

Title:

Do You Know Your Currency Pairs?

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467

Summary:

This article describes each currency's characteristics. Being familiar with the fundamentals of what events move your currency is vital in the success of your trading.

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Article Body:

When I thought about some of the first things I learned before trading the Forex market, fundamental analysis came to mind. Fundamental analysis refers to factors that affect the price of a currency pair. It is important not only to perform technical analysis based on your charts and indicators, but to also be aware of the macroeconomic events that can affect a currency pair. What helped me in my forex education was learning each currency's characteristics. Whichever pair or pairs you choose to trade, knowing each of their characteristics is extremely valuable because it aids in the accuracy of any trade you perform.

Europe- Euro. This currency is rather new. It began trading in 1999; however the EURO/USD pair is the most traded. Because of this, the EURO/USD is very liquid. The euro is greatly affected by interest rates. If you are trading the EURO/USD pair, you must pay attention to the Euribor (Europe's three-month interest rate), to watch for any changes in investor reactions when trading the EURO/USD pair since the Usd and Euro rates affect each other. The EURO/USD is my personal favorite pair because of the many opportunities it gives for potential trades.

Japan- Japanese Yen. Japan is the largest economy in East Asia; therefore the yen is used as an alternate for the whole region's economy. If there is trouble in the surrounding countries, the yen may drop in value. The Bank of Japan is known for intervening in the forex market to defend the yen's value. Another factor affecting the yen is the overall strength of its banking sector.

United Kingdom- British Pound. This currency is important to watch because the U.K. is one of the largest economies in the world. The pound is affected by energy and oil prices. As they rise, the pound should strengthen.

Switzerland- Swiss Franc. The Swiss Franc is known as an investor's safe haven in times of crisis and uncertainty. Since Switzerland's banks controls much of the world's wealth, any reports of bank mergers and/or poor earnings directly affect the value of the franc.

"The Commodity currencies" as they are called refer to the Canadian, Australian, and New Zealand dollars. Since commodities consist of the majority of Canada's exports, the currency will strength or weaken depending on these prices. Usually the Usd and Cad will normally trend in the same direction because most of Canada's exports are shipped to the U.S.

Australia- Australian Dollar. The Australian dollar is most connected to gold prices. The interest rate differential is monitored because it can guide the long-term trend.

New Zealand- New Zealand Dollar. The New Zealand dollar is linked to commodity prices. It is also closely related to the Australian dollar, meaning they can act as alternatives for each other.