Cumhuriyet Merkez Bankasi
Ukraine:	National Bank of Ukraine
United Arab Emirates:	Central Bank of United Arab Emirates
United Kingdom:	Bank of England
United States:	Board of Governors of the Federal Reserve System (Washington) Federal Reserve Bank of New York
Venezuela:	Banco Central de Venezuela
Yemen:	Central Bank of Yemen
Yugoslavia:	National Bank of Yugoslavia
Zambia:	Bank of Zambia
Zimbabwe:	Reserve bank of Zimbabwe

ANALYSIS OF THE MARKET

Well now we have a basic understanding of how the FX market works and who the main players are, what next? You are now going to have to decide the best way to trade the market. The two most common approaches are that of fundamental analysis and technical analysis.

Fundamental analysis concentrates on the forces of supply and demand for a given security. This approach examines all the factors that determine the price of a security and the real value of that security. This is referred to as the **intrinsic value**. If the intrinsic value is below the market price when there is an opportunity to buy and if the market is above the intrinsic price then there is an opportunity to sell. It is very important for every FX trader to understand the basics of trading fundamentally. Fundamental trading, which utilizes the economic calendar, asset markets, political considerations and economic indicators, involves an accurate understanding of how economic mainstays like the U.S., Canada, UK, Europe and Asia affect the behavior of market directions.

Economic calendar is a type of calendar that is intended to inform financiers and traders about the scheduled major economic events, government reports and speeches of the most influential persons of the financial world. Economic calendars are usually issued on a weekly basis.

Asset Markets comprise stocks, bonds and real estate.

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Political Considerations impact the level of confidence in a nation's government, the climate of stability and level of certainty.

Economic Indicators are statistics about an economy. Economic indicators allow analysis of economic performance and predictions of future performance. Economic Indicators include various indices as:

- | | |
|-------------------------------|-------------------------------|
| (a) Consumer confidence index | (1) Money supply |
| (b) Consumer credit report | (m) Mutual fund flows |
| (c) Consumer price index | (n) Non-manufacturing report |
| (d) Durable goods index | (o) Personal income & outlays |
| (e) Employee cost index | (p) Producer price index |
| (f) Employee situation report | (q) Gross productivity report |
| (g) Existing home sales | (r) Retail sales report |
| (h) Factory order report | (s) Trade balance report |
| (i) Gross domestic product | (t) Unemployment rate |
| (j) Industrial productivity | (u) Wholesale trade report |
| (k) Jobless claims report | (v) Foreign exchange reserve |
- etc.

Let me give you two typical values of fundamental analysis;

- (a) On the 11th September 2001, people who bought the dollar lost because of what happened in New York. There is a fear that when something negative happens to a country, their currency will be devalued and so many of the people who have possession of such a currency in the market will sell. When there are more sellers than buyers, the value automatically goes down.
- (b) Same thing happened 2005 to the GBP (Pounds Sterling) after the terrorist attack.

Technical analysis examines past price and volume data to forecast future price movement. It involves the study of market action in the charts to forecast the future price of a security based on past price movement, patterns and trends. This type of

analysis focuses on the formation of charts and formulae to capture major and minor trends identify buying and selling opportunities and assessing the extent of market turnarounds. Depending upon the time horizon, one could use technical analysis on an intraday, day, week, month trading.

Technical analysis deals with the "When" of price movements, while Fundamental analysis deals more with "why". The place of indicators in Forex trading cannot be over emphasized. They are the integral fiber through which every form of trading plan is built. A clear understanding

of these indicators is the beginning of trading professionally. Technical Indicators can be grouped into four.

- (a) Trend Indicators e.g. Moving Averages, Bollinger bands, Parabolic SAR etc.
- (b) Oscillate Indicators e.g. Moving Average Convergence Divergence (MACD), Commodity Channel Index (CCI), Stochastic etc.
- (c) Momentum Indicators
- (d) Volumes

There are three main points that a technical analyst applies.

- (a) Market action discounts everything. Regardless of what the fundamentals are saying, the price you see is the price you get.
- (b) The price of a given security moves in trends.
- (c) The historical trend of a security will tend to repeat.

Of all of the above things the most important of them is point A. The tools of the technical analyst are indicators, patterns and systems. These tools are applied to charts. There are many ways to skin a cat as the saying goes but fundamental and technical analyses are the two most popular ways of trading FX.

Conclusion

I hope you have enjoyed this introductory book to the Forex market. Don't risk money you can't afford to lose.

Definition of Terms

Ask (offer) price - The price at which the market is prepared to sell a specific currency in a Foreign Exchange Contract or Cross Currency Contract. At this price, the trader can buy the base currency. It is shown on the right side of a quotation. For example, in the quote USD/CHF 1.2627/1.2632, the ask price is 1.2632; meaning you can buy one US Dollar for 1.2632 Swiss Francs.

Bar Chart - A type of chart which consists of four significant points; the high and the low prices, which form the vertical bar, the opening, which is marked with a little horizontal line to the left of the bar, and the closing price, which is marked with a horizontal line of the right of the bar.

Base Currency - The first currency in a currency pair. It shows how much the base currency is worth as measured against the second currency. For example, if the USD/CHF rate equals 1.2615 then one USD is worth CHF 1.2615. In the FX Markets, the US Dollar is normally considered the base currency for quotes, meaning that quotes are expressed as a unit of \$1 USD per the other currency quoted in the pair.

The primary exceptions to this rule are the British Pound, Euro and the Australian Dollar.

Bear Market - A market distinguished by declining prices. In other words, in a particular market session where the opening price of a session is more than the closing price.

Bid Price - the price at which the market is prepared to buy a specific currency in a Foreign Exchange contract or cross currency contract. At this price, the trader can sell the base currency. It is shown on the left side of the quotation. For example, in the quote USD/CHF 1.2627/32, the bid price is 1.2627; meaning you can sell one US dollar for 1.2627 Swiss Francs.

Bid/Ask Spread - the difference between the bid and offer price. Big figure quote - Dealer expression referring to the first digits of an exchange rate. These digits are often omitted in dealer quotes... for example, a USD/JPY rate might be 117.30/117.35, but would be quoted verbally without the first three digits i.e. "30/35".
Candlestick Chart - A chart that indicates the trading range for the day as well as the opening and close price. If the open is higher than the close price, the rectangle between the open and close price is shaded. If the close price is higher than the open price, that area of the chart is not shaded.

Cash Market - the market in the actual financial instrument on which a futures or options contract is based.

Central Bank - A government or quasi-government organization that manages a country's monetary policies. For example, the US central bank is the Federal Reserve, and the German central bank is the Bundesbank.

Closed Position - Exposures in Foreign Currencies that no longer exist. The process to close a position is to sell or buy a certain amount of currency to offset an equal amount of the open position. This will 'square' the position.

Counter Currency - the second listed Currency in a Currency Pair.

Currency Pair - the two currencies that make up a foreign exchange rate. For example EUR/USD.

Offer (ask) - the rate at which a dealer is willing to sell a currency. See Ask (offer) price.

Open Position - An active trade with corresponding unrealized P & L, which has not been offset by an equal and opposite deal.

PIPs - the smallest unit of price for any foreign currency. Digits added to or subtracted from the fourth decimal place, i.e. 0.0001. Also called Points.

Quote - An indicate market price, normally used for information purposes only.

Spread - the difference between the bid and ask prices.

Thanks for reading through, If you have any question and need more help getting started with Forex, Please send us an email to the following email address :

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+234 813 345 0038

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