Forex Market

The forex market is the market in which participants can buy, sell, exchange, and speculate on currencies. The currency market is considered to be the largest financial market with over $5 trillion in daily transactions, which is more than the futures and equity markets combined.

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Major Currency Pairs

Symbol	Country	Currency	Nickname
USD	United States	Dollar	Buck/Greenback
EURO	Euro Zone	Euro	Fiber
JPY	Japan	Yen	Yen
GBP	Great Britain	Pound	Cable
CHF	Switzerland	Franc	Swissy
CAD	Canada	Dollar	Loonie
AUD	Australia	Dollar	Aussie
NZD	New Zealand	Dollar	Kiwi

Forex Market Timings

Forex Market Centre	Open (IST)	Close (IST)
Sydney (Australia)	03:30 AM	11:30 AM
Tokyo (Japan)	04:30 AM	12:30 PM
Frankfurt (Germany)	11:30 AM	07:30 PM
London (Britain)	12:30 PM	08:30 PM
New York (US)	06:30 PM	02:30 PM

Terminologies

- **PIP**: Smallest unit of change in currency pair
- **Bid:** Price provided by the broker at which you may sell a currency pair
- **Ask:** Price at which you may buy a certain currency pair
- **Spread:** Difference between bid and ask
- **Margin & Leverage:** Margin is the amount of money needed to open or maintain an open position
- **Margin Call:** A margin call occurs when the broker notifies the account holder that its margin deposits have fallen below the required minimum level because an open position has moved against the trader
- **Leverage**: The ability to trade a larger amount with a much smaller amount in your account.

Contract Specifications

As a general rule, most currencies are traded in standardized contract sizes called lots.

Standard lot size: 100,000 units

Mini lot size: 10,000 units

Micro lot size: 1,000 units

Nano lost size: 100 units

Types of Orders

- **Market Order**: A Market Order, sometimes known as an "unrestricted order", is an order to buy or sell at the best available price. They can be used for exiting or entering a trade.
- **Limit Order**: A Limit Order is an order placed with a broker to Buy or Sell a set number of currency at a specified price "or better".
- **Stop Order**: A Stop Order is an order placed with a broker to buy or sell a currency "at market" when it reaches a pre-determined price.

Understanding MT4 Terminal

- **Margin:** It is the degree of collateral that the Forex trader must put up for the trade, in an attempt to utilise the leverage provided by the broker.
- **Balance:** This refers to the total starting balance in the trader's account on the whole.
- **Equity:** Account balance plus the floating profit (or loss) of all your open positions. Represents the "real-time" value of your account.

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- **Unrealized P/L:** Current profit or loss (P/L) held in your open positions.
- **Balance:** Total amount of cash you have in your trading account.
- **Free Margin:** The money that is NOT “locked up” due to an open position and can be used to open new positions.
- **Margin Level:** Ratio between Equity and Used Margin. It is expressed as a percentage.

Margin Calculation

Margin = (trade volume x price of the asset) / leverage

Let's assume we have 5,000 USD in our account. We want to trade the EUR/USD currency pair, which is currently trading at 1.1400, and the leverage offered is 30: 1. For the volume of the trade, we want to trade 1 Mini-Lot (10,000 units).

Margin = (10,000 * 1.1400)/30 = 11,400/30 = 380

Every one pip move is valued at 1 USD, so if the trade then moves 100 pips in our direction, that equates to a floating profit of 100 USD ($1* 100 Pips). This will bring our total equity to 5100 USD (5,000 USD + 100 USD = 5100 USD).

Free margin then equals equity minus margin. In this case, our free margin is 4,720 USD (5,100 USD equity – 380.00 USD margin).

The margin level is then calculated by dividing total equity by the margin used and multiplying it by 100.

Margin level = (5,100 / 380) x 100 = 1,342.10%

Profit Calculation in Forex

- The actual calculation of profit and loss in a position is quite straightforward. To calculate the P&L of a position, what you need is the position size and the number of pips the price has moved. The actual profit or loss will be equal to the position size multiplied by the pip movement.

- **Example**: Assume that you have a 100,000 GBP/USD position currently trading at 1.6240. If the prices move from GBP/USD 1.6240 to 1.6255, then they jumped 15 pips. For a 100,000 GBP/USD position, the 15-pips movement equates to $150 (100,000 x .0015). In this example if it is a buy position then you have a profit of $150 while in case of a sell position you have a loss of $150.So the per pip profit or loss comes out to $10.

Script	Position	Lot Size	CMP	Change in Price	Pip Move	Profit/Loss
GBP/USD	Buy	100,000	1.6240	1.6255	+15	$150 (100,000*0.0015)
EUR/USD	Sell	10,000	1.1055	1.1040	+15	$15 (10,000*0.0015)
AUD/USD	Buy	1,000	0.6800	0.6820	+20	$2 (1,000*0.0020)
NZD/USD	Sell	100	0.6400	0.6380	+20	$0.2 (100*0.0020)

Types of Brokers

- **Dealing Desks (DD):** They make money through spreads and providing liquidity to their clients. Provide both a sell and buy quote, which means that they are filling both buy and sell orders of their clients; they are indifferent to the decisions of an individual trader.

How Dealing Desk broker works?

Trader

↓

Trading Order

↓

Goes to Dealing Desk

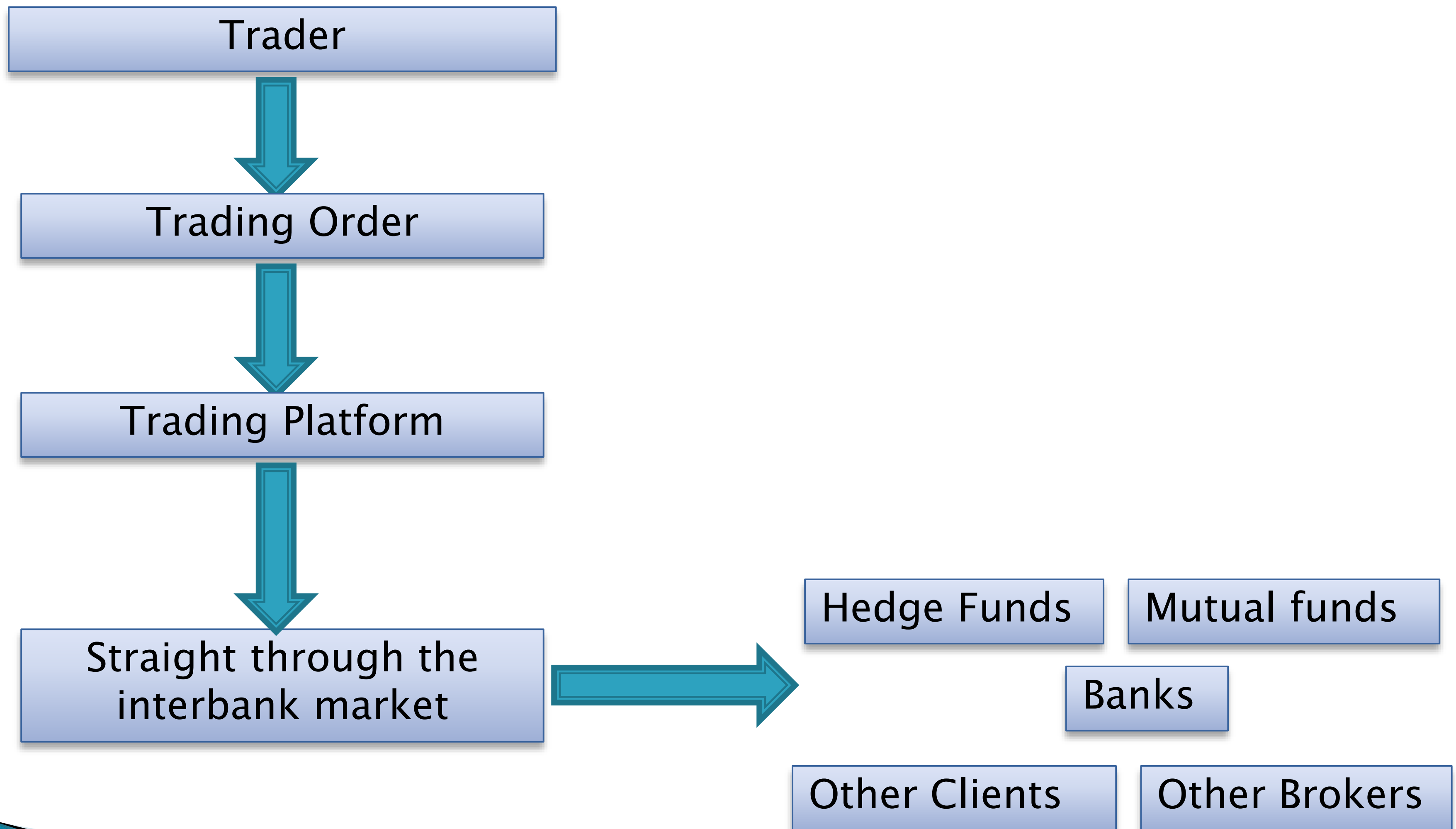
Wining Trades of Clients: Offset by matching with other clients or passed on to liquidity provider

Losing Trades of Clients: Countertraded by broker and becomes profits

Continues....

- **No Dealing Desk Broker:** No Dealing Desk (NDD) brokers do NOT pass their clients' orders through a Dealing Desk. This means that they do not take the other side of their clients' trade as they simply link two parties together.
- NDDs are like bridge builders: they build a structure over an otherwise impassable or hard-to-pass terrain to connect two areas.
- NDDs can either charge a very small commission for trading or just put a markup by increasing the spread slightly.
- No Dealing Desk brokers can either be STP or STP+ECN.

How No Dealing Desk Broker Work?



Types of No Dealing Desk Brokers

- **Straight Through Processing System (STP) Broker:** Forex brokers that have an STP system route the orders of their clients directly to their liquidity providers who have access to the interbank market.
- STP brokers usually have many liquidity providers, with each provider quoting its own bid and ask price.
- Let's say your NDD STP broker has three different liquidity providers. In their system, they will see three different pairs of bid and ask quotes.

	Ask	Bid
Liquidity Provider A	1.2998	1.3001
Liquidity Provider B	1.2999	1.3001
Liquidity Provider C	1.3000	1.3002

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- **ECN Brokers**: ECN forex brokers allow the orders of their clients to interact with the orders of other participants in the ECN.
- Participants could be banks, retail traders, hedge funds, and even other brokers. In essence, participants trade against each other by offering their best bid and ask prices.
- Because of the nature ECN, it is very difficult to slap on a fixed markup so ECN brokers usually get compensated through a small COMMISSION.

Difference Between Dealing Desk Brokers & No Dealing Desk Brokers

Dealing Desk	No Dealing Desk (STP)	No Dealing Desk (ECN+STP)
Fixed Spreads	Most have variable spreads	Variable spreads or commission
Take the opposite side of your trade	Bridge between client and liquidity provider	Bridge between client and liquidity provider and other participants
Artificial quotes	Prices comes from liquidity providers	Prices comes from liquidity providers and other participants
Orders are filled by broker on a discretionary basis	Automatic execution, no re-quotes	Automatic execution, no re-quotes
		Displays the Depth of Market (DOM) or liquidity information

Major data and news affecting Forex Market

- **Employment Reports**: U.S. Non Farm Payroll, Employment rate, Hourly earnings reports etc.
- **Inflation Reports**: Consumer Price Index (CPI) and Producer Price Index (PPI)
- **Sentiment Surveys**: It includes the Purchasing Managers Index (PMI) data
- **Housing Reports**: It includes Housing Starts, Building Permits, New Homes Sales, Existing Home Sales, and Pending Home Sales data
- **Central bank monetary policies**: It includes the Monetary Policy Meetings by the Central banks over interest rates and their future guidance for the rate hikes
- **GDP data**: It includes quarterly as well yearly GDP data and also the advance estimates of GDP