**VIDEO DESCRIPTIONS**

1. **What is a PIP?**

Have you ever heard of PIP? PIP is of the utmost importance for forex traders.

Therefore, let’s dig deep into what a PIP is.

PIP, generally referred to as a point in price or percentage in point, is the smallest value change in the foreign exchange currency pair.

For example, take the EUR/USD currency pair; it changes from 1.0092 to 1.0093. The 0.001 USD jump is calculated as 1 PIP. The last decimal point value change is quoted as "PIP."

The majority of the currency pairs are calculated to four decimal points. However, the currency exchange rate in the USD/JPY currency pair is calculated to three decimal points, and here the pip value is calculated through the second decimal point (for example, 134.568).

1. **Bid and Ask Price**

In Forex trading, **BID and ASK** are the most important terms. It represents the two-way price quotation in which the best price is quoted between the buyer and the seller for the purchase of shares and stocks.

The **BID** price is about the buyer who is willing to buy the currency at the maximum rate, where as the **ASK** price is about the seller who is willing to sell the same currency irrespective of the dealer’s price quote. For example, if the buyer wants to purchase a stock for 10/-, he quotes his bid price as 10/-. In other words, if the seller is willing to sell it for 11/-, then he quotes his ASK price as 11/-. The business transaction happens only when the dealer buys the currency for the highest bid or if the retailer gets the best offer to sell the currency.

The difference between the bid and the ask price is called the spread, which we will be discussing in our next video.

1. **What is a SPREAD Price?**

A spread price is calculated as the difference between the **ASK** Price and the **BID** Price. It is a key part in Forex Trading. For example; If EURO and USD dollar is trading at an ASK Price for 0.10345 whereas the Buyer bids at 0.10344 then the spread is calculated as the difference between the ASK price and the BID Price.

In simple terms, SPREAD = ASK Price – BID Price

SPREAD = 0.10345-0.10344 = 0.0001 which is called as 1 PIP.

Similarly, for the YEN Based Currencies also; the SPREAD price is calculated as above.

1. **Currency Pair-What does it mean?**

In forex trading, currencies are paired to do business. In general, the first currency is referred to as the base currency, and the second currency represents a quote currency, or sometimes it is called the counter currency. Take the example of EURUSD. Here the European pound (EUR) is called the base currency and the American dollar (USD) is called the quote currency or counter currency.

For a better understanding of base and quote currencies, let’s discuss them in terms of exchange rates. As an example, let’s take an exchange rate of 1.32045. Here, 1 unit represents the base currency, and 1.32045 is called the quote currency. In other words, to buy one European pound, which is equivalent to 1.32045 American dollars, is needed.

1. **What is Major in Forex Trading?**

In the forex market, the excessively traded currency pairs are referred to as MAJOR. The main motive behind this is to gain maximum profits in the Forex industry. There are many currency pairs available to trade world-wide, but the major currency pairs that are traded mostly in the foreign market are:

EUP/USD - The Euro and the American Dollar.

USD/JPY - The American Dollar and the Japanese Yen.

GBP/USD - The British Pound Sterling and The American Dollar.

AUD/USD - The Australian Dollar and the American Dollar.

USD/CAD - The American Dollar and the Canadian Dollar.

NZD/USD - The NewZealand Dollar and The American Dollar.

In all the above major currency pairs, the American Dollar (USD) holds the current position as it is the world’s most powerful economy.

1. **What are Crosses or Cross Currency?**

Crosses or cross currencies are defined as a tag provided to all the traded currency pairs except the US dollar currency as it is currently the biggest economy in the world. The most active and commonly traded cross currency pairs across the world include:

EURJPY: Pair of the Euro and the Japanese Yen.

NZDJPY: Pair of New Zealand and Japanese Yens.

GBPJPY- British Pound and Japanese Yen pair.

EURGBP - The Euro-Great Britain Pound pair.

EURCHF is the currency pair of the Euro and the Swiss Franc.

AUDJPY-Australian Dollar and Japanese Yen pair.

These common cross currency pairs can be traded without first undergoing the first transaction with the American Dollar (USD). Take the example of the GBPJPY cross currency pair; here, England and Japan carry out the transactions without the involvement of the US dollar currency. As a result, there will be only one single transaction between the English and Japanese currencies and one spread crossed.

1. **What are Exotic Currency Pairs?**

The currencies of a small country or of a developing country are referred to as exotic currency pairs, or alternatively called third world currencies. These exotic currency pairs are less likely to be traded and less volatile because of the political and economic situations in that particular country.

Therefore, in the forex market, the cost of trading on these exotic currency pairs is higher when compared with majors or crosses. A few examples of exotic currency pairs are:

EURTRY is a currency pair that combines the Euro and the Turkish Lira.

USDTRY – The currency pair consisting of the US dollar and the Turkish lira.

USDMXN – The currency pair of the US dollar and the Mexican peso.

USDZAR – The currency pairs of the United States Dollar and the South African Rand.

USDSGD- The US Dollar and Singapore Dollar currency pairs.

1. **What Is A Lot???**

Generally, the trading of the currency pairs is carried out through the forex term "Lots." It is referred to as the total number of currency units that you are willing to buy or sell. In simple terms, it is defined as a unit to measure the transaction between the buyer and the seller.

There are various sizes to quote the lot, such as MINI (10,000), MICRO (1000) and NANO (100), but the standard size of the lot is always 100,000 units of currency. For example, 1 GBP/USD standard lot is equivalent to 100,000 British pounds. Similarly, 1 EUR/USD mini lot is equal to 10,000 euros, 1 AUD/USD macro lot is equal to 1000 American dollars, and 1 USDJYP nano lot is equal to 100 American dollars.

Finally, the size of the lot entirely depends on how you wish to perform the trade, whether it is on standard, micro, macro, or nano units, and also on your current trading assets and the amount of risk you are willing to take.

That's it. Let's meet in our next video: What is a PIP worth?

1. **What is A PIP’s Worth**

Earlier in one of the above videos, we have discussed – what a PIP is about. A PIP is a measurement of the smallest value change in the exchange rate of the currency pairs and it refers to the fourth decimal unit in the AUS/USD currency pair and the second decimal point in the Japanese Yen based currency.

However, what is an exact formula to calculate the worth of a One PIP. It is calculated as:

1 standard lot (100,000) of the Base Currency \* PIPS = Amount in the Quote Currency.

In EUR/USD currency pair, this formula can be applied as 1 standard lot(**€**1,000,000) \* 0.0001 = $10.

In Japanese based Yen currencies, the position of the PIP values differs:

So, here, the value of 1 PIP of USD/JPY is equal to 1 standard lot ($1,000,000)\*0.01 = ¥1000.