

GLOSSARY

A

Adjustment

Normally an official action by either change in economic policies or correction to an imbalance or currency rate.

Appreciation

A currency is said to appreciate when it strengthens in price in response to market demand.

Arbitrage

The purchase or sale of an instrument and simultaneous taking of an equal and opposite position in a related market, in order to take advantage of small price differentials between markets.

Around

Dealer jargon used in quoting when the forward premium/discount is near parity. For example, “two-two around” would translate into 2 points to either side of the present spot.

Ask (Offer) Price

Ask is the market selling price, the price at which the market is prepared to sell a specified Currency in a Foreign Exchange Contract or Cross Currency Contract. At this price, the trader can buy the base currency. In the quotation, it is shown on the right side of the quotation, for instance 1.4527-1.4532

Ask Rate

The rate at which a financial instrument is offered for sale (as in bid/ask spread).

Asset

An item having commercial or exchange value.

Asset Allocation

Investment practice that divides funds among different markets to achieve diversification for risk management purposes and/or expected returns consistent with an investor's objectives.

At or Better

An order to deal at a specific rate or better.

Aussie

Trade jargon for the AUD/USD currency pair.

B

Back Office

The departments and processes related to the settlement of financial transactions.

Balance of Trade

The value of a country's exports minus its imports.

Bar Chart

A type of chart consisting of vertical bars which have four significant points: the high and the low prices, the opening price, which is marked with a small horizontal line to the left of the bar, and the closing price, which is marked with a small horizontal line of the right of the bar.

Base Currency

The first currency in a Currency Pair. A currency against which the exchange rate is applied. Usually, it stands first in the codes of currency rates. It shows how much the base currency is worth as measured against the second currency. For instance, if the USD/CHF rate equals 1.6215, then one USD is worth CHF1.6215.

Bear Market

A market distinguished by declining prices.

Bid or Bid Price

Bid is the market buying price, the price at which the market is prepared

to buy a specified Currency in a Foreign Exchange Contract or Cross Currency Contract. At this price, the trader can sell foreign exchange. It is shown in the left side of the quotation, for example: 1.4527-1.4532

Bid Rate

The rate at which a trader is willing to buy a currency.

Bid/Ask Spread

The difference between the bid and offer price, and the most widely used measure of market liquidity.

Big Figure

Dealer expression referring to the first few digits of an exchange rate. These digits rarely change in normal market fluctuations, and therefore are omitted in dealer quotes, especially in times of high market activity. For example, a USD/Yen rate might be 107.30/107.35, but would be quoted verbally without the first three digits i.e. "30/35".

Book

In a professional trading environment, a 'book' is the summary of a trader's or desk's total positions.

Broker

An individual or firm that acts as an intermediary between buyers and sellers for a fee or commission.

Bretton Woods Agreement of 1944

An agreement that established fixed foreign exchange rates for major currencies, provided for central bank intervention in the currency markets, and pegged the price of gold at US \$35 per ounce. The agreement lasted until 1971, when President Nixon overturned the Bretton Woods agreement and established a floating exchange rate for the major currencies.

Bull Market

A market distinguished by rising prices in an upward trend.

Bundesbank

Germany's Central Bank.

Buy Limit order

An order to execute a trade at a specific limit price or lower.

C

Cable

Trader jargon referring to the GB Pound/US Dollar exchange rate. So called because the rate was originally transmitted via a transatlantic cable beginning in the mid 1800's.

Candlestick Chart

A chart that indicates the trading range for the day as well as the opening and closing price. If the open price is higher than the close price, the rectangle between the open and close price is shaded. If the close price is higher than the open price, that area of the chart is not shaded.

Carry

A credit or debit associated with maintaining a foreign exchange position overnight derived from the difference in interest rates for each currency.

Cash Market

The market in the actual financial instrument on which a futures or options contract is based.

Cash Settled

The closing out of currency contracts with the exchange of cash based upon the difference in the value of when the position was opened and the value of when it is closed, rather than the delivery of currency.

Central Bank

A government or quasi-governmental organization that manages a country's monetary policy. For example, the US central bank is the Federal Reserve, and the German central bank is the Bundesbank.

Cleared Funds

Funds that are freely available, sent in to settle a trade.

Clearing

The process of settling a trade.

Closed Position

Exposures in Foreign Currencies that no longer exist. The process of closing a position is the selling or buying a certain amount of currency to offset an equal amount of open positions. This will “square” the open position.

Commission

A fee charged by an institution to transact a trade on behalf of a customer.

Confirmation

A notification sent by a dealer to the customer describing the terms of a trade.

Contract

The standard unit of trading. Also referred to as a Lot.

Counter or Cross Currency

The second listed currency in a currency pair.

Counterparty

An opposing participant in a financial transaction.

Cross Currency Pairs

A foreign exchange transaction in which one foreign currency is traded against a second foreign currency.

Cross Rate

An exchange rate between two non-US currencies.

Currency symbols & nickname:

AUD Australian Dollar (Aussie)

CAD Canadian Dollar (Canadian)

EUR Euro Dollar (Euro)

JPY Japanese Yen (Yen)

GBP British Pound (Pound)

CHF Swiss Franc (Swissy)

Currency Pair

The two currencies that make up a foreign exchange rate (USD/CHF).

Currency Risk

The probability of an adverse change in exchange rates.

D

Day order

An order that will expire automatically at the end of the trading day for which it is entered.

Day trade

A trade opened and closed on the same trading day.

Dealer

An individual or firm who acts as a principal or counterpart to a transaction. Principals take one side of a position, hoping to earn a profit by closing out the position in a subsequent trade with another party.

Deficit

A negative balance of trade or payments.

Delivery

A Forex trade where both parties make and take actual delivery of the currencies traded.

Depreciation

A fall in the value of a currency due to market forces.

Derivative

A contract that changes in value in relation to the price movements of a related or underlying security, future or other physical instrument. An Option is the most common derivative instrument.

Devaluation

The downward adjustment of a currency's price.

Dollar Value

The amount of lawful currency of the United States which at any moment in time would be generated by the conversion of the relevant Foreign Currency into U.S. Dollars at the broker then prevailing exchange rates for buying or selling such Foreign Currency.

E

ECB (European Central Bank)

The Central Bank for the European Monetary Union.

Equity

The amount currently held in a customer's account calculated as if all the opened positions will be closed at the current market quotes. The account is comprised of Unrealized gains, less Unrealized Losses and plus or minus storage.

Euro

The currency of the European Monetary Union (EMU).

Euro Zone

The group of fifteen countries that have combined their currencies into a single currency (Euro). They still have separate sovereignties, but also have a combined central bank (ECB) which handles economic policy

issues for them as one group.

European Central Bank (ECB)

The Central Bank for the European Monetary Union (EMU).

Execution

The process of completing an order or transaction.

F

Federal Reserve (Fed)

The Central Bank for the United States.

Fill Price

The price at which a buy or sell order was executed.

Filled Trade

A trade that is fully executed on behalf of a Customer's Account pursuant to an Order. Once filled, an Order cannot be cancelled, amended or waived by Customer.

Floating profit (loss)

Unrealized profit (loss) in an open position.

Flat

Trade jargon which describes a position that has been completely reversed thereby creating a neutral or "flat" position.

Free margin

Available funds in the client's account not currently being used to support existing trading positions, which can be used to open new positions.

Foreign Currency

The legal tender issued by and acceptable for the payment of obligations

under the laws of one or more countries, other than the United States of America .

Foreign Exchange Contract

A Spot Contract for the purchase or sale of a Foreign Currency.

Foreign Exchange Rate

The price relationships between two currencies that are freely determined by the forces of supply and demand.

Foreign Exchange (Forex) Trading

Buying and selling foreign currencies.^{[1][2]}* The Forex market is an “off-exchange” market which may affect your trading outcome.

Forward

The pre-specified exchange rate for a foreign exchange contract settling at some agreed future date, based upon the interest rate differential between the two currencies involved.

Forward Points

The pips added to or subtracted from the current exchange rate to calculate a forward price.

Forward Price (Rate)

The resulting net price from subtracting the forward points from the existing spot rate. This rate is the rate for which a currency can be purchased or sold for future delivery.

Fundamental Analysis

Analysis of economic and political information with the objective of determining future movements in a financial market.

G

G7

The seven leading industrial countries, being US , Germany, Japan,

France, UK, Canada, Italy.

Going Long

The purchase of a stock, commodity, or currency for investment or speculation.

Going Short

The selling of a currency or instrument not owned by the seller.

Good Till Cancelled Order (GTC)

A trade Order placed for a specific amount of time to buy or sell a foreign currency.

Gross Domestic Product (GDP)

Total value of a country's output, income or expenditure produced within the country's physical borders.

Gross National Product (GNP)

Gross domestic product plus income earned from investment or work abroad.

H

Hedge

A position or combination of positions to reduce the risk of adverse price movements of a primary position.

I

Initial Margin Requirement (Opening Margin Requirement)

The minimum Margin required to establish a new Open Position.

Interbank Rates

The Foreign Exchange rates at which large international banks quote other large international banks.

Intervention

Action by a central bank to effect the value of its currency by entering the market. Concerted intervention refers to action by a number of central banks to control exchange rates.

K

Kiwi

Trade jargon for the New Zealand dollar.

L

Leading Indicators

Statistical information used predict future economic activity.

Leverage

The ratio of the amount used in a transaction to the required security deposit (margin).

Limit Order

An order to buy or sell Foreign Currency, or pairs of Currencies, at a specified price or exchange rate. A Limit Order to buy generally will be executed when the ask price equals or falls below the price or exchange rate specified in the Limit Order. A Limit Order to sell generally will be executed when the bid price equals or exceeds the price or exchange rate specified in the Limit Order. Customers should note, however, that market conditions may often prevent execution of an individual Customer's Limit Order despite other dealing activity at that price level.

Liquidating Order

An Order to close out one or more Open Positions.

Liquidity

The ability of a market to accept large transaction with minimal to no impact on price stability.

Long Position

In foreign exchange trading, when the base currency in the pair is bought, the position is said to be long in that currency. It is understood that when the base currency in the pair is 'long', the second currency will be 'short'.

Loss

Loss incurred as a result of a transaction.

Lot

A unit to measure the amount of the deal. The value of the deal always corresponds to an integer number of lots. Also referred to as a Contract.

M

Maintenance

A set minimum margin a client must maintain in a margin account.

Margin

The amount of cash or other eligible collateral that the broker requires a Customer to deposit or maintain in the customer's account in connection with the customer's trading activity.

Margin Call

A demand for the deposit of additional margin.

Mark-To-market

The assumed value of an open position at the current market price.

Market close

The time of day that a market closes. Since the Forex is a 24-hour market, there is no official market close. However, 5:00 PM Eastern is understood as market close because the date for a spot Forex transaction changes to the next date at that time.

Market Order

An order to buy or sell the identified currency, or pairs of currencies, at the current market price. An order to buy is executed at the ask price; and order to sell is executed at the bid price.

Market Rate/Quote

The current quote of a currency pair.

Market risk

The risk associated with market pressure on the value of a position.

Market Value

The Dollar Value, determined by the current foreign exchange rates that the Customer would receive if the position were liquidated for immediate delivery in the relevant market.

Maturity

The date for settlement or expiry of a financial instrument.

Momentum

The perceived strength of price movement in an upward or downward trend.

N

Net Position

The amount of currency bought or sold that is not offset by opposite transaction.

O

Offer (ask)

The rate at which a dealer is willing to sell a currency. See Ask (offer) price

Offsetting transaction

A trade with which serves to cancel or offset some or all of the market risk of an open position.

One Cancels the Other Order (OCO)

A type of trade using two orders whereby when order is executed the other order is automatically cancelled.

Open order

An order that will be executed when a market moves to its designated price. Normally associated with Good 'til Cancelled Orders.

Open position

Any deal that has not been offset by an equal and opposite deal.

Over the Counter (OTC)

Used to describe any transaction that is not conducted over an exchange.

Overnight Position

Trader's open long or short position that is not closed by the end of a trading day.

Opening Transaction

An order that, when executed, establishes a Long Position or Short Position, or increases an existing position.

Order

Generally, an instruction by a Customer (or Customer's authorized

agent) to the broker to attempt to execute a trade for Customer's Account.

Overnight Position

Trader's open long or short position that is not closed by the end of a trading day.

P

Pip

The smallest unit of price for any Foreign Currency (e.g., for USD/CHF one point (or pip) equals .0001 Swiss Francs and for USD/JPY one point (or pip) equals 0.01 Japanese Yen). PIP is an abbreviation for Price Interest Point.

Posted Margin

That part of the Margin Balance that is posted to the broker in support of the Customer's Open Position and Unrealized Losses.

Pound

Trade jargon for the Great British Pound.

Premium

In the currency markets, describes the amount by which the forward or futures price exceed the spot price.

Price

The value at which the base currency can be bought or sold.

Profit / Loss or "P/L" or Gain/Loss

The actual gain or loss in U.S. Dollars resulting from trading activities on Closed Positions, plus the theoretical gain or loss on Open Positions that have been Marked to Market.

Q

Quote

A simultaneous bid and offer in a currency pair.

R

Rally

A substantial rise in price after a period of decline.

Range

The difference between the highest and lowest price recorded during a given trading session.

Rate

The price of one currency in terms of another, typically used for dealing purposes.

Realized Gain/LossEuro

The actual gain or loss resulting from closing an open position.

Resistance

A term used in technical analysis indicating the inability for price to rise higher than a specific level.

Revaluation

An increase in the exchange rate for a currency as a result of central bank intervention.

Risk

Exposure to uncertain change, most often used with a negative connotation of adverse change.

Risk Management

The utilization of financial analysis and trading techniques to reduce and/or control exposure to various types of risk.

Rollovers

The process of extending an existing market position through one or more Spot Settlements.

Round trip

Buying and selling of a specified amount of currency.

S

Sell limit order

An order to execute a trade at a specified price limit or higher.

Selling short

A trading technique of selling a currency with the intent of buying back the position at a lower price to make a profit.

Settlement

The process by which a trade is entered into the books and records of the counterparts to a transaction. The settlement of currency trades may or may not involve the actual physical exchange of one currency for another.

Short Margin

The client's account condition when Equity becomes smaller than the amount required to keep the positions open.

Short position

Selling a currency in which you have no position in anticipation of it falling in value. At that point you will be able to "cover" your short by buying back the currency at a lower price. (If physical delivery of the currency is involved, the short seller will need to borrow the currency in order to make the delivery to the buyer). In foreign exchange, when the base currency in the pair is sold, the position is said to be short in that

currency. It is understood that when the base currency in the pair is 'short', the second currency will be 'long'.

Spot Contract

A Contract where settlement is in two Business Days.

Spot Market

The market where traders execute buy and sell orders for actual financial instruments, currencies, for two-day delivery.

Spot Price (Rate)

The rate of exchange between two Foreign Currencies for "Spot" value (normally settlement in two Business Days), generally quoted either in "U.S. Terms" (price of one unit of Foreign Currency expressed in U.S. Dollars and Cents) or in "European Terms" (price of one U.S. Dollar expressed in units and decimals of the Foreign Currency).

Spread

The difference between the ask (offer) and bid price in a market quote. The spread is the reason why a newly opened position's mark to market, or valuation, will likely be negative. If a trader buys a particular currency he will pay the ask (offer) price, but the current mark to market will be based upon what the marketplace is presently paying for this currency. That price would be found on the bid side of the market quote, 5 pips lower than where she just bought the currency.

Sterling

Trade jargon for the Great British Pound.

Stop-Loss Order

An order to buy or sell at a specified Foreign Exchange Rate away from the current market for the purpose of liquidating all or part of an Open Position during market conditions in which the Open Position has declined in value. Execution of such an order can occur at rates below (or above) the specified Foreign Exchange Rate.

Support

A term used in technical analysis indicating the inability for price to drop lower than a specific level.

Support level

A technical price level at which a currency will gain more buying pressure.

Swap

A currency swap is the simultaneous sale and purchase of the same amount of a given currency at a forward exchange rate.

Swissy

Trade jargon for the USD/CHF currency pair.

T

Take profit order

An order to buy or sell a currency pair thus liquidating part or all of an open position resulting in a profit on that position.

Tick

The minimum change in price, up or down.

Trade Date

With respect to any Contract, the date on which the Contract is entered into between the broker and Customer, except in the case of any Contract entered into after the Daily Cut-off following, but before the next relevant Business Day, in which case the Trade Date shall be the next following Business Day.

Transaction Cost

The cost of buying or selling a financial instrument.

Transaction Date

The date on which a trade occurs.

Turnover

The total money value of all executed transactions in a given time period; volume.

Two-Way Price

When both a bid and offer rate is quoted for a FX transaction.

U

Unrealized Gain/Loss

The theoretical gain or loss on open positions valued at current market rates, as determined by the broker in its sole discretion. Unrealized Gains/losses become Profits/Losses when position is closed.

Uptick

A new price quote at a price higher than the preceding quote.

Used Margin

The amount in the client's account required to support all the current positions.

V

Value Date

The date on which counterparts to a financial transaction agree to settle their respective obligations, i.e., exchanging payments. For spot currency transactions, the value date is normally two business days forward. Also referred to as maturity date.

Variation Margin

Funds a broker must request from the client to have the required margin deposited. The term usually refers to additional funds that must be deposited as a result of unfavorable price movements.

Volatility (Vol)

A statistical measure of a market's price movements over time.

W

Whipsaw

Trade jargon for an occurrence when price moves sharply in one direction then followed by a sharp reversal, usually in highly volatile market.

Y

Yard

Trade jargon for a billion.

Yen

Trade jargon for the USD/Japanese Yen currency pair.

