Foreign Exchange Market

The Foreign Exchange Market (Forex or FX Market) is the global marketplace where currencies are bought and sold. It's the largest and most liquid financial market in the world, with daily trading volumes exceeding $7 trillion as of recent estimates.

Here's a breakdown of key concepts:

What Is the Forex Market?

A decentralized, over-the-counter (OTC) market.

Open 24 hours a day, five days a week (Monday to Friday).

Involves banks, corporations, governments, financial institutions, and individual traders.

Main Functions:

Currency Conversion: For international trade and investment.

Hedging: To protect against currency risks.

Speculation: To profit from changes in exchange rates.

Arbitrage: Taking advantage of price differences in different markets.

Major Currency Pairs:

These make up the majority of forex trading:

EUR/USD (Euro/US Dollar)

USD/JPY (US Dollar/Japanese Yen)

GBP/USD (British Pound/US Dollar)

USD/CHF (US Dollar/Swiss Franc)

Forex Market Sessions:

Sydney – Opens first (Australia)

Tokyo – Asian session

London – European session

New York – North American session

These overlap at certain times, increasing liquidity and volatility.

Exchange Rate Systems:

Floating Exchange Rate: Determined by supply and demand (e.g., USD, EUR).

Fixed Exchange Rate: Pegged to another currency (e.g., Hong Kong Dollar to USD).

Managed Float: A mix of market forces and government intervention (e.g., Indian Rupee).

Participants:

Central Banks

Commercial Banks

Corporations

Investment Funds

Retail Traders

Risks Involved:

Market Risk: Currency fluctuations.

Leverage Risk: High leverage can magnify losses.

Interest Rate Risk

Political/Economic Risk