The ins and outs of **trading currencies**

AN INTRODUCTION TO TRADING CURRENCIES
A FOREX.com educational guide

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Contents

Introduction

Whether you're a power trader or a financial newbie, you're likely to hear just about anything—market movements, outlooks and stocks—being described as **bullish** or **bearish**.

Traditionally, **bull markets** offer traders an opportunity to enter a trade by buying a financial product at a low rate and closing the trade for a profit by selling it at a higher rate. Conversely, **bear markets** offer the opportunity to enter a trade by selling at a high rate to close the trade by buying at a lower rate. Although, many financial products have restrictions on selling to capitalize on bear market opportunities.

However, **forex** does not have these restrictions. Furthermore, the forex market is open 24/5 and is the most traded market in the world with an average daily turnover of more than **$5 trillion**,* giving you trading opportunities in **any market conditions** at **any time of day**.

*April 13 Interbank Forex Market average Daily Volume from Bank for International Settlements.

Let’s talk about the bulls and the bears.

A BULLISH TRADER

Buys a financial product to sell at a **higher** price.

In a traditional bull market
Stocks and bonds are rising in value. Traders buy to enter the market and find profit potential.

A BEARISH TRADER

Sells a financial product to buy at a **lower** price.

In a traditional bear market
Stocks and bonds are declining in value. Traders sell to exit the market and minimise losses. Many traditional markets don’t allow traders to enter the market by selling, or it is overly complicated and costly.

IN THE FOREX MARKET

The value of a currency in relation to another is constantly in flux. One currency is always strengthening against another (bullish), and therefore, one currency is always weakening against another (bearish). Because of this, you have equal opportunity to buy or sell to enter the market.

IT’S TIME TO RETHINK EVERYTHING YOU KNOW ABOUT BULLS AND BEARS.
You may not realize it, but the bulls and bears aren’t at odds. In fact, they represent two trading opportunities in the forex market.

What is forex trading?

Also known as foreign exchange or currency trading, **forex** is one of the most traded markets in the world. In forex trading, traders hope to generate a profit by speculating on the **value** of one currency compared to another. This is why currencies are always traded in **pairs**—the value of one unit of currency doesn't change unless it's compared to another currency.

CURRENCY PAIRS APPEAR LIKE THIS:

EUR/USD

Euro

The first currency listed is the base currency.

U.S. Dollar

The second currency is called the quote or terms currency.

A SAMPLE QUOTE FOR THIS PAIR COULD BE:

1.33820

The base currency is always worth one. The quoted price shows how much of the quote currency you'll get for one unit of the base currency. So in this case, 1 EUR is worth approximately 1.33 USD.

Two trade opportunities

SCENARIO 1:
BUY TRADE

If you believe the current value of the euro is strengthening against the US dollar, you might enter a trade to buy euros in the hopes that the currency's value will become stronger compared to the US dollar. In this scenario, you think the euro is bullish (and the US dollar is bearish).

SCENARIO 2:
SELL TRADE

Conversely, if you think the current value of the euro will weaken against the US dollar, you might enter a trade to sell euros in the hopes that the currency's value will become weaker compared to the US dollar. In this scenario, you think the euro is bearish (and the US dollar is bullish).

WHAT YOU SHOULD KNOW

The buy or sell action you take to enter a trade always applies to the base currency. The opposite action automatically applies to the quote currency. So, if you buy the EUR/USD, this means you're buying euros and selling US dollars. If you sell the EUR/USD, you're selling euros and buying US dollars.

EVEN IF YOU'RE NEW TO FOREX,
YOU MAY HAVE TRADED CURRENCIES BEFORE.

For example, if you've ever traveled to another country, you had to exchange your native currency for that of the country you were visiting. At that time, you probably realized that one unit of your currency was not exactly equal to one unit of the other country's currency: its value was either more or less.

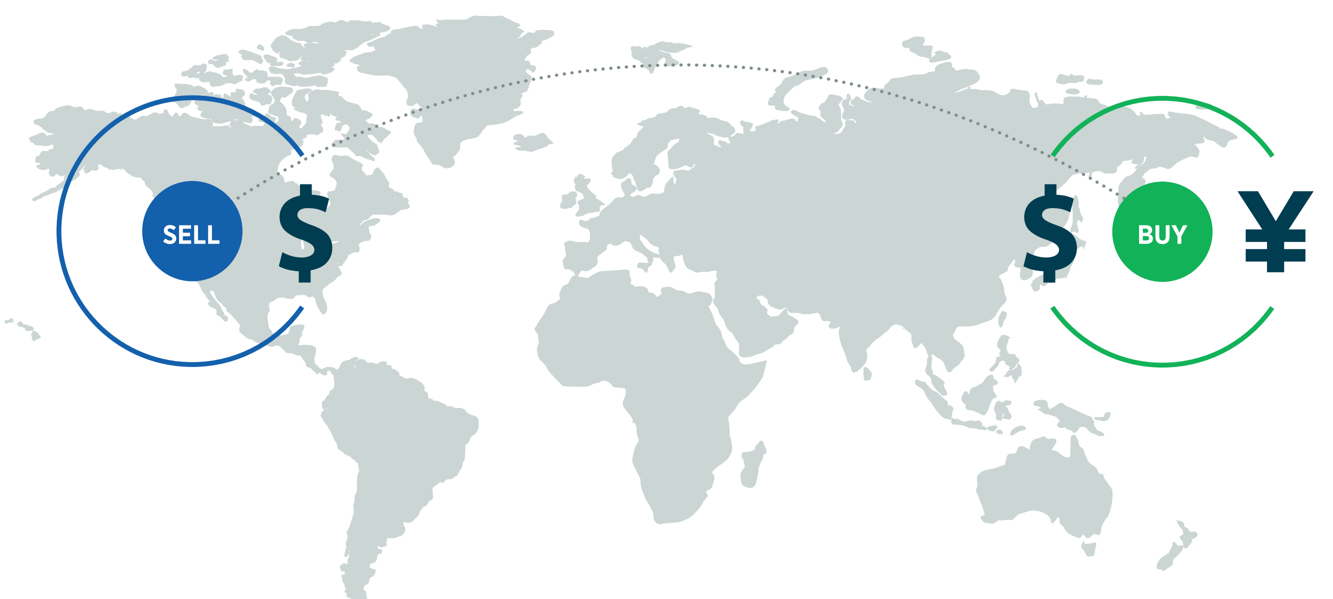
SELLING US DOLLARS AND BUYING JAPANESE YEN

Exchange Rate Difference

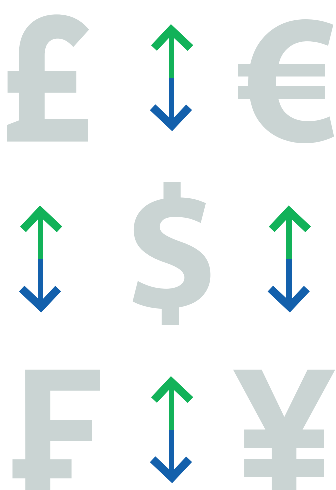
$1 = ¥102

DID YOU KNOW?

When you exchange currencies while travelling in a foreign country, you are technically selling your currency and buying that of the country you are visiting.



EXCHANGING CURRENCIES ISN'T JUST FOR TRAVELERS. THE PRICE DIFFERENCE IS SOMETHING YOU CAN TRADE.



In the global economy, thousands of business transactions take place every day that require organizations to exchange the value of one currency for that of another. When a United States manufacturer buys Japanese steel, they need to convert dollars to yen to pay the bill. A British clothing retailer converts pounds to euros to pay for garments from a French textile company. In every exchange, prices need to be adjusted because one currency is typically weaker (has less value) while the other is stronger (has more value).

WITH SO MANY CHANGES TAKING PLACE, CURRENCY VALUES ARE RARELY STATIC.

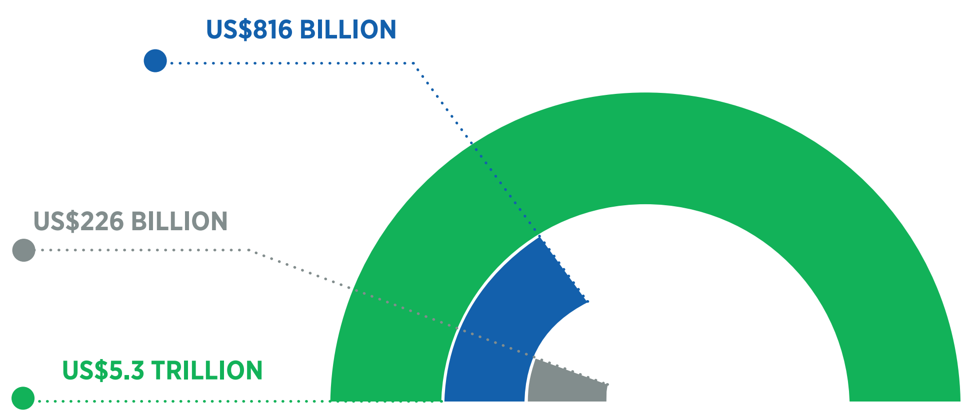
Throughout the course of the day, the value of one currency compared to another can change in response to political news, economics and interest rate changes. This means that a currency that was weaker than another in the morning may be stronger by the afternoon. These frequent changes in the value of currency are what drive forex trading and a trader's trading opportunities in the currency markets.

THE FOREX MARKET IS BIG. REALLY BIG.

While the worldwide **bond** and **stock** markets have a daily volume in the billions of dollars, the **forex** market has a daily volume of over US$5 trillion. This can lead to more trading opportunities.

DID YOU KNOW?

High trading volumes increase traders opportunities to get in and out of the markets quickly. The ability to enter or exit the market efficiently is called liquidity.



FOREX

- US$5.3 TRILLION IN VOLUME*
- 24 HOURS A DAY
- 5.5 DAYS A WEEK

BONDS

- US$816 BILLION IN VOLUME*
- 8 HOURS A DAY
- 5 DAYS A WEEK

STOCKS

- US$226 BILLION IN VOLUME*
- 8 HOURS A DAY
- 5 DAYS A WEEK

*Taken from the Bank of International Settlement April 2013.

*Taken from Securities Industry and Financial Markets Association 2013.

*Taken from BATS Global Markets April 2013.

FOREX CAN BE TRADED 24 HOURS A DAY, 5.5 DAYS A WEEK.

At 5pm ET on Sunday evening, financial markets open in the Pacific (Australia, New Zealand, Japan and various Asian countries). As those begin to close, markets in the Middle East and Europe start to open. When Europe is in mid-session, financial markets across the Americas open. This pattern continues until 5pm ET on Friday when the American financial markets close for the weekend. The consistent closing and opening of markets around the globe provides around-the-clock access to traders, 5.5 days a week. This is why you may hear many people refer to forex as a global market.

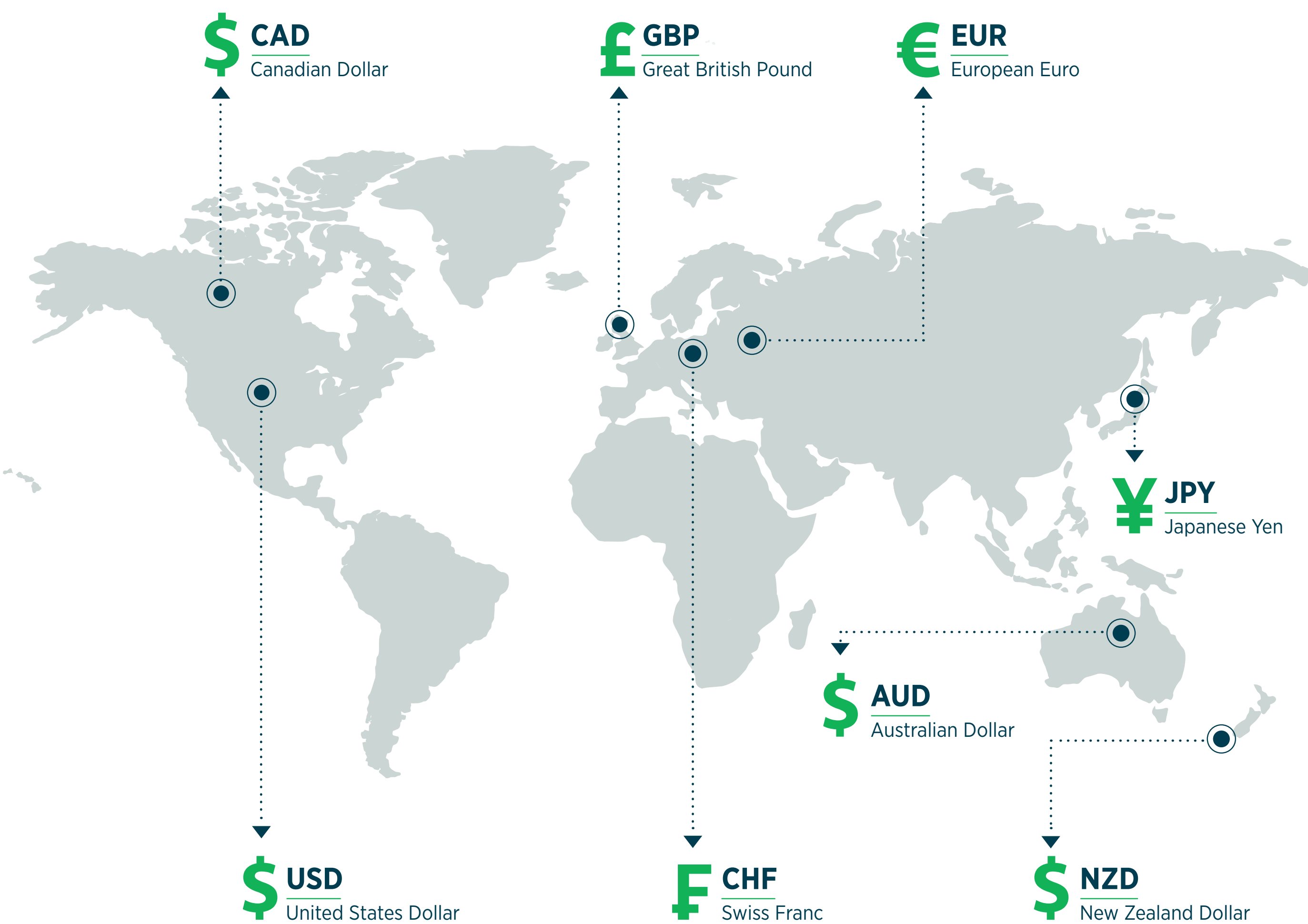
WHO TRADES FOREX?

The financial community, from big banks and hedge funds to small and medium-sized traders, understands the wide range of opportunities in the forex market. And since the markets are open longer than traditional markets, you can trade when it's convenient for you.

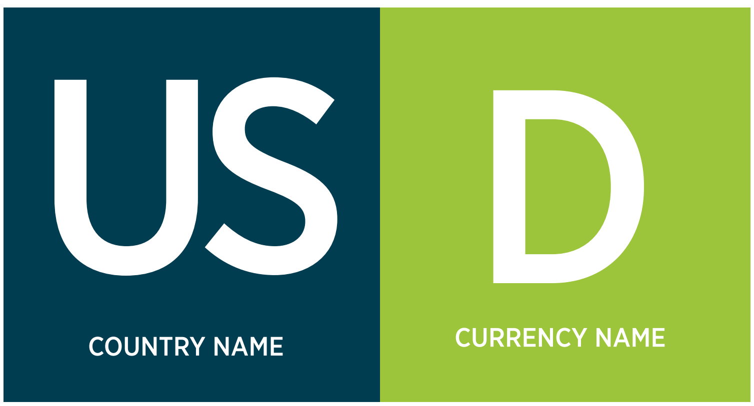
[1] Bank of International Settlements Triennial FX Report, 2007

What currencies can I trade?

You can trade almost any currency—depending on which currency pairs your dealer offers. FOREX.com has over **50 pairs** to choose from. As a new trader, however, you will probably make your first trade with eight of the most commonly traded currencies in the world.



WHEN YOU START TO TRADE, YOU'LL BEGIN TO RECOGNIZE THE EIGHT MAJOR CURRENCIES BY THEIR CODE.



USD US DOLLAR

CHF SWISS FRANC

GBP BRITISH POUND

JPY JAPANESE YEN

NZD NEW ZEALAND DOLLAR

AUD AUSTRALIAN DOLLAR

CAD CANADIAN DOLLAR

EUR EURO

By now, you may feel comfortable and even a little excited about trading **forex**: you know who trades it, when to trade it, and what currencies are available. In this section, we'll discuss some concepts you need to know before you trade your **first** currency pair.

EUR/USD PRICE EXAMPLE

1.33820

Represents one pip

WHAT IS A PIP?

Typically in forex, currency pairs display their prices with four decimal points. A few, such as those that involve the Japanese yen, display two decimal places. No matter what currency pair you're trading, the last large number behind the decimal always represents a pip, the main unit price that can change for the currency pair. As you trade, you'll track your profits (or losses) in pips.

At FOREX.com, you'll see a smaller number behind the pip—this is called a "fractional pip" and offers even more precise pricing. Sometimes, the fractional pip will be a 0—that is, there will be no fraction of a pip being quoted at that time. One unit of movement represents one pip. That may seem small and you may be wondering how forex can be worthwhile if all you're speculating on is a small fraction of a currency. Since forex is traded in large volumes, called lots, these fractions can add up very quickly. Quite simply, the higher volume you trade the more each pip will be valued.

WHAT IS A LOT?

In forex, a **lot** is a standard unit of measurement. At most forex dealers, one standard lot usually equals 100,000 units of currency.

At FOREX.com you are able to trade in intervals of 1,000 units, but you are not required to invest $1,000 to do so because forex is leveraged. Whenever you place a trade, you start with your desired volume. Let's say 10,000 for this next example.

1 LOT = 100,000

WORTH OF CURRENCY

WHAT IS LEVERAGE?

One of the benefits of this market is the ability to trade on leverage. You don't need $10,000 in your account to trade the EUR/USD. Currency pairs can have a leverage ratio of up to 50:1. This means you can control a large position ($10,000) with a small amount of money ($250).

Many traders find the leverage that most forex dealers offer very appealing. Nonetheless, you should know that trading this way can also be risky. It can produce substantial profits as easily as it can cause substantial losses.

CURRENCY PAIRS CAN HAVE A LEVERAGE RATIO OF UP TO 50:1

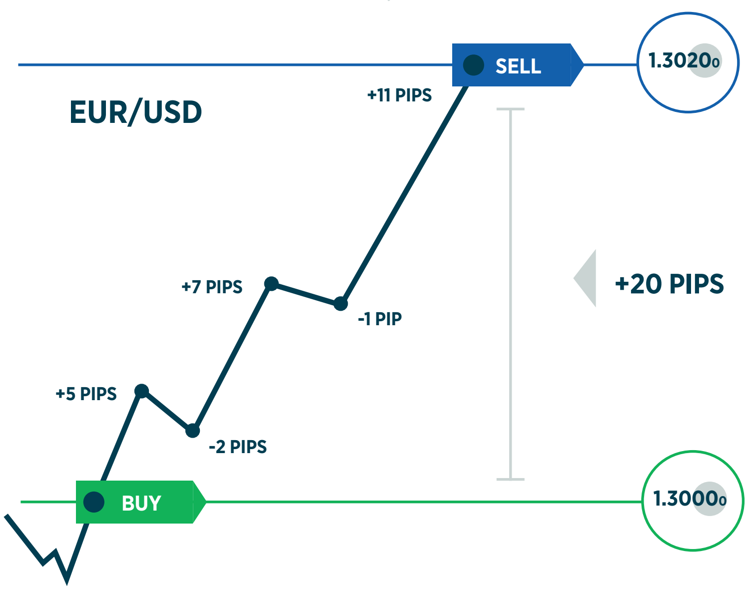
SO HOW DO PIPS, LOTS AND LEVERAGE WORK TOGETHER?

Let's imagine you just bought 100,000 EUR/USD on 50:1 leverage.

You purchased at 1.30000 then closed the trade by selling at 1.30200. This means you've earned 20 pips.

0.0001 X US$100,000 = US$10 per pip
For your 20-pip trade, you would have earned US$200.

ONE LOT TRADED ON A STANDARD ACCOUNT
(Lot size 100,000 with a 50:1 leverage ratio)



CALCULATING YOUR EARNINGS

0.0001 X 100,000 (ONE LOT) = US$10 PER PIP

For your 20 pip trade, you would have earned US$200.

Not all of the pips you'll earn will be worth US$10. The value of a pip depends on the lot size of your trade, how many lots you're trading, the currency pair and your account currency.

While you can manually calculate this or use online pip calculators to learn the value of a pip before you trade, most trading applications automatically calculate pip values and convert them to the currency you're trading.

DID YOU KNOW?

At **FOREX.com**, we offer a wide range of tools to help you make the most of every opportunity. **Learn more about our tools**

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