Title:
Understanding the Basics of Forex Trading

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Summary:
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Article Body:
Forex trading or Foreign Exchange Trading refers to the simultaneous trading—that is, buying and selling—of two different currencies. It is done between and among major financial institutions, central banks, small retail currency traders or speculators, large international companies, government institutions, companies with overseas operations and the like.

Based on the amount of money being traded, the international forex trading market is the world's biggest financial market. Everyday, forex trading market gets an average revenue of $US 1 trillion—an amount far greater than the total revenues produced by all the stock and bond markets in the world.

Characteristics

Forex trading is a kind of over-the-counter trading—it occurs directly between to financial institutions or currency traders. The trading markets may be interconnected but there is no single unified market. Hence, there is also no single or standard rate. Each rate or price depends on what is being traded. However, the traders traditionally use nearly similar rates.

Another characteristic of a forex trading is that it operates 24 hours; thus, one can trade any time of the day. Also, there is no need of an exchange floor, it operates through a global electronic network where trading occurs over the telephone and computer networks. This characteristic also prevents delays that consume a lot of time.

Forex trading market is also very competitive and is highly liquid. This allows the parties to get low dealing costs and better price.

Top Currency Traders and Major Currencies Traded

Wall Street Journal Europe says ten major currencies account for 73 percent of the total forex trading volume. Among them are Deutsche Bank, UBS, Citigroup, HSBC, Barclays, Merrill Lynch, J.P. Morgan Chase, Goldman Sachs, ABN Amro, and Morgan Stanley.

Among the currencies mostly traded are the US, Canadian, and Australian dollars; Euro; Yen; and Swiss Franc.

A study conducted by the Bank for International Settlements says that the most traded products are Euro/USD, USD/JPY, and GBP/USD. The study noted that in spite euro’s continuous growth, forex trading market remains to be concentrated in dollars.

The Trade

Trade happens when you accept the offered price and when the dealer confirms. Exchange floor is no longer required, as mentioned earlier.

In every trade, two currencies are always involved and the currencies traded serve as the products traded. Each currency has a price expressed in another currency such as 1 euro is equivalent to 1.204 dollar. In the said example, the euro trader sells the euro and buys the dollar. There are no further costs in the trade. There are no commissions and other fees as well.

Large multinational companies engage in forex trading when they are buying from and selling goods to other countries. However, this kind of forex trading encompass only a small portion of he daily activities in the foreign exchange market. Most of the trading activities are carried out by currency speculators who earn from the changes in value of a particular currency.

Key players in the Market

BIS study shows that more than 50%of the forex trading transactions are interbank transactions. Trading revenues of most commercial establishments and currency speculators are deposited in the bank.

Central banks also play a big role in the forex trading market. These banks control the supply of money, interest, inflation and target rates in order to stabilize the forex trading market.