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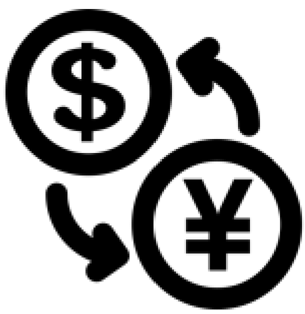
What is forex?

Quite simply, it’s the global market that allows one to trade two currencies against each other. If you think one currency will be stronger versus the other, and you end up correct, then you can make a profit.

If you’ve ever traveled to another country, you usually had to find a currency exchange booth at the airport, and then exchange the money you have in your wallet into the currency of the country you are visiting. An exchange rate is the relative price of two currencies from two different countries.



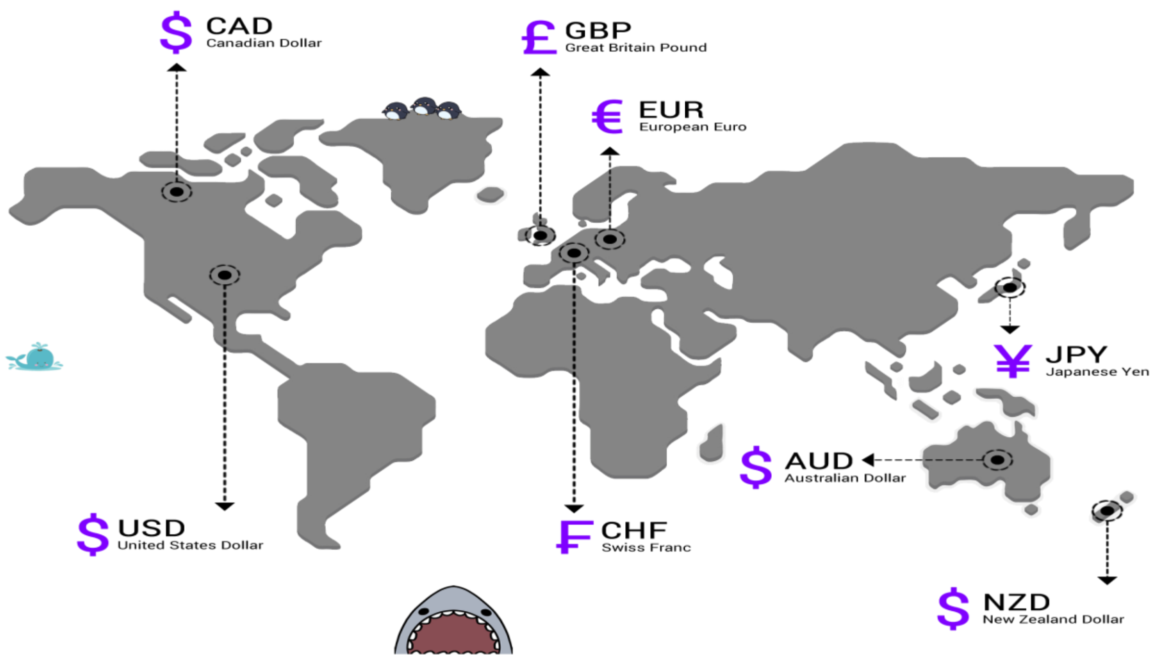
You find “Japanese yen” and think to yourself, “WOW! My one dollar is worth 100 yen?! And I have ten dollars! I’m going to be rich!!!”
When you do this, you’ve essentially participated in the forex market! You’ve exchanged one currency for another. Or in forex trading terms, you’ve sold dollars and bought yen. The foreign exchange market, which is usually known as “forex” or “FX,” is the largest financial market in the world. The FX market is a global, decentralized market where the world’s currencies change hands. Exchange rates change by the second so the market is constantly in flux. Only a tiny percentage of currency transactions happen in the “real economy” involving international trade and tourism like the airport example above. Instead, most of the currency transactions that occur in the global foreign exchange market are bought (and sold) for speculative reasons. Currency traders (also known as currency speculators) buy currencies hoping that they will be able to sell them at a higher price in the future.

Compared to the $22.4 billion per day volume of the New York Stock Exchange (NYSE), the foreign exchange market is huge with its $6.6 TRILLION a day trade volume. Aside from its size, the market also rarely closes! It's open round the clock. The forex market is open 24 hours a day and 5 days a week, only closing down during the weekend. (Saturday and Sunday)
So unlike the stock markets, the forex market does NOT close at the end of each business day. Instead, trading just shifts to different financial centers around the world. The day starts when traders wake up in Auckland/Wellington, then moves to Sydney, Singapore, Hong Kong, Tokyo, Frankfurt, London, and finally, New York, before trading starts all over again in Wellington!

What is traded in forex?

The simple answer is MONEY.
Because you're not buying anything physical, forex trading can be confusing so we'll use a simple analogy to help explain. Think of buying a currency as buying a share in a particular country, kinda like buying shares in a company. 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.

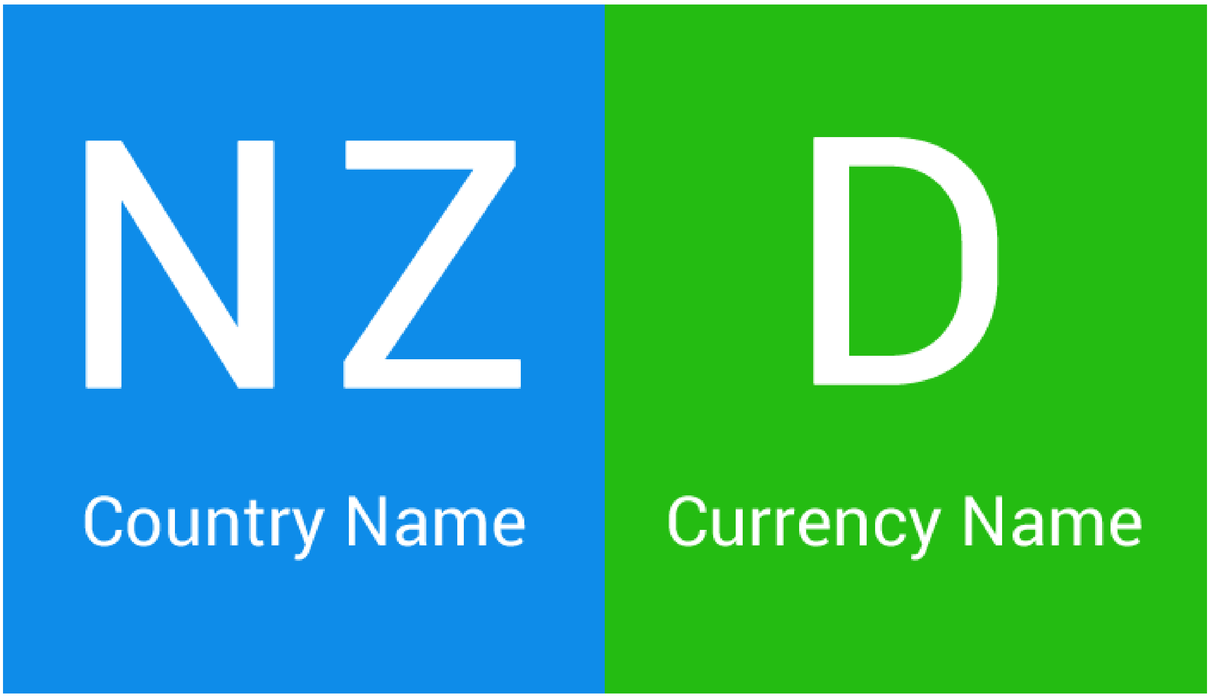
In forex trading, when you buy, say, the Japanese yen, you are basically buying a "share" in the Japanese economy.You are betting that the Japanese economy is doing well, and will even get better as time goes. Once you sell those "shares" back to the market, hopefully, you will end up with a profit. 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.



While there are potentially lots of currencies you can trade, as a new forex trader, you will probably start trading with the “major currencies“. They’re called “major currencies” because they’re the most heavily traded currencies and represent some of the world’s largest economies.
Forex traders differ on what they consider as “major currencies”.
Below, we list them by their symbol, country where they’re used, currency name

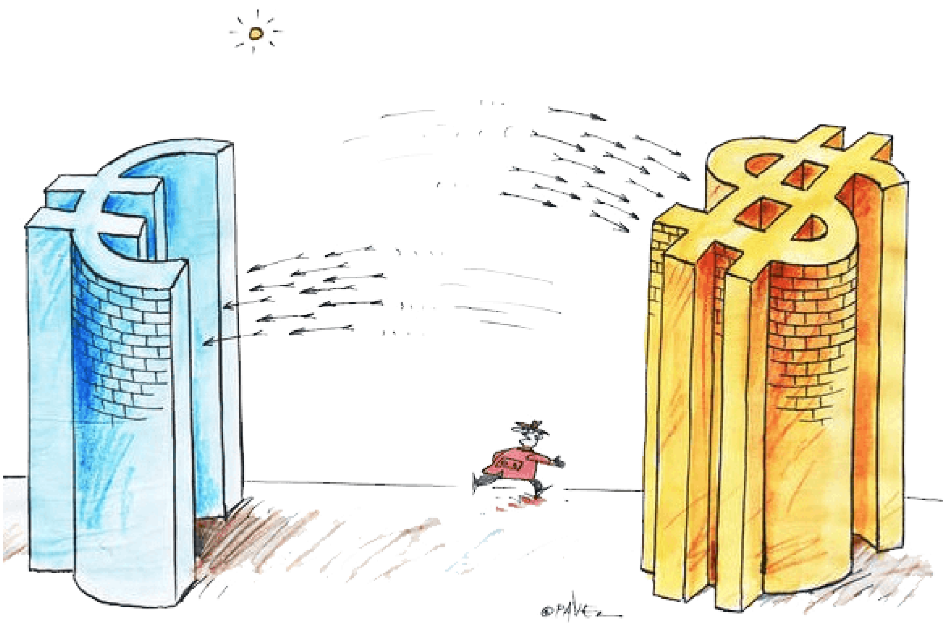
CODE	COUNTRY	CURRENCY
USD	United States	Dollar
EUR	Eurozone	Euro
JPY	Japan	Yen
GBP	Great Britain	Pound
CHF	Switzerland	Franc
CAD	Canada	Dollar
AUD	Australia	Dollar
NZD	New Zealand	Dollar

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, usually the first letter of the currency’s name.Take NZD for instance, NZ stands for New Zealand, while D stands for dollar.



Buying And Selling Currency Pairs

Forex trading is the simultaneous buying of one currency and selling another. Currencies are traded through a broker or dealer and are traded in pairs. Currencies are quoted in relation to another currency.
For example, the euro and the U.S. dollar (EUR/USD) or the British pound and the Japanese yen (GBP/JPY).



When you trade in the forex market, you buy or sell in currency pairs. An exchange rate is the relative price of two currencies from two different countries. Exchange rates fluctuate based on which currency is stronger at the moment.
There are three categories of currency pairs:

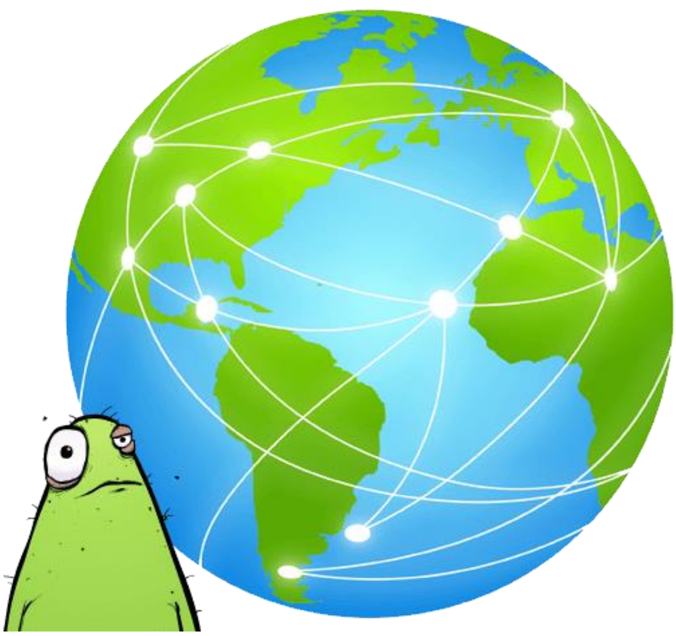
- The “majors“
- The “crosses“
- The “exotics“

The major currency pairs always include the U.S. dollar. Cross-currency pairs do NOT include the U.S. dollar. Crosses that involve any of the major currencies are also known as ” minors”. Exotic currency pairs consist of one major currency and one currency from an emerging market (EM).

What is a currency pair in forex?
A currency pair is a pairing of currencies where the value of one is relative to the other. For example, GBP/USD is the value of the British pound relative to the U.S. dollar.
What are the major currency pairs?
Major currency pairs (“majors”) are those that include the U.S. dollar and the most frequently traded. There are seven of them: EUR/USD, USD/JPY, GBPUSD, USD/CAD, USD/CHF, AUD/USD, and NZD/USD.
What are the currency crosses?
Currency crosses (“crosses”) are the more frequently traded currencies that do NOT include the U.S. dollar in their pairing. Crosses include EUR/GBP, EUR/CAD, GBP/JPY, EUR/CHF, EUR/JPY, etc.
How many currency pairs exist?
There are HUNDREDS of currency pairs in existence but not all can be traded in the FX market. The United Nations currently recognizes 180 currencies. If you were to pair each currency up with another, it’s a lot.

Forex Market Size And Liquidity

The bulk of forex trading takes place on what’s called the “interbank market“.
Unlike other financial markets like the New York Stock Exchange (NYSE) or London Stock Exchange (LSE), the forex market has neither a physical location nor a central exchange. The forex market is considered an over-the-counter (OTC) market due to the fact that the entire market is run electronically, within a network of banks, continuously over a 24-hour period. This means that the FX market is spread all over the globe with no central location. Trades can take place anywhere as long as you have an Internet connection!



The forex OTC market is by far the biggest and most popular financial market in the world, traded globally by a large number of individuals and organizations. In an OTC market, participants determine who they want to trade with depending on trading conditions, the attractiveness of prices, and the reputation of the trading counterparty

One important thing to note about the forex market is that while commercial and financial transactions are part of the trading volume, most currency trading is based on speculation. In other words, most of the trading volume comes from traders that buy and sell based on the short-term price movements of currency pairs. The trading volume brought about by speculators is estimated to be more than 90%

The scale of the forex market means that liquidity – the amount of buying and selling volume happening at any given time – is extremely high. This makes it very easy for anyone to buy and sell currencies.

From the perspective of a trader, liquidity is very important because it determines how easily price can change over a given time period. A liquid market environment like forex enables huge trading volumes to happen with very little effect on the price, or price action. While the forex market is relatively very liquid, the market depth could change depending on the currency pair and time of day.

The Dollar is King in the Forex Market

Significant reasons why the U.S. dollar plays a central role in the forex market:

- 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