

Title:

An Introduction to Currency Correlation

Word Count:

495

Summary:

A brief overview of how different pairs of currencies will affect each other. How the activity of a single currency may affect movement in a pair

Keywords:

Daytrading, currency trading, forex, technical analysis

Article Body:

Global currencies don't ride the trends in isolation. The apparent technical movement between two currencies in a pair may cause an effect in the behaviour of each separate currency. A third currency will also have some bearing on the rise or fall of a seemingly unrelated pair, in the view of an intermediate or beginning trader. Even seasoned trend cowboys may miss the odd significant event that results in a trade loss.

Technical analysis often comprises the bulk of the independent speculator's trade decisions, but some attention to fundamental news must be included for a complete overview of what is happening in the market at that particular moment. Neither weather, beetles, drought, hostile takeovers nor indicted CEO's have much real bearing on currency values, but the timing of the release of economic reports should determine if a trade is viable or not.

A rising tide raises all ships, but the trading ocean is made of waves, with deep troughs and high crests. A rising ship may have a tether to another that is dropping down the other side of the swell. As one currency in a trade pair rises, it may pull another currency up with it, or just the opposite. A drop in the Euro may allow an increase in the value of the GBP, which will certainly have an influence on the USD/GBP spread.

So when considering the merits of a good trade, also take into account the activity of each currency's most closely related cousin. When trading the Canadian dollar, you must certainly consider the relative movement, or lack thereof, in the US dollar. Canada's largest trading partner is the US, so fluctuations in the US economy may or may not have an effect on the Loonie, depending on the gravity of the news.

The UK maintained their own currency, the British Pound, but the economic business of Europe can still influence the directional trend of the Pound Sterling. The French Franc will also be swayed by the enterprise of the communal Euro. As you analyze your charts, take care to make a quick examination of any volatile activity in any similar currency.

The average day trader and individual speculator cannot possibly keep up with all the economic news released each day and still have time to trade and eat lunch, and old news has already shown itself in the charts. One must pay attention to important published economic developments, and generally avoid trading on report days. But the trend will indicate market sentiment, and great profits can be made by keeping the major focus on technical analysis.

International bankers and currency houses have developed complex mathematical models to track currency correlation, but these are beyond the scope of this article. In summary, just check how related currencies are trending, when preparing a trade. Another quick analytical tool for the traders' arsenal is always a good thing. May your winners run long.

Good Trading, Kelly Archibald.