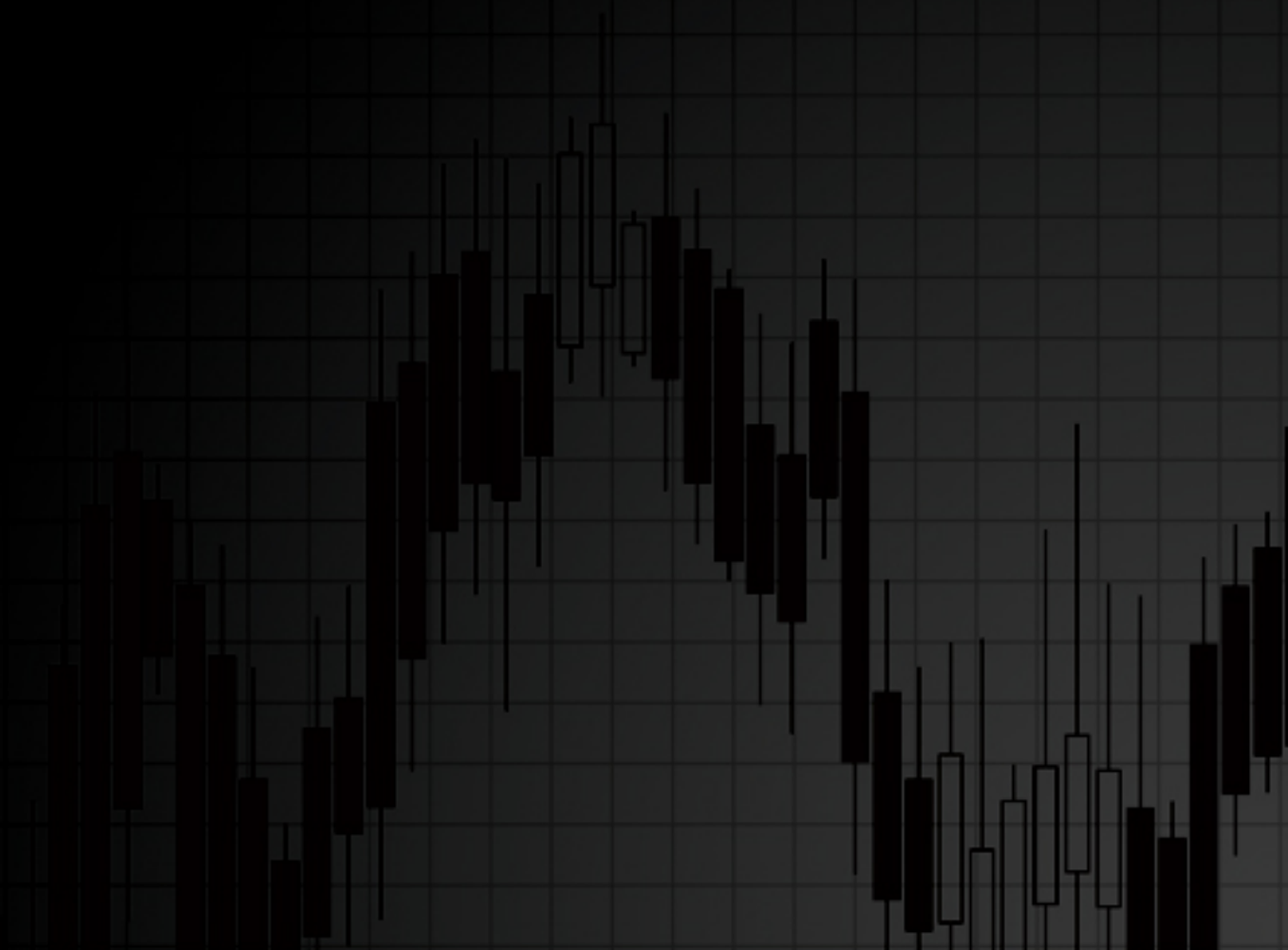


# FOREX

■ Tell me about it!



## A quick guide to trading Forex

July 2006 Edition

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**EASYFOREX™** Trading Platform



# The Forex quick guide

## *for beginners and private traders*

This guide was created by [Easy-Forex™ Trading Platform](#), and is offered FREE to all Forex traders.

We believe that a skilled and well informed trader is a better trader, for both the trading platforms and the individual traders.

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*Your comments and suggestions are highly appreciated (and may well be incorporated in our next edition)! Be our guest and write us:*

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## Introduction: how to use this book

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This book has been developed to help the Forex beginner, though experienced and professional traders may find it a handy reference.

Beginners and novice traders are likely to benefit from reading the entire text, starting with Chapter 1, which provides a basic overview of what currency trading is, and how to get started.

The chapters are set out in a logical flow, but do not need to be read in order to make sense, as each works as a discrete unit unto itself. You may prefer to focus first on those chapters that you feel will complement your particular knowledge base best. Chapter 11 is a glossary of terms (listed alphabetically) used in the Forex business, that will prove helpful as you read this book, and may serve as a valuable reference as you become an experienced currency trader.

With the help of this guide, you will soon be ready to start trading Forex - in fact, with the assistance of the online [Easy-Forex™](#) team, you can start today. We wish you success in your trading, and hope you find this book interesting, helpful and enjoyable.

Before you start, please remember:

- **Forex trading (OTC Trading) involves substantial risk of loss, and may not be suitable for everyone.** Before deciding to undertake such transactions, a user should carefully evaluate whether his/her financial situation is appropriate for such transactions. Read more in the "[RISK WARNING](#)" section on the [Easy-Forex™ Trading Platform](#) website.
- Always ask your Forex dealer (the TRADING PLATFORM you wish to trade with) the questions we prepared for you in this book (chapter 9). Selecting the appropriate Forex TRADING PLATFORM is essential for success in handling your trading and monitoring your activity, as well as maximizing profits, while minimizing losses and costs.

## [1] Forex? What is it, anyway?

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### The market

The currency trading (foreign exchange, Forex, FX) market is the biggest and fastest growing market on earth. Its daily turnover is more than 2.5 trillion dollars. The participants in this market are central and commercial banks, corporations, institutional investors, hedge funds, and private individuals like you.

### What happens in the market?

Markets are places where goods are traded, and the same goes with Forex. In Forex markets, the “goods” are the currencies of various countries (as well as gold and silver). For example, you might buy euro with US dollars, or you might sell Japanese Yen for Canadian dollars. It’s as basic as trading one currency for another.

Of course, you don’t have to purchase or sell actual, physical currency: you trade and work with your own base currency, and deal with any currency pair you wish to.

### “Leverage” is the Forex advantage

The ratio of investment to actual value is called “leverage”. Using a \$1,000 to buy a Forex contract with a \$100,000 value is “leveraging” at a 1:100 ratio. The \$1,000 is all you invest and all you risk, but the gains you can make may be many times greater.

### How does one profit in the Forex market?

Obviously, buy low and sell high! The profit potential comes from the fluctuations (changes) in the currency exchange market. Unlike the stock market, where share are purchased, Forex trading does not require physical purchase of the currencies, but rather involves contracts for amount and exchange rate of currency pairs.

The advantageous thing about the Forex market is that regular daily fluctuations - in the regular currency exchange markets, often around 1% - are multiplied by 100! ([Easy-Forex™](#) generally offers trading ratios from 1:50 to 1:200).

### How risky is Forex trading?

You cannot lose more than your initial investment (also called your “margin”). The profit you may make is unlimited, but you can never lose more than the margin. You are strongly advised to never risk more than you can afford to lose.

### How do I start trading?

If you wish to trade using the [Easy-Forex™ Trading Platform](#), or any other, you must first register and then deposit the amount you wish to have in your margin account to invest. Registering is easy with Easy-Forex™ and it accepts payment via most major credit cards, PayPal, Western Union. Once your deposit has been received, you are ready to start trading.

### How do I monitor my Forex trading?

Online, anywhere, anytime. You have full control to monitor your trading status, check scenarios, change some terms in your Forex deals, close deals, or withdraw profits.

Easy-Forex™ wishes you good luck and success in Forex trading!

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## [2] What is Forex trading? What is a Forex deal?

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The investor's goal in Forex trading is to profit from foreign currency movements.

More than 95% of all Forex trading performed today is for speculative purposes (e.g. to profit from currency movements). The rest belongs to hedging (managing business exposures to various currencies) and other activities.

Forex trades (trading onboard internet platforms) are **non-delivery** trades: currencies are not physically traded, but rather there are currency contracts which are agreed upon and performed. Both parties to such contracts (the trader and the trading platform) undertake to fulfill their obligations: one side undertakes to sell the amount specified, and the other undertakes to buy it. As mentioned, over 95% of the market activity is for speculative purposes, so there is no intention on either side to actually perform the contract (the physical delivery of the currencies). Thus, the contract ends by offsetting it against an opposite position, resulting in the profit and loss of the parties involved.

### Components of a Forex deal

A Forex deal is a contract agreed upon between the trader and the market-maker (i.e. the Trading Platform). The contract is comprised of the following components:

- The currency pairs (which currency to buy; which currency to sell)
- The principal amount (or "face", or "nominal": the amount of currency involved in the deal)
- The rate (the agreed exchange rate between the two currencies).

Time frame is also a factor in some deals, but this chapter focuses on Day-Trading (similar to "Spot" or "Current Time" trading), in which deals have a lifespan of no more than a single full day. Thus, time frame does not play into the equation. Note, however, that deals can be renewed ("rolled-over") to the next day for a limited period of time.

The Forex deal, in this context, is therefore an obligation to buy and sell a specified amount of a particular pair of currencies at a pre-determined exchange rate.

Forex trading is always done in currency pairs. For example, imagine that the exchange rate of EUR/USD (euros to US dollars) on a certain day is 1.1999 (this number is also referred to as a "spot rate", or just "rate", for short). If

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an investor had bought 1,000 euros on that date, he would have paid 1,199.00 US dollars. If one year later, the Forex rate was 1.2222, the value of the euro has increased in relation to the US dollar. The investor could now sell the 1,000 euros in order to receive 1222.00 US dollars. The investor would then have USD 23.00 more than when he started a year earlier.

*However, to know if the investor made a good investment, one needs to compare this investment option to alternative investments. At the very minimum, the return on investment (ROI) should be compared to the return on a "risk-free" investment. Long-term US government bonds are considered to be a risk-free investment since there is virtually no chance of default - i.e. the US government is not likely to go bankrupt, or be unable or unwilling to pay its debts.*

Trade only when you expect the currency you are buying to increase in value relative to the currency you are selling. If the currency you are buying does increase in value, you must sell back that currency in order to lock in the profit. An open trade (also called an "open position") is one in which a trader has bought or sold a particular currency pair, and has not yet sold or bought back the equivalent amount to complete the deal.

It is estimated that around 95% of the FX market is speculative. In other words, the person or institution that bought or sold the currency has no plan to actually take delivery of the currency in the end; rather, they were solely speculating on the movement of that particular currency.

## Exchange rate

Because currencies are traded in pairs and exchanged one against the other when traded, the rate at which they are exchanged is called the exchange rate. The majority of currencies are traded against the US dollar (USD), which is traded more than any other currency. The four currencies traded most frequently after the US dollar are the euro (EUR), the Japanese yen (JPY), the British pound sterling (GBP) and the Swiss franc (CHF). These five currencies make up the majority of the market and are called the major currencies or "the Majors". Some sources also include the Australian dollar (AUD) within the group of major currencies.

The first currency in the exchange pair is referred to as the base currency. The second currency is the counter currency or quote currency. The counter or quote currency is thus the numerator in the ratio, and the base currency is the denominator.

The exchange rate tells a buyer how much of the counter or quote currency must be paid to obtain one unit of the base currency. The exchange rate also tells a seller how much is received in the counter or quote currency when

selling one unit of the base currency. For example, an exchange rate for EUR/USD of 1.2083 specifies to the buyer of euros that 1.2083 USD must be paid to obtain 1 euro.

## Spreads

It is the difference between BUY and SELL, or BID and ASK. In other words, this is the difference between the market maker's "selling" price (to its clients) and the price the market maker "buys" it from its clients.

If an investor buys a currency and immediately sells it (and thus there is no change in the rate of exchange), the investor will lose money. The reason for this is "the spread". At any given moment, the amount that will be received in the counter currency when selling a unit of base currency will be lower than the amount of counter currency which is required to purchase a unit of base currency. For instance, the EUR/USD bid/ask currency rates at your bank may be 1.2015/1.3015, representing a spread of 1,000 pips (percentage in points; one pip = 0.0001). Such a rate is much higher than the bid/ask currency rates that online Forex investors commonly encounter, such as 1.2015/1.2020, with a spread of 5 pips. In general, smaller spreads are better for Forex investors since they require a smaller movement in exchange rates in order to profit from a trade.

## Prices, Quotes and Indications

The price of a currency (in terms of the counter currency), is called "Quote". There are two kinds of quotes in the Forex market:

Direct Quote: the price for 1 US dollar in terms of the other currency, e.g. - Japanese Yen, Canadian dollar, etc.

Indirect Quote: the price of 1 unit of a currency in terms of US dollars, e.g. - British pound, euro.

The market maker provides the investor with a quote. The quote is the price the market maker will honor when the deal is executed. This is unlike an "indication" by the market maker, which informs the trader about the market price level, but is not the final rate for a deal.

Cross rates - any quote which is not against the US dollar is called "cross". For example, GBP/JPY is a cross rate, since it is calculated via the US dollar. Here is how the GBP/JPY rate is calculated:



GBP/USD = 1.7464;

USD/JPY = 112.29;

Therefore: GBP/JPY = 112.29 x 1.7464 = 196.10.

## Margin

Banks and/or online trading providers need collateral to ensure that the investor can pay in the event of a loss. The collateral is called the “margin” and is also known as minimum security in Forex markets. In practice, it is a deposit to the trader's account that is intended to cover any currency trading losses in the future.

Margin enables private investors to trade in markets that have high minimum units of trading, by allowing traders to hold a much larger position than their account value. Margin trading also enhances the rate of profit, but similarly enhances the rate of loss, beyond that taken without leveraging.

## Maintenance Margin

Most trading platforms require a “maintenance margin” be deposited by the trader parallel to the margins deposited for actual trades. The main reason for this is to ensure the necessary amount is available in the event of a “gap” or “slippage” in rates. Maintenance margins are also used to cover administrative costs.

When a trader sets a Stop-Loss rate, most market makers cannot guarantee that the stop-loss will actually be used. For example, if the market for a particular counter currency had a vertical fall from 1.1850 to 1.1900 between the close and opening of the market, and the trader had a stop-loss of 1.1875, at which rate would the deal be closed? No matter how the rate slippage is accounted for, the trader would probably be required to add-up on his initial margin to finalize the automatically closed transaction. The funds from the maintenance margin might be used for this purpose.

Important note: [Easy-Forex™](#) does NOT require that traders deposit a maintenance margin. Easy-Forex™ guarantees the exact rate (Stop-Loss or other) as pre-defined by the trader.

## Leverage

Leveraged financing is a common practice in Forex trading, and allows traders to use credit, such as a trade purchased on margin, to maximize returns.

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Collateral for the loan/leverage in the margined account is provided by the initial deposit. This can create the opportunity to control USD 100,000 for as little as USD 1,000.

There are five ways private investors can trade in Forex, directly or indirectly:

- The spot market
- Forwards and futures
- Options
- Contracts for difference
- Spread betting

Please note that this book focuses on the most common way of trading in the Forex market, "Day-Trading" (related to "Spot"). Please refer to the glossary for explanations of each of the five ways investors can trade in Forex.

### A spot transaction

A spot transaction is a straightforward exchange of one currency for another. The spot rate is the current market price, which is also called the "benchmark price". Spot transactions do not require immediate settlement, or payment "on the spot". The settlement date, or "value date" is the second business day after the "deal date" (or "trade date") on which the transaction is agreed by the trader and market maker. The two-day period provides time to confirm the agreement and to arrange the clearing and necessary debiting and crediting of bank accounts in various international locations.

### Risks

Although Forex trading can lead to very profitable results, there are substantial risks involved: exchange rate risks, interest rate risks, credit risks and event risks.

Approximately 80% of all currency transactions last a period of seven days or less, with more than 40% lasting fewer than two days. Given the extremely short lifespan of the typical trade, technical indicators heavily influence entry, exit and order placement decisions.

### [3] What is the global Forex market?

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Today, the Forex market is a nonstop cash market where currencies of nations are traded, typically via brokers. Foreign currencies are continually and simultaneously bought and sold across local and global markets. The value of traders' investments increase or decrease based on currency movements. Foreign exchange market conditions can change at any time in response to real-time events.

The main attractions of short-term currency trading to private investors are:

- 24-hour trading, 5 days a week with nonstop access to global Forex dealers. (elsewhere we say the market is 24/7, not 24/5)
- An enormous liquid market, making it easy to trade most currencies.
- Volatile markets offering profit opportunities.
- Standard instruments for controlling risk exposure.
- The ability to profit in rising as well as falling markets.
- Leveraged trading with low margin requirements.
- Many options for zero commission trading.

### A brief history of the Forex market

The following is an overview into the historical evolution of the foreign exchange market and the roots of the international currency trading, from the days of the gold exchange, through the Bretton-Woods Agreement, to its current manifestation.

#### The Gold exchange period and the Bretton-Woods Agreement

The Bretton-Woods Agreement, established in 1944, fixed national currencies against the US dollar, and set the dollar at a rate of USD 35 per ounce of gold. In 1967, a Chicago bank refused to make a loan in pound sterling to a college professor by the name of Milton Friedman, because he had intended to use the funds to short the British currency. The bank's refusal to grant the loan was due to the Bretton-Woods Agreement.

Bretton-Woods was aimed at establishing international monetary stability by preventing money from taking flight across countries, thus curbing speculation in foreign currencies. Between 1876 and World War I, the gold exchange standard had ruled over the international economic system. Under the gold

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standard, currencies experienced an era of stability because they were supported by the price of gold.

However, the gold standard had a weakness in that it tended to create boom-bust economies. As an economy strengthened, it would import a great deal, running down the gold reserves required to support its currency. As a result, the money supply would diminish, interest rates would escalate and economic activity would slow to the point of recession. Ultimately, prices of commodities would hit rock bottom, thus appearing attractive to other nations, who would then sprint into a buying frenzy. In turn, this would inject the economy with gold until it increased its money supply, thus driving down interest rates and restoring wealth. Such boom-bust patterns were common throughout the era of the gold standard, until World War I temporarily discontinued trade flows and the free movement of gold.

The Bretton-Woods Agreement was founded after World War II, in order to stabilize and regulate the international Forex market. Participating countries agreed to try to maintain the value of their currency within a narrow margin against the dollar and an equivalent rate of gold. The dollar gained a premium position as a reference currency, reflecting the shift in global economic dominance from Europe to the USA. Countries were prohibited from devaluing their currencies to benefit export markets, and were only allowed to devalue their currencies by less than 10%. Post-war construction during the 1950s, however, required great volumes of Forex trading as masses of capital were needed. This had a destabilizing effect on the exchange rates established in Bretton-Woods.

In 1971, the agreement was scrapped when the US dollar ceased to be exchangeable for gold. By 1973, the forces of supply and demand were in control of the currencies of major industrialized nations, and currency now moved more freely across borders. Prices were floated daily, with volumes, speed and price volatility all increasing throughout the 1970s. New financial instruments, market deregulation and trade liberalization emerged, further stoking growth of Forex markets.

The explosion of computer technology that began in the 1980s accelerated the pace by extending the market continuum for cross-border capital movements through Asian, European and American time zones. Transactions in foreign exchange increased rapidly from nearly \$70 billion a day in the 1980s, to more than \$2 trillion a day two decades later.

## The explosion of the euro market

The rapid development of the Eurodollar market, which can be defined as US dollars deposited in banks outside the US, was a major mechanism for speeding up Forex trading. Similarly, Euro markets are those where currencies are deposited outside their country of origin. The Eurodollar market came into being in the 1950s as a result of the Soviet Union depositing US dollars earned from oil revenue outside the US, in fear of having these assets frozen by US regulators. This gave rise to a vast offshore pool of dollars outside the control of US authorities. The US government reacted by imposing laws to restrict dollar lending to foreigners. Euro markets were particularly attractive because they had far fewer regulations and offered higher yields. From the late 1980s onwards, US companies began to borrow offshore, finding Euro markets an advantageous place for holding excess liquidity, providing short-term loans and financing imports and exports.

London was and remains the principal offshore market. In the 1980s, it became the key center in the Eurodollar market, when British banks began lending dollars as an alternative to pounds in order to maintain their leading position in global finance. London's convenient geographical location (operating during Asian and American markets) is also instrumental in preserving its dominance in the Euro market.

## Euro-Dollar currency exchange

The euro to US dollar exchange rate is the price at which the world demand for US dollars equals the world supply of euros. Regardless of geographical origin, a rise in the world demand for euros leads to an appreciation of the euro.

### Factors affecting the Euro to US dollar exchange rate

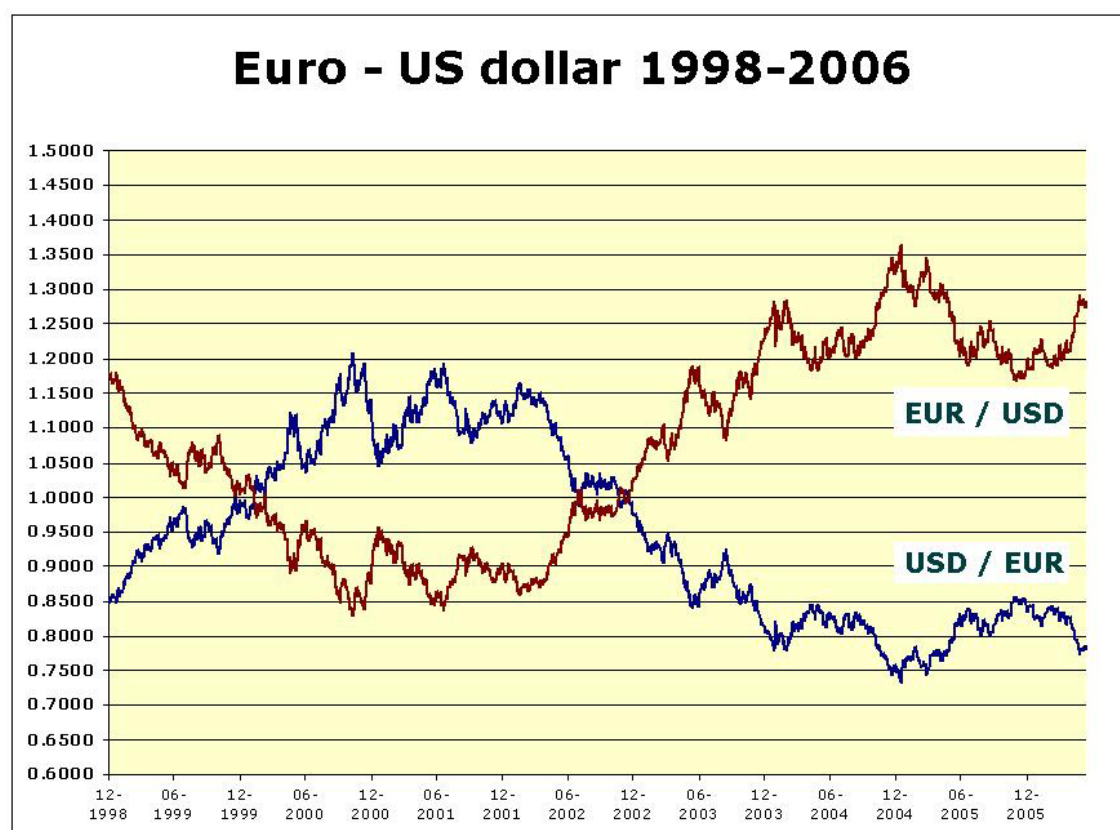
Four factors are identified as fundamental determinants of the real euro to US dollar exchange rate:

- The international real interest rate differential between the Federal Reserve and European Central Bank
- Relative prices in the traded and non-traded goods sectors
- The real oil price
- The relative fiscal position of the US and Euro zone

The nominal bilateral US dollar to euro exchange is the exchange rate that attracts the most attention. Notwithstanding the comparative importance of

bilateral trade links with the US, trade with the UK is, to some extent, more important for the euro.

The following chart illustrates the EUR/USD exchange rate over time, from the inauguration of the euro, until mid 2006. Note that each line (the EUR/USD, USD/EUR) is a “mirror” image of the other, since both are reciprocal to one another. This chart illustrates the steady (general) decline of the USD (in terms of euro) from the beginning of 2002 until the end of 2004.



In the long run, the correlation between the bilateral US dollar to euro exchange rate, and different measures of the effective exchange rate of Euroland, has been rather high, especially when one looks at the effective real exchange rate. As inflation is at very similar levels in the US and the Euro area, there is no need to adjust the US dollar to euro rate for inflation differentials. However, because the Euro zone also trades intensively with countries that have relatively high inflation rates (e.g. some countries in Central and Eastern Europe, Turkey, etc.), it is more important to downplay nominal exchange rate measures by looking at relative price and cost developments.

## The fall of the US dollar

The steady and orderly decline of the US dollar from early 2002 to early 2004 against the euro, Australian dollar, Canadian dollar and a few other currencies (i.e. its trade-weighted average, which is what counts for purposes of trade adjustment), while significant, has still only amounted to about 20 percent.

There are two reasons why concerns about a free fall of the US dollar may not be worth considering. Firstly, the US external deficit will stay high only if US growth remains vigorous, and if the US continues to grow strongly, it will also retain a strong attraction for foreign capital which, in turn, should support the US dollar. Secondly, attempts by the monetary authorities in Asia to keep their currencies weak will probably not work in the long run.

## The basic theories underlying the US dollar to euro exchange rate

**Law of One Price:** In competitive markets, free of transportation cost barriers to trade, identical products sold in different countries must sell at the same price when the prices are stated in terms of the same currency.

**Interest rate effects:** If capital is allowed to flow freely, exchange rates become stable at a point where equality of interest is established.

## The dual forces of supply and demand

These two reciprocal forces determine euro vs. US dollar exchange rates. Various factors affect these two forces, which in turn affect the exchange rates:

**The business environment:** Positive indications (in terms of government policy, competitive advantages, market size, etc.) increase the demand for the currency, as more and more enterprises want to invest in its place of origin.

**Stock market:** The major stock indices also have a correlation with the currency rates, providing a daily read of the mood of the business environment.

**Political factors:** All exchange rates are susceptible to political instability and anticipation about new governments. For example, political instability in Russia is also a flag for the euro to US dollar exchange, because of the substantial amount of German investment in Russia.

**Economic data:** Economic data such as labor reports (payrolls, unemployment rate and average hourly earnings), consumer price indices (CPI), producer



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price indices (PPI), gross domestic product (GDP), international trade, productivity, industrial production, consumer confidence etc., also affect currency exchange rates.

Confidence in a currency is the greatest determinant of the real euro to US dollar exchange rate. Decisions are made based on expected future developments that may affect the currency.

### Types of exchange rate systems

An exchange can operate under one of four main types of exchange rate systems:

#### Fully fixed exchange rates

In a fixed exchange rate system, the government (or the central bank acting on its behalf) intervenes in the currency market in order to keep the exchange rate close to a fixed target. It is committed to a single fixed exchange rate and does not allow major fluctuations from this central rate.

#### Semi-fixed exchange rates

Currency can move within a permitted range, but the exchange rate is the dominant target of economic policy-making. Interest rates are set to meet the target exchange rate.

#### Free floating

The value of the currency is determined solely by supply and demand in the foreign exchange market. Consequently, trade flows and capital flows are the main factors affecting the exchange rate.

The definition of a floating exchange rate system is a monetary system in which exchange rates are allowed to move due to market forces without intervention by national governments. The Bank of England, for example, does not actively intervene in the currency markets to achieve a desired exchange rate level.

With floating exchange rates, changes in market supply and demand cause a currency to change in value. Pure free floating exchange rates are rare - most governments at one time or another seek to "manage" the value of their currency through changes in interest rates and other means of controls.

#### Managed floating exchange rates

Most governments engage in managed floating systems, if not part of a fixed exchange rate system.



### The advantages of fixed exchange rates

Fixed rates provide greater certainty for exporters and importers and, under normal circumstances, there is less speculative activity - though this depends on whether dealers in foreign exchange markets regard a given fixed exchange rate as appropriate and credible.

### The advantages of floating exchange rates

Fluctuations in the exchange rate can provide an automatic adjustment for countries with a large balance of payments deficit. A second key advantage of floating exchange rates is that it allows the government/monetary authority flexibility in determining interest rates as they do not need to be used to influence the exchange rate.

### **Who are the participants in today's Forex market?**

In general, there are two main groups in the Forex marketplace:

Hedgers account for less than 5% of the market, but are the key reason futures and other such financial instruments exist. The group using these hedging tools is primarily businesses and other organizations participating in international trade. Their goal is to diminish or neutralize the impact of currency fluctuations.

Speculators account for more than 95% of the market.

This group includes private individuals and corporations, public entities, banks, etc. They participate in the Forex market in order to create profit, taking advantage of the fluctuations of interest rates and exchange rates.

The activity of this group is responsible for the high liquidity of the Forex market. They conduct their trading by using leveraged investing, making it a financially efficient source for earning.

### **Market making**

Since most Forex deals are made by (individual and organizational) traders, in conjunction with market makers, it's important to understand the role of the market maker in the Forex industry.

## Questions and answers about 'market making'

### What is a market maker?

A market maker is the counterpart to the client. The Market Maker does not operate as an intermediary or trustee. A Market Maker performs the hedging of its clients' positions according to its policy, which includes offsetting various clients' positions, and hedging via liquidity providers (banks) and its equity capital, at its discretion.

### Who are the market makers in the Forex industry?

Banks, for example, or trading platforms (such as [Easy-Forex™](#)), who buy and sell financial instruments "make the market". That is contrary to intermediaries, which represent clients, basing their income on commission.

### Do market makers go against a client's position?

By definition, a market maker is the counterpart to all its clients' positions, and always offers a two-sided quote (two rates: BUY and SELL). Therefore, there is nothing personal between the market maker and the customer. Generally, market makers regard all of the positions of their clients as a whole. They offset between clients' opposite positions, and hedge their net exposure according to their risk management policies and the guidelines of regulatory authorities.

### Do market makers and clients have a conflict of interest?

Market makers are not intermediaries, portfolio managers, or advisors, who represent customers (while earning commission). Instead, they buy and sell currencies to the customer, in this case the trader. By definition, the market maker always provides a two-sided quote (the sell and the buy price), and thus is indifferent in regards to the intention of the trader. Banks do that, as do merchants in the markets, who both buy from, and sell to, their customers. The relationship between the trader (the customer) and the market maker (the bank; the trading platform; [Easy-Forex™](#); etc.) is simply based on the fundamental market forces of supply and demand.

### Can a market maker influence market prices against a client's position?

Definitely not, because the Forex market is the nearest thing to a "perfect market" (as defined by economic theory) in which no single participant is powerful enough to push prices in a specific direction. This is the biggest market in the world today, with daily volumes reaching 3 trillion dollars. No market maker is in a position to effectively manipulate the market.

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### What is the main source of earnings for Forex market makers?

The major source of earnings for market makers is the spread between the bid and the ask prices. [Easy-Forex™](#) Trading Platform, for instance, maintains neutrality regarding the direction of any or all deals made by its traders; it earns its income from the spread.

### How do market makers manage their exposure?

The way most market makers hedge their exposure is to hedge in bulk. They aggregate all client positions and pass some, or all, of their net risk to their liquidity providers. [Easy-Forex™](#), for example, hedges its exposure in this fashion, in accordance with its risk management policy and legal requirements.

For liquidity, [Easy-Forex™](#) works in cooperation with world's leading banks providing liquidity to the Forex industry: UBS (Switzerland) and RBS (Royal Bank of Scotland).

## [4] Overview of trading Forex online

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### How a Forex system operates in real time

Online foreign exchange trading occurs in real time. Exchange rates are constantly changing, in intervals of seconds. Quotes are accurate for the time they are displayed only. At any moment, a different rate may be quoted. When a trader locks in a rate and executes a transaction, that transaction is immediately processed; the trade has been executed.

### Up-to-date exchange rates

As rates change so rapidly, any Forex software must display the most up-to-date rates. To accomplish this, the Forex software is continuously communicating with a remote server that provides the most current exchange rates. The rates quoted, unlike traditional bank exchange rates, are actual tradable rates. A trader may choose to “lock in” to a rate (called the “freeze rate”) only as long as it is displayed.

### Trading online on Forex platforms

The internet revolution caused a major change in the way Forex trading is conducted throughout the world.

Until the advent of the internet-Forex age at the end of the 1990's, Forex trading was conducted via phone orders (or fax, or in-person), posted to brokers or banks. Most of the trading could be executed only during business hours. The same was true for most activities related to Forex, such as making the deposits necessary for trading, not to mention profit taking. The internet has radically altered the Forex market, enabling around the clock trading and conveniences such as the use of credit cards for fund deposits.

### Forex on the internet: basic steps

In general, the individual Forex trader is required to fulfill two steps prior to trading:

- Register at the trading platform
- Deposit funds to facilitate trading

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Requirements vary with each trading platform, but these steps bear further discussion:

### Registering

Registration is done online by the individual trader. There are various forms used in the industry. Some are quite simple, where others are longer and more time-consuming. In part, this can be attributed to governmental or other authorities' requirements, though some Forex platforms require more information than is actually needed. Some even require a face-to-face meeting, or to obtain hard copies of required documents such as a passport, or driver's license.

The key requirements for registration are the trader's full name, telephone, e-mail address, residence, and sometimes also the trader's yearly income or capital (equity) and an ID number (passport / driver's license / SSN / etc.). Typically, the Forex platform is not required to run a thorough check, but rely on the registrant to be truthful. Nevertheless, each Forex platform conducts certain routines, in order to check and verify the authenticity of the details provided.

Registrants are required to declare that funds used for trading are not in question, and are not the result of any criminal act or money laundering activity. This is mandatory as part of a global anti-money laundering effort.

*(It is advised that the reader becomes familiar with Anti-Money Laundering regulations, and the procedures associated with the prevention of this criminal activity).*

### Depositing funds

New registrants must deposit funds to facilitate trading. However, the majority of the Forex platforms today require that, in addition to funds used for actual trading, an additional amount be deposited. Often called "maintenance margin" or "activity collateral", its purpose is for the platform to have an additional guarantee. Some of the platforms that require an additional deposit do pay interest on the collateral, which is "frozen" under the trader's name.

The [Easy-Forex™](#) Trading Platform does NOT require any additional guarantee, and allows trading with 100% of the amount deposited. Easy-Forex™ is able to provide these advantages because it assures "guaranteed rates and Stop-Loss". That means that there will never be any additional requirement for funds as a result of a "gap" that causes you to surpass the Stop-Loss. See "20 issues you must consider" (Chapter 9) for more.

## Trading online

The trading platform operates 24 hours a day just as the global Forex market runs around the clock.

However, many online Forex market makers require the download and installation of software specific to their own trading platform. Consequently, accessibility is limited to those terminals that have the software. Since Forex trading is borderless, and may be performed at any given time, it is obviously advantageous to have access to trading from as many locations as possible. The [Easy-Forex™](#) Trading Platform is a fully web-based system, which means trading can be conducted from any computer connected to the internet. Traders are only required to log-in, ensure they have available funds to trade, or make new deposits, and commence trading.

## **The Trading Platform: real-time software**

The main feature of any Forex trading platform is real time access to exchange rates, to deal and order making, to deposits and withdrawals, and to monitoring the status of positions and one's account.

The [Easy-Forex™](#) Trading Platform system uses web services to continuously fetch the most current exchange rates. The most recent data displays without the need for a page refresh. This includes account status screens such as "My Position", which updates continually to reflect changes in rates and other real time elements.

## **Transaction processing and storage**

As soon as a transaction is executed, the relevant data is processed securely and sent to the data server where it is stored. A backup is created on a different server farm, to ensure data integrity and continuity. All of this happens in real time, with no human intervention.

## **Trading via brokers and dealing rooms (by phone)**

Performing Forex trading via Dealing Room dealers (over the phone) requires knowledge about the way dealing rooms work, and the terminologies used in the course of trading.

At start, the client should specify whether he/she is interested in obtaining a QUOTE (in order to make a deal) or just an INDICATION. In the case of an

indication, the price given does not bind the dealer, but rather provides information about market conditions.

When asking for QUOTE, the trader must specify the currency pair and the deal amount (volume). For example: "Need a quote for EUR/USD in EUR100,000".

It is wise to withhold from the dealer the intended direction of the deal, specifying the pair only. Accordingly, the dealer then provides a quote comprising two prices, buy and sell ("both sides quote"). The quote binds the dealer for the very second it is given. If the trader does not immediately ask for execution, then the price is no longer in force. The dealer would then tell the customer "risk", or "change", meaning - the price quoted is no longer in force. In such case, the trader should ask for a new price.

On the other hand, in order to make a deal, the trader must proclaim "buy" or "sell", together with the currency (or the price).

An example:

- The trader asks for a quote for EUR/USD.
- The dealer says "1.2010/15".
- If the trader wants to buy EUR, he/she says "buy" (or "buy EURO", or "15").
- If the trader wants to sell EUR, he/she says "sell" (or "sell EURO", or "10").

The moment the trader says "buy" (or "sell") he/she is bound to the deal, regardless of the market situation.

*Easy-Forex™ guarantees the accuracy, security and integrity of all transactions.*

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## [5] Training for success

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Understanding the nuances of the Forex market requires experience and training, but is critical to success. In fact, ongoing learning is as important to the veteran trader as it is to the beginner. The foreign currency market is massive, and the key to success is knowledge. Through training, observation and practice, you can learn how to identify and understand where the Forex market is going, and what controls that direction.

To invest in the right currencies at the right time in a large, nonstop and global trading arena, there is much to learn. Forex markets move quickly and can take new directions from moment to moment. Forex training helps you assess when to enter a currency based on the direction it is taking, and how to forecast its direction for the near future.

### Training with **Easy-Forex™**

Easy-Forex™ offers one of the most effective forms of training through hands-on experience. For as little as USD 25 at risk per trade, you can start trading while learning in real-time. Easy-Forex™ strongly recommends starting with very small volumes, and depositing an amount to cover a series of trades. Learn the basics of the foreign exchange market, trading terminology, advanced technical analysis, and how to develop successful trading strategies. Discover how the Forex market offers more opportunities for quick financial gains than almost any other market.

### The many available resources and tools to train yourself

There are many free tools and resources available in the market, particularly online. Among these, you will find:

#### Charts

There are many kinds of charts (see Chapter 6, Technical Analysis). Start with simple charts. Try to identify trends and major changes, and try to relate them to technical patterns as well as to macro events (news, either financial or political). Make an effort to determine the general magnitude of each change on the chart (meaning: what is the \$ value of the change, if you were trading at that point).



## Guided tours

Most platforms provide guided tours, demos or tutorials, either online or via download.

## News / breaking news

Keep abreast of world news. Read all the headlines, particularly those directly related to Forex. Check the impact of such news, if any, on the charts.

## Forex outlooks

Read daily/weekly outlooks posted on Forex or general financial sites. Many include alerts to upcoming reports and events such as market indicators and interest rate decisions.

## Forecasts

Read forecasts, some of which are available free of charge. Bear in mind that forecasts and predictions are made by people, none of whom can guarantee the occurrence of future events...

## Indices

Follow the indices of the leading markets (e.g. Dow-Jones, NASDAQ; Nikkei; etc.). Compare them to the changes in the Forex market, and to changes in particular currency pairs.

## Economic indicators

Pay attention to the release of economic indicators (for example - the monthly unemployment rate in the USA), and try to identify their impact on the market in general, and on specific currency pairs in particular.

## Glossary

Don't hesitate to browse Forex glossaries, which are offered free on many platforms. A given word may have different meaning as it relates to Forex and to the terminology used by the Forex market participants.

## Seminars and courses

Try to attend professional Forex seminars. Some seminars are offered free, often as part of a client recruitment process by a given platform; many are, nevertheless, worth attending. Educational courses are offered online and by many post-secondary institutions.

## Forex books

Read, or even just browse. Many books are offered free, or as part of a service package to the trader. For many, historical background and technical analysis are topics better covered in books than in an educational setting.

## Internet forums / blogs

Visit and participate in Forex forums. This gives you an opportunity to learn from the experience of others. Of course, remember that some forum participants may be biased, promoting a given Forex platform or their own agenda.

## **So much to consider...**

To succeed as a Forex trader, you must take into consideration a wide variety of factors such as:

- spread ("pips");
- commissions and fees;
- ease of access to the trading platform;
- minimum amounts needed for trading;
- additional amounts needed (if any);
- control over activity and positions;
- the platform software requirements;
- ease of deposits and withdrawals;
- personal service and support provided by the platform;
- the platform's business partners;
- the platform's management, offices and outreach;
- the products offered onboard the platform; and many others.

## **Online training, no downloads**

[Easy-Forex™](#) is dedicated to educating its customers. Customers can access FREE one-on-one online training. The training goal is to teach people specific strategies for trading currencies over the internet. Both novice investors and expert day traders have benefited from the training provided by [Easy-Forex™](#).

## **The "demo" account idea**

Many Forex platforms offer new registrants a "demo" account. A typical example would provide 10,000 "demo" dollars that can be "traded" as a means of learning how to succeed in Forex.

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Easy-Forex™ does not offer “demo” accounts. Coming to understand that reason must rule over emotion is the most important lesson a trader can learn, and it cannot be done with play money. If there is no consequence to indulging in emotional responses to the market, there is no learning, so “demo” accounts tend to have little educational value. Rather, Easy-Forex™ allows you to start trading with just \$25, including full access to one-on-one training. New registrants are thus able to garner both an educational and experiential benefit unavailable through simulated situations.

*Need personal assistance and free training?*

*Join Easy-Forex™ (registration is quick and free, no obligation):*

[www.easy-forex.com](http://www.easy-forex.com)

## [6] Technical Analysis:

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### Patterns and forecast methods used today

Basic Forex forecast methods:

#### Technical analysis and fundamental analysis

This chapter and the next one provide insight into the two major methods of analysis used to forecast the behavior of the Forex market. Technical analysis and fundamental analysis differ greatly, but both can be useful forecasting tools for the Forex trader. They have the same goal - to predict a price or movement. The technician studies the effects, while the fundamentalist studies the causes of market movements. Many successful traders combine a mixture of both approaches for superior results.

#### In this chapter...

The categories and approaches in Forex Technical Analysis all aim to support the investor in determining his/her views and forecasts regarding the exchange rates of currency pairs. This chapter describes the approaches, methods and tools used to this end. However, this chapter does not intend to provide a comprehensive and/or professional level of knowledge and skill, but rather let the reader become familiar with the terms and tools used by technical analysts.

As there are many ways to categorize the tools available, the description of tools in this chapter may sometimes seem repetitive. The sections in this chapter are:

- [6.1] Technical Analysis: background, advantages, disadvantages;
- [6.2] Various techniques and terms;
- [6.3] Charts and diagrams;
- [6.4] Technical Analysis categories / approaches:
  - a. Price indicators;
  - b. Number theory;
  - c. Waves;
  - d. Gaps;
  - e. Trends;
- [6.5] Some other popular tools.
- [6.6] Another way to categorize Technical Indicators.

## [6.1] Technical analysis

Technical analysis is a method of predicting price movements and future market trends by studying what has occurred in the past using charts. Technical analysis is concerned with what has actually happened in the market, rather than what should happen, and takes into account the price of instruments and the volume of trading, and creates charts from that data as a primary tool. One major advantage of technical analysis is that experienced analysts can follow many markets and market instruments simultaneously.

Technical analysis is built on three essential principles:

1. **Market action discounts everything!** This means that the actual price is a reflection of everything that is known to the market that could affect it. Some of these factors are: fundamentals (inflation, interest rates, etc.), supply and demand, political factors and market sentiment. However, the pure technical analyst is only concerned with price movements, not with the reasons for any changes.
2. **Prices move in trends.** Technical analysis is used to identify patterns of market behavior that have long been recognized as significant. For many given patterns there is a high probability that they will produce the expected results. There are also recognized patterns that repeat themselves on a consistent basis.
3. **History repeats itself.** Forex chart patterns have been recognized and categorized for over 100 years, and the manner in which many patterns are repeated leads to the conclusion that human psychology changes little over time. Since patterns have worked well in the past, it is assumed that they will continue to work well into the future.

### Disadvantages of Technical Analysis

- Some critics claim that the Dow approach ("prices are not random") is quite weak, since today's prices do not necessarily project future prices;
- The critics claim that signals about the changing of a trend appear too late, often after the change had already taken place. Therefore, traders who rely on technical analysis react too late, hence losing about 1/3 of the fluctuations;
- Analysis made in short time intervals may be exposed to "noise", and may result in a misreading of market directions;

- The use of most patterns has been widely publicized in the last several years. Many traders are quite familiar with these patterns and often act on them in concern. This creates a self-fulfilling prophecy, as waves of buying or selling are created in response to “bullish” or “bearish” patterns.

### Advantages of Technical Analysis

- Technical analysis can be used to project movements of any asset (which is priced under demand/supply forces) available for trade in the capital market;
- Technical analysis focuses on what is happening, as opposed to what has previously happened, and is therefore valid at any price level;
- The technical approach concentrates on prices, which neutralizes external factors. Pure technical analysis is based on objective tools (charts, tables) while disregarding emotions and other factors;
- Signaling indicators sometimes point to the imminent end of a trend, before it shows in the actual market. Accordingly, the trader can maintain profit or minimize losses.

### [6.2] Various techniques and terms

Many different techniques and indicators can be used to follow and predict trends in markets. The objective is to predict the major components of the trend: its direction, its level and the timing. Some of the most widely known include:

- Bollinger Bands - a range of price volatility named after John Bollinger, who invented them in the 1980s. They evolved from the concept of trading bands, and can be used to measure the relative height or depth of price. A band is plotted two standard deviations away from a simple moving average. As standard deviation is a measure of volatility, Bollinger Bands adjust themselves to market conditions. When the markets become more volatile, the bands widen (move further away from the average), and during less volatile periods, the bands contract (move closer to the average).

Bollinger Bands are one of the most popular technical analysis techniques. The closer prices move to the upper band, the more

overbought is the market, and the closer prices move to the lower band, the more oversold is the market.

- Support / Resistance - The **Support level** is the lowest price an instrument trades at over a period of time. The longer the price stays at a particular level, the stronger the support at that level. On the chart this is price level under the market where buying interest is sufficiently strong to overcome selling pressure. Some traders believe that the stronger the support at a given level, the less likely it will break below that level in the future. The **Resistance level** is a price at which an instrument or market can trade, but which it cannot exceed, for a certain period of time. On the chart this is a price level over the market where selling pressure overcomes buying pressure, and a price advance is turned back.
- Support / Resistance Breakout - when a price passes through and stays beyond an area of support or resistance.

CCI - Commodity Channel Index - an oscillator used to help determine when an investment instrument has been overbought and oversold. The Commodity Channel Index, first developed by Donald Lambert, quantifies the relationship between the asset's price, a moving average (MA) of the asset's price, and normal deviations (D) from that average. The CCI has seen substantial growth in popularity amongst technical investors; today's traders often use the indicator to determine cyclical trends in equities and currencies as well as commodities.

The CCI, when used in conjunction with other oscillators, can be a valuable tool to identify potential peaks and valleys in the asset's price, and thus provide investors with reasonable evidence to estimate changes in the direction of price movement of the asset.

- Hikkake Pattern - a method of identifying reversals and continuation patterns. Used for determining market turning-points and continuations (also known as trending behavior). It is a simple pattern that can be viewed in market price data, using traditional bar charts, or Japanese candlestick charts.
- Moving averages - are used to emphasize the direction of a trend and to smooth out price and volume fluctuations, or "noise", that can confuse interpretation. There are seven different types of moving averages:
  - simple (arithmetic)
  - exponential
  - time series
  - weighed

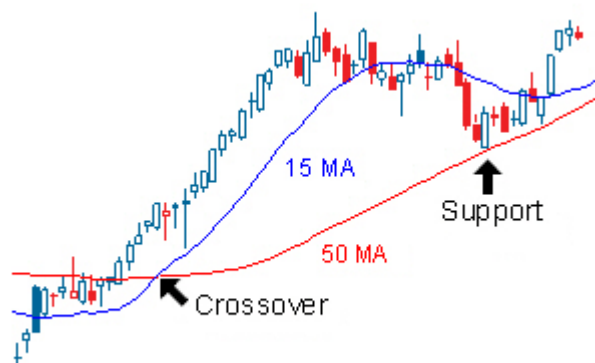
- triangular
- variable
- volume adjusted

The only significant difference between the various types of moving averages is the weight assigned to the most recent data. For example, a simple (arithmetic) moving average is calculated by adding the closing price of the instrument for a number of time periods, then dividing this total by the number of time periods.

The most popular method of interpreting a moving average is to compare the relationship between a moving average of the instrument's closing price, and the instrument's closing price itself.

- Sell signal: when the instrument's price falls below its moving average
- Buy signal: when the instrument's price rises above its moving average

The other technique is called the double crossover, which uses short-term and long-term averages. Typically, upward momentum is confirmed when a short-term average (e.g., 15-day) crosses above a longer-term average (e.g., 50-day). Downward momentum is confirmed when a short-term average crosses below a long-term average.



- MACD - Moving Average Convergence/Divergence - a technical indicator, developed by Gerald Appel, used to detect swings in the price of financial instruments. The MACD is computed using two exponentially smoothed moving averages (see further down) of the security's historical price, and is usually shown over a period of time on a chart. By then comparing the MACD to its own moving average (usually called the "signal line"), traders believe they can detect when the security is likely to rise or fall. MACD is frequently used in conjunction with other technical indicators such as the RSI (Relative



Strength Index, see further down) and the stochastic oscillator (see further down).

- Momentum - is an oscillator designed to measure the rate of price change, not the actual price level. This oscillator consists of the net difference between the current closing price and the oldest closing price from a predetermined period.

The formula for calculating the momentum (M) is:

$$M = CCP - OCP$$

Where:      *CCP - current closing price*  
              *OCP - old closing price*

**Momentum** and **rate of change (ROC)** are simple indicators showing the difference between today's closing price and the close N days ago. "Momentum" is simply the difference, and the ROC is a ratio expressed in percentage. They refer in general to prices continuing to trend. The momentum and ROC indicators show that by remaining positive, while an uptrend is sustained, or negative, while a downtrend is sustained.

A crossing up through zero may be used as a signal to buy, or a crossing down through zero as a signal to sell. How high (or how low, when negative) the indicators get shows how strong the trend is.

- RSI - Relative Strength Index - a technical momentum indicator, devised by Welles Wilder, measures the relative changes between the higher and lower closing prices. RSI compares the magnitude of recent gains to recent losses in an attempt to determine overbought and oversold conditions of an asset.

The formula for calculating RSI is:

$$RSI = 100 - [100 / (1 + RS)]$$

Where:      *RS - average of N days up closes, divided by*  
              *average of N days down closes*  
              *N - predetermined number of days*

The RSI ranges from 0 to 100. An asset is deemed to be overbought once the RSI approaches the 70 level, meaning that it may be getting overvalued and is a good candidate for a pullback. Likewise, if the RSI approaches 30, it is an indication that the asset may be getting oversold and therefore likely to become undervalued. A trader using RSI should be aware that large surges and drops in the price of an asset will affect the RSI by creating false buy or sell signals. The RSI is best used as a valuable complement to other stock-picking tools.

- Stochastic oscillator - A technical momentum indicator that compares an instrument's closing price to its price range over a given time period. The oscillator's sensitivity to market movements can be reduced by adjusting the time period, or by taking a moving average of the result. This indicator is calculated with the following formula:

$$\%K = 100 * [(C - L14) / (H14 - L14)]$$

*C= the most recent closing price;*

*L14= the low of the 14 previous trading sessions;*

*H14= the highest price traded during the same 14-day period.*

The theory behind this indicator, based on George Lane's observations, is that in an upward-trending market, prices tend to close near their high, and during a downward-trending market, prices tend to close near their low. Transaction signals occur when the %K crosses through a three-period moving average called the "%D".

- Trend line - a sloping line of support or resistance.
  - Up trend line - straight line drawn upward to the right along successive reaction lows
  - Down trend line - straight line drawn downwards to the right along successive rally peaks

Two points are needed to draw the trend line, and a third point to make it valid trend line. Trend lines are used in many ways by traders. One way is that when price returns to an existing principal trend line' it may be an opportunity to open new positions in the direction of the trend in the belief that the trend line will hold and the trend will continue further. A second way is that when price action breaks through the principal trend line of an existing trend, it is evidence that the trend may be going to fail, and a trader may consider trading in the opposite direction to the existing trend, or exiting positions in the direction of the trend.

### [6.3] Charts and diagrams

Forex charts are based on market action involving price. Charts are major tools in Forex trading. There are many kinds of charts, each of which helps to visually analyze market conditions, assess and create forecasts, and identify behavior patterns.

Most charts present the behavior of currency exchange rates over time. Rates (prices) are measured on the vertical axis and time is shown on the horizontal axis.

Charts are used by both technical and fundamental analysts. The technical analyst analyzes the “micro” movements, trying to match the actual occurrence with known patterns. The fundamental analyst tries to find correlation between the trend seen on the chart and “macro” events occurring parallel to that (political and others).

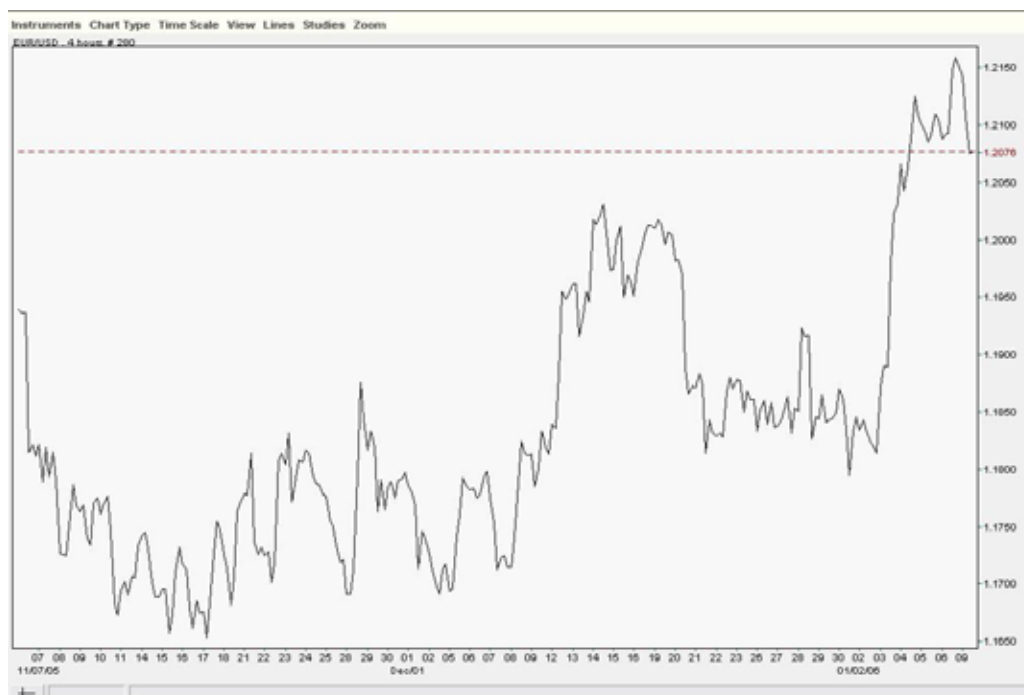
What is an appropriate time scale to use on a chart?

It depends on the trader’s strategy. The short-range investor would probably select a day chart (units of hours, minutes), where the medium and long-range investor would use the weekly or monthly charts. High resolution charts (e.g. - minutes and seconds) may show “noise”, meaning that with fine details in view, it is sometimes harder to see the overall trend.

The major types of charts:

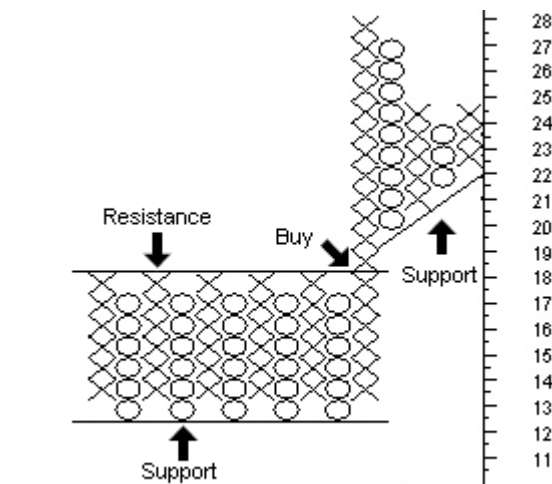
- Line chart

The simplest form, based upon the closing rates (in each time unit), forming a homogeneous line. (Such chart, on the 5-minutes scale, will show a line connecting all the actual rates every 5 minutes). This chart does not show what happened during the time unit selected by the viewer, only closing rates for such time intervals. The line chart is a simple tool for setting support and resistance levels.



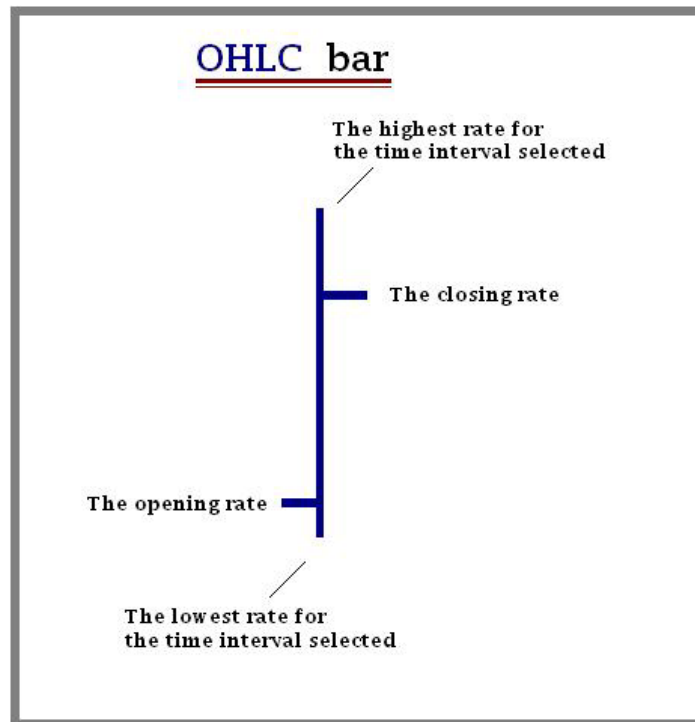
- Point and figure charts - charts based on price without time. Unlike most other investment charts, point and figure charts do not present a linear representation of time. Instead, they show trends in price.

Increases are represented by a rising stack of Xs, and decreases are represented by a declining stack of Os. This type of chart is used to filter out non-significant price movements, and enables the trader to easily determine critical support and resistance levels. Traders will place orders when the price moves beyond identified support/resistance levels.



- Bar chart

This chart shows three rates for each time unit selected: the high, the low, the closing (HLC). There are also bar charts including four rates (OHLC, which includes the Opening rate for the time interval). This chart provides clearly visible information about trading prices range during the time period (per unit) selected.

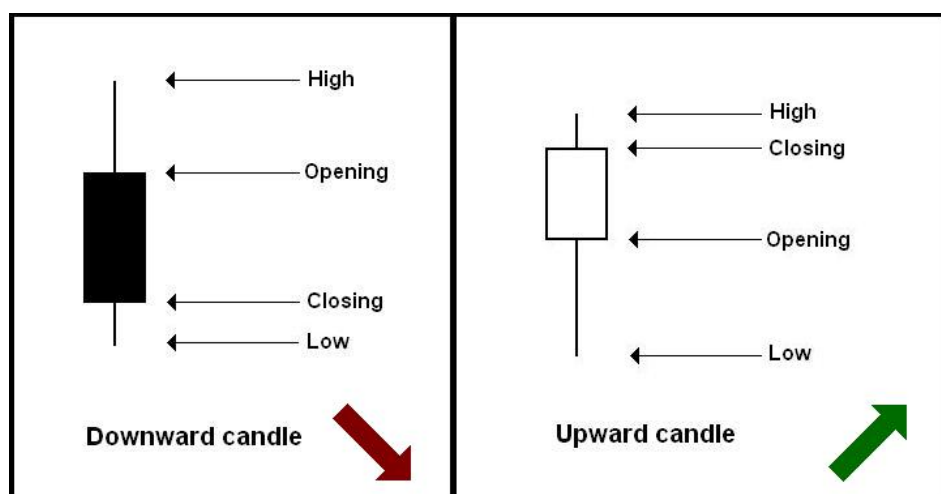


- Candlestick chart

This kind of chart is based on an ancient Japanese method. The chart represents prices at their opening, high, low and closing rates, in a form of candles, for each time unit selected.

The empty (transparent) candles show increase, while the dark (full) ones show decrease.

The length of the body shows the range between opening and closing, while the whole candle (including top and bottom wicks) show the whole range of trading prices for the selected time unit.



Here's a candlestick chart (USD/JPY) with some explanations:



## Pattern recognition in Candlestick charts

Pattern recognition is a field within the area of “machine learning”.

Alternatively, it can be defined as “the act of taking in raw data and taking an action based on the category of the data”. As such, it is a collection of methods for “supervised learning”.

A complete pattern recognition system consists of a sensor that gathers the observations to be classified or described; a feature extraction mechanism that computes numeric or symbolic information from the observations; and a classification or description scheme that does the actual job of classifying or describing observations, relying on the extracted features.

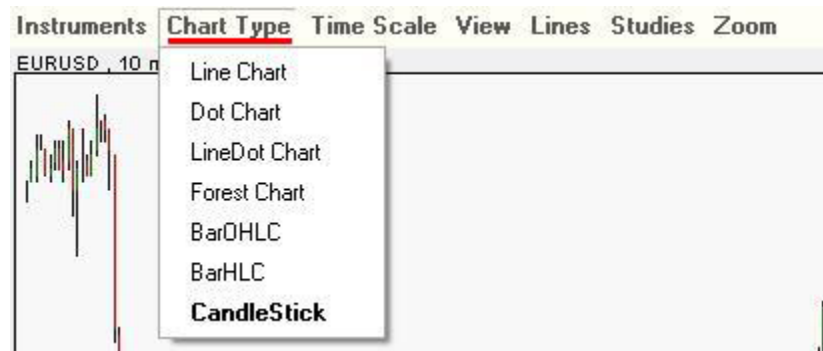
In general, the market uses the following patterns in candlestick charts:

- **Bullish patterns**: hammer, inverted hammer, engulfing, harami, harami cross, doji star, piercing line, morning star, morning doji star.
- **Bearish patterns**: shooting star, hanging man, engulfing, harami, harami cross, doji star, dark cloud cover, evening star, evening doji star.

## Chart system available at [Easy-Forex™](#) Trading Platform

The Easy-Forex™ Trading Platform offers the following charting tools, for both professional and beginner traders.

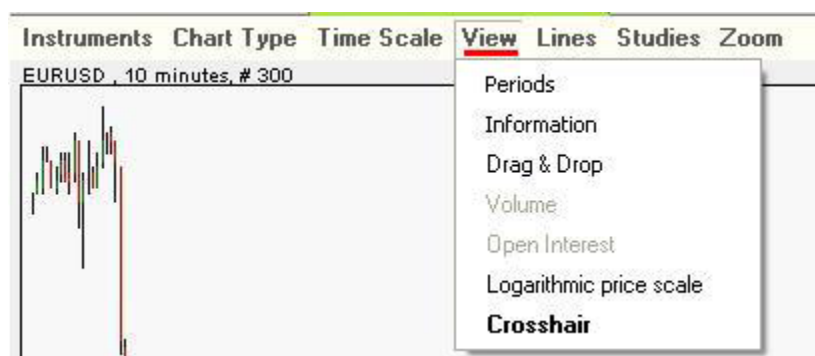
The chart types:



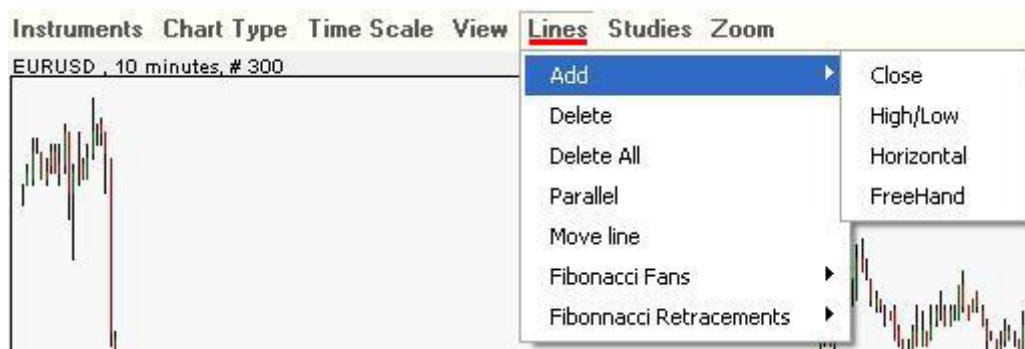
The time scales:



The view types:



The "drawing line on the chart" types:



The Study types:



*Please note: the above screen-shots were taken around mid-2006. The Easy-Forex™ platform continuously upgrades its system, while adding new features on a regular basis.*



## [6.4] Technical Analysis categories / approaches

Technical Analysis can be divided into five major categories:

- Price indicators (oscillators, e.g.: Relative Strength Index (RSI))
- Number theory (Fibonacci numbers, Gann numbers)
- Waves (Elliott's wave theory)
- Gaps (high-low, open-closing)
- Trends (following moving average).

### [a] Price indicators

**Relative Strength Index (RSI):** The RSI measures the ratio of up-moves to down-moves and normalizes the calculation, so that the index is expressed in a range of 0-100. If the RSI is 70 or greater, then the instrument is assumed to be overbought (a situation in which prices have risen more than market expectations). An RSI of 30 or less is taken as a signal that the instrument may be oversold (a situation in which prices have fallen more than the market expectations).

**Stochastic oscillator:** This is used to indicate overbought/oversold conditions on a scale of 0-100%. The indicator is based on the observation that in a strong up-trend, period closing prices tend to concentrate in the higher part of the period's range. Conversely, as prices fall in a strong down-trend, closing prices tend to be near the extreme low of the period range. Stochastic calculations produce two lines, %K and %D, that are used to indicate overbought/oversold areas of a chart. Divergence between the stochastic lines and the price action of the underlying instrument gives a powerful trading signal.

**Moving Average Convergence/Divergence (MACD):** This indicator involves plotting two momentum lines. The MACD line is the difference between two exponential moving averages and the signal or trigger line, which is an exponential moving average of the difference. If the MACD and trigger lines cross, then this is taken as a signal that a change in the trend is likely.

### [b] Number theory:

**Fibonacci numbers:** The Fibonacci number sequence (1, 1, 2, 3, 5, 8, 13, 21, 34 ...) is constructed by adding the first two numbers to arrive at the third. The ratio of any number to the next larger number is 61.8%, which is a popular Fibonacci retracement number. The inverse of 61.8%, which is 38.2%,

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is also used as a Fibonacci retracement number (as well as extensions of that ratio, 161.8%, 261.8%). Wave patterns and behavior, identified in Forex trading, correlate (to some extent) with relations within the Fibonacci series. The tool is used in technical analysis that combines various numbers of Fibonacci retracements, all of which are drawn from different highs and lows. Fibonacci clusters are indicators which are usually found on the side of a price chart and look like a series of horizontal bars with various degrees of shading. Each retracement level that overlaps with another, makes the horizontal bar on the side darker at that price level. The most significant levels of support and resistance are found where the Fibonacci cluster is the darkest. This tool helps gauging the relative strength of the support or resistance of various price levels in one quick glance. Traders often pay close attention to the volume around the identified levels to confirm the strength of the support/resistance.

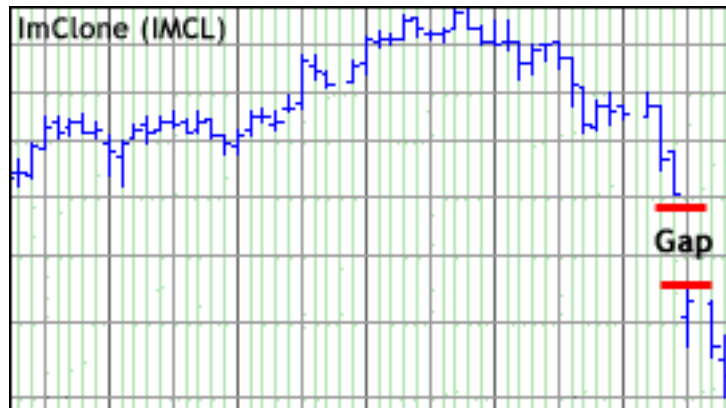
**Gann numbers:** W.D. Gann was a stock and a commodity trader working in the '50s, who reputedly made over \$50 million in the markets. He made his fortune using methods that he developed for trading instruments based on relationships between price movement and time, known as time/price equivalents. There is no easy explanation for Gann's methods, but in essence he used angles in charts to determine support and resistance areas, and to predict the times of future trend changes. He also used lines in charts to predict support and resistance areas.

#### [c] Waves

**Elliott's wave theory:** The Elliott Wave Theory is an approach to market analysis that is based on repetitive wave patterns and the Fibonacci number sequence. An ideal Elliott wave pattern shows a five-wave advance followed by a three-wave decline.

#### [d] Gaps

Gaps are spaces left on the bar chart where no trading has taken place. Gaps can be created by factors such as regular buying or selling pressure, earnings announcements, a change in an analyst's outlook or any other type of news release.



An up gap is formed when the lowest price on a trading day is higher than the highest high of the previous day. A down gap is formed when the highest price of the day is lower than the lowest price of the prior day. An up gap is usually a sign of market strength, while a down gap is a sign of market weakness. A breakaway gap is a price gap that forms on the completion of an important price pattern. It usually signals the beginning of an important price move. A runaway gap is a price gap that usually occurs around the mid-point of an important market trend. For that reason, it is also called a measuring gap. An exhaustion gap is a price gap that occurs at the end of an important trend and signals that the trend is ending.

## [e] Trends

A trend refers to the direction of prices. Rising peaks and troughs constitute an up trend; falling peaks and troughs constitute a downtrend that determines the steepness of the current trend. The breaking of a trend line usually signals a trend reversal. Horizontal peaks and troughs characterize a trading range.

In general, Charles Dow categorized trends into 3 categories: (a) Bull trend (up-trend: a series of highs and lows, where each high is higher than the previous one); (b) Bear trend (down-trend: a series of highs and lows, where each low is lower than the previous one); (c) Treading trend (horizontal-trend: a series of highs and lows, where peaks and lows are around the same as the previous peaks and lows).

Moving averages are used to smooth price information in order to confirm trends and support-and-resistance levels. They are also useful in deciding on a trading strategy, particularly in futures trading or a market with a strong up or down trend. Recognizing a trend may be done using standard deviation, which is a measure of volatility. Bollinger Bands, for example, illustrate trends with this approach. When the markets become more volatile, the

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bands widen (move further away from the average), while during less volatile periods, the bands contract (move closer to the average).

### Various Trend lines

Pattern recognition in Trend lines, which detect and draw the following patterns: ascending; descending; symmetrically & extended triangles; wedges; trend channels.

### [6.5] Some other popular technical tools:

**Coppock Curve** is an investment tool used in technical analysis for predicting bear market lows. It is calculated as a 10-month weighted moving average of the sum of the 14-month rate of change and the 11-month rate of change for the index.

**DMI (Directional Movement Indicator)** is a popular technical indicator used to determine whether or not a currency pair is trending.

**The Parabolic System (SAR)** is a stop-loss system based on price and time. It is used to determine good exit and entry points.

### [6.6] Another way to categorize Technical Indicators:

The indicators and tools aim to provide information in various approaches:

- **Cycle indicators**

A cycle is a term to indicate repeating patterns of market movement, specific to recurrent events, such as seasons, elections, etc. Many markets have a tendency to move in cyclical patterns. Cycle indicators determine the timing of a particular market patterns. (Example: Elliott Wave).

- **Momentum indicators**

Momentum is a general term used to describe the speed at which prices move over a given time period. Momentum indicators determine the strength or weakness of a trend as it progresses over time. Momentum is highest at the beginning of a trend and lowest at trend turning points. Any divergence of directions in price and momentum is a warning of weakness; if price extremes occur with weak momentum, it signals an end of movement in that direction. If momentum is trending strongly and prices

are flat, it signals a potential change in price direction. (Example: Stochastic, MACD, RSI).

- **Strength indicators**

Market strength describes the intensity of market opinion with reference to a price by examining the market positions taken by various market participants. Volume or open interest, are the basic ingredients of this indicator. Their signals are coincident or leading the market. (Example: Trading Volume).

- **Support/Resistance indicators**

Support and resistance describe price levels where markets repeatedly rise or fall, and then reverse. This method shows the price levels at which the market is expected to reverse and stay within the S/R levels (e.g. - not exceeding the support or the resistance level). This phenomenon is attributed to basic supply and demand forces. (Example: Trend Lines)

- **Trend indicators**

Trend is a term used to describe the persistence of price movement in one direction over time. Trends move in three directions: up, down and sideways. Trend indicators smooth variable price data to create a composite of market direction. Generally, the trend could be either UP, or DOWN, or TREAD (flat). (Example: Moving Averages, Trend lines).

- **Volatility indicators**

Describe the intensity of fluctuations in the market prices. A change in the volatility level hints at a coming change in the price. Volatility is a general term used to describe the magnitude, or size, of day-to-day price fluctuations independent of their direction. Generally, changes in volatility tend to lead changes in prices. (Example: Bollinger Bands).

Unlike the fundamental analyst, the technical analyst is not much concerned with any of the “bigger picture” factors affecting the market, but concentrates on the activity of that instrument's market.

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## [7] Fundamental Analysis

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### and leading market (economic) indicators

Fundamental analysis is a method of forecasting future price movements of a financial instrument based on economic, political, environmental and other relevant factors, as well as data that will affect the basic supply and demand of whatever underlies the financial instrument. In practice, many market players use technical analysis in conjunction with fundamental analysis to determine their trading strategy. One major advantage of technical analysis is that experienced analysts can follow many markets and market instruments, whereas the fundamental analyst needs to know a particular market intimately. Fundamental analysis focuses on what ought to happen in a market. Among the factors considered are: supply and demand; seasonal cycles; weather; government policy.

The fundamental analyst studies the causes of market movements, while the technical analyst studies the effect. Fundamental analysis is a macro, or strategic, assessment of where a currency should be traded, based on any criteria but the movement of the currency's price itself. These criteria often include the economic conditions of the country that the currency represents, monetary policy, and other "fundamental" elements.

Many profitable trades are made moments prior to, or shortly after, major economic announcements.

### Leading economic indicators

The following is a list of economic indicators used in the USA. Obviously, there are many more, as well as those of other leading economies (such as Germany, the UK, Japan, etc.). In general, it is not only the numerical value of an indicator that is important, but also the market's anticipation and prediction of the forecast, and the impact of the relation between anticipated and actual figures on the market.

Such macro indicators are followed by the vast majority of traders worldwide. The "quality" of the published data can differ over time. The value of the indicator data is considered greater if it presents new information, or is instrumental to drawing conclusions which could not be drawn under other reports or data. Furthermore, an indicator is highly valuable if one may use it to better forecast future trends.

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Note that in the USA most indicators are published on certain weekdays, rather than on a particular monthly date (e.g. the second Wednesday in each month, as opposed to the 14<sup>th</sup> of each month, etc.). Each indicator is marked as High (H), Medium (M) or Low (L), according to the importance commonly attributed to it.

#### [H] CCI - Consumer Confidence Index

The Conference Board; last Tuesday of each month, 10:00am EST, covers current month's data

The CCI is a survey based on a sample of 5,000 U.S. households and is considered one of the most accurate indicators of confidence. The idea behind consumer confidence is that when the economy warrants more jobs, increased wages, and lower interest rates, it increases our confidence and spending power. The respondents answer questions about their income, the market condition as they see it, and the chances to see increase in their income. Confidence is looked at closely by the Federal Reserve when determining interest rates. It is considered to be a big market mover as private consumption is two thirds of the American economy.

#### [H] CPI - Consumer Price Index; Core-CPI

Bureau of Labor and Statistics; around the 20<sup>th</sup> of each month, 8:30am EST, covers previous month's data

The CPI is considered the most widely used measure of inflation and is regarded as an indicator of the effectiveness of government policy. The CPI is a basket of consumer goods (and services) tracked from month to month (excluding taxes). The CPI is one of the most followed economic indicators and considered to be a very big market mover. A rising CPI indicates inflation. The Core-CPI (CPI, excluding food and energy, expense items which are subject to seasonal fluctuations) gives a more stringent measure of general prices.

#### [H] Employment Report

Department of Labor; the first Friday of each month, 8:30am EST, covers previous month data

The collection of the data is gathered through a survey among 375,000 business and 60,000 households. The report reviews: the number of new work places created or cancelled in the economy, average wages per hour and the average length of the work week. The report is considered as one of the most important economic publications, both for the fact that it discloses new up-to-date information and due to the fact that, together with NFP, it gives a good picture of the total state of the economy. The report also breaks out data by sector (e.g. manufacturing, services, building, mining, public, etc.)

## [H] Employment Situation Report

Bureau of Labor and Statistics; the first Friday of each month, 8:30am EST, covers previous month data

The Employment Situation Report is a monthly indicator which contains two major parts. One part is the unemployment and new jobs created, the report reveals the unemployment rate and the change in the unemployment rate. The second part of the report indicates things like average weekly hours worked and average hourly earnings. This data is important for determining the tightness of the labor market, which is a major determinant of inflation. The Bureau of Labor surveys over 250 regions across the United States and covers almost every major industry. This indicator is certainly one of the most watched indicators and almost always moves markets. Investors value the fact that information in the Employment report is very timely as it is less than a week old. The report provides one of the best snapshots of the health of the economy.

## [H] FOMC Meeting (Federal Open Market Committee): Rate announcement

The meeting of the US Federal Bank representatives, held 8 times a year. The decision about the prime interest rate is published during each meeting (around 14:15 EST). The FED (the Federal Reserve of USA) is responsible for managing the US monetary policy, controlling the banks, providing services to governmental organizations and citizens, and maintaining the country's financial stability.

There are 12 Fed regions in the USA (each comprising several states), represented in the Fed committee by regional commissioners.

The rate of interest on a currency is in practice the price of the money. The higher the rate of interest on a currency, the more people will tend to hold that currency, to purchase it and in that way to strengthen the value of the currency. This is very important indicator affecting the rate of inflation and is a very big market mover.

There is great importance to the FOMC announcement, however - the content of the deliberation held in the meeting, which is published 2 weeks after the rate announcement, is almost as important to the markets.

## [H] GDP - Gross Domestic Product

BEA (Bureau of Economic Analysis); last day of the quarter, 8:30am EST, covers previous quarter data.

The US Commerce department publishes the GDP in 3 modes: advance; preliminary and final.

GDP is a gross measure of market activity. It represents the monetary value of all the goods and services produced by an economy over a specified period. This includes consumption, government purchases, investments, and the trade balance. The GDP is perhaps the greatest indicator of the economic health of a country. It is usually measured on a yearly basis, but quarterly stats are also released.



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The Commerce Department releases an "advance report" on the last day of each quarter. Within a month it follows up with the "preliminary report" and then the "final report" is released yet a month later. The most recent GDP figures have a relatively high importance to the markets. GDP indicates the pace at which a country's economy is growing (or shrinking).

### **[H] ISM (Institute for Supply Management) Manufacturing Index**

Institute for Supply Management; the first business day of the month, 10:00am EST, covers previous month data

The Manufacturing ISM Report On Business is based on data compiled from monthly replies to questions asked of purchasing executives in more than 400 industrial companies. It reflects a compound average of 5 main economic areas (new customers' orders 30%; manufacturing 25%; employment 20%; supply orders 15%; inventories 10%). Any data over 50 points shows the expansion of economic activities, and data under 50 points shows a contraction.

### **[H] MCSI - Michigan Consumer Sentiment Index**

University of Michigan; first of each month, covers previous month data

A survey of consumer sentiment conducted by the University of Michigan. The index is becoming more and more useful for investors. It gives a snapshot of whether or not consumers feel like spending money.

### **[H] NFP - Changes in non-farm payrolls**

Department of Labor; the first Friday of each month, 8:30am EST, covers previous month data

The data intended to represent changes in the total number of paid U.S. workers of any business, excluding the following:

- general government employees;
- private household employees;
- employees of nonprofit organizations that provide assistance to individuals;
- farm employees.

The total non-farm payroll accounts for approximately 80% of the workers responsible for the entire gross domestic product of the United States. The report is used to assist government policy-makers and economists in determining the current state of the economy and predicting future levels of economic activity. It is a very big market mover, due largely to high fluctuations in the forecasting.

### **[H] PMI - Purchasing Managers Index**

Institute for Supply Management; the first business day of each month, 10:00am EST, covers previous month's data

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The PMI is a composite index that is based on five major indicators including: new orders; inventory levels; production; supplier deliveries and the employment environment. Each indicator has a different weight and the data is adjusted for seasonal factors. The Association of Purchasing Managers surveys over 300 purchasing managers nationwide who represent 20 different industries. A PMI index over 50 indicates that manufacturing is expanding, while anything below 50 means that the industry is contracting. The PMI report is an extremely important indicator for the financial markets as it is the best indicator of factory production. The index is popularly used for detecting inflationary pressure as well as indicating manufacturing activity. The PMI is not as strong as the CPI in detecting inflation, but because the data is released one day after the month, it is very timely. Should the PMI report an unexpected change, it is usually followed by a quick reaction in market. One especially key area of the report is growth in new orders, which predicts manufacturing activity in future months.

#### **[H] Retail Sales Data; Retail Sales less Automotives**

Bureau of Census; around the 12<sup>th</sup> of each month, 8:30am EST, covers previous month data

Retail sales are a key driving force in US economy. This indicator tracks the merchandise sold by companies within the retail trade and measures the total consumer spending on retail sales (not including service costs). The retail revenues are a major part (two thirds) of the US economy. The Census Bureau surveys hundreds of various sized firms and business offering some type of retail trade. Every month the data is released showing the percent change from the previous month's data. A negative number indicates that sales decreased from the previous months sales. This indicator is a very big market mover because it is used as a gauge of consumer activity and confidence as higher sales figures indicate increased economic activity. The data is very timely because retail sales data is released within 2 weeks of the previous month.

#### **[H] Tankan Survey**

BoJ (Bank of Japan); four times a year in April, July, October and mid-December; 10:50pm GMT

An economic survey of Japanese business issued by the central Bank of Japan, which it then uses to formulate monetary policy. The survey covers thousands of Japanese companies with a specified minimum amount of capital, although firms deemed sufficiently influential may also be included. The companies are asked about current trends and conditions in the business place and their respective industries, as well as their expected business activities for the next quarter and year. It is considered a big market mover for JPY currency pairs.

#### **[H] TIC (Treasury International Capital) Data on transactions in long term securities**

Department of the Treasury; around the 12<sup>th</sup> working day of each month, 9:00am EST, covers month before previous data

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The TIC data provides information about the most important way the US is financing its ongoing current account deficit: selling long-term securities to foreigners, or exporting debt. It is important to remember that there are other ways of financing a deficit: borrowing from foreign banks or attracting net FDI inflows. But since FDI flows have been negative and bank flows tend to be small, most of the financing the US needs has come from the sale of long-term securities to foreigners. TIC data are a good measurement of how much a country is trusted in the international investment community. It is considered a big market mover.

## **[H] Trade Balance**

Department of Commerce; the second week of each month, 8:30am EST, covers month before previous data

A country's trade balance is the largest component of a country's balance of payments. The balance of trade measures the difference between the value of goods and services that a nation exports, and those it imports. A country has a trade deficit if it imports more than it exports. The opposite scenario is a trade surplus. It is considered a very big market mover.

## **[M] Budget Statement Monthly**

A monthly report by US government (the Treasury Department), showing the monthly budget deficit or surplus.

The level of deficit/surplus affects the level of US bonds issues by the government, hence - their price. In addition, this report reflects the level of tax collected by the government, which is indicative of the level of economic activity. Consequently, the April report (the month in which Americans submit their tax returns) is even more important than those released in other months.

## **[M] Composite Index of Leading Indicators**

The Conference Board; around the 20<sup>th</sup> of each month, 10:00am EST      An index used to predict the direction of the economy's movements in the months to come. The index is made up of 10 economic components, whose changes tend to precede changes in the overall economy. These 10 components include:

1. the average weekly hours worked by manufacturing workers;
2. the average number of initial applications for unemployment insurance;
3. the amount of manufacturers' new orders for consumer goods and materials;
4. the speed of delivery of new merchandise to vendors from suppliers;
5. the amount of new orders for capital goods unrelated to defense;
6. the amount of new building permits for residential buildings;
7. the S&P 500 stock index;
8. the inflation-adjusted monetary supply (M2);
9. the spread between long and short interests rates;
10. consumer sentiment.

By looking at the Composite Index of Leading Indicators in the light of business cycles and general economic conditions, investors and businesses can form expectations about what's

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ahead, and make better-informed decisions. It has medium importance, as its many components are already known at the time of its publication.

### **[M] Current Account**

BEA (Bureau of Economic Analysis); quarterly, around six weeks after quarter end

The difference between a nation's total exports of goods, services, and transfers, and its total imports of the same. Current account balance calculations exclude transactions in financial assets and liabilities. The level of the current account is followed as an indicator of trends in foreign trade, so it is regarded as a big market mover.

### **[M] Durable Goods**

Bureau of Census; the fourth week of each month, 8:30am EST, covers previous month data

Durable Goods Orders measures new orders placed with domestic manufacturers for immediate and future delivery of factory hard goods. A durable good is defined as a good that lasts an extended period of time (over three years) during which its services are extended. Rising Durable Goods Orders are normally associated with stronger economic activity, and can therefore lead to higher short-term interest rates. Higher rates often support a currency, at least in the short term.

### **[M] GDP Price Deflator**

BEA (Bureau of Economic Analysis); last day of the quarter, 8:30am EST, covers previous quarter data

The GDP deflator shows how much a change in the base year's GDP relies upon changes in the price level. Also known as the "GDP implicit price deflator." As it is not based on a fixed basket of goods and services, the GDP deflator has an advantage over the consumer price index (CPI). Changes in consumption patterns, or the introduction of new goods and services, are automatically reflected in the deflator. This indicator is of medium importance to the markets.

### **[M] Housing Starts**

Bureau of Census; around the middle of each month, 8:30am EST, covers previous month data

This economic indicator tracks how many new single-family homes or other residential buildings were constructed through the month. For the survey, each house and each single apartment is counted as one housing start. This indicator is not a huge market mover, but it has been reported by U.S. Census that the housing industry represents over 25% of all investment dollars, and a 5% value of the overall economy. Housing starts are considered to be a leading indicator, meaning it detects trends in the economy looking forward. Declining housing starts show a slowing economy, while increases in housing activity can pull an economy out of a downturn.

## **[M] Industrial Production Capacity; Production Utilization**

Federal Reserve; middle of the month, 9:15am EST, covers previous month data

It is a chain-weighted measure of the change in the production of the nation's factories, mines and utilities as well as a measure of their industrial capacity and of how many available resources are being used (commonly known as capacity utilization). In addition, the Capacity Utilization Index provides an estimate of how much factory capacity is in use. They are important indicators, as the manufacturing sector accounts for one-quarter of the economy.

## **[M] Initial Jobless Claims**

Department of Labor; once a week on Thursday at 8:30am EST, covers previous week data

The data states the number of people who applied to receive unemployment pay for the first time. It has low to medium importance as this relates to weekly data with high fluctuations; the average of four weeks is more stable.

## **[M] Philadelphia Fed Index (Business Outlook Survey)**

Federal Reserve Bank of Philadelphia; Around the 17<sup>th</sup> of each month, 10:00am EST, covers previous month data

The Business Outlook Survey is a monthly survey of manufacturers located around the states of Pennsylvania, New Jersey and Delaware. Companies surveyed indicate the direction of change in their overall business activity and in the various measures of activity at their plants. The index signals expansion when it is above zero and contraction when below. This index is considered to be a good indicator of changes in everything from employment, general prices, and conditions within the manufacturing industry. It isn't a big market mover, but the results found in the survey can indicate what to expect from the Purchasing Managers' Index (which comes out a few days later and covers the entire U.S.).

## **[M] PPI - Producer Price Index; Core-PPI**

Bureau of Labor and Statistics; the second full week of each month, 8:30am EST, covers previous month data

The PPI is not as widely used as the CPI, but it is still considered to be a good indicator of inflation. This indicator reflects the change of manufacturers' cost of input (raw materials, semi-finished goods, etc.). Formerly known as the "Wholesale Price Index", the PPI is a basket of various indexes covering a wide range of areas affecting domestic producers. Each month approximately 100,000 prices are collected from 30,000 production and manufacturing firms. It is not as strong as the CPI in detecting inflation, but because it includes goods being produced, it is often a forecast of future CPI releases.

## [L] Beige Book

Federal Reserve Board; two Wednesdays before every FOMC meeting, 8 times per year, 2:15pm EST

Beige book is the commonly used term for the Fed report entitled: "Summary of Commentary on Current Economic Conditions by Federal Reserve District". It is published just before the FOMC meeting on interest rates and is used to inform the members on changes in the economy since the last meeting. This report is published eight times per year. The Beige Book is not considered to be a big market mover. It is a gauge of the strength of the economy and not a commentary on the views of Fed members. Occasionally it can move markets if the findings are substantially different from analyst expectations.

## [L] ECI - Employment Cost Index

Bureau of Labor and Statistics; the last Thursday of Apr, Jul, Nov and Jan, 8:30am EST, covers previous quarter data

The ECI tracks movement in the cost of labor which includes wages, fringe benefits, and bonuses for employees at all levels of involvement. The Bureau of Labor surveys over 3,000 private sector firms and over 500 local governments, schools and other public sector organizations. This indicator is not widely watched, but it is among a select group of indicators that have enough power to move the markets. This is particularly true in inflationary times. The idea behind the ECI is that as wage pressures increase, so does inflation. This is mainly because compensation tends to increase before companies increase prices for consumers (inflation).

## [L] PCE - Personal Consumption Expenditure

BEA (Bureau of Economic Analysis); last day of each month, 8:30am EST, covers previous month data

PCE measures price changes in consumer goods and services. The PCE is a fairly predictable report that usually has little impact on the markets. The Core PCE, which is the index less prices of food and energy, estimates inflationary trend more precisely.

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## [8] Day Trading on a Forex platform

*(example, using the Easy-Forex™ platform)*

### Step (1): Deciding to perform a Forex deal

You have an intention to trade Forex, and you have your own reasoning for doing so - e.g. you feel that the USD will increase compared with the EUR. The EUR/USD exchange rate is, at the time, around 1.2000 (the common presentation of the Euro-US\$ pair is EUR/USD, meaning 1.2000 US dollars for 1 Euro). Your feeling can be based on your experience, or on technical analysis, or fundamental analysis, etc. For whatever reason, you believe that the USD will rise to around 1.1850 (EUR will be down, which means USD will go up). You want to profit if your forecast is correct, and so choose to make a trade.

### Step (2): Determining the deal

Below is a screen-shot of a Day-Trading deal in the making and an explanation of each step required to put the trade into effect:

The screenshot displays the 'Day Trading' section of a Forex platform. At the top, there are navigation tabs: 'My Account', 'My Position', 'My History', 'Deposit', and 'Withdraw'. Below these, the 'Day Trading' title is followed by the subtitle 'Buy & sell currency rates'. A notice states: 'The deals renew automatically every night at 22:00 (GMT time) until the deal ends, and are charged with a daily renewal fee. Renewal until 23/03/2006'. The main interface is divided into two columns. The left column contains two sections: 'Select currencies' with dropdowns for 'Currency to buy' (USD) and 'Currency to sell' (EUR); and 'Select amount & STOP LOSS' with dropdowns for 'Amount' (10,000 EUR), 'Amount to risk' (100.00 USD), and a text field for 'STOP LOSS rate' (1.2052). A warning box at the bottom left indicates: 'Your free balance is 11,533.57 USD. Your account will be debited 100.00 USD.' The right column features a 'Rate' field showing 1.1952, a 'Freeze rate' button, and an 'Accept' button. At the bottom, a 'Risk note' states: 'The transaction of Forex instruments can contain a substantial degree of risk. Before deciding to undertake such transactions, a user should carefully evaluate whether his/her financial situation is appropriate for such transactions. Read more in "Risk warning".'



Select currencies: Select the currencies in the Forex pair. There is no connection between your “base working currency” (or “account base currency”, the currency in which you handle your Forex account and make deposits and withdrawals) and the currencies in the pair you select. In this example you selected “BUY USD” because you feel it is low in terms of Euro, and it will increase in the near future. Once it increases to the level you anticipate, you will close the deal, and get more EUR for the USD you previously “bought” - hence, you make profit.

Select the amount: Since Forex trading is “non-delivery” trading (i.e. - no physical currencies are transacted), the Forex deal (contract) has a “volume”, or “size”, meaning the amount of the currencies in this contract. You determine the volume of the contract, but you do not have to purchase the whole amount. In general, you work in the most common leverage (see below), 1:100: therefore a deal of 10,000 Euro will require much less money to facilitate it.

Select the amount to risk: This is your investment. This is the amount you risk, meaning the MAXIMUM amount you can lose. On a 1:100 leverage, EUR 10,000 against USD thus requires only USD 100 (in fact, the actual leverage you are offered in this case is 1:120, since you “buy” EUR10,000 with USD 12,000 guaranteed using only USD 100 of your own money).

Stop-Loss rate: This is the currency exchange rate at which your deal would automatically close in the event the market ran counter to your forecast. In this event, you would lose your USD 100 investment. You can define another Stop-Loss rate, however, the “amount to risk” will change accordingly. There is a direct relationship between the Stop-Loss rate and the “Margin” (i.e the amount risked) required for the deal.

Freeze Rate: This feature is unique to the [Easy-Forex™](#) Trading Platform. You see the rate for the deal and you are almost ready to accept it, but before you do, you need a few seconds to think. With the freeze rate feature you are allowed a few seconds more to either decline or accept the deal.

Accept: When you’re ready, click “Accept” and your deal is activated. You have enough money in your Forex account to make the deal, so it’s in play. You are holding now an “Open Position” in Forex.

Please note, “Renewal until...”: The Day-Trading deal resembles a “SPOT” transaction (but is not identical). The rates in the deal are the updated current rates (“spot”), and the deal may be closed anytime during the trading day. However, the trader can extend the deal to the following day (paying a small renewal fee). Most platforms offer an automatic renewal of the deal, for a few days period. The trader may close the position at any time. If the



trader closes the deal before the indicated closing time (usually it is 22:00 GMT), no renewal fee will be charged.

### Step (3): Checking account status

Below is a screen-shot of a typical "My Position" report:

Trading											
My Account   My Position   My History   Deposit   Withdraw											
<b>My Position</b>											
										My history	Total current value
<b>Day Trading deals</b>											
<input type="checkbox"/>	ID	Open Date	Buy	Sell	Rolling Until	Rate	Stop loss rate	TAKE PROFIT rate	Margin	Last rate	Current profit/loss
<input checked="" type="checkbox"/>	731774	23/02/2006	11,952.00 USD	10,000.00 EUR	23/03/2006	1.1952	1.2052		100.00 USD	1.1958	-6.00 USD
<input type="button" value="Check closing value"/> <input type="button" value="Change STOP LOSS"/> <input type="button" value="Change TAKE PROFIT"/> <input type="button" value="Scenario"/>											
<b>LIMIT Orders</b>											
<input type="checkbox"/>	ID	Open Date	Buy	Sell	Reserved until	LIMIT rate	STOP LOSS rate	TAKE PROFIT rate	Margin	Last Rate	
<input type="button" value="Remove LIMIT"/> <input type="button" value="Change LIMIT details"/>											
Please note that Forex trading (OTC Trading) involves substantial risk of loss, and may not be suitable for everyone.											

With online platforms, traders have 24x7 access in order to monitor open positions, to close positions, or change parameters (definitions) in the deal.

ID: The reference number of the deal, as recorded in the platform.

Open date: The day the deal was opened by the trader.

Buy: The volume of the currency "bought".

Sell: The volume of the currency "sold".

Rolling until: The last day to which the deal will be automatically renewed.

Rate: The exchange rate of the currency pair in the deal.

Stop-Loss rate: The rate defined for automatic "stop-loss" of the deal. The deal will close if this rate occurs in the market during the time the deal is active.

Take-Profit rate: (Not defined in this example). The rate at which the deal will close automatically assuming the market moves in the direction forecast by the trader. When defined, this rate allows a trader to take profit automatically when a set rate is achieved, thus allowing the trader to focus on other tasks rather than watching the market closely.

Margin: The amount invested by the trader for the deal. This is the maximum amount the trader can lose.

Last rate: The last known rate (it is the current rate at the time the trader is viewing the screen).

Current Profit/Loss: The status of the trader's position. This will be the profit (or the loss) from this deal, if it was closed at this very second.

Check closing value: Pressing this key will calculate and present the status of all of the trader's open Day-Trading deals (total profit or loss). This is the place for the trader to manually close a position, before it reaches Stop-Loss or Take-Profit.

Change Stop-Loss: The trader is allowed to change his Stop-Loss, at any time while the deal is still active. As previously mentioned, doing so would affect the amount of margin needed for the deal. If the trader changes the Stop-Loss downward (in a case where the position is losing, and is now near the automatic closing), then additional funds will be required for margin. If the trader changes the Stop-Loss upward (in a case where the deal will already see a profit, and the trader wishes to define a higher Stop-Loss to decrease the original risk), then the difference will be credited.

Change Take-Profit: Similarly, the trader is allowed to define, or change, a Take-Profit rate. Note that unlike a Stop-Loss rate, the trader does not have to define any Take-Profit rate; it simply allows the trader to focus on tasks other than rate-watching.

Scenario: The trader can key in various hypothetical exchange rates to see their impact on their overall position (amount of profit or loss), if and when such rates occur in the market.

#### **Step (4): Closing the deal manually**

Using the deal defined in the screen shot above, the deal definitions are: Buy USD; sell EUR; EUR10,000; Deal rate 1.1952; Stop-Loss 1.2052; no Take-Profit defined; margin USD 100.

The table below shows what would occur under various scenarios:

Closing Rate	Profit / Loss	Comments	Change in Exchange Rate	Rate of return on investment
1.2200	Loss USD 100. <sup>00</sup>	Maximum loss; the deal was automatically closed already on 1.2052	-2.0%	-100%
1.2150	Loss USD 100. <sup>00</sup>	Maximum loss; the deal was automatically closed	-1.6%	-100%

Closing Rate	Profit / Loss	Comments	Change in Exchange Rate	Rate of return on investment
		already on 1.2052		
1.2100	Loss USD 100. <sup>00</sup>	Maximum loss; the deal was automatically closed already on 1.2052	-1.2%	-100%
1.2050	Loss USD 98. <sup>00</sup>		-0.8%	-98%
1.2000	Loss USD 48. <sup>00</sup>		-0.4%	-48%
1.1950	Profit USD 2. <sup>00</sup>		0.0%	2%
1.1900	Profit USD 52. <sup>00</sup>		0.4%	52%
1.1850	Profit USD 102. <sup>00</sup>		0.9%	102%
1.1800	Profit USD 152. <sup>00</sup>		1.4%	152%
1.1750	Profit USD 202. <sup>00</sup>		1.9%	202%
1.1700	Profit USD 252. <sup>00</sup>		2.4%	252%

The table shows the effect of "leveraged" trading: the trader invests USD 100, for a EUR 10,000 contract. Therefore, a small change in the currency exchange rate reflects a much higher change in value.

The Trader may lose up to 100% of the investment (USD 100), but can gain an unlimited profit.

The table also illustrates the value of PIPs. In this deal, every PIP (the fourth decimal digit) results in a profit or loss of USD 1.00 to the trader. So long as the trader gains on this deal, each PIP is worth \$1 on a \$100 margin leveraged at 1:100 .

### Limit Orders (reserving a Day-Trading deal)

Some dealing rooms and platforms offer the trader the ability to set a "reserved" rate for a deal, that would "capture", if and when such a rate occurs in the market, resulting in a Day-Trading deal.

The trader can define the rate he/she wishes, letting the platform do the watching, until (if and when), it appears in the market. [Easy-Forex™](#) does not charge additional fees for Limit Orders. Setting up a Limit Order is very similar to the process described above for Day-Trading. Should the reserved deal not be realized, the funds which were allocated for it will be returned to the trader's account.

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## [9] Twenty issues you must consider

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When choosing a Forex broker or platform, there are many different considerations to think about, and a lot of questions to ask each of them. Those raised in this chapter are presented as a guide you should use in your search for the right broker or platform for you. Please note that some of the answers below refer to the terms offered by the [Easy-Forex™](#) Trading Platform.

### Personal account management

*Is anybody there? Are there real people behind the phone (or the e-mail box)? Do I have a one-on-one relationship with an individual who knows my account and is able to provide continuity of service online?*

Expert [Easy-Forex™](#) team members are available to you at all times, anytime. Moreover, you have your own Account Service Manager working closely with you, while dealing room services are offered to you by expert Forex dealers. You may speak with us by phone, by e-mail, or over the advanced online CHAT system that we operate. Depending on your location, you can also visit an Easy-Forex™ regional office to meet in person. **Yes, it's internet, but we are real, and we take it personally.**

### Live training and one-on-one help

*Do they offer professional assistance and tools?*

[Easy-Forex™](#) offers background information for the Forex market, a Guided-Tour, seminars, one-on-one training, CHAT, telephone support, as well as other assistance tools, including technical support. You are never left alone to trade without help, whenever you want it. Moreover, your personal Account Service Manager will guide you live on your first trading steps, to help you get acquainted with the Easy-Forex™ system, and will answer all of your technical questions.

### Guaranteed Rates and Stop-Loss

*Is it "around" or "near" the rate I set, or exactly on it?*

[Easy-Forex™](#) guarantees your exact Stop-Loss rate by using the latest technologies. We are committed to the principle that you will never lose more than the margin risked by the Stop-Loss rate you choose.

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The same principle holds true for any Take-Profit rate you set: your deal will close automatically on the exact Take-Profit rate you define.

Needless to say, you can change both Stop-Loss and Take-Profit rates at any time while a deal remains open.

### No software download

*Is the internet platform friendly and easy to use? Do I need to download any software? Can I begin trading immediately, and am I restricted to a specific computer terminal?*

Easy-Forex™ Trading Platform was the first, and may be the only, Forex platform that enables users to start trading immediately.

With no software to download, you can log into your account and trade anytime, from anywhere.

### Instant deposit with a credit card

*Am I bound to wait for banking hours, or can I deposit trading margins with my credit card? Will I miss an opportunity if I decide to change the margins in the middle of the night? When I profit, can I withdraw the profits to my credit card account?*

Easy-Forex™ was the first, and may be the only, Forex platform that allows you to fund your account with your credit card (or PayPal, or Western Union, and others), so you can start trading immediately, regardless of banking work days or hours. Easy-Forex™ cares about protecting your credit card security and your privacy to the highest standard. To achieve that, we use the latest technologies and comply with all relevant regulations.

Profits withdrawn can, of course, be transferred back to the source of your original deposit (i.e., your credit card account).

### Start trading in less than 5 minutes

*How time-consuming is the account set-up process? Can I immediately register, deposit the margins for the deal, and start running?*

With Easy-Forex™, the answer is “Yes”. There is no software to download, and you have the option of using your credit card to deposit the margin required to trade. Please note that due to security measures aimed at protecting you, the scope of deals during the first week of trading with Easy-Forex™, is limited. This restriction will be removed after making phone contact with our team.

## Margin trading with as little as US\$25

*What is the lowest amount I can risk?*

The [Easy-Forex™](#) system enables you to trade with very small amounts if you wish: you can start using Easy-Forex™ with as little as \$25. No bank (that we know of) offers such an opportunity. Starting to trade with such small amounts is the best way to get acquainted with the Forex marketplace. "Demo" accounts, which are offered by many but not by [Easy-Forex™](#), allow you to trade only imaginary money. Consequently, you are unlikely to trade in the same way you would with your own real money, thus minimizing the value of such accounts as a learning tool. By trading, instead, with very small amounts of your money, you familiarize yourself with the system, and are free to increase your level and scope of activity at your own pace as your confidence and experience grow.

## Freeze the rate you see

*When I select a rate for a deal, can I "FREEZE" it for a few seconds before I make my final decision?*

Unlike any other trading platform today, [Easy-Forex™](#) offers you the ability to freeze an exchange rate for a few seconds, regardless of rate movements. This means that the rate you see and freeze is the rate you get if you proceed with the deal. During a "freeze", the Forex market could change, but you are guaranteed the rate you have frozen.

## No hidden costs

*Are all costs readily apparent? Am I charged commissions on trading? Am I charged commissions on withdrawals of profit?*

With [Easy-Forex™](#), you pay no commissions for the deals you make (see our [Spreads and Commissions](#) page onboard our website). Easy-Forex™ acts as a market maker, and makes its earnings from the spreads that are embedded in the currency rates. In the "Day-Trading" zone you may roll over your positions to the next day for a renewal fee. There are no charges for profit withdrawals or deposits. Moreover, [Easy-Forex™](#) does not levy its side of bank costs onto the trader. Easy-Forex™ performs withdrawal transactions at mid-rate value: when you want to take profits from a deal involving a currency other than your operating currency, Easy-Forex™ converts at an average of the current high and low rates. Some platforms charge the high rate to generate an additional revenue stream.

## Security and Safety

*What kind of safety and security measures are taken to protect my transactions?*

Easy-Forex™ treats the issues of data security, privacy, integrity and backup with the utmost attention and care. These criteria are achieved by:

- Ensuring authorized access only. Easy-Forex™ uses two layers of top class firewall: one at the server level and one at the application level;
- Using an advanced SSL by VeriSign for user authentication and data transfer;
- Separating the application servers (the servers that handle our clients' online activity) from transactional information which is stored on a different data server;
- Locating two different farm servers separately for data recovery, integrity and replication. Data has to be synchronized in both locations, thus cannot be tampered with. All the information on the servers is encrypted when stored;
- The physical security of each server farm is very high. Armed guards are on location 24 hours a day, and access to the premises is strictly forbidden except for authorized personnel.

Easy-Forex™ ensures that whatever happens: failure, disaster, etc., your transactions are intact, secure, and backed up.

## Special terms for frequent traders

*Can the trading terms I am offered be tailor-made to my personal preferences?*

The spreads and other terms in our site assume deals of small and up to medium volumes. If you are a frequent trader dealing in larger volumes, we offer you a tailor-made account to suit your exact needs (spreads, leverage ratio, mobile-phone alerts, etc.). Contact us by e-mail or phone to obtain your special trading terms.

## Competitive spreads

*How many "pips" are offered in the spread?*



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The spreads on our site assume deals of small and up to medium volumes. If you are a frequent trader dealing in larger volumes, we offer tailor-made accounts to suit your exact needs (spreads and leverage).

### Live, real-time streaming quotes

*Are the rates presented the most current? Is the information presented in my account status window updated at the same time so my position is always current?*

The [Easy-Forex™](#) high-edge system uses the latest highly sophisticated and advanced technologies in order to offer you up-to-the-second quotes. You may check your accounts and positions in real time, you may do so 24 hours a day, and make a deal based on real-time information. Easy-Forex™ believes it is highly important for you to be able to control your funds whenever you wish, and base your deals on real-time information. That is the level of service we are committed to providing to our clients.

### Refer-a-friend incentive program

*Will I be credited and enjoy benefits for referring friends to the trading platform?*

Of course. Being an [Easy-Forex™](#) user, you are entitled to cash and other bonuses for referrals. Your regional Easy-Forex™ office can provide details.

You can also benefit by joining forces with the trading platform via **IB** (Introducing Broker) programs, and **Internet-Affiliate** programs. Easy-Forex™ rewards performance in these programs, providing online access to its business partners. When it comes to Forex affiliate programs, [Easy-Forex™](#) is number one in the world (by number of Forex-Affiliates enrolled, as well as by commissions paid to them).

### Business partners and reputation

*Who are their business partners? Who is their liquidity supplier? Is it a known international bank? Who do they work with regarding data security?*

[Easy-Forex™](#) works only with organizations with the highest reputation in their fields. This applies to all areas, including the provision of liquidity, data security, external auditing and others: click on their logos on our homepage to learn about our partners or read the ABOUT section. We are proud to join forces with the best! To name just a few, Easy-Forex™ works closely with UBS, the world-leading Swiss bank to provide liquidity; with RBS (the Royal Bank of Scotland); with StreamLine (world leading credit card clearing house); with



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PWC as our external auditors; with Reuters, our major online data provider; with VeriSign, for our data and transaction security; and others of similar reputation.

### Full control with online access

*Can I control my Forex account from anywhere on the globe, from any computer, at any desired time, 24x7x365?*

Using any computer connected to the internet, anywhere on the globe, registered traders can access the [Easy-Forex™](#) system. In case you have technical difficulties - relating to old versions of PC hardware or software - please read our TECHNICAL SUPPORT section (linked at the bottom of our homepage), or contact us by e-mail, phone or chat to get online technical support.

### Full Transparency

*May I generate detailed reports with the click of a button, as well as track all transactions performed in my Forex account, whenever I wish?*

Yes. You may check the value of your position at any time, as well as see historical data (transactions and deals) with the click of a button. Moreover, you may generate "scenarios" ("what-if?") with possible rates at your position, in order to see if you are in a gain or loss.

*To learn more about the trading advantages of Easy-Forex™,  
Join Easy-Forex™ (registration is quick and free, no obligation):*

[www.Easy-Forex.com](http://www.Easy-Forex.com)

## [10] Tips for every Forex trader

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At [Easy-Forex™](#), we believe that proper training is essential to achieving trading success. Without the appropriate preparation and expertise, a trader's chances of succeeding are substantially reduced. Our free Forex training was created to teach our clients a strategy to day-trade currencies. Traders that use a strategy, or system to trade, tremendously increase their probability of success as Forex traders. Easy-Forex™ offers the following Forex Training resources:

- This book as well as other Easy-Forex™ books;
- A Guided Tour on the Easy-Forex™ website;
- Information (“Info-Center”) on the [Easy-Forex™](#) website;
- Technical analysis;
- Fundamental analysis;
- Access to charts, news, outlooks and research, once a trader has registered with the system;
- Free, live 1-on-1 training online;
- And finally, you can start trading - and learning - for as little as USD 25. This is your best actual training, and we recommend you view it as such, “playing small” while you learn the market step-by-step.

Easy-Forex™ not only advises you to start with a small amount of money, but makes the first step easy for you. However, before you start:

- Carefully read the Terms and Conditions
- We strongly advise that you read the Disclaimers and the Risk Warning
- Remember: Forex is a risky business!

It should not take more than a few trades to familiarize yourself with the [Easy-Forex™](#) Trading Platform. Ideally, you will start by making a few smaller trades in order to become familiar with the market and the platform. Only then should you consider making larger trades.

## Learn at your own pace

Learn at your own pace, and learn from the experiences of others, who can provide insight, analyses and information, and can help you steer clear of the hazards novices sometimes encounter. Read (and participate in) Forex forums and reviews which are available in many places on the net.

Now is the time to expand your trading knowledge. Currency markets differ from other trading markets due to time zone liquidity, specific currency-related issues, central bank activity, real and nominal interest rate differentials and more. This is the time to learn to understand these factors.

## Learning Forex trading:

Topics you should be familiar with:

- Evaluation of currency trades;
- Developing a market view;
- Using trend analysis indicators;
- Reading and understanding Forex charts;
- Pinpointing advanced support and resistance levels;
- Assessing trading signals;
- Identifying market tops and bottoms;
- Setting price objectives for winning trades;
- Handling Stop-Loss and Take-Profit limits.

## Hands-on Forex training

Easy-Forex™ hands-on trading means immediate access to proven trading techniques you can use to increase profits. Whether you are a short-term, breakout, range or position trader, [Easy-Forex™](#) experts can help you learn trading techniques that can maximize your ability to identify low-risk/high-probability trades. Our training is appropriate for a wide range of Forex traders, from individuals just starting in the spot currency market, to experienced professionals.

Like anything in life, you don't really understand it until you jump into it. Get started on Easy-Forex™, risking as little as USD 25 per trade. Take the Guided Tour through the training material while you are entering and watching your first trades - because there's nothing quite like trading while you learn. This is

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practical, visual, hands-on training. Plus, it allows the new traders to develop an understanding of basic trading techniques, risk control, and the opening and management of a live trading account.

Whether you are an investor who wants to learn Day-Trading for the first time, or a day trader with stock market or futures trading experience, who wants to give Forex trading a try, take the first steps with [Easy-Forex™](#). Go through the basics of the Forex market, experience real time training with real time trading, take the Guided Tour and then trade. Our training gives new and experienced traders alike all the necessary tools to start buying and selling currencies in the foreign exchange market.

Make use of what the [Easy-Forex™](#) Trading Platform offers:

- 24-hr commission-free trading in 14+ currency pairs;
- Web-based trading platform requires no download or installation;
- Guaranteed fills on stops and limits up to USD 2,000,000;
- Free access to charting, news, and research;
- 24-hour customer support via phone and web site;
- Deposits accepted in multiple currencies;
- Credit card, PayPal and Western-Union deposit facilities;
- Straightforward withdrawal procedures.

Don't attempt to trade until you receive the training needed to become a successful trader. There are substantial earnings to be made in the foreign currency market, but trading in Forex is for the well-informed.

Easy-Forex™ offers you a first-rate Forex trading platform and an unmatched degree of service. Obviously, our experts are real people in real offices and dealing rooms, ready to assist.

### Real-time dealers available 24x7

Trading foreign exchange is exciting and potentially very profitable, but there are also significant risk factors. It is crucial that you fully understand the implications of margin trading and the particular hazards and opportunities that foreign exchange trading offers. However, if you are ever in doubt about any aspects of a trade, you can always discuss the matter in-depth with one of our dealers. They are available 24 hours a day.

## Forex risk management strategies

The Forex market behaves differently from other markets. The speed, volatility, and enormous size of the Forex market are unlike anything else in the financial world. Beware: the Forex market cannot be controlled - no single event, individual, or factor rules it. As such, it is the closest market to what economists call "a perfect market"! However, just like any other speculative business, increased risk entails chances for a higher profits as well as higher losses.

**Currency markets are highly speculative and volatile in nature.**

Any currency can become very expensive or very cheap in relation to any or all other currencies in a matter of days, hours, or sometimes, in minutes. The unpredictable nature of currencies is what attracts an investor to trade and invest in this market.

**Truly ask yourself: "How much am I ready to lose?"**

When you terminated, closed or exited your position, had you understood the risks and taken steps to avoid them?

## Some foreign exchange risk management issues

The following may come up in your day-to-day foreign exchange transactions.

- Unexpected corrections in currency exchange rates
- Wild variations in foreign exchange rates
- Volatile markets offering profit opportunities
- Lost payments
- Delayed confirmation of payments and receivables
- Divergence between bank drafts received and the contract price

These are issues every trader should cover, both before and during a trade.

## Exit the Forex market at profit targets

Limit orders, also known as Take-Profit orders, allow Forex traders to exit the Forex market at pre-determined profit targets. If you are short (sold) a

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currency pair, the system will only allow you to place a limit order below the current market price, because this is the profit zone. Similarly, if you are long (bought) the currency pair, the system will only allow you to place a limit order above the current market price. Take-Profit orders help create a disciplined trading methodology and make it possible for traders to walk away from the computer without continuously monitoring the market.

### Control risk by capping losses

Stop-Loss orders allow traders to set an exit point for a losing trade. If you are short a currency pair, the Stop-Loss order should be placed above the current market price. If you are long the currency pair, the Stop-Loss order should be placed below the current market price. Stop-Loss orders help traders control risk by capping losses. Stop-Loss orders are counter-intuitive because you do not want them to be hit; however, you will be happy that you placed them.

*When logic dictates, you can control greed.*

### Where should I place my Stop-Loss and Take-Profit orders?

As a general rule of thumb, traders should set Stop-Loss orders closer to the opening price than Take-Profit orders. If this rule is followed, a trader needs to be right less than 50% of the time to be profitable. For example, a trader who uses 30 pip Stop-Loss and 100-pip Take-Profit orders, needs to be right only one-third of the time to make a profit. Where traders place Stop-Loss and Take-Profit orders will depend on how risk-averse they are. Stop-Loss orders should not be so tight that normal market volatility triggers the order. Similarly, Take-Profit orders should reflect a realistic expectation of gains based on the market's trading activity and the length of time one wants to hold the position. When initially setting up a trade, it is prudent to look to change the Stop-Loss and set it at a rate in the "middle ground" where you are not overexposed to the trade, and at the same time, are not too close to the market.

Trading foreign currencies is a demanding and potentially profitable opportunity for trained and experienced investors. However, before deciding to participate in the Forex market, you should soberly reflect on the desired result of your investment and your level of experience.

**Warning! Do not invest money you cannot afford to lose!**

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There is significant risk in any foreign exchange deal. Any transaction involving currencies involves risks, including, but not limited to, the potential for changing political and/or economic conditions, that may substantially affect the price or liquidity of a currency.

Moreover, the leveraged nature of Forex trading means that any market movement will have an equally proportional effect on your deposited funds. This may work against you as well as for you. The possibility exists that you could sustain a total loss of your initial margin funds and be required to deposit additional funds to maintain your position. If you fail to meet any margin call within the time prescribed, your position will be liquidated and you will be responsible for any resulting losses. "Stop-Loss" or "Take-Profit" order strategies may lower an investor's exposure to risk.

**Easy-Forex™** foreign exchange technology links around-the-clock to the world's foreign currency exchange trading floors to get the lowest foreign currency rates and to take every opportunity to make or settle a transaction.

#### **Avoiding/reducing risk when trading Forex:**

Trade like a technical analyst does. For the best possible results, understanding the fundamentals behind an investment also requires understanding the technical analysis method. When your fundamental and technical signals point in the same direction, you have a good chance of having a successful trade, especially with good money management skills. Use simple support and resistance technical analysis, Fibonacci Retracing and reversal days.

- **Be disciplined;**
- **Create a position and understand your reasons for having that position;**
- **Establish Stop-Loss and Take-Profit levels.**

Discipline includes hitting your stops and not following the temptation to stay with a losing position that has gone through your Stop-Loss level.

A good rule of thumb is: In a bull market, be long or neutral - in a bear market, be short or neutral. If you forget this rule and trade against the trend, you will usually cause yourself worries, and frequently, losses.

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Never add to a losing position. On the [Easy-Forex™](http://www.Easy-Forex.com) platform, traders can change their trade orders as many times as they wish free of charge, either as a Stop-Loss or as a Take-Profit. The trader can also close the trade manually without a Stop-Loss or Take-Profit order being hit. Many successful traders update their Stop-Loss price in their “live” positions beyond the rate at which they made the trade, so that the worst that can happen is that they get stopped out and still make a profit.

*To read today's professional outlook and view detailed charts,  
Join Easy-Forex™ (registration is quick and free, no obligation):*

[www.Easy-Forex.com](http://www.Easy-Forex.com)



## [11]      Forex Glossary

The following offers brief explanation of the most popular terms used in the market today.

Value	Definition
<b>Aggregate (Risk)</b>	Total exposure a bank has with a customer for both spot and forward contracts.
<b>Aggregate Demand</b>	Total demand for goods and services in the economy. Aggregate demand includes private and public sector demand for goods and services within the country, and the demand of consumers and firms in other countries for goods and services.
<b>Aggregate Supply</b>	Total supply of goods and services in the economy (including imports) available to meet aggregate demand.
<b>Agio</b>	Difference in the value between currencies. Also used to describe percentage charges for conversion from paper money into cash, or from a weak into a strong currency.
<b>American Option</b>	An option which may be exercised on any valid business date throughout the life of the option. A European option can only be exercised on a specific date.
<b>Appreciation</b>	Describes a currency strengthening in response to market demand as opposed to increasing in value as a result of official action.
<b>Arbitrage</b>	A risk-free type of trading where the same instrument is bought and sold simultaneously in two different markets in order to cash in on the difference between the markets.
<b>Around</b>	Used in quoting forward "premium/discount".
<b>Ask Price</b>	The price at which the currency or instrument is offered. Ask is the lowest price acceptable to the buyer.
<b>Asset</b>	The right to receive from a counterparty an amount of currency either in regards to a balance sheet asset (e.g. a loan), or at a specified future date in regards to an unmatched Forward or spot deal.
<b>Association Cambiste International</b>	The international society of foreign exchange dealers consisting of national "Forex clubs" affiliated on a worldwide basis.
<b>At Best</b>	An instruction given to a dealer to buy or sell at the best rate that is currently available in the market.
<b>At or Better</b>	An order to deal at a specific rate or better.
<b>At Par Forward Spread</b>	When the forward price is equivalent to the spot price.
<b>At the Price Stop-Loss Order</b>	A stop-loss order that must be executed at the requested level regardless of market conditions.

Value	Definition
<b>At-the-Money</b>	An option whose strike/exercise price is equal to or near the current market price of the underlying instrument.
<b>Auction</b>	Sale of an item to the highest bidder. (1) A method commonly used in exchange control regimes for the allocation of foreign exchange. (2) A method for allocating government paper, such as US Treasury Bills. Small investors are given preferential access to the bills. The average issuing price is then computed on the basis of the competitive bids accepted. In some circumstances, such as government auctions, it is the yield rather than the price which is bid.
<b>Average Rate Option</b>	A contract where the exercise price is based on the difference between the strike price and the average spot rate over the contract period. Sometimes called an "Asian option".
<b>Back Office</b>	Settlement and related processes.
<b>Back to Back</b>	(1) Transaction where all the obligations and liabilities in one transaction are mirrored in a second transaction. (2) Transaction where a loan is made in one currency in one country against a loan in another country in another currency.
<b>Balance of Payments</b>	A systematic record of the economic transactions during a given period for a country. (1) The term is often used to mean either: (i) balance of payments on "current account"; or (ii) the current account plus certain long term capital movements. (2) The combination of the trade balance, current balance, capital account and invisible balance, which together make up the balance of payments total. Prolonged balance of payment deficits tend to lead to restrictions in capital transfers, and or decline in currency values.
<b>Balance of Trade</b>	The value of exports less imports. Invisibles are normally excluded, which is why balance of trade is also referred to as mercantile or physical trade. Figures can be quoted as FoB/FaS, customs cleared, or FoB export.
<b>Band</b>	The range in which a currency is permitted to move. A system used in the ERM.
<b>Bank Line</b>	Line of credit granted by a bank to a customer, also known as a "line".
<b>Bank Notes</b>	Bank notes are paper issued by the central or issuing bank. They are legal tender, but are not usually considered to be part of the FX market. However bank notes can be converted, in some counties, into FX. Bank notes are normally priced at a premium to the current spot rate for a currency.
<b>Bank Rate</b>	The rate at which a central bank is prepared to lend money to its domestic banking system.
<b>Banking Day</b>	See trading day and value date.

Value	Definition
<b>Barrier Option</b>	A family of path dependent options whose pay-off pattern and survival to the expiration date depend not only on the final price of the underlying currency, but also on whether or not the underlying currency breaks a predetermined price level at any time during the life of the option. See Down and Out call/put, Down and in call/put, Up and out call/put, Up and in call/put.
<b>Base Currency</b>	The currency in which the operating results of the bank or institution are reported.
<b>Base Rate</b>	A term used in the UK for the rate used by banks to calculate the interest rate to borrowers. Top quality borrowers will pay a small amount over base.
<b>Basis</b>	The difference between the cash price and futures price.
<b>Basis Convergence</b>	The process whereby the basis tends towards zero as the contract expiry approaches.
<b>Basis Point</b>	One per cent of one per cent.
<b>Basis Price</b>	The price expressed in terms of yield maturity or annual rate of return.
<b>Basis Trading</b>	Taking opposite positions in the cash and futures market with the intention of profiting from favorable movements in the basis.
<b>Basket</b>	A group of currencies normally used to manage the exchange rate of another currency, sometimes referred to as a unit of account.
<b>Bear</b>	A person (investor) who believes that prices will decline.
<b>Bear Market</b>	A market in which prices decline sharply against a background of widespread pessimism (opposite of Bull Market).
<b>Bear Put Spread</b>	A spread designed to exploit falling exchange rates by purchasing a put option with a high exercise price and selling one with a low exercise price.
<b>Bid Price</b>	The price at which a buyer has offered to purchase the currency or instrument. Bid is the highest price that the buyer is offering for the particular currency at the moment; the difference between the ask price and the bid price is the spread. Together, the two prices constitute a quotation. The bid-ask spread is stated as a percentage cost of transacting in the foreign. (??? sentence incomplete)
<b>Big Figure</b>	Refers normally to the first three digits of an exchange rate that dealers treat as understood in quoting. For example, a quote of "30/40" on dollar mark could indicate a price of 1.5530/40BIS: Bank of International Settlement.
<b>Bilateral Clearing</b>	A system used where foreign currency is limited. In such a system, payments are usually routed through the central banks, and sometimes require that the trade balance is equaled every year.

Value	Definition
<b>Binary Options</b>	A binary "call" (or "step up") is like a standard European call option except that the pay off at expiry is fixed at one unit of the counter currency when the call expires in the money.
<b>Black-Scholes Model</b>	An option pricing formula initially derived by Fisher Black and Myron Scholes for securities options and later refined by Black for options on futures. It is widely used in the currency markets.
<b>Booked</b>	The recording of a transaction outside the country where the transaction is itself negotiated.
<b>Boris</b>	Slang for Russian trading.
<b>Break Even Point</b>	The price of a financial instrument at which the option buyer recovers the premium, meaning that either a loss or gain is made. In the case of a call option, the break even point is the exercise price plus the premium.
<b>Break Out</b>	In the options market, undoing a conversion or a reversal to restore the option buyer's original position.
<b>Bretton-Woods</b>	The site of the 1944 conference which led to the establishment of the post war foreign exchange system that remained intact until the early 1970s. The conference also resulted in the formation of the IMF. The fixed exchange rate system established at Bretton-Woods allowed 1% fluctuations of a given currency to gold or the dollar.
<b>Broken Dates or Period</b>	Deals that are undertaken for value dates that are not standard periods e.g. 1 month. The standard periods are 1 week, 2 weeks, 1, 2, 3, 6 and 12 months. Terms also used are odd dates, or cock dates, broken dates or broken period.
<b>Broker</b>	An agent, who executes orders to buy and sell currencies and related instruments either for a commission or on a spread. Brokers are agents working on commission and not principals or agents acting on their own account. In the foreign exchange market, brokers tend to act as intermediaries between banks bringing buyers and sellers together for a commission paid by the initiator or by both parties. There are four or five major global brokers operating through subsidiaries, affiliates and partners in many countries.
<b>Brokerage</b>	Commission charged by a broker.
<b>Broker-Dealer</b>	See Dealer.
<b>BUBA</b>	Bundesbank, the central bank of Germany.
<b>Bull</b>	A person (investor) who believes that prices will rise.
<b>Bull (call or put) Spread</b>	An option position composed of both long and short options of the same type, either calls or puts, designed to be profitable in a declining market. An option with a lower strike price is bought and one with a higher strike price is sold.
<b>Bull Market</b>	A market characterized by rising prices.

Value	Definition
<b>Bulldogs</b>	Sterling bonds issued in the UK by foreign institutions.
<b>Bullion</b>	A term for gold bars, not coin.
<b>Bundesbank</b>	Central bank of Germany.
<b>Butterfly Spread</b>	(1) A futures butterfly spread is a spread trade in which multiple futures months are traded simultaneously at a differential. The trade basically consists of two futures spread transactions with either three or four different futures months at one differential. (2) An options butterfly spread is a combination of a bear and bull spread trade in which multiple options months and strike prices are traded simultaneously at a differential. The trade basically consists of two options spread transactions with either three or four different options months and strikes at one differential.
<b>Buyer/Taker</b>	The purchaser of an option, whether a call or put option. The buyer may also be referred to as the option holder. Option buyers receive the right, but not the obligation, to enter a futures/securities market position.
<b>Buying Rate</b>	Rate at which the market and a market maker in particular are willing to buy the currency. Sometimes called bid rate.
<b>Buying The Spread</b>	To buy the nearby contract and simultaneously sell the deferred contract. Also referred to as a bull spread.
<b>Cable</b>	A term used in the foreign exchange market for the US Dollar/British Pound rate.
<b>Cable Transfer</b>	Telegraphic transfer of funds from one centre to another. Now synonymous with interbank electronic fund transfer.
<b>Calendar Spread</b>	An option position comprising the purchase and sale of two option contracts of the same type with different expiration dates at the same exercise price.
<b>Call</b>	An option that gives the holder the right to buy the underlying instrument at a specified price during a fixed period.
<b>Call Option</b>	A call option confers the right but not the obligation to buy stock, shares or futures at a specified price.
<b>Cambiste</b>	French term for foreign exchange dealer.
<b>Capital Account</b>	Juxtaposition of the long and short term capital imports and exports of a country.
<b>Carry</b>	The interest cost of financing securities or other financial instruments held.
<b>Carry-Over Charge</b>	A finance charge associated with the storing of commodities (or foreign exchange contracts) from one delivery date to another.

Value	Definition
Cash	Normally refers to an exchange transaction contracted for settlement on the day the deal is struck. This term is mainly used in the North American markets and those countries that rely on these markets for foreign exchange services because of time zone preferences i.e. Latin America. In Europe and Asia, cash transactions are often referred to as "value same day" deals.
Cash and Carry	The buying of an asset today and selling of a future contract on the asset. A reverse cash and carry is possible by selling an asset and buying a future.
Cash Delivery	Same day settlement.
Cash Settlement	A procedure for settling futures contract where the cash difference between the future and the market price is paid instead of physical delivery.
CBOE	Chicago Board Options Exchange.
CBOT or CBT	Chicago Board of Trade.
CD	Certificate of Deposit.
Central Bank	A central bank provides financial and banking services for a country's government and commercial banks. It implements the government's monetary policy as well by changing interest rates. It is normally the issuing bank and controls bank licensing, and any foreign exchange control regime.
Central Rate	Exchange rates against the ECU adopted for each currency within the EMS. Currencies have limited movement from the central rate according to the relevant band.
Certificate of Deposit (CD)	A negotiable certificate in bearer form issued by a commercial bank as evidence of a deposit with that bank which states the maturity value, maturity rate and interest rate payable. CDs vary in size with maturities ranging from a few weeks to several years. CDs may normally be redeemed before maturity only by sale on the secondary market, but may also be redeemed back to issuing bank through payment of a penalty.
CFTC	The Commodity Futures Trading Commission, the US Federal regulatory agency for futures traded on commodity markets, including financial futures.
CHAPS	Clearing House Automated Payment System.
Chartist	An individual who studies graphs and charts of historic data to find trends and predict trend reversals. These include the observance of certain patterns and characteristics of the charts to derive resistance levels, head and shoulders patterns, and double bottom or double top patterns which are thought to indicate trend reversals.
CHIPS	The New York clearing house clearing system. (Clearing House Interbank Payment System). Most euro transactions are cleared and settled through this system.

Value	Definition
<b>CIBOR</b>	Copenhagen Interbank Rate, the rate at which the banks lend the Danish Krone on an unsecured basis. The rate is calculated daily by the Denmark's Nationalbank (the Danish Central Bank), based on rules set out by the Danish Banker's Association.
<b>Clearing</b>	The process of setting a number of items against one another and making fund transfers only on the net balance as part of the settlement process.
<b>Closed Position</b>	A transaction which leaves the trade with a zero net commitment to the market with respect to a particular currency.
<b>Closing Purchase Transaction</b>	The purchase of an option identical to one already sold to liquidate a position.
<b>CME</b>	Chicago Mercantile Exchange Cock Dates (see broken dates).
<b>Coincident Indicator</b>	An economic indicator that generally moves in line with the general business cycle such as industrial production.
<b>Comex</b>	Commodity Exchange of New York.
<b>Commission</b>	The fee that a broker may charge clients for dealing on their behalf.
<b>Compound Option</b>	An option on an option, the dates and price of such option being fixed.
<b>Comptant</b>	French term for spot settlement in foreign exchange.
<b>Confirmation</b>	A memorandum to the other party describing all the relevant details of the transaction.
<b>Consumer Price Index</b>	Monthly measure of the change in the prices of a defined basket of consumer goods including food, clothing, and transport. Countries vary in their approach to rents and mortgages. Rising CPI is normally associated with expectations of higher short term interest rates and may therefore be supportive for a currency in the short term. Nevertheless, a longer term inflation problem will eventually undermine confidence in the currency and weakness will follow.
<b>Contract</b>	An agreement to buy or sell a specified amount of a particular currency or option during a specified month in the future (See Futures contract).
<b>Contract Expiration Date</b>	The date on which a currency must be delivered to fulfill the terms of the contract. For options, the last day on which the option holder can exercise his right to buy or sell the underlying instrument or currency.
<b>Contract Month</b>	The month in which a futures contract matures or becomes deliverable if not liquidated or traded out before the date specified.
<b>Correspondent Bank</b>	The bank that regularly performs services on behalf of a foreign bank that has no branch in the relevant centre, e.g. to facilitate the transfer of funds. In the US, this often occurs domestically due to interstate banking restrictions.



Value	Definition
<b>Cost of Carry</b>	The interest rate parity, where the forward price is determined by the cost of borrowing money in order to hold the position.
<b>Cost of Living Index</b>	Broadly equivalent to Retail Price Index or Consumer price.
<b>Counter Value</b>	Where a person buys a currency against the dollar, it is the dollar value of the transaction.
<b>Counterparty</b>	The other side to a deal (customer, or bank) with which a foreign exchange deal is executed.
<b>Counterparty Risks</b>	Foreign Currency Inter-bank Exchange (FOREX) instruments are Positions (Buy and/or Sell) between the Client and its Counterparty and, unlike exchange-traded foreign exchange instruments which are, in effect, guaranteed by a clearing organization affiliated with the exchange on which the instruments are traded, are not guaranteed by a clearing organization. Thus, when the Customer purchases an OTC foreign exchange instrument, it relies on the Counterparty from which it has purchased the instrument to fulfill the contract. Failure of a Counterparty to fulfill a Position could result in losses of any prior payment made pursuant to the Positions, as well as the loss of the expected benefit of the transaction.
<b>Country Risk</b>	Factors that affect currency trading unique to the specific country including political, regulatory, legal and holiday risks.
<b>Coupon</b>	(1) On bearer stocks, the detachable part of the hide behind nominee status. Certificate exchangeable for dividends. (2) Denotes the rate of interest on a fixed interest security.
<b>Coupon Value</b>	The annual rate of interest of a bond.
<b>Cours du Change</b>	(French) Exchange rate.
<b>Cours Libre</b>	(French) Free exchange rate.
<b>Cours Officiel</b>	(French) Official exchange rate.
<b>Court</b>	French for "short" as in "une position courte".
<b>Courtier</b>	(French) Broker.
<b>Cover</b>	(1) To take out a forward foreign exchange contract. (2) To close out a short position by buying currency or securities which have been sold.
<b>Covered Call</b>	A term used in the foreign exchange market for the US Dollar/British Pound rate.
<b>Covered Call Write</b>	A strategy of writing call options against a long position in the underlying asset. A covered put write being based on a short position in the asset.



Value	Definition
<b>Covered Interest Rate Arbitrage</b>	An arbitrage approach which consists of borrowing currency A, exchanging it for currency B, investing currency B for the duration of the loan, and, after taking off the forward cover on maturity, showing a profit on the entire set of deals. It is based on the theorem of interest rate parity (one of the key theoretical economic relationships), which says that the return on a hedged foreign investment will just equal the domestic interest rate on investments of identical risk. When the covered interest rate differential between the two money markets is zero, there is no arbitrage incentive to move funds from one market to another.
<b>Covered Margin</b>	The interest rate margin between two instruments denominated in different currencies after taking into account of the cost of forward cover.
<b>CPI</b>	Consumer Price Index. Monthly measure of the change in the prices of a defined basket of consumer goods including food, clothing, and transport. Countries vary in their approach to rents and mortgages.
<b>CPSS</b>	Committee on Payment and Settlement Systems.
<b>Crawling Peg (Adjustable Peg)</b>	An exchange rate system where a country's exchange rate is "pegged" (i.e. fixed) in relation to another currency. The official rate may be changed from time to time.
<b>Credit Lombard</b>	See Lombard rate.
<b>Credit Risk</b>	The risk that a debtor will not repay; more specifically the risk that the counterparty does not have the currency promised for delivery.
<b>Cross Deal</b>	A foreign exchange deal entered into involving two currencies, neither of which is the base currency.
<b>Cross Hedge</b>	A technique using financial futures to hedge different but related cash instruments based on the view that the price movements between the instruments move in concert.
<b>Cross Rate</b>	An exchange rate between two currencies, usually constructed from the individual exchange rates of the two currencies, as most currencies are quoted against the dollar.
<b>Crossed Market</b>	The situation which exists when a broker's bid is higher than the lowest offer of another broker.
<b>Cross-Trade</b>	A cross-trade transaction is a transaction in which either the buy-broker and the sell-broker are the same, or the buy-broker and the sell-broker belong to the same firm.
<b>Currency</b>	The type of money that a country uses. It can be traded for other currencies on the foreign exchange market, so each currency has a value relative to another.
<b>Currency Basket</b>	Various weightings of other currencies grouped together in relation to a basket currency (e.g. ECU or SDR). Sometimes used by currencies to fix their rate, often on a trade weighted basket.
<b>Currency Swaps</b>	See swaps.

Value	Definition
<b>Current Account</b>	The net balance of a country's international payments arising from exports and imports together with unilateral transfers such as aid and migrant remittances. It excludes capital flows.
<b>Current Balance</b>	The value of all exports (goods plus services), less all imports of a country over a specific period of time, equal to the sum of trade and invisible balances plus net receipts of interest, profits and dividends from abroad.
<b>Cycle</b>	The set of expiration dates applicable to different classes of options.
<b>Day Order</b>	An order that if not executed on the specific day, is automatically canceled.
<b>Day Trader</b>	Speculators who take positions that are liquidated prior to the close of the same trading day.
<b>Day Trading</b>	A Day-Trading deal is a currency exchange deal which renews automatically every night at 22:00 (GMT time) starting the day the deal was made and until it ends. The deal ends in one of the following events: 1. Termination initiated by the trader. 2. The day trading rate has reached the Stop-Loss rate (or Take-Profit rate) you predefined. 3. The deal end date. As long as the deal is open, it is charged a renewal fee every night at 22:00 (GMT time).
<b>Daylight Exposure Limit</b>	See intra-day position.
<b>Deal Date</b>	The date on which a transaction is agreed upon.
<b>Deal Ticket</b>	The primary method of recording the basic information relating to a transaction.
<b>Dealer</b>	An individual or firm acting as a principal, rather than as an agent, in the purchase and/or sale of securities. Dealers trade for their own account and risk, in contrast to brokers, who do trade only on behalf of their clients.
<b>Dealing Board</b>	The panel of communications equipment forming part of a dealer's desk.
<b>Declaration Date</b>	The latest day or time by which the buyer of an option must intimate to the seller his willingness or unwillingness to exercise the option.
<b>Deficit</b>	Shortfall in the balance of trade, balance of payments, or government budgets.
<b>Deflator</b>	Difference between real and nominal Gross National Product, which is equivalent to the overall inflation rate.
<b>Delivery</b>	The settlement of a transaction by receipt, or tender of a financial instrument or currency.
<b>Delivery Date</b>	The date of maturity of the contract, when the final settlement of transaction is made by exchanging the currencies. This date is more commonly known as the value date.
<b>Delivery Month</b>	The calendar month in which a futures contract comes to maturity and becomes deliverable.

Value	Definition
<b>Delivery Points</b>	Those locations designated by futures exchanges at which the currency represented by a futures contract may be delivered in fulfillment of the contract.
<b>Delivery Risk</b>	A term to describe when counterparty is not able to complete his side of the deal. This risk is very high in the case of over the counter transactions where there is no exchange which can stand as a guarantee to the trade between the two parties to the contract.
<b>Delta</b>	The change in the value of the option premium made fully paid by the capitalization of reserves, and given relative to the instantaneous change in the value of the underlying instrument, expressed as a coefficient.
<b>Delta Hedging</b>	A method used by option writers to hedge the risk exposure of written options by purchase or sale of the underlying instrument in proportion to the delta.
<b>Delta Spread</b>	A ratio spread of options established as a neutral position by using the deltas of the options concerned to determine the hedge ratio.
<b>Depo</b>	Deposit.
<b>Deport</b>	(French) Discount.
<b>Deposit Dealings</b>	Money Market operations.
<b>Depreciation</b>	Describes a currency weakening in response to market demand as opposed to increasing in value as a result of official action.
<b>Derivatives</b>	A broad term relating to risk management instruments such as futures, options, swaps, etc.. The contract value moves in relation to the underlying instrument or currency. The issue of derivatives and their control following large losses by banks and corporations has been the subject of much debate.
<b>Desk</b>	Term referring to a group dealing with a specific currency or currencies.
<b>Details</b>	All the information required to finalize a foreign exchange transaction, i.e. name, rate, dates and point of delivery.
<b>Devaluation</b>	Deliberate downward adjustment of a currency against its fixed parities or bands, which is normally accompanied by formal announcement.
<b>Devisen, Devises</b>	Foreign exchange in German and French respectively.
<b>Devisenkassamarkt</b>	German for spot exchange market.
<b>Devisenterminmarkt</b>	German for forward exchange market.
<b>Diagonal (bull or bear) Spread</b>	The purchase of a longer maturity option and the sale of a shorter maturity, lower exercise price option. The choice of calls or puts will determine its bear or bull character.
<b>Direct Quotation</b>	Quoting in fixed units of foreign currency against variable amounts of the domestic currency.

Value	Definition
<b>Discount</b>	(1) See also "forward rate". Less than the spot price. Example: forward discount. Forward rate is lower than spot rate. (2) An option that is trading for less than its intrinsic value.
<b>Discount Rate</b>	The rate at which a bill is discounted. Specifically it refers to the rate at which a central bank is prepared to discount certain bills for financial institutions as a means of easing their liquidity, and is more accurately referred to as the official discount rate.
<b>Disposable Income</b>	Earnings after tax.
<b>Domestic Rates</b>	The interest rates applicable to deposits domiciled in the country of origin. Values may vary from Eurodeposits due to taxation and varying market practices.
<b>Durable Goods Orders</b>	Durable Goods Orders are a measure of the new orders placed with domestic manufacturers for immediate and future delivery of factory hard goods. Durable Goods Orders are a major indicator of manufacturing sector trends because most industrial production is done to order.
<b>Easing</b>	Modest decline in price.
<b>Economic Exposure</b>	Reflects the impact of foreign exchange changes on the future competitive position of a company in the sense of the impact it can have on the future cash flows of the company.
<b>Economic Indicator</b>	A statistic which indicates current economic growth rates and trends such as retail sales and employment.
<b>ECU - European Currency Unit</b>	A basket of the member currencies. As a composite unit, the ECU consists of all the European Community currencies, which are individually weighted. It was created by the European Monetary System with the eventual goal of replacing the individual European member currencies.
<b>Effective Exchange Rate</b>	An attempt to summarize the effects on a country's trade balance of its currency's changes against other currencies.
<b>EFT</b>	Electronic Funds Transfer.
<b>Either Way Market</b>	In the Euro Interbank deposit market where both bid and offer rates for a particular period are the same.
<b>EMS</b>	European Monetary System.
<b>EMU</b>	European Monetary Union.
<b>End/End</b>	Indicates that both the spot and forward maturity, or two forward maturities in a swap transaction, fall due on the last business day of appropriate calendar months.
<b>EOE</b>	European Options Exchange.
<b>Epsilon</b>	The change in the price of an option associated with a 1% change in implied volatility (technically the first derivative of the option price with respect to volatility). Also referred to as eta, vega, omega and kappa.
<b>ERM</b>	Exchange Rate Mechanism.

Value	Definition
<b>Euro Clear</b>	A computerized settlement and depository system for safe custody, delivery of, and payment for Eurobonds.
<b>Eurobonds</b>	A long-term loan issued in a currency other than that of the country or market in which it is issued. Interest is paid without the deduction of tax.
<b>Eurocurrency</b>	A currency domiciled outside its country of origin normally held by non-residents.
<b>Eurodollars</b>	US dollars deposited in a bank (US or non US) located outside the USA.
<b>Eurofranc</b>	Swiss Franc (formerly also Belgian Francs) traded on the Eurocurrency market. Normally Swiss Francs are the more common currency.
<b>Euromark</b>	Deutschmarks traded on the Eurocurrency market.
<b>European Option</b>	An option that can be exercised only on its expiration date rather than before that date.
<b>European Union</b>	The group formerly known as the European Community.
<b>Exchange Control</b>	A system of controlling inflows and outflows of foreign exchange. Exchange Control devices include licensing multiple currencies, quotas, auctions, limits, levies and surcharges.
<b>Exchange Rate Risk</b>	The potential loss that could be incurred from an adverse movement in exchange rates.
<b>Exercise Limit</b>	A limit on the number of options contracts a holder may exercise within a specific period.
<b>Exercise Notice</b>	The formal notification that the holder of a call (or put) option wishes to buy (or sell) the underlying security at the exercise price.
<b>Exercise Price</b>	See Strike price.
<b>Exercise Value</b>	For a call option, this is the amount by which the strike price is below the underlying investment; for a put option, it is the amount by which the strike price is above the underlying investment.
<b>Exotic</b>	A less broadly traded currency.
<b>Expiration Date</b>	(1) Options - the last date after which the option can no longer be exercised. (2) Bonds - the date on which a bond matures.
<b>Expiration Month</b>	The month in which an option expires.
<b>Expiry Date</b>	The last day on which the holder of an option can exercise his right to buy or sell the underlying security.
<b>Expiry Date</b>	The last date on which an option can be bought or sold.
<b>Exposure</b>	The total amount of money loaned to a borrower or country. Banks set rules to prevent overexposure to any single borrower. In trading operations, it is the potential for running a profit or loss from fluctuations in market prices.

Value	Definition
<b>Fast Market</b>	Rapid movement in a market caused by strong interest by buyers and/or sellers. In such circumstances price levels may be omitted and bid and offer quotations may occur too rapidly to be fully reported.
<b>Fed</b>	The United States Federal Reserve. Federal Deposit Insurance Corporation Membership is compulsory for Federal Reserve members. The corporation had deep involvement in the Savings and Loans crisis of the late 80s.
<b>Fed Fund Rate</b>	The interest rate on Fed funds. This is a closely watched short term interest rate as it signals the Fed's view as to the state of the money supply.
<b>Fed Funds</b>	Cash balances held by banks with their local Federal Reserve Bank. The normal transaction with these funds is an interbank sale of a Fed fund deposit for one business day. Straight deals are where the funds are traded overnight on an unsecured basis.
<b>FEDAI</b>	Foreign Exchange Dealers Association of India is an association of all dealers in foreign exchange which sets the ground rules for fixation of commissions and other charges and also determines the rules and regulations relating to day-to-day transactions in foreign exchange in India. The FEDAI has recognized 38 currencies for dealing.
<b>Federal National Mortgage Association</b>	A privately owned, but US government sponsored, corporation that trades in residential mortgages. Its activities are funded by the sale of instruments commonly known as Fannie Maes.
<b>Federal Open Market Committee</b>	See FOMC.
<b>Federal Reserve Board</b>	The board of the Federal Reserve System, appointed by the US President for 14 year terms. One member of the board is appointed chairman every four years.
<b>Federal Reserve System</b>	The central banking system of the US comprising 12 Federal Reserve Banks controlling 12 districts under the Federal Reserve Board. Membership in the Fed is compulsory for banks chartered by the Comptroller of Currency, and optional for state chartered banks.
<b>Financial Future</b>	A futures contract based on a financial instrument.
<b>Fine Rate</b>	(1) A quote with a narrow spread. (2) The most favorable rate charged to a high quality borrower.
<b>Firm Quotation</b>	The price given in response to a request for a rate at which the quoting party is willing to execute a deal for a reasonable amount, for spot settlement. Screen quotes are indicative. Quotes on matching systems are normally firm depending on the system's requirement to reconfirm rate prior to completing matching.
<b>Fiscal Policy</b>	Use of taxation as a tool in implementing monetary policy.
<b>Fixed Dates</b>	The monthly calendar dates similar to the spot. There are two exceptions. For detailed description see value dates.

Value	Definition
<b>Fixed Exchange Rate</b>	Official rate set by monetary authorities for one or more currencies. In practice, even fixed exchange rates are allowed to fluctuate between definite upper and lower bands, leading to intervention by the central bank.
<b>Fixing</b>	A method of determining rates by normally finding a rate that balances buyers to sellers. Such a process occurs either once or twice daily at defined times. Used by some currencies, particularly for establishing tourist rates. The system is also used in the London Bullion market.
<b>Flat/Square</b>	Where a client has not traded in that currency, or where an earlier deal is reversed thereby creating a neutral (flat) position. For example, you bought \$500,000 then sold \$500,000 = FLAT.
<b>Flexible Exchange Rate</b>	Exchange rates with a fixed parity against one or more currencies with frequent revaluation. A form of managed float.
<b>Float</b>	(1) See Floating exchange rate. (2) Cash in hand or in the course of being transferred between banks. (3) The Federal Reserve Float exists because checks sent to the Federal Reserve Banks are sometimes credited in advance of the depositing bank losing the reserve.
<b>Floating Exchange Rate</b>	When the value of a currency is decided by the market forces dictating the supply and demand of that particular currency.
<b>Floor</b>	(1) An agreement with a counterparty that sets a lower limit to interest rates for the floor buyer for a stated time. (2) A term for an exchange's trading area (cf. screen based trading), normally the trading area is referred to as a pit in the commodities and futures markets.
<b>FOMC</b>	Federal Open Market Committee, the committee that sets money supply targets in the US, which tend to be implemented through Fed Fund interest rates etc.
<b>Foreign Exchange</b>	The purchase or sale of a currency against the sale or purchase of another.
<b>Foreign Position</b>	A position in which one party agrees to purchase from or sell to the other party an agreed amount of foreign currency.
<b>Forex</b>	An abbreviation of foreign exchange.
<b>Forex Deal</b>	The purchase or sale of a currency against the sale or purchase of another currency. The maximum time for a deal is defined when the deal opens. The deal can be closed at any moment until the expiry date and time. For technical reasons, a deal cannot be closed in its first 3 minutes.
<b>Forward Contract</b>	Sometimes used as synonym for "forward deal" or "future". More specifically, it refers to arrangements with the same effect as a forward deal between a bank and a customer.
<b>Forward Cover Taking</b>	Forward contracts intended to protect against movements in the exchange rate.



Value	Definition
<b>Forward Deal</b>	A deal with a value date greater than the spot value date.
<b>Forward / Forward</b>	A forward / forward deal is one where both legs of the deal have value dates greater than the current spot value date.
<b>Forward Margins</b>	Discounts or premiums between spot rate and the forward rate for a currency. Normally quoted in points.
<b>Forward Maturities</b>	Trading days on which day contracts can be transacted later than the spot date.
<b>Forward Operations</b>	Foreign exchange transactions for which the fulfillment of the mutual delivery obligations is made on a date later than the second business day after the transaction was concluded.
<b>Forward Outright</b>	A commitment to buy or sell a currency for delivery on a specified future date or period. The price is quoted as the spot rate minus or plus the forward points for the chosen period.
<b>Forward Points</b>	The interest rate differential between two currencies expressed in exchange rate points. The forward points are added to or subtracted from the spot rate to give the forward or outright rate, depending on whether the currency is at a forward premium or discount.
<b>Forward Rate</b>	The rate at which a foreign exchange contract is struck today for settlement at a specified future date, which is decided at the time of entering into the contract. The decision to subtract or add points is determined by the differential between the deposit rates for both currencies concerned in the transaction. The base currency with the higher interest rate is said to be at a discount to the lower interest rate quoted currency in the forward market. Therefore the forward points are subtracted from the spot rate. Similarly, the base currency with the lower interest rate is said to be at a premium, and the forward points are added to the spot rate to obtain the forward rate.
<b>Forward Rate Agreements</b>	The FRA is an agreement between two parties that determines the interest rate that will apply to a notional future loan or deposit of an agreement.
<b>Free Reserves</b>	Total reserves held by a bank less the reserves required by the authority.
<b>Front Office</b>	The activities carried out by the dealer, normal trading activities.
<b>Fundamental Analysis</b>	Analysis based on economic and political factors.
<b>Fundamentals</b>	The macro economic factors that are accepted as forming the foundation for the relative value of a currency. These include inflation, growth, trade balance, government deficit, and interest rates.
<b>Funds</b>	A term for USD/CAD/Fungibles Instruments that are equivalent, substitutable and interchangeable in law. May apply to certain exchange traded currency contracts offered on a number of exchanges.



Value	Definition
<b>Futures Contract</b>	A contract traded on a futures exchange that requires the delivery of a specified quality and quantity of a commodity, currency or financial instruments within a specified future month, if not liquidated before the contract matures.
<b>Futures Exchange-Traded Contracts</b>	They are firm agreements to deliver (or take delivery of) a standardized amount of something on a certain date at a predetermined price. Futures exist in currencies, money market deposits, bonds, shares and commodities. They are traded on an exchange with the clearing corporation guaranteeing the contract and moreover the trade is done on a mark to market basis.
<b>FX</b>	Foreign Exchange.
<b>G10</b>	G7 plus Belgium, Netherlands and Sweden, a group associated with IMF discussions. Switzerland is sometimes peripherally involved.
<b>G5</b>	The Group of Five. The five leading industrial countries: US, Germany, Japan, France, UK.
<b>G7</b>	The seven leading industrial countries, being US , Germany, Japan, France, UK, Canada, Italy.
<b>Gamma</b>	The rate at which a delta changes over time, or for one unit change in the price of the underlying asset.
<b>Gap</b>	A mismatch between maturities and cash flows in a bank, or individual dealer's position book. Gap exposure is effectively interest rate exposure.
<b>GLOBEX</b>	A system for global after hours electronic trading in futures and options developed by Reuters for CME and CBOT, for use in conjunction with various exchanges around the world.
<b>GNP Deflator</b>	Removes inflation from the GNP figure. Usually expressed as a percentage and based on an index figure.
<b>GNP Gap</b>	The difference between the actual real GNP and the potential real GNP. If the gap is negative an economy is overheated.
<b>Going Long</b>	The purchase of a stock or commodity for investment or speculation.
<b>Going Short</b>	The selling of a currency or instrument not owned by the seller.
<b>Gold Standard</b>	The original system for supporting the value of currency issued. Accordingly, the monetary system backs its currency with a reserve of gold, and allows currency holders to convert their currency into gold. This system was in vogue before 1973 when the fixed exchange rates were prevalent.
<b>Gross</b>	Before deduction of tax.

Value	Definition
<b>Gross Domestic Product</b>	Total value of a country's output, income or expenditure produced within the country's physical borders. GDP is the broadest measure of aggregate economic activity available. Reported quarterly, GDP growth is widely followed as the primary indicator of the strength of economic activity. GDP represents the total value of a country's production during the period and consists of the purchases of domestically produced goods and services by individuals, businesses, foreigners and governments.
<b>Gross National Product (GNP)</b>	Gross domestic product plus "factor income from abroad" - income earned from investment or work abroad.
<b>GTC</b>	See "Good until canceled".
<b>GTC "Good Till Cancelled"</b>	An order left with a dealer to buy or sell at a fixed price. The order remains in place until it is cancelled by the client. Different than normal practice, the order does not expire at the end of the trading day, although normally terminates at the end of the trading month.
<b>Hard Currency</b>	A currency whose value is expected to remain stable or increase in terms of other currencies.
<b>Head and Shoulders</b>	A pattern in price trends which chartists consider indicative of a price trend reversal. In this pattern, the price has risen for some time, and at the peak of the left shoulder, profit taking has caused the price to drop or level. The price then rises steeply again to the head before more profit taking causes the price to drop to around the same level as the shoulder. A further modest rise or level will indicate that a further major fall is imminent. The breach of the neckline is the indication to sell.
<b>Hedge</b>	The purchase or sale of options or futures contracts as a temporary substitute for a transaction to be made at a later date. Usually it involves opposite positions in the cash, futures or options markets.
<b>Hedging</b>	A hedging transaction is one whose main aim is to protect an asset or liability against a fluctuation in the foreign exchange rate, rather than profit from the exchange rate fluctuations.
<b>HIBOR</b>	Hong Kong Inter-bank Offered Rate.
<b>Historical Volatility</b>	The annualized standard deviation of percentage changes in futures prices over a specific period. It is an indication of past volatility in the marketplace.
<b>Hit the Bid</b>	Acceptance of purchasing at the offer, or selling at the bid.
<b>Holder</b>	Same as buyer.
<b>Housing Starts</b>	Housing starts are a measure of the number of residential units on which construction has begun each month.
<b>Hyperinflation</b>	Very high and self-sustaining inflation levels. One definition is the period from which inflation exceeds 50%, until it drops below that level for 12 months.

Value	Definition
<b>ICCH</b>	International Commodities Clearing House Limited, a clearing house based in London operating worldwide for many futures markets.
<b>IFEMA</b>	International Foreign Exchange Master Agreement.
<b>IMF</b>	International Monetary Fund, established in 1946 to provide international liquidity on a short and medium term, and to encourage liberalization of exchange rates. The IMF helps its members to tide over the balance of payments problems by supplying the necessary loans.
<b>IMM</b>	International Monetary Market, part of the Chicago Mercantile Exchange that lists a number of currency and financial futures.
<b>Implied Rates</b>	The interest rate determined by calculating the difference between spot and forward rates.
<b>Implied Volatility</b>	A measurement of the market's expected price range of the underlying currency futures based on the traded option premiums.
<b>Implied Volatility Skews</b>	The implied volatility variances for different strikes of an option.
<b>In the Money</b>	A call option is in the money when the strike price is less than the current price of the underlying instrument. A put is when the strike price is greater.
<b>Inconvertible Currency</b>	Currency which cannot be exchanged for other currencies either because it is forbidden by the foreign exchange regulations or the currency experiences extreme volatility that it is not perceived to be a safe haven for parking the funds.
<b>Indicative Quote</b>	A market-maker's price which is not firm.
<b>Indirect quote</b>	See reciprocal currency.
<b>Industrial Production Index</b>	A coincident indicator measuring physical output of manufacturing, mining and utilities.
<b>Inflation</b>	Continued rise in the general price level in conjunction with a related drop in purchasing power. Sometimes referred to as an excessive movement in such price levels.
<b>Info Quote</b>	Rate given for information purposes only.
<b>Initial Margin</b>	The deposit required by the Broker before a client can trade/transact a particular deal in order to have some cushion in the event of default by the party.
<b>Interbank Rates</b>	The Forex rates large international banks quote to other large international banks. Normally the public and other businesses do not have access to these rates.
<b>Interest Rate Floor</b>	An agreement which provides the buyer of the floor with a minimum interest rate for future lending requirements.
<b>Interest Rate Options</b>	An agreement permitting a party to obtain a particular interest rate, issued both OTC and by exchanges.

Value	Definition
<b>Interest Rate Risk</b>	The potential for losses arising from changes in interest rates.
<b>Interest Rate Swaps</b>	An agreement to exchange interest rate exposures from floating to fixed or vice versa. There is no swap of the principal. The principal amount is notional as at the end of the tenure only cash flows related with the interest payments (whether payment or receipt) are exchanged.
<b>Intervention</b>	Action by a central bank to affect the value of its currency by entering the market. In India the intervention by Reserve Bank of India is confined to the events of extreme volatility.
<b>In-the-Money</b>	A call option is in-the-money if the price of the underlying instrument is higher than the exercise/strike price. A put option is in-the-money if the price of the underlying instrument is below the exercise/strike price.
<b>Intra Day Limit</b>	Limit set by bank management on the size of each dealer's Intra Day Position.
<b>Intra Day Position</b>	Open positions run by a dealer within the day. Usually squared by the close.
<b>Intrinsic Value</b>	The amount by which an option is "in-the-money". The intrinsic value is the difference between the exercise/strike price and the price of the underlying security.
<b>IOM</b>	Index and Options Market part of the Chicago Mercantile Exchange.
<b>IPI</b>	Industrial Production Index. A coincident indicator measuring physical output of manufacturing, mining and utilities.
<b>ISDA (International Securities Dealers Association)</b>	Organization that foreign currency exchange banks have formed to regulate inter-bank markets and exchanges.
<b>J Curve</b>	A term describing the expected effect of devaluation on a country's trade balance. It is expected that import bills will rise before export orders and receipts increase.
<b>Key Currency</b>	Small countries, which are highly dependent on exports, orient their currencies to their major trading partners, the constituents of a currency basket.
<b>Kiwi</b>	Slang for the New Zealand dollar.
<b>Knock In</b>	A process where a barrier option (European) becomes active as the underlying spot price is in-the-money.
<b>Knock Out</b>	Has a corresponding meaning to "Knock In" (see above), although the option may permanently cease to exist.
<b>Last Trading Day</b>	The day on which trading ceases for an expiring contract.
<b>Lay Off</b>	To carry out a transaction in the market to offset a previous transaction and return to a square position.
<b>LDC</b>	Less developed countries, often used with respect to a secondary debt market.

Value	Definition
<b>Leading Indicators</b>	Statistics that are considered to precede changes in economic growth rates and total business activity, e.g. factory orders.
<b>Leads and Lags</b>	The effect on foreign trade payments of an anticipated move in the exchange rate, normally devaluation. The importers speed up the payment for the imports, and exporters delay receiving payment for the exports.
<b>Leverage</b>	In options terminology, this expresses the disproportionately large change in the premium in terms of the relative price movement of the underlying instrument.
<b>Liability</b>	In terms of foreign exchange: the obligation to deliver to counterparty an amount of currency, either in regards to a balance sheet holding at a specified future date, or in regards to an un-matured forward or spot transaction.
<b>LIBID</b>	The London Interbank Bid Rate. The rate charged by one bank to another for a deposit.
<b>LIBOR</b>	The London Interbank Offered Rate, the rate charged by one bank to another for lending money.
<b>LIBOR (London Interbank Offer Rate)</b>	British Bankers' Association average of interbank offered rates for dollar deposits in the London market based on quotations at 16 major banks. Effective rate for contracts entered into two days from date appearing.
<b>LIFFE</b>	London International Financial Futures Exchange.
<b>Limit</b>	(1)The maximum price fluctuation permitted by an exchange from the previous session's settlement price for a given contract. (2) In international banking the limit a bank is willing to lend in a country. (3) The amount that one bank is prepared to trade with another. (4) The amount that a dealer is permitted to trade in a given currency.
<b>Limit Down</b>	The maximum price decline from the previous trading day's settlement price permitted in one trading session.
<b>Limit Order</b>	An order to buy or sell a specified amount of a security at a specified price or better.
<b>Limit Order - Reserved Day Trading Deal</b>	An order to perform a Day-Trading deal at a rate pre-defined by the customer, when and if such rate comes up in real market time. The Limit rate is superior to the existing rate at the time of reservation. The reservation order lasts for a period defined by the customer, and is associated by the necessary collaterals to facilitate the potential Day Trading deal when, and if, activated under the pre-defined terms.
<b>Limit Up</b>	The maximum price advance from the previous trading day's settlement price permitted in one trading session.
<b>Limited Convertibility</b>	When residents of a country are prohibited from buying other currencies even though non-residents may be completely free to buy or sell the national currency, and foreign institutional investors have the liberty to buy and sell shares on the stock exchange of that country.

Value	Definition
<b>Lines</b>	An arrangement by which a bank agrees to lend to the line holder during some specified period any amount up to the full amount of the line.
<b>Liquidation</b>	Any transaction that offsets or closes out a previously established position.
<b>Liquidity</b>	The ability of a market to accept large transactions without having any major impact on interest rates.
<b>Lombard Rate</b>	One of the key commercial interest rates, normally referring to Germany although such rates exist in France, Belgium, and Switzerland. An interest rate for a loan against the security of pledged paper.
<b>Long</b>	A market position where the Client has bought a currency not previously owned. For example: long Dollars.
<b>Long Hedge</b>	The purchase of futures contracts for price protection purposes, as a defensive position against an increase in cash prices or falling interest rates.
<b>M0</b>	Cash in circulation. Only used by the UK.
<b>M1</b>	Cash in circulation plus demand deposits at commercial banks. There are variations between the precise definitions used by national financial authorities.
<b>M2</b>	Includes demand deposits, time deposits and money market mutual funds excluding large CDs.
<b>M3</b>	In the UK, it is M1 plus public and private sector time deposits and sight deposits held by the public sector.
<b>M4</b>	In the US, it is M2 plus negotiable CDs.
<b>Maintenance Margin</b>	The minimum margin which an investor must keep on deposit in a margin account at all times in regards to each open contract.
<b>Make a Market</b>	A dealer is said to make a market when he quotes both the bid and offer prices at which he stands ready to buy and sell.
<b>Managed Float</b>	When the monetary authorities intervene regularly in the market to stabilize the rates or to push the exchange rate in a required direction. It is also called the "dirty float", as in India.
<b>Margin</b>	Collateral that the holder of a position in securities, options, Forex or futures contracts, has to deposit to cover the credit risk of his counterparty. Other definitions to MARGIN, used in other areas are: (1) Difference between the buying and selling rates, also used to indicate the discount or premium between spot or forward. (2) For options, the sum required as collateral from the writer of an option. (3) For futures, a deposit made to the clearing house on establishing a futures position account. (4) The percentage reserve required by the US Federal Reserve to make an initial credit transaction.

Value	Definition
<b>Margin Call</b>	A demand for additional funds to cover positions. A demand for additional funds to be deposited in a margin account to meet margin requirements because of adverse future price movements.
<b>Marginal Risk</b>	The possibility that a customer goes bankrupt after entering into a forward contract. In such an event, the issuer must close the commitment, running the risk of having to pay the marginal movement on the contract.
<b>Mark-to-Market</b>	The profits and/or losses are tallied at the end of the session according to the closing prices of the security, and the account is "marked to the market" daily. The party will be called upon to make good the losses if there has been an adverse movement in the prices, and it can book the profits in the event there has been a favorable movement in the prices.
<b>Mark Up</b>	Premium.
<b>Market Amount</b>	The minimum amount conventionally dealt for between banks.
<b>Market Maker</b>	A market maker is a person or firm authorized to create and maintain a market in an instrument.
<b>Market Order</b>	An order to buy or sell a financial instrument immediately at the best possible price.
<b>Market Value</b>	Market value of a Forex position at any time is the amount of the domestic currency that could be purchased at the then market rate in exchange for the amount of foreign currency to be delivered under the Forex Contract.
<b>MATIF</b>	Marche a Terme International de France.
<b>Maturity</b>	Date for settlement of the transaction which is decided at the time of entering into the contract.
<b>Maturity Date</b>	(1) The last trading day of a futures contract. (2) Date on which a bond matures, at which time the face value will be returned to the purchaser. Sometimes the maturity date is not one specified date, but a range of dates during which the bond may be repaid.
<b>Micro Economics</b>	The study of economic activity as it applies to individual firms or well defined small groups of individuals or economic sectors.
<b>Mid Office</b>	The control of the trading activity including position keeping.
<b>Mid-Price or Middle Rate</b>	The price half-way between the two prices, or the average of both buying and selling prices offered by the market makers.
<b>Milliard</b>	European term for 1,000 million.
<b>Mine</b>	Expression used to indicate that the contacting party is willing to buy at the rate offered by the quoting bank.
<b>Minimum Price Fluctuation</b>	The smallest increment of market price movement possible in a given futures contract.



Value	Definition
<b>Minimum Reserve</b>	Reserves required to be deposited at central banks by commercial banks and other financial institutions, sometimes referred to as Registered Reserves.
<b>Mio</b>	Million.
<b>MITI</b>	Japanese ministry of International Trade & Industry.
<b>MM</b>	Money Markets.
<b>Money Market</b>	A market consisting of financial institutions and dealers in money or in credit, who wish to either borrow or lend.
<b>Money Market Operations</b>	Comprises the acceptance and re-lending of deposits on the money market.
<b>Money Supply</b>	The amount of money in the economy, which can be measured in a number of ways. In India there are four measures of money supply i.e. M1, M2, M3, M4.
<b>Moving Average</b>	A way of smoothing a set of data, widely used in price time series.
<b>Multiple Exchange Rates</b>	Different exchange rates for different types of transaction. The South African Rand is an example.
<b>Mutual Fund</b>	An open-end investment company. Equivalent to unit trust.
<b>Nearby Month</b>	The nearest actively traded delivery month, a.k.a. current delivery month, lead month.
<b>Net Position</b>	The number of futures contracts bought or sold which have not yet been offset by opposite transactions.
<b>Nickel</b>	US term for five basis points.
<b>Nostro Account</b>	A foreign currency current account maintained with another bank. The account is used to receive and pay currency assets and liabilities denominated in the currency of the country in which the bank is resident.
<b>Not Held Basis Order</b>	An order whereby the price may trade through or better than the client's desired level, but the principal is not held responsible if the order is not executed.
<b>Note</b>	A financial instrument consisting of a promise to pay rather than an order to pay, or a certificate of indebtedness.
<b>OECD</b>	Organization for Economic Cooperation and Development, an international organization helping governments tackle the economic, social and governance challenges of a globalized economy.
<b>Offer</b>	The rate at which a dealer is willing to sell the base currency.
<b>Offered Market</b>	Temporary situation where offers exceed bid.
<b>Official Settlements Account</b>	A US balance of payments measure based on movement of dollars in foreign official holdings and US reserves. Also referred to as reserve transaction account.
<b>Offset</b>	The closing-out or liquidation of a futures position.



Value	Definition
<b>Off-Shore</b>	The operations of a financial institution which although physically located in a country, has little connection with that country's financial systems. In certain countries a bank is not permitted to do business in the domestic market, but can do business with other foreign banks. This is known as an off-shore banking unit.
<b>Old Lady</b>	Old lady of Threadneedle Street, a term for the Bank of England.
<b>One Cancels Other Order</b>	Where the execution of one order automatically cancels a previous order - also referred to as OCO or "One cancels the other".
<b>Open Interest</b>	The total number of outstanding option or futures contracts that have not been closed out by offset or fulfilled by delivery.
<b>Open Market Committee</b>	See Federal Open Market Committee.
<b>Open Market Operations</b>	Central bank operations in the markets to influence exchange and interest rates.
<b>Open Position</b>	Any deal which has not been settled by physical payment or reversed by an equal and opposite deal for the same value date. It can be termed as a high risk, high return proposition.
<b>Option</b>	A contract conferring the right but not the obligation to buy (call) or to sell (put) a specified amount of an instrument at a specified price within a predetermined time period.
<b>Option Class</b>	All options of the same type - calls or puts -listed on the same underlying instrument.
<b>Option Series</b>	All options of the same class having the same exercise/strike price and expiration date.
<b>Original Margin</b>	See Initial Margin.
<b>OTC</b>	See - "Over the Counter".
<b>Out-of-the-Money</b>	A put option is out-of-the-money if the exercise/strike price is below the price of the underlying instrument. A call option is out-of-the money if the exercise/strike price is higher than the price of the underlying instrument.
<b>Outright Deal</b>	A forward deal that is not part of a swap operation.
<b>Outright Forward</b>	A foreign exchange transaction involving either the purchase or the sale of a currency for settlement at a future date.
<b>Outright Rate</b>	The forward rate of a foreign exchange deal based on spot price plus forward discount/premium.
<b>Over Bought or Over Sold</b>	See long and short.

Value	Definition
<b>Over The Counter (OTC)</b>	A market conducted directly between dealers and principals via a telephone and computer network rather than a regulated exchange trading floor. These markets have not been very popular because of the risks both the parties face in case the other party fails to honor the contract. They have never been part of the Stock Exchange since they were seen as "unofficial".
<b>Overheated (Economy)</b>	Is an economy on a high growth rate trajectory placing pressure on the production capacity, resulting in increased inflationary pressures and higher interest rates.
<b>Overnight</b>	A deal from today until the next business day.
<b>Overnight Limit</b>	Net long or short position in one or more currencies that a dealer can carry over into the next dealing day. Passing the book to other bank dealing rooms in the next trading time zone reduces the need for dealers to maintain these unmonitored exposures.
<b>Package Deal</b>	When a number of exchange and /or deposit orders have to be fulfilled simultaneously.
<b>Par</b>	(1) The nominal value of a security or instrument. (2) The official value of a currency.
<b>Parities</b>	The value of one currency in terms of another.
<b>Parity</b>	(1) Foreign exchange dealer's slang for "your price is the correct market price". (2) Official rates in terms of SDR or other pegging currency.
<b>Payment Date</b>	The date on which a dividend or bond interest payment is scheduled to be delivered.
<b>Payroll Employment</b>	Payroll employment is a measure of the number of people being paid as employees by non-farm business establishments and units of government. Monthly changes in payroll employment reflect the number of net new jobs created or lost during the month. Changes are widely followed as an important indicator of economic activity. Large increases in payroll employment are seen as signs of strong economic activity that could eventually lead to higher interest rates that are supportive of the currency at least in the short term.
<b>Permitted Currency</b>	It means a foreign currency which is freely convertible, i.e. a currency which is permitted by the rules and regulations of the country concerned to be converted into major reserve currencies, and for which a fairly active and liquid market exists for dealing against the major currencies.
<b>Petrodollars</b>	Foreign exchange reserves of oil producing nations arising from oil sales.
<b>PIBOR</b>	Paris Inter-bank Offered Rate.
<b>Pip</b>	See point. (0.0001 of a unit).
<b>Plaza Accord</b>	The 1985 Plaza Hotel agreement by the G5 to lower the dollar.

Value	Definition
<b>Point</b>	(1) 100th part of a per cent, normally 10,000 of any spot rate. Movements of exchange rates are usually in terms of points. (2) One percent of an interest rate, e.g. from 8-9%. (3) Minimum fluctuation or smallest increment of price movement.
<b>Political Risk</b>	The potential for losses arising from a change in government policy or due to the risk of expropriation (nationalization by the government).
<b>Position</b>	The netted total exposure in a given currency. A position can be either flat or square (no exposure), long, (more currency bought than sold), or short (more currency sold than bought).
<b>Position Limit</b>	The maximum position, either net long or net short, in one future or in all futures of one currency or instrument one person is permitted to hold or control.
<b>PPI</b>	Producer Price Indices. See Wholesale Price Indices.
<b>Premium</b>	(1) The amount by which a forward rate exceeds a spot rate. (2) The amount by which the market price of a bond exceeds its par value. (3) In regard to options, the price a put or call buyer must pay to a put or call seller for an option contract. (4) The margin paid above the normal price level.
<b>Prime Rate</b>	(1) The rate from which lending rates by banks are calculated in the US. (2) The rate of discount of prime bank bills in the UK.
<b>Principal</b>	A dealer who buys or sells stock for his/her own account.
<b>Producer Price Index (PPI)</b>	PPI is a measure of the average level of prices of a fixed basket of goods received in primary markets by producers. A rising PPI is normally expected to lead to higher CPI, and thereby to potentially higher short term interest rates.
<b>Profit Taking</b>	The unwinding of a position to realize profits.
<b>Purchasing Power Parity</b>	Model of exchange rate determination stating that the price of a good in one country should equal the price of the same good in another country after adjusting for the changes in the price due to the change in exchange rate. Also known as the law of one price.
<b>Put Call Parity</b>	The equilibrium relationship between premiums of call and put options of the same strike and expiry.
<b>Put Option</b>	A put option confers the right but not the obligation to sell currencies, instruments or futures at the option exercise price within a predetermined time period.
<b>Quota</b>	(1) A limit on imports or exports. (2) A country's subscription to the IMF.
<b>Quote</b>	An indicative price. The price quoted for information purposes but not to deal.
<b>Rally</b>	A recovery in price after a period of decline.

Value	Definition
<b>Range</b>	The difference between the highest and lowest price of a future recorded during a given trading session.
<b>Rate</b>	The price of one currency in terms of another. It has the same meaning as the term parities.
<b>Ratio Calendar Spread</b>	Selling more near-term options than longer maturity options at the same strike price.
<b>Ratio Spread</b>	Buying a specific quantity of options and selling a larger quantity of out-of-the-money options.
<b>Reaction</b>	A decline in prices following an advance.
<b>Real</b>	A price, interest rate or statistic that has been adjusted to eliminate the effect of inflation.
<b>Recession</b>	A decline in business activity. Often defined as two consecutive quarters with a real fall in GNP.
<b>Reinvestment Rate</b>	The rate at which interest earned on a loan can be reinvested. The rate may not attract the same level of interest as the principal amount.
<b>Repo Rate</b>	See "Repurchase Agreement".
<b>Report</b>	French term for premium.
<b>Repurchase Agreement</b>	Agreements by a borrower where they sell securities with a commitment to repurchase them at the same rate with a specified interest rate.
<b>Reserve Currency</b>	A currency held by a central bank on a permanent basis as a store of international liquidity. Reserve currencies are typically Dollar, Deutschmark, and sterling.
<b>Reserve Requirement</b>	The ratio of reserves to deposits, expressed as a fraction prescribed by national banking authorities, including US.
<b>Reserve Tranche</b>	(French) The 25% of its quota to which a member of the IMF has unconditional access, and for which there is no obligation to repay.
<b>Reserves</b>	Funds held against future contingencies, normally a combination of convertible foreign currency, gold, and SDRs. Official reserves are to ensure that a government can meet near term obligations. They are an asset in the balance of payments.
<b>Resistance</b>	A price level at which the selling is expected to take place.
<b>Resistance Point or Level</b>	A price recognized by technical analysts as a price which is likely to result in a rebound but if broken through is likely to result in a significant price movement.
<b>Retail Price Index</b>	Measurement of the monthly change in the average level of prices at retail, normally of a defined group of goods.

Value	Definition
<b>Retail Sales</b>	Retail Sales are a measure of the total receipts of retail stores. Monthly percentage changes reflect the rate of change of such sales and are widely followed as an indicator of consumer spending. Rises in Retail Sales are often associated with a strong economy, and therefore an expectation of higher short term interest rates that are often supportive to a currency in at least the short term.
<b>Reuter Dealing</b>	A system for screen based trading that has been in operation since the early 1980s. Reuter Dealing now has a matching optional enhancement known as Dealing 2000-2.
<b>Revaluation</b>	Increase in the exchange rate of a currency as a result of official action.
<b>Revaluation Rate</b>	The rate for any period or currency which is used to revalue a position or book.
<b>Reversal</b>	Process of changing a call into a put.
<b>Risk management</b>	The identification and acceptance, or offsetting of the risks threatening the profitability or existence of an organization. With respect to foreign exchange, involves among others consideration of market, sovereign, country, transfer, delivery, credit, and counterparty risk.
<b>Risk Position</b>	An asset or liability, which is exposed to fluctuations in value through changes in exchange rates or interest rates.
<b>Risk Premium</b>	Additional sum payable, or return, to compensate a party for adopting a particular risk.
<b>Risk Reversal</b>	A combination of purchasing put options with the sale of call options. The put limits downside, while the call limits the upside.
<b>Risks</b>	There are risks associated with any market. It means variance of the returns and the possibility that the actual return might not be in line with the expected returns. The risks associated with trading foreign currencies are: market, exchange, interest rate, yield curve, volatility, liquidity, forced sale, counter party, credit, and country risk.
<b>Rolling over</b>	The substituting of a far option for a near option of the same underlying stock at the same strike/exercise price.
<b>Rollover</b>	(1) Where the settlement of a deal is carried forward to another value date, based on the interest rate differential of the two currencies example: next day. (2) An overnight swap, specifically the next business day against the following business day (also called Tomorrow Next, abbreviated to Tom-Next).
<b>Running a Position</b>	Keeping open positions in the hope of a speculative gain.
<b>Same Day Transaction</b>	A transaction that matures on the day the transaction takes place.
<b>Sandwich Spread</b>	Same as a butterfly spread.
<b>Scalping</b>	A strategy of buying at the bid and selling at the offer as soon as possible.

Value	Definition
<b>SDR</b>	Special Drawing Right. A standard basket of five major currencies in fixed amounts as defined by the IMF.
<b>Selling Rate</b>	Rate at which a bank is willing to sell foreign currency.
<b>Series</b>	All options of the same class which share a common strike price and expiration date.
<b>Settlement</b>	Actual physical exchange of one currency for another.
<b>Settlement Date</b>	It means the business day specified for delivery of the currencies bought and sold under a Forex contract.
<b>Settlement Price</b>	The official closing price for a future set by the clearing house at the end of each trading day.
<b>Settlement Risk</b>	Risk associated with the non-settlement of the transaction by the counterparty.
<b>Short</b>	A market position where the client has sold a currency he does not already own, usually expressed in base currency terms.
<b>Short / Short Position</b>	A shortage of assets in a particular currency. See Short Sale.
<b>Short Contracts</b>	Contracts with up to six months to deliver.
<b>Short Covering</b>	Buying to unwind a shortage of a particular currency or asset.
<b>Short Forward Date/Rate</b>	The term short forward refers to a period of up to two months, although it is more commonly used with respect to maturities of less than one month.
<b>Short Sale</b>	The sale of a currency futures not owned by the seller at the time of the trade. Short sales are usually made in expectation of a decline in the price.
<b>Shorts</b>	See "Short Forward Date/Rate".
<b>Short-Term Interest Rates</b>	Normally the 90 day rate.
<b>SITC</b>	Standard International Trade Classification. A system for reporting trade statistics in a common manner.
<b>SOFFEX</b>	Swiss Options and Financial Futures Exchange, a fully automated and integrated trading and clearing system.
<b>Soft Market</b>	More potential sellers than buyers, which creates an environment where rapid price falls are likely.
<b>Split Date</b>	See Broken Date.
<b>Spot</b>	(1) The most common foreign exchange transaction. (2) Spot refers to the buying and selling of the currency where the settlement date is two business days forward.
<b>Spot Month</b>	The contract month closest to delivery.
<b>Spot Next</b>	The overnight swap from the spot date to the next business day.
<b>Spot Price/Rate</b>	The price at which the currency is currently trading in the spot market.

Value	Definition
<b>Spot Week</b>	A standard period of one week swap measured from the current value date of the currency spot rate.
<b>Spread</b>	(1) The difference between the bid and ask price of a currency. (2) The difference between the prices of two related futures contracts. (3) For options, transactions involving two or more option series on the same underlying currency.
<b>Square</b>	Purchases and sales are in balance and thus the dealer has no open position.
<b>Squawk Box</b>	A speaker connected to a phone, often used in broker trading desks.
<b>Squeeze</b>	Action by a central bank to reduce supply in order to increase the price of money.
<b>Stable Market</b>	An active market which can absorb large sales or purchases of currency without having any major impact on the interest rates.
<b>Stagflation</b>	Recession or low growth (stagnation) in conjunction with high inflation rates.
<b>Standard</b>	A term referring to certain normal amounts and maturities for dealing.
<b>Standard and Poor's (S&amp;P)</b>	A US firm engaged in assessing the financial health of borrowers. The firm also lends its name to the S&P 500 Stock Index.
<b>Sterilization</b>	Central Bank activity in the domestic money market to reduce the impact on money supply of its intervention activities in the Forex market.
<b>Sterling</b>	British pound, otherwise known as cable.
<b>Stocky</b>	Market slang for Swedish Krona.
<b>Stop Loss Order</b>	Order given to ensure that, should a currency weaken by a certain percentage, a short position will be covered even though this involves taking a loss. Realize profit orders are less common.
<b>Stop Out Price</b>	US term for the lowest accepted price for Treasury Bills at auction.
<b>Straddle</b>	The simultaneous purchase/sale of both call and put options for the same share, exercise/strike price and expiry date.
<b>Straight</b>	A bond with unquestioned right to repayment of principal and interest at the specified dates with no additional further rights or bonuses.
<b>Straight Date</b>	See "fixed dates".
<b>Strap</b>	A combination of two calls and one put.
<b>Strike Price</b>	Also called exercise price. The price at which an option holder can buy or sell the underlying instrument.
<b>Strip</b>	A combination of two puts and one call.
<b>Structural Unemployment</b>	Unemployment levels inherent in an economic structure.



Value	Definition
<b>Support Levels</b>	A price level at which the buying is expected to take place. When an exchange rate depreciates or appreciates to a level where (1) Technical analysis techniques suggest that the currency will rebound, or not go below; (2) The monetary authorities intervene to stop any further downward movement. See Resistance Point.
<b>Swap</b>	The simultaneous purchase and sale of the same amount of a given currency for two different dates, against the sale and purchase of another. A swap can be a swap against a forward. In essence, swapping is somewhat similar to borrowing one currency and lending another for the same period. However, any rate of return or cost of funds is expressed in the price differential between the two sides of the transaction.
<b>Swap Price</b>	A price as a differential between two dates of the swap.
<b>Swap Rate</b>	See "Forward Margin".
<b>Swaption</b>	An option to enter into a swap contract.
<b>Swift</b>	Society for Worldwide Interbank Financial Telecommunications is a Belgian based company that provides the global electronic network for settlement of most foreign exchange transactions.
<b>Swissy</b>	Market slang for Swiss Franc.
<b>Switch</b>	See Deposit Swap.
<b>Synthetics</b>	Options or futures that create a position that is able to be achieved directly, but is generated by a combination of options and futures in the relevant market. In foreign exchange a SAFE combines two forward contracts into a single transaction where settlement only involves the difference in values.
<b>Tau</b>	Expresses the price change of an option for a percentage change in the implied volatility.
<b>T-Bill</b>	Treasury Bill.
<b>Technical Analysis</b>	The study of the price that reflects the supply and demand factors of a currency. Common methods are flags, trend-lines spikes, bottoms, tops, pennants, patterns and gaps.
<b>Technical Correction</b>	An adjustment to price not based on market sentiment but technical factors such as volume and charting.
<b>Tender</b>	(1) A formal offer to supply or purchase goods or services. (2) In the UK, the term for the weekly Treasury Bill issue.
<b>Terme</b>	(French) Period.
<b>Terms of Trade</b>	The ratio between export and import price indices.
<b>Theta</b>	A measure of the sensitivity of the price of an option to a change in its time to expiry.
<b>Thin Market</b>	A market in which trading volume is low and in which consequently bid and ask quotes are wide and the liquidity of the instrument traded is low.



Value	Definition
<b>TIBOR</b>	Tokyo Inter-bank Offered Rate.
<b>Tick</b>	A minimum change in price, up or down.
<b>Ticket</b>	See Deal Slip
<b>TIFFE</b>	Tokyo International Financial Futures Exchange.
<b>Time Value</b>	That part of an option premium which reflects the length of time remaining in the option prior to expiration. The longer the time remaining until expiration, the higher the time value.
<b>Today/Tomorrow</b>	Simultaneous buying of a currency for delivery the following day and selling for the spot day, or vice versa. Also referred to as overnight.
<b>Tomorrow Next (Tom next)</b>	Simultaneous buying and selling of a currency for delivery the following day and selling for the next day or vice versa.
<b>Tradable Amount</b>	Smallest transaction size acceptable.
<b>Trade Balance</b>	The Trade Balance is a measure of the difference between imports and exports of tangible good and services. The level of the trade balance, and changes in exports and imports, are widely followed by foreign exchange markets.
<b>Trade Date</b>	The date on which a trade occurs.
<b>Trade Deficit/Surplus</b>	The difference between the value of imports and exports, often only reported in visible trade terms.
<b>Trade Ticket</b>	See Deal Ticket.
<b>Tranche</b>	(French) A portion of. Specifically used for borrowings from the IMF.
<b>Transaction</b>	The buying or selling of securities resulting from the execution of an order.
<b>Transaction Date</b>	The date on which a trade occurs.
<b>Transaction Exposure</b>	Potential profit or loss generated by current foreign exchange transactions.
<b>Translation Loss/Profit</b>	When consolidating into the base currency, the calculation of loss or profit resulting from the valuation of foreign assets and liabilities for balance sheet purposes.
<b>Treasury Bills</b>	Short-term obligations of a Government issued for periods of one year or less. Treasury bills do not carry a rate of interest, but are issued at a discount on the par value. Treasury bills are repaid at par on the due date. In the UK they are normally for 91 days, and are offered at weekly tenders. In the US they are auctioned.
<b>Treasury Bonds</b>	Government obligations with maturities of ten years or more.
<b>Treasury Notes</b>	Government obligations with maturities more than one year, but less than ten years.

Value	Definition
<b>Treasury Stock</b>	Previously issued stock that has been repurchased by, donated to or otherwise acquired by the issuing firm. Treasury stocks pay no dividends and have no voting privileges.
<b>Troc, Troquer</b>	(French) FX term for swap.
<b>Turnover</b>	The total money value of currency contracts traded which is calculated by multiplying size by the number of contracts traded.
<b>Two-Way Quotation</b>	When a dealer quotes both buying and selling rates for foreign exchange transactions.
<b>Ultimo</b>	Continental term for month or year end.
<b>Uncovered</b>	Another term for an open position.
<b>Under Reference (Order)</b>	Before finalizing a transaction all the details should be submitted for approval to the order giver, who has the right to turn down the proposal.
<b>Under-Valuation</b>	An exchange rate is normally considered to be undervalued when it is below its purchasing power parity.
<b>Undo</b>	A colloquial term for reversing a transaction. e.g. a spot sale by means of a forward purchase or, if done in error, a spot purchase.
<b>Unit of Account</b>	A device designed to provide a consistent value with varying currencies. e.g. ECU and SDR.
<b>Up Tick</b>	A transaction executed at a price greater than the previous transaction.
<b>Valeur Compensee</b>	(French) Payments are said to be "valeur compensee" when payment by one party in one centre, and settlement by the other party in another centre, takes place on the same day.
<b>Value Date</b>	For exchange contracts, it is the day on which the two contracting parties exchange the currencies which are being bought or sold. For complete description see the chapter on trading. For a spot transaction, it is two business banking days forward in the country of the bank providing quotations which determines the spot value date. The only exception to this general rule is the spot day in the quoting centre coinciding with a banking holiday in the country(ies) of the foreign currency(ies). The value date then moves forward a day. The enquirer is the party who must make sure that the spot day coincides with the one applied by the respondent. The forward months maturity must fall on the corresponding date in the relevant calendar month. If the one month date falls on a non-banking day in one of the centers, then the operative date would be the next business day that is common. The adjustment of the maturity for a particular month does not affect the other maturities that will continue to fall on the original corresponding date if they meet the open day requirement. If the last spot date falls on the last business day of a month, the forward dates will match this date by also falling due on the last business day. Also referred to as maturity date.

Value	Definition
<b>Value Spot</b>	Normally settlement for two working days from the date the contract is entered into.
<b>Value Today</b>	Transaction executed for same day settlement; sometimes also referred to as "cash transaction"
<b>Vanilla</b>	A simple option whose terms and conditions do not include any provisions other than exercise style, expiry and strike. To compare with exotic options which have additional terms.
<b>Variation Margin</b>	Funds required to be deposited by a client when a price movement has caused funds to fall below the stipulated percentage of the value of the contract.
<b>Vega</b>	Expresses the price change of an option for a one per cent change in the implied volatility.
<b>Velocity of Money</b>	The speed with which money circulates, or turnover in the economy. It is calculated as the annual national income; average money stock in the period.
<b>Vertical (Bear or Bull) Spread</b>	The sale of an option with a high exercise price and the purchase (in the case of a bull), or the sale (in the case of a bear), of an option with a lower exercise price. Both options will have the same expiration date.
<b>Volatility</b>	A measure of the amount by which an asset price is expected to fluctuate over a given period. Normally measured by the annual standard deviation of daily price changes (historic). Can be implied from futures pricing, implied volatility.
<b>Vostro Account</b>	A local currency account maintained with a bank by another bank. The term is normally applied to the counterparty's account from which funds may be paid into or withdrawn as a result of a transaction.
<b>Wholesale Money</b>	Money borrowed in large amounts from banks and institutions rather than from small investors.
<b>Wholesale Price Index</b>	Measures changes in prices in the manufacturing and distribution sector of the economy, and tends to lead the consumer price index by 60 to 90 days. The index is often quoted separately for food and industrial products.
<b>Working Balance</b>	Discretionary element in the monetary reserves of a central bank.
<b>Working day</b>	A day on which the banks in a currency's principal financial center are open for business. For FX transactions, a working day only occurs if the banks in both currencies' financial centers are open (all relevant currency centers in the case of a cross).
<b>World Bank</b>	A bank made up of members of the IMF whose aim is to assist in the development of member states by making loans where private capital is not available.
<b>Writer</b>	The seller of a position. Also known as the grantor of the trade. "Writing a Currency" is to sell it.

Value	Definition
<b>Yard</b>	Slang for milliard, one thousand million (1 European milliard = 1 US billion = 1,000 million).
<b>Yield Curve</b>	The graph showing changes in yield on instruments depending on time to maturity. A system originally developed in the bond markets is now broadly applied to various financial futures. A positive sloping curve has lower interest rates at the shorter maturities, and higher at the longer maturities. A negative sloping curve has higher interest rates at the shorter maturities.
<b>Z-Certificate</b>	Certificate issued by the Bank of England to "discount houses" in lieu of stock certificates to facilitate their dealing in the short dated gilt edge securities.
<b>Zero Coupon Bond</b>	A bond that pays no interest. The bond is initially offered at a discount to its redemption value.

## [12] Disclaimer

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### (Risk warning)

We would like to kindly inform the reader of the potential financial risks of engaging in foreign exchange trading. The transaction of such financial instruments known as forex, fx, or currency, and dealt on a valued basis known as 'spot' (or 'forward', 'day trading', 'option', and similar instruments) can contain a substantial degree of risk.

Before deciding to undertake such transactions with a Forex trading platform or with any other market maker), and indeed, any other firm offering similar services, a user should carefully evaluate whether his/her financial situation is appropriate for such transactions. Trading foreign exchange may result in a substantial or complete loss of funds and therefore should only be undertaken with risk capital.

The definition of risk capital is funds that are not necessary to the survival or well being of the user. We strongly recommends that a user, who is considering trading foreign exchange products, reads through all the main topics contained in the trading platform's website so that he/she may obtain a clear and accurate understanding of the risks inherent to fx trading. Opinions and analysis on potential expected market movements contained within such websites are not to be considered necessarily precise or timely, and due to the public nature of the Internet, trading platforms cannot at any time guarantee the accuracy of such information.

Trading online, no matter how convenient or efficient it may be, does not necessarily reduce the risks associated with foreign exchange trading. Such platforms do not accept any responsibility towards any customer, member or third party, acting on such information contained on their website as to the accuracy or delay of information such as quotations, news, and charts derived from quotations.

You are strongly advised to engage in Forex trading only if you fully understand the risks involved, and are willing and prepared to allocate the appropriate funds, which are not essential or vital for your well being.