

What are financial Markets?

Financial markets, from the name itself, are a type of marketplace that provides an avenue for the sale and purchase of assets such as bonds, stocks, foreign exchange, and derivatives. Often, they are called by different names, including “Wall Street” and “capital market,” but all of them still mean one and the same thing. Simply put, businesses and investors can go to financial markets to raise money to grow their business and to make more money, respectively.

So the term financial market is a broad term describing any marketplace in which financial Instruments are packaged and sold these include securities under products such as equities, Bonds, currencies and derivatives.

- Equities are stocks and shares
- Bonds represent debt obligations – and therefore are a form of borrowing. Bonds can be issued by private companies, Central Banks or Governments!

- Currencies are foreign exchange rates. It includes all aspects of buying, selling and exchanging currencies at current or determined prices.

- **Futures** are an arrangement or product (such as a future, option, or warrant) whose value derives from and is dependent on the value of an underlying asset, such as a commodity, currency, or security. Stocks The stock market is a financial market that enables investors to buy and sell shares of publicly traded companies. The primary stock market is where new issues of stocks are first offered. Any subsequent trading of stock securities occurs in the secondary market.

(OTC) Over-the-Counter Market The over the counter (OTC) market is an example of a secondary market. An OTC market handles the exchanging of public stocks not listed on the major Exchanges and the companies Traded on the OTC are smaller organizations that require less regulation by the over sight authorities such as the SEC (Securities and Exchange Commission).

Bonds are securities! For example, a investor loans money for a defined period of time at a pre-established rate of interest. Bonds are not only issued by corporations but may also be issued by municipalities, states and federal governments from around the world.

Money Market The Money Market! Trades highly liquid and short-term maturities which are short-term borrowing and lending of securities with a maturity typically less than one year.

Derivatives are financial instruments/securities that derive its value from its underlying asset. The value of a derivative contract is determined by the market price of the underlying item. These instruments include futures, options, forward contracts, swaps and contracts-for-difference.

Forex Market The FX Market is the most liquid market in the world, as cash is the most liquid of assets. The interbank market is the financial system that trades currency between banks.



Functions of the Markets

The role of financial markets in the success and strength of an economy cannot be underestimated. Here are four important functions of financial markets:

1. Puts savings into more productive use

As mentioned in the example above, a savings account that has money in it should not just let that money sit in the vault. Thus, financial markets like banks open it up to individuals and companies that need a home loan, student loan, or business loan.

2. Determines the price of securities

Investors aim to make profits from their securities. However, unlike goods and services whose price is determined by the law of supply and demand, prices of securities are determined by financial markets.

3. Makes financial assets liquid

Buyers and sellers can decide to trade their securities anytime. They can use financial markets to sell their securities or make investments as they desire.

4. Lowers the cost of transactions

In financial markets, various types of information regarding securities can be acquired without the need to spend.

Importance of Financial Markets

There are many things that financial markets make possible, including the following:

- Financial markets provide a place where participants like investors and debtors, regardless of their size, will receive fair and proper treatment.
- They provide individuals, companies, and government organizations with access to capital.
- Financial markets help lower the unemployment rate because of the many job opportunities it offers



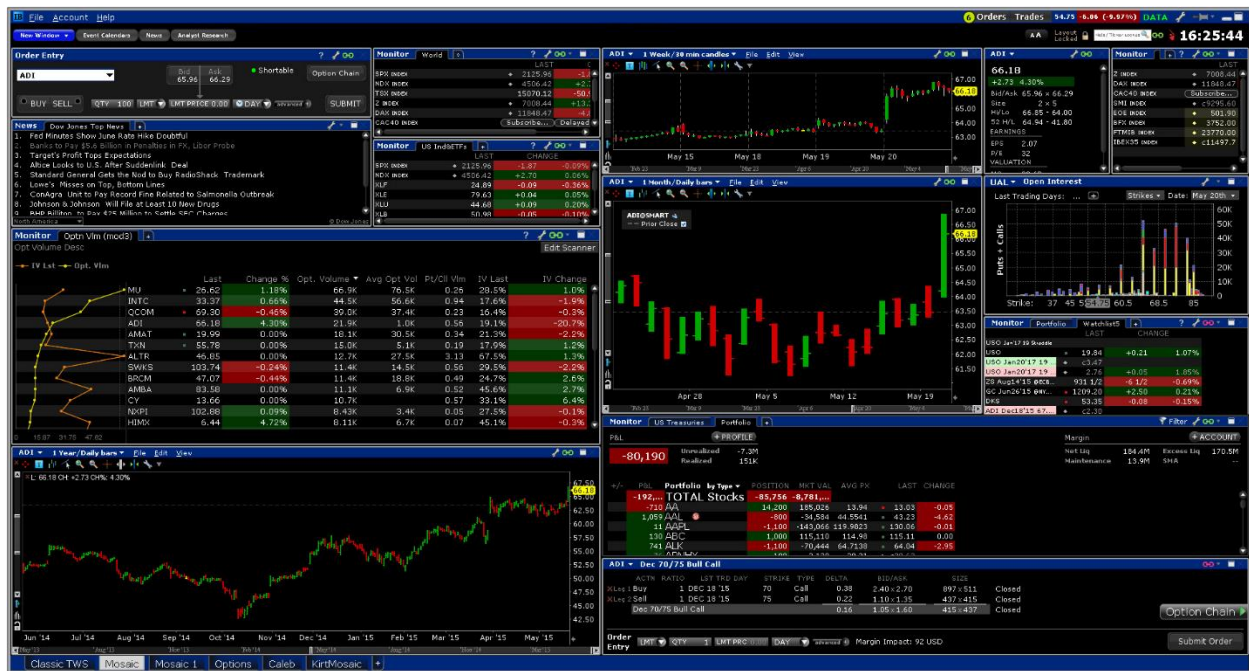
How can we participate In the FX financial Market ?

We can trade and earn money from fluctuations in exchange rates between currencies. To trade we need a trading account.

Its an easy process to have a Trading account all we need to do is select a broker and a trading platform and deposit some funds into our account to trade with.

Anyone is allowed to open a personal Trading Account. To do that we would need to research a little in order to find a broker that we trust.

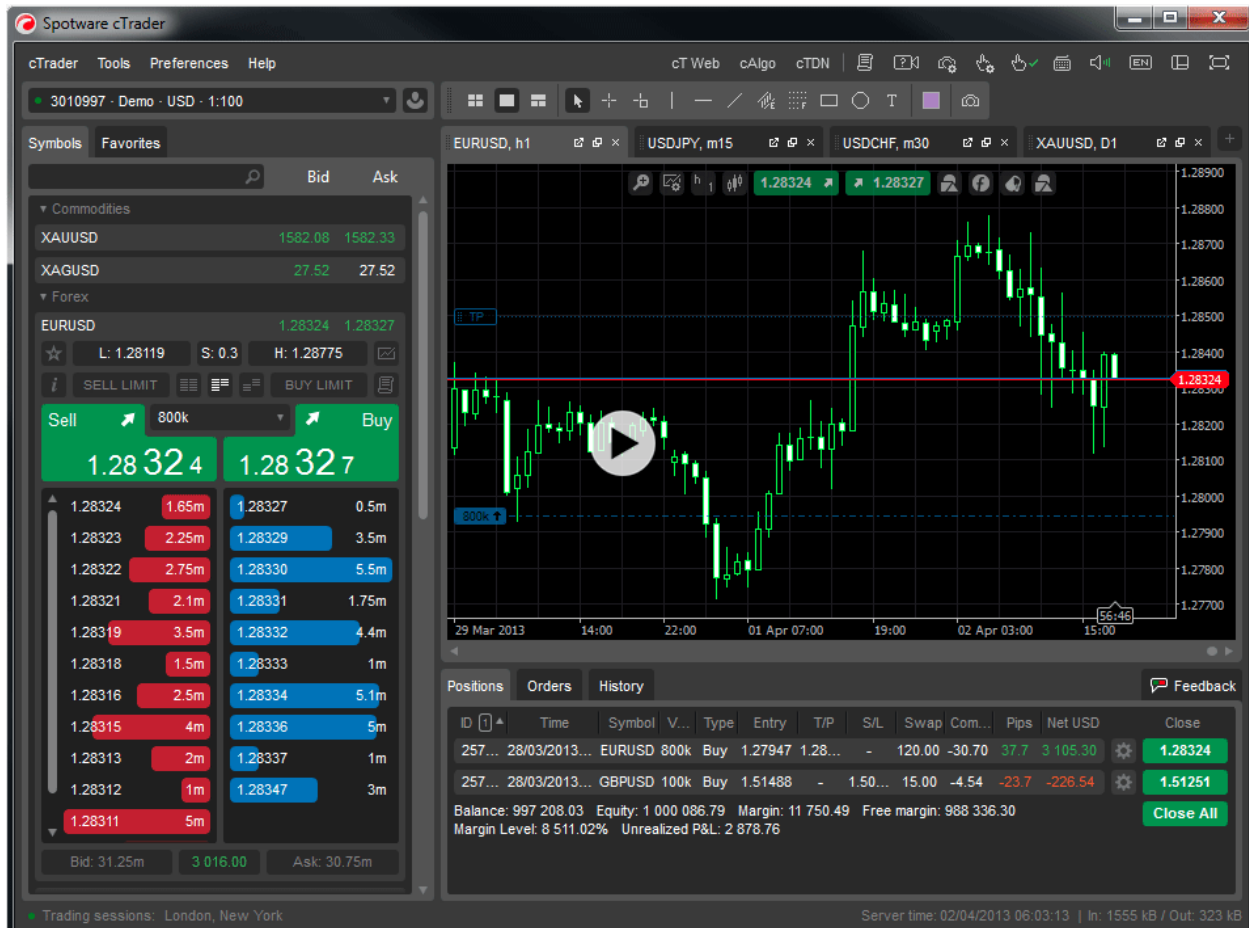
Once the funds are deposited you are then responsible for your account and you are free to trade.



How can we make money in Forex

The price of the currency is usually a direct reflection of the market's opinion on the current and future health of its respective economy.

In forex trading, when you buy, say, the Japanese yen against the Euro you are speculating that the Japanese yen will appreciate as you think the Japanese economy is doing better than the European community. If your speculation is right you will earn the difference between the yen you bought and the amount the Euro declined of which is your profit. In general, the exchange rate of a currency versus other currencies is a reflection of the condition of that country's economy, compared to other countries' economies.



When is the Forex Market open?

The forex market is open 24 hours a day and 5 days a week, on the weekend its closed for retail Traders.

So when for example it's the end of the day and London closes then the business is just carried over to new York when that market opens so that trading continues throughout the week.

In summary trading just *shifts* to different financial centers around the world.

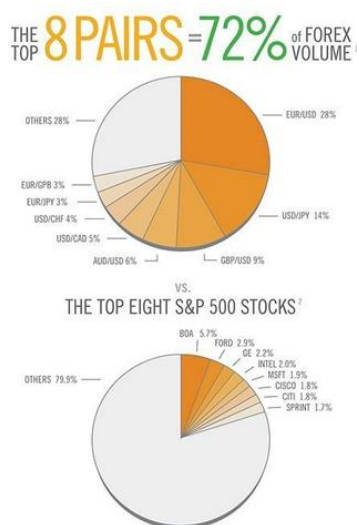
The day starts when traders wake up in Sydney then moves to Tokyo, London, Frankfurt and finally, New York, before trading starts all over again in Sydney!



How big is the Market

The currency market is the largest financial market in the world so its active and when we compare it to stocks for example then the forex market is 200 times bigger.

If you look at below chart you can see the liquidity when forex compared to stocks and Forex is a lot bigger. Its estimated that in one day the market is worth 7 trillion USD

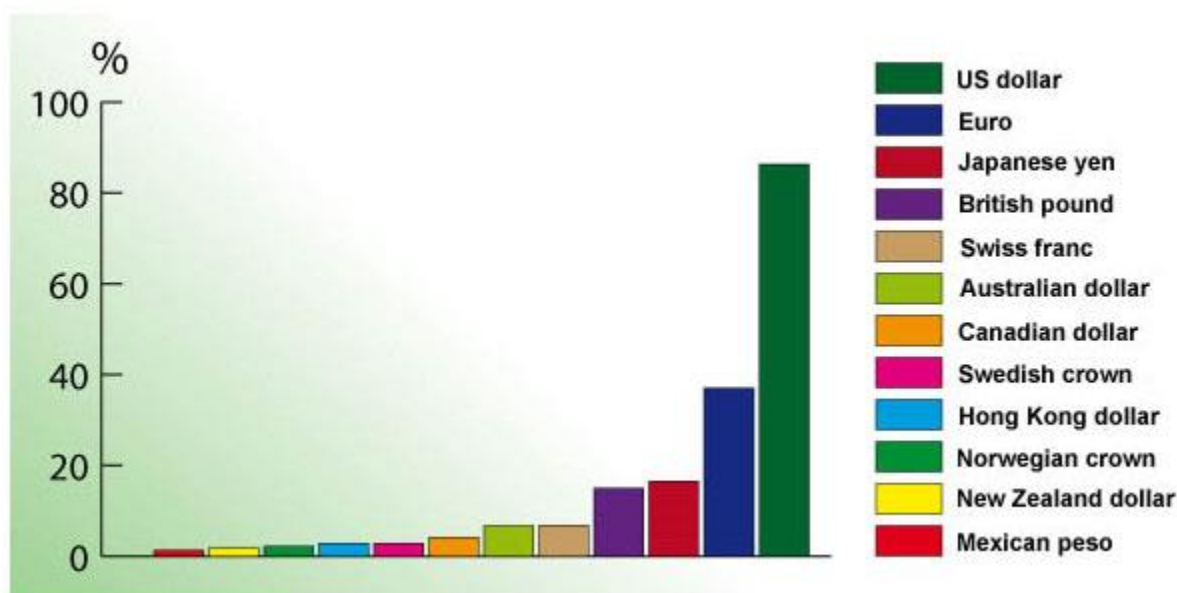


Major Currencies

While there are potentially lots of currencies you can trade, as a new trader, you will probably start trading with the “major currencies.”

The major currencies are known as the Majors and those include:

British Pound (GBP), Euro (EUR), Japanese Yen (JPY), Swiss Franc (CHF), and US Dollar (USD), the currencies in which most of the world's foreign transactions are denominated and against which the value of a local currency.



In everyday foreign exchange market trading and news reporting, the currency pairs are often referred to by nicknames rather than their symbolic nomenclature. These are often reminiscent of national or geographic connotations. The GBP/USD pairing is known by traders as *cable* (also *the cable*), which has its origins from the time when a communications cable under the Atlantic Ocean synchronized the GBP/USD quote between the London and New York markets. GBP is also referred to by traders as *quid*. The following nicknames are common: "Swissy" or "Euro-Swissy" for EUR/CHF, *Fiber* for EUR/USD, *Chunnel* for EUR/GBP, *Loonie* and *The Funds* for USD/CAD, *Aussie* for AUD/USD, *Gopher* for USD/JPY, *Guppy* for GBP/JPY, *Yuppy* for EUR/JPY, and *Kiwi* or *The Bird* for the New Zealand Dollar NZD/USD pairing. New innovations include *Barney* for USD/RUB and *Betty* for EUR/RUB after the fictional characters the Rubbles in *The Flintstones*. Additionally, exotic pairs have earned more esoteric nicknames such as "Glock" for COP/SGN after the service pistol often carried by police officers (the ticker can be viewed as (COP'S G(u)N)! Nicknames vary between the trading centers in New York, London, and Tokyo. Care should be taken with the use of 'Betty, for EUR/RUB as, in London markets 'Betty' is used as cockney slang for Cable as in Betty Grable = Cable = GBP/USD.

Currency Symbols

Currency symbols always have three letters, where the first two letters identify the name of the country and the third letter identifies the name of that country's currency.

Fore Example:

USD is the US (United States) D (Dollar)

GBP is the GB (Great British) P (Pound)

**I think you get the picture so if trading the Pound Dollar the symbols would be as follows:
GBP/USD**

Buying And Selling Currencies

Forex trading is the buying of one currency and selling another. Currencies are traded through a broker or dealer, and are traded in pairs.

For example you may buy or sell USD/JPY is you buy then that would mean you are buying the US Dollar as you believe it will be stronger then the Japanese yen.

If you sell USD/JPY then you believe the Japanese yen is going to be stronger then the US Dollar.

Here is a chart of USD/JPY as you can see the market is showing the Japanese yen gaining strength over the US Dollar as the market in heading south.

Look closely at below chart in the morning with one us dollar you could buy 108.80 Yen but by the evening one US Dollar was only worth 106 .70 Yen. Essentially One US Dollar is worth less Yen.

Currency symbol examples and there market share based on one day in April 2016:

Rank	Currency	ISO 4217 code (symbol)	% daily share (April 2016)
1	 United States dollar	USD (US\$)	87.6%
2	 Euro	EUR (€)	31.4%
3	 Japanese yen	JPY (¥)	21.6%
4	 Pound sterling	GBP (£)	12.8%
5	 Australian dollar	AUD (A\$)	6.9%
6	 Canadian dollar	CAD (C\$)	5.1%
7	 Swiss franc	CHF (Fr)	4.8%
8	 Renminbi	CNY (元)	4.0%
9	 Swedish krona	SEK (kr)	2.2%
10	 New Zealand dollar	NZD (NZ\$)	2.1%

The Market

Forex is considered as **over the counter OTC** or otherwise known as “**interbank**” .

The Market is run electronically, within a network of banks, continuously over a 24-hour period.

This means that the spot forex market is spread all over the globe and Trades can take place from anywhere and you can trade from anywhere to as long as you have an Internet connection!

In summary the FX Market or currency **trading**, is a decentralized global **market** where all the world's currencies trade. The **forex market** is the largest, most liquid **market** in the world with an average daily **trading** volume exceeding \$5 trillion.

The main participants in this market are the larger international banks. Financial centers around the world function as anchors of trading between a wide range of multiple types of buyers and sellers around the clock, with the exception of weekends. Since currencies are always traded in pairs, the foreign exchange market does not set a currency's absolute value but rather determines its relative value by setting the market price of one currency if paid for with another.

The modern foreign exchange market began forming during the 1970s. This followed three decades of government restrictions on foreign exchange transactions under the Bretton Woods system of monetary management, which set out the rules for commercial and financial relations among the world's major industrial states after World War II. Countries gradually switched to floating exchange rates from the previous exchange rate regime, which remained fixed per the Bretton Woods system.

The foreign exchange market is unique because of the following characteristics:

- its huge trading volume, representing the largest asset class in the world leading to high liquidity;
- its geographical dispersion;
- its continuous operation: 24 hours a day except for weekends, i.e., trading from 22:00 GMT on Sunday (Sydney) until 22:00 GMT Friday (New York);
- the variety of factors that affect exchange rates;
- the low margins of relative profit compared with other markets of fixed income; and
- the use of leverage to enhance profit and loss margins and with respect to account size.



The Dollar is King!

The Dollar is king in financial markets and makes up for the most traded currency in the world. Here is the composition of percentage of Currencies as you can see in the below chart the dollar is clearly the king.

U.S. dollar comprises roughly 64% of the world's official foreign exchange reserves! Because almost every investor, business, and central bank own it, they pay attention to the U.S. dollar.

And they pay attention for the following reasons!

The **United States** economy is the **LARGEST economy** in the world.

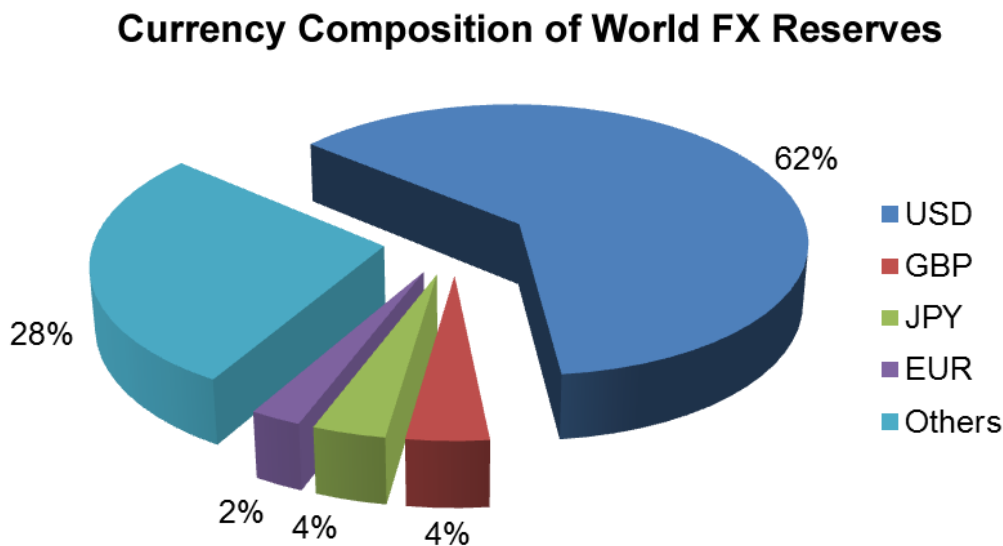
The U.S. dollar is the **reserve currency** of the world.

The United States has the largest and **most liquid financial markets** in the world.

The United States has a **stable political system**.

The United States is the world's sole **military superpower**.

The U.S. dollar is the medium of exchange for many **cross-border transactions**.



Source: International Monetary Fund Q1 2012

Spot Forex Market

In the spot market, currencies are traded immediately or “on the spot,” using the current market price. This allows you to place an order and your order is executed immediately by your broker.

There is no time obligation you can close your trade immediately and execute another you can even execute multiple trades it's simply your choice as the market will execute your trading requests on the spot.

You can utilize your trading platform to execute trades this is what a trading platform would look like on your computer or your phone. Don't worry most trading platforms are free.



How to make money

The objective of forex trading is to exchange one currency for another in the expectation that the price will change.

More specifically, that the currency you bought will increase in value compared to the one you sold.

Currencies are always quoted in pairs, such as GBP/USD or USD/JPY. The reason they are quoted in pairs is because, in every foreign exchange transaction, you are simultaneously buying one currency and selling another.

So if trading GBP/USD ! when you buy GBP at the rate of 1 GBP is = to 1 USD you want to see it rise so you can exchange it for more USD.

The currency in this example GBP when you buy is called the base currency and the USD in this case would be the quote currency.

For example I buy base at 1 against quote at 1 and market rises to 2, then we profit from the rise from 1 to 2. Once you close the trade at 2 your profit is therefore 1.

Traders talk

When we buy then Traders use the term “Long” and when we sell traders use the term “short”

You may have heard the term Bulls and Bears, Bulls are buyers and Bears are sellers.

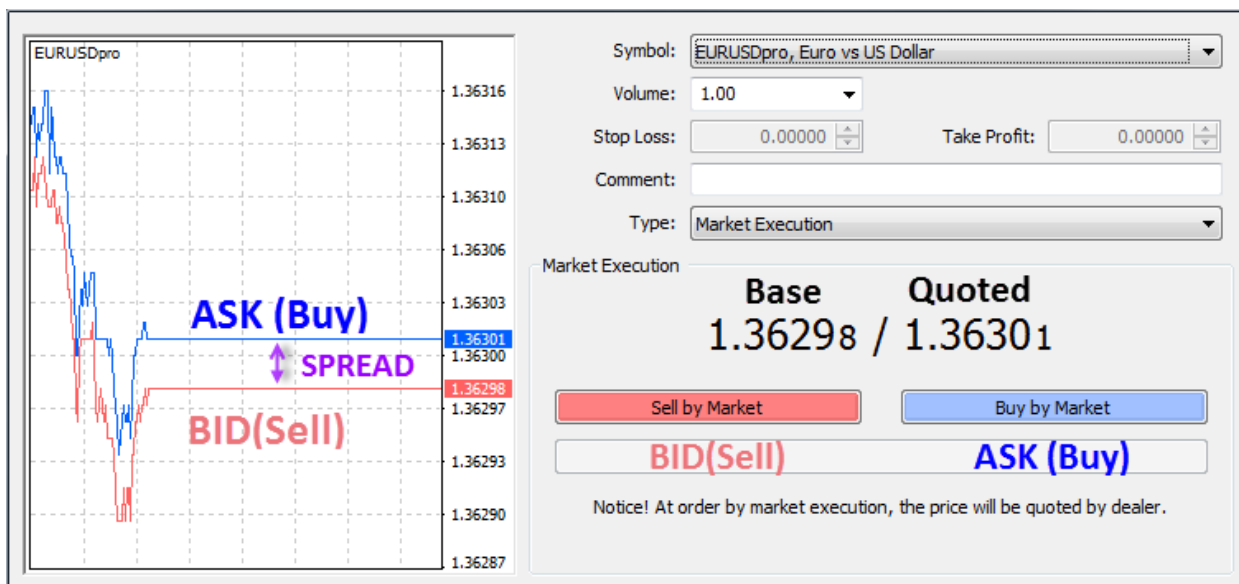
We also use the terms bid/offer/Ask but that's going to be way to confusing for now so lets look at more trader talk later.



The Bid, Ask and Spread

All forex quotes are quoted with two prices: the **bid** and **ask**. In general, the **bid** is lower than the **ask** price. The **bid** is the price at which your broker is willing to *buy* the base currency in exchange for the quote currency.

This means the bid is the best available price at which you (the trader) will sell to the market.



The **bid** is the price at which your broker is willing to *buy* the base currency in exchange for the quote currency.

On the EUR/USD quote above, the bid price is 1.36298 and the ask price is 1.36301. The difference between the bid and the ask is profit to your broker.

- If you want to sell EUR, you click "Sell" and you will sell euros at 1.36298
- If you want to buy EUR, you click "Buy" and you will buy euros at 1.36301

Sentiment

For example If you buy EUR/USD your sentiment is that by buying EUR as the base currency.

you believe that the **U.S. economy** will continue to weaken, which is bad for the U.S. dollar, you would execute a **BUY** EUR/USD order. And by doing so, you have bought euros in the expectation that they will rise versus the U.S. dollar.

So that would mean your sentiment is Bullish on Euro and Bearish on the Dollar.



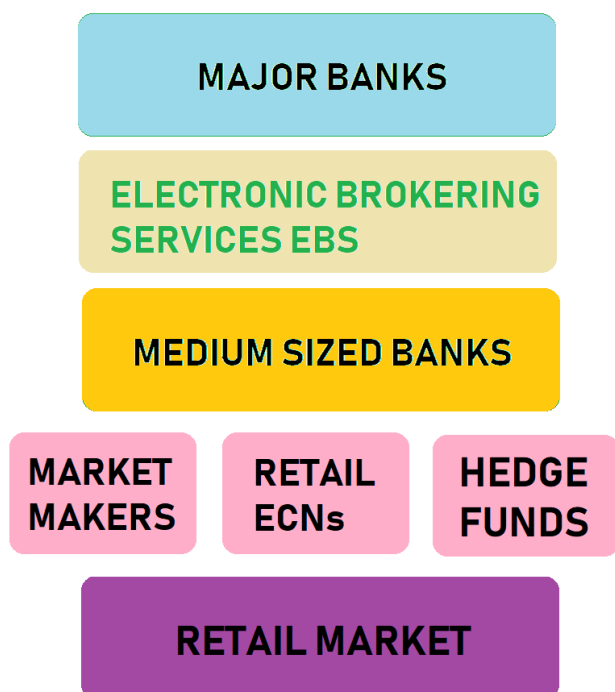
The Forex Market Network

The forex market is decentralized which means when you place a trade there is no central exchange which can benefit you as the price quotes that you receive are quotes that are available worldwide. If you select a good broker he will quote you the best offers at the current time.

In effect your broker receives quote from different currency dealers and so he can offer you the best of all of them.

The competition between dealers is so fierce that you get the best deal almost every single time.

The basic market structure in Forex is below.



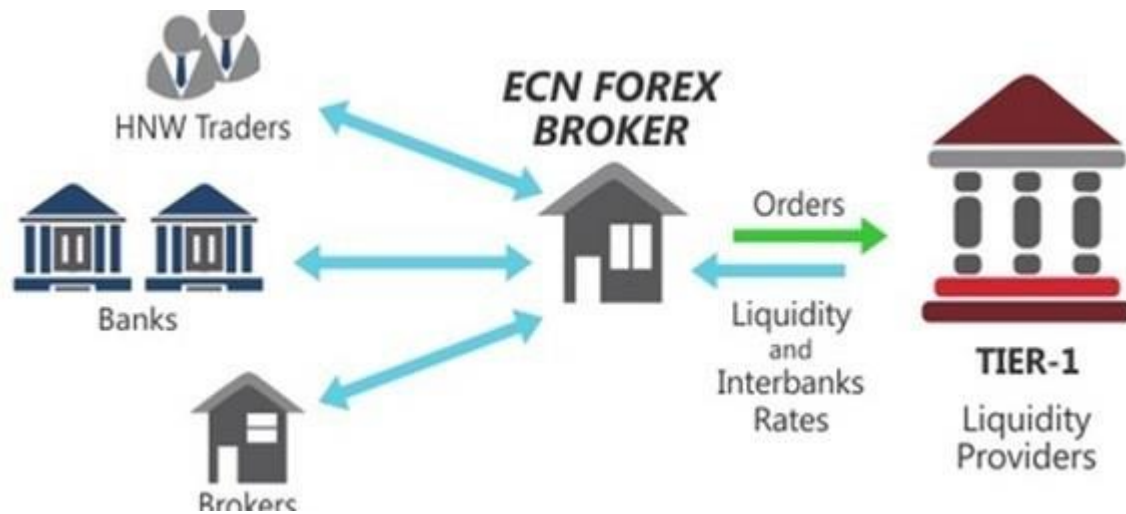
The major banks trade directly with each other through the EBS platform and the competition and the competition is fierce to remain at the top of the ladder.

For the EBS platform, EUR/USD, USD/JPY, EUR/JPY, EUR/CHF, and USD/CHF are more liquid. Meanwhile, for the Reuters platform, GBP/USD, EUR/GBP, USD/CAD, AUD/USD, and NZD/USD are more liquid.

What is a ECN

An ECN broker is a forex financial expert that uses electronic communications networks (ECNs) to give clients direct access to other participants in currency markets. Because an ECN broker consolidates price quotations from several market participants, it can generally offer its clients tighter bid/ask spreads than would be otherwise available to them.

An ECN broker facilitates trades for interested investors across the ECN. Working with brokers of this nature often results in lower fees as well as additional trading time availability because of how the ECN functions.



The Market are the Banks

The major Banks are Citi, JPMorgan, UBS, Barclays, Deutsche Bank and HSBC, those Banks are the Market

Large Commercial Companies

Large companies like Coca Cola participate in the market as when there doing business they ave a need to re patriate funds from over seas operations and many other reasons to trade foreign exchange

Governments and Central Banks

Governments and central banks, such as the **European Central Bank**, the **Bank of England**, and the **Federal Reserve**, are regularly involved in the forex market too.

Governments participate in the forex market for their operations, international trade payments, and handling their foreign exchange reserves.

Speculators

We as retail traders we would be considered amongst speculators as we look to capture future price movements.

Speculators analyze and forecast futures price movement, trading contracts with the hope of making a profit. Speculators put their money at risk and must be prepared to accept outright losses in the futures market



Bretton Woods

The **Bretton Woods system** of monetary management established the rules for commercial and financial relations among the United States, Canada, Western European countries, Australia, and Japan after the 1944 Bretton Woods Agreement. The Bretton Woods system was the first example of a fully negotiated monetary order intended to govern monetary relations among independent states. The chief features of the Bretton Woods system were an obligation for each country to adopt a monetary policy that maintained its external exchange rates within 1 percent by tying its currency to gold and the ability of the IMF to bridge temporary imbalances of payments. Also, there was a need to address the lack of cooperation among other countries and to prevent competitive devaluation of the currencies as well.

Preparing to rebuild the international economic system while World War II was still raging, 730 delegates from all 44 Allied nations gathered at the Mount Washington Hotel in Bretton Woods, New Hampshire, United States, for the United Nations Monetary and Financial Conference, also known as the Bretton Woods Conference. The delegates deliberated during 1–22 July 1944, and signed the Bretton Woods agreement on its final day. Setting up a system of rules, institutions, and procedures to regulate the international monetary system, these accords established the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD), which today is part of the World Bank Group. The United States, which controlled two thirds of the world's gold, insisted that the Bretton Woods system rest on both gold and the US dollar. Soviet representatives attended the conference but later declined to ratify the final agreements, charging that the institutions they had created were "branches of Wall Street".^[1] These organizations became operational in 1945 after a sufficient number of countries had ratified the agreement.

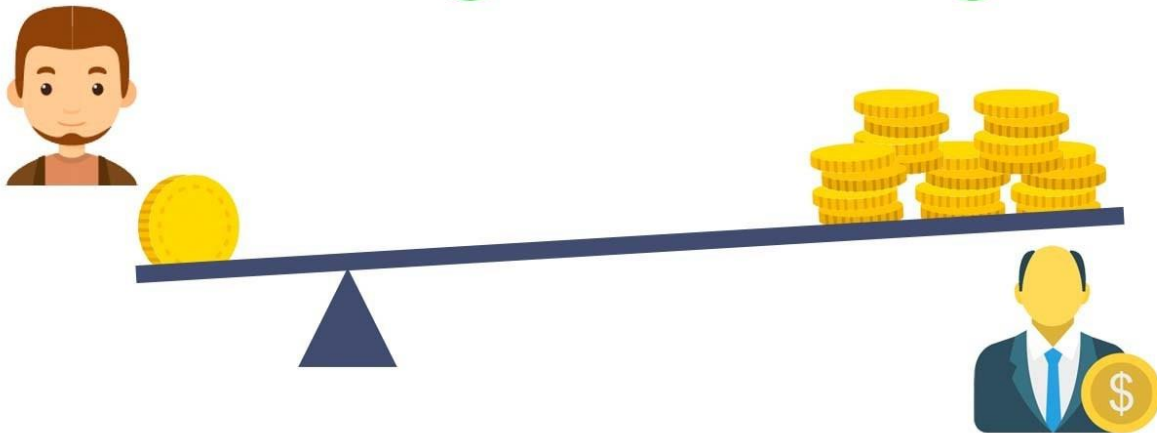
On 15 August 1971, the United States unilaterally terminated convertibility of the US dollar to gold, effectively bringing the Bretton Woods system to an end and rendering the dollar a fiat currency.^[2] This action, referred to as the Nixon shock, created the situation in which the U.S. dollar became a reserve currency used by many states. At the same time, many fixed currencies (such as the pound sterling) also became free-floating.



What is margin

Margin trading is a method of trading assets using funds provided by a third party. When compared to regular trading accounts, margin accounts allow traders to access greater sums of capital, allowing them to leverage their positions.

Understanding Margin Trading



Balance

When you open your Forex Account the amount you fund the account with is your account balance. This new account should only be funded with "risk capital", which is cash you can afford to lose.

The Balance essentially is your risk capital and the balance sheet of your trading portfolio which means your account balance.

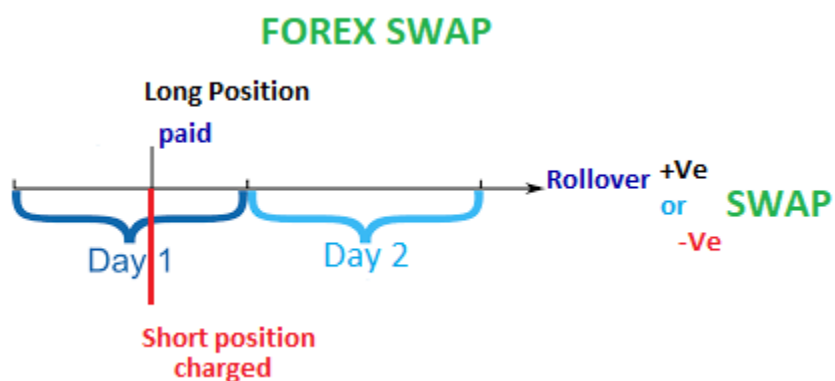
Balance = Cash and you must protect this cash at all cost

What are Swap Fees

Swap is an interest **fee** that is either paid or charged to you at the end of each trading day.

A **swap/rollover fee** is charged when you keep a position open overnight. A **forexswap** is the interest rate differential between the two currencies of the pair you are trading, and it is calculated according to whether your position is long or short.

Most brokers perform the rollover *automatically* by closing any open positions at the end of the day, while simultaneously opening an identical position for the following business day.



“Unrealized P/L” and “Realized P/L” and how they affect your Balance. (Floating)

Unrealized P/L. Unrealized P/L refers to the profit or loss held in your current open positions....your currently active trades. This is equal to the profit or loss that would be “realized” if all your open positions were closed immediately.

Unrealized P/L refers to the profit or loss held in your current open positions....your currently active trades.

Your unrealized P/L continuously fluctuates (or “floats”) with the current market prices if you have open positions. For example, if you currently have an unrealized profit, if price move against you, the unrealized profit can become an unrealized loss.

Floating Loss

So you currently have a Floating Loss of \$200 (200 pips x \$1). It is a Floating Loss because you have NOT closed the trade yet. Usually, when a loss remains floating, you are hoping that the price will turn around.



Realized P/L or a Realized Loss

Realized P/L. A **Realized Profit** is profit that comes from a completed trade. A **Realized Loss** is a **loss** that comes from a completed trade. In other words, your profits or **losses** only become **realized** when the positions are **CLOSED**.

Therefore the position is no longer floating.

Realized P/L

\$178.00

Types of Forex Market Analysis

There are three basic types of forex market analysis:

Technical Analysis
Fundamental Analysis
Sentiment Analysis

Now we know that there are three types lets look at them one by one and first we will look at Technical Analysts.

What do Technical Analysts do!

A technical analyst, also known as a chartist or market technician, is a securities researcher or trader who analyzes investments based on past market prices and technical indicators. Technicians believe that short-term price movements are the result of supply and demand forces in the market for a given security. Thus, for technicians, the fundamentals of the security are less relevant than the current balance of buyers and sellers. Based on the careful interpretation of past trading patterns, technical analysts try to discern this balance with the aim of predicting future price movements.

Technical analysis is a trading discipline employed to evaluate investments and identify trading opportunities by analyzing statistical trends gathered from trading activity, such as price movement and volume. Unlike fundamental analysts, who attempt to evaluate a security's intrinsic value, technical analysts focus on patterns of price movements, trading signals and various other analytical charting tools to evaluate a security's strength or weakness.

There is no broad consensus on the best method of identifying future price movements, so most technicians gradually develop their own set of trading rules based on their knowledge and experience.



Fundamental Analysis

Fundamental analysis is a method of measuring a security's intrinsic value by examining related economic and financial factors. Fundamental analysts study anything that can affect the security's value, from macroeconomic factors such as the state of the economy and industry conditions to microeconomic factors like the effectiveness of the company's management.

The end goal is to arrive at a number that an investor can compare with a security's current price in order to see whether the security is undervalued or overvalued.

Fundamental analysis uses public data to evaluate the value of a stock or any other type of security. For example, an investor can perform fundamental analysis on a bond's value by looking at economic factors such as interest rates and the overall state of the economy.



Sentiment Analysis

Currency gains and losses are a function of traders' interpretation of economic data or technical signals, understanding crowd psychology is also an essential tool in forex trading. This is where sentiment analysis comes in.

Sentiment analysis mostly focuses on how markets are feeling about risk. When traders are in the mood for more risk, they may generally pursue higher-yielding currencies and assets since they may feel confident about chasing higher returns. On the other hand, when traders aren't in the mood to take risks, they may put their money in safe-haven currencies and assets such as the US dollar or gold.

What are the tools that you can use to gauge market sentiment? One way to go about it is to watch the equity markets since stocks are generally considered riskier assets, which means that rallying equities or indices are indicative of risk appetite while falling stocks may reflect risk aversion.

