

"The Professional's Blueprint: What is Forex and How the Market Actually Moves"

The forex (foreign exchange) market works as a global, decentralized network where traders buy and sell currency pairs (like EUR/USD) to profit from fluctuations in exchange rates, betting on one currency strengthening or weakening against another, using brokers for access and platforms for trading, all running 24/5. It's the world's largest financial market, allowing speculation, hedging, and currency conversion, with prices set by supply and demand influenced by economic factors.



The global foreign exchange (Forex) market remains the most liquid financial market in the world, with average daily turnover reaching **\$9.6 trillion** in **2025**. As of **February 7, 2026**, the market is currently closed for the weekend, but it concluded the first week of February with notable volatility driven by central bank decisions in the UK and Australia, and evolving US economic data.

Key Concepts you must know:

- **Currency Pairs:** Currencies are always traded in pairs (e.g., GBP/USD), showing how much of the second currency (quote currency) is needed to buy one unit of the first (base currency).
- **Exchange Rates:** The price of a currency pair, indicating its value relative to another currency.
- **Over-the-Counter (OTC):** There's no central exchange; trades happen electronically between a global network of banks, brokers, and institutions.
- **24/5 Operation:** The market runs around the clock, five days a week, moving across global financial centers.

How a Trade Works?

- **Choose a Pair:** Decide on a currency pair (e.g., EUR/USD).

- **Predict Movement:** Estimate if the base currency (EUR) will strengthen or weaken against the quote currency (USD).
- **Place Order:** Use a broker's platform to buy (go long) or sell (go short) the pair.
- **Profit/Loss:** If your prediction is right, you profit when you close the trade; if wrong, you lose.

Forex Market Participants & Tools

- **Participants:** Banks, central banks, hedge funds, companies, and individual investors.
- **Brokers** : Provide platforms and access to the market for retail traders.
- **Analysis:** Traders use technical (charts, patterns) and fundamental (economic news) analysis to make decisions.
- **Leverage** : Allows traders to control larger positions with less capital, amplifying potential gains and losses.

The Interbank Market

The interbank is a network of banks that trade currencies and currency derivatives. These participants often deal directly with each other, but sometimes use electronic brokering platforms. The interbank market for foreign exchange serves both commercial currency transactions as well as more speculative, short-term currency trading. Institutions and corporations usually transact on the foreign exchange market because they are importers or exporters, and need the foreign cash to close deals. Often, these larger players can also use the market to hedge certain currency risk. There are also lots of speculative transactions initiated on the foreign exchange market, by both large firms such as hedge funds, as well as the smaller retail traders.

Why is Forex traded?

Forex (foreign exchange) is traded primarily to facilitate **international trade and investment**, manage **currency risk**, and generate profit through **speculation**. As the world's largest financial market, it sees a daily turnover of approximately **\$9.6 trillion** in 2026

Primary Reasons for Forex Trading

- **International Commerce:** Businesses trade Forex to pay for imported goods and services in foreign currencies. For example, a company in India buying technology from Japan must exchange rupees for yen to settle the transaction.

- **Hedging (Risk Management):** Multinational corporations and investors use the market to protect themselves from adverse exchange rate movements. By "locking in" a rate for a future date through forward contracts, they ensure stable costs and revenues despite market volatility.
- **Speculation:** The vast majority of Forex trades are made to profit from fluctuations in currency values. Traders analyze economic indicators, such as interest rates and geopolitical events, to predict whether one currency will strengthen or weaken against another.
- **Central Bank Intervention:** Central banks, like the **U.S. Federal Reserve** or the **Reserve Bank of India**, trade to manage their nation's money supply, stabilize their currency, or influence inflation and economic growth.
- **Investment Diversification:** Investors trade currencies to diversify their portfolios, as currency movements are often uncorrelated with traditional stocks and bonds

Participant	Primary Objective	Key Tools Used
Multinational Corporations	Hedging & Trade	Forwards, Swaps, Spot trades
Central Banks	Economic Stability	Open Market Operations, Interest Rates
Investment/Hedge Funds	Profit & Speculation	Algorithmic trading, Derivatives
Commercial Banks	Facilitating Client Trades	Interbank market, Spot transactions
Retail Traders	Speculation	Online platforms, Mobile apps, AI bots

Buy/Sell or Long /Short

FX trading gives you the possibility of profiting from either side of the market; no matter if prices are rising or falling. Since trading currency pairs inherently means you are always buying one currency and selling it against the another, every trade will see you both short and long at the respective currencies at the same time.

Essentially, you can profit from any direction. The trick is figuring out which will be the strongest pair, and which will be the weakest.

Global opportunity 24 hours

Forex is a global market, which means it is possible to trade at almost any hour on any day.

There are of course specific sessions where more volume takes place, and this is usually split into 3 categories: Asian, London, and New York sessions. The bottom line is, forex is a truly global market, so there will always be opportunities to trade, no matter where you are or when you have the time to trade.

Highly Liquid Market

Foreign exchange is by traditional definitions the most liquid market in the world, with thousands of buyers and sellers looking to trade at all hours.

Since Forex offers such high liquidity, even large transactions can be completed with ease and with little to no impact on price. As a result, spreads and transaction costs are often low. For traders, this means they can speculate on even the smallest of price fluctuations.

- **High Leverage Market**

Leverage gives trades the ability to open positions on the forex market with only a small portion of the total value upfront (known as margin). Margin is a double edged sword, since it can amplify gains as well as losses. It's a great tool if you're on the right side of a move, since you can make a large profit with very little cost. But it can be disastrous if you get caught on the wrong side, especially in a fast moving market. This is why it is important for forex traders to know risk management

- **Volatility**

With billions of dollars changing hands every minute, the price movements of some currencies are highly volatile due to the high volume of forex trades each day. Speculation on price movements in either direction can result in large profits. Risk-management tools help limit your exposure to volatility, which can rapidly turn against you.

- **Lot Size**

Most currency pairs used standardized lots – batches of currency used to trade. Lots tend to be very large in forex because currency movements are small: a standard lot being 100,000 units of the

base currency. This is one of the reasons why forex trading is so highly leveraged, but this is not usually the minimum trade size of most Forex brokers anyway, which usually also offer micro lots. The advantage of lots is that they can be specific down to the tens of thousands, meaning traders can more precisely calculate risk and position sizing.

Overview

The major forex trading activities are spread over four major forex trading centres and four time zones: Sydney, Tokyo, London, New York .As there is no central location, the forex market is remained open 24 hours a day 6 days a week..Foreign exchange is not traded on exchanges like most other markets, but rather directly between multiple parties as the market is decentralized.



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