

Title:

What Is Currency Trading?

Word Count:

418

Summary:

Currency trading is the largest market on the planet. It is estimated that in excess of US\$2 trillion is traded every day. Compare this to the New York Stock Exchange's daily transactions of approximately US\$50 billion, and you can see that the magnitude of the currency trading market exceeds all other equity markets in the world combined. The practice of currency trading is also commonly referred to as foreign exchange, Forex, or FX, for short.

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Article Body:

Currency trading is the largest market on the planet. It is estimated that in excess of US\$2 trillion is traded every day. Compare this to the New York Stock Exchange's daily transactions of approximately US\$50 billion, and you can see that the magnitude of the currency trading market exceeds all other equity markets in the world combined. The practice of currency trading is also commonly referred to as foreign exchange, Forex, or FX, for short.

All currency has a value relative to other currencies on the planet. Currency trading uses the purchase and sale of large quantities of currency to leverage the shifts in relative value into profit.

What is the FX market?

The FX market is different from other markets in some other key ways that are sure to raise eyebrows. Think that the EUR/USD is going to spiral downward? Feel free to short the pair at will. There is no uptick rule in FX as there is in stocks. There are also no limits on the size of your position (as there are in futures); so, in theory, you could sell \$100 billion worth of currency if you had the capital to do it. If your biggest Japanese client, who also happens to golf with Toshihiko Fukui, the Governor of the Bank of Japan, told you on the

golf course that BOJ is planning to raise rates at its next meeting, you could go right ahead and buy as much yen as you like. No one will ever prosecute you for insider trading should your bet pay off. There is no such thing as insider trading in FX; in fact, European economic data, such as German employment figures, are often leaked days before they are officially released.

Which currencies are Traded?

Although some retail dealers trade exotic currencies such as the Thai baht or the Czech koruna, the majority trade the seven most liquid currency pairs in the world, which are the four majors:

EUR/USD (euro/dollar)
USD/JPY (dollar/Japanese yen)
GBP/USD (British pound/dollar)
USD/CHF (dollar/Swiss franc)

and the three commodity pairs:

AUD/USD (Australian dollar/dollar)
USD/CAD (dollar/Canadian dollar)
NZD/USD (New Zealand dollar/dollar)

These currency pairs, along with their various combinations (such as EUR/JPY, GBP/JPY and EUR/GBP) account for more than 95% of all speculative trading in FX. Given the small number of trading instruments - only 18 pairs and crosses are actively traded - the FX market is far more concentrated than the stock market.