

Introduction to Forex

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Foreign exchange (aka forex) is an off-exchange retail foreign currency market where participants purchase currency in exchange for another (at the current exchange rate).

Forex and You

Forex can affect the lives of everyone, regardless if you don't travel overseas or don't invest in currency. Today's world of commerce is such an international one that happenings on the other side of the world can ripple out to all nations.

China is a perfect example of this. The government in China regulates the exchange rate of their currency, and many believe the currency to be undervalued. A undervalued currency means Chinese made goods can be purchased for "less" on the international market. Were the Chinese government to allow the market to dictate the exchange rate the effects would definitely be felt across the globe, even for Americans who've never left America.

The reasons why an individual - or institution - would want to exchange money range to a myriad of different reasons, but the 3 main demographics include large corporations and institutions, speculators (investors) and tourists.

Tourists - A tourist traveling from the United States to England, for example, will need the local currency (Great British Pounds), as common shops, taxi cabs, etc. will most likely not accept US Dollars. Typically the airport, hotels and other tourist destinations will have services to exchange just about any currency into the local tender.

Large Corporations and Institutions - A large portion the global foreign exchange market consists of corporations and institutions, who often exchange currency for non-investment purposes: the need to meet payroll in other countries, to pay for services from a foreign factory, mergers and acquisitions, etc.

Investors - Investors are attracted to the forex market because of its possibilities and advantages (which will be discussed in more detail in the 3rd email of this series). For example, investors enjoy the added liquidity and volume forex has to offer.

Unlike other financial markets, the Forex market operates 24 hours a day, 5.5 days a week (6:00 PM EST on Sunday until 4:00 PM EST on Friday). Through an electronic network of banks, corporations and individual traders exchange currencies, Forex trading begins every day in Sydney, moves to Tokyo, followed by Europe and finally the Americas - making the market available 24 hours during the week.

Forex Market Hours

Unlike other financial markets, the Forex market operates 24 hours a day, 5.5 days a week (6:00 PM ET on Sunday until 4:00 PM ET on Friday). It is conducted through an electronic network of banks, corporations and individual traders exchanging currencies. For retail traders Forex is primarily used as a means for speculative investing and actual physical delivery of currencies is almost never intended. Forex trading begins every day in Sydney, moves to Tokyo, followed by Europe and finally the Americas.

A helpful way to learn more about forex is hands-on: try a risk-free, obligation-free demo account.

Have a question? Feel free to contact our friendly customer support team, available 24 hours while the market is open.

Understanding Forex Pricing

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There are always 2 different prices quoted in the forex market - the bid and the ask.

Bid - price you **sell** at

Ask - price you **buy** at

The *bid* will almost always be the lower of the 2 quotes. Therefore, a trader will always sell at the lower price (bid) and buy at the higher price (ask).

The difference between the 2 prices is called the 'spread' (or often called 'pip spread'). This is your cost of doing business, and is also how the broker makes its money. There are often no commissions in the forex market, making the spread the largest cost per transaction. A "pip" is one ten-thousandth of a point - or the fourth decimal place. Currency exchange rates often change in very small increments - often measured in "pips." Traders can take advantage of these small changes by using technical analysis tools that predict these changes and by utilizing leverage which allows a trader to control a large contract of currency - eg: a standard lot of \$100,000 with a much smaller amount of money in their margin account - often 100 to 400 times less than the currency contract.

Reading Price Quotes

Currencies are designated by a 3 letter standardized code, and the order a currency appears in – either first or second – helps understand the price that is being quoted. The value of the first currency is always 1, and the price being quoted is for the second currency pair listed.

Take a quote on the EUR/USD for example. A price quote of 1.4321 means €1.00 EUR (EUR being the first currency listed in the pair) can be purchased for \$1.43 USD.

If an investor were to buy a mini contract at this price (a mini contract is commonly known as a 10,000 currency contract), the investor would purchase €10,000 EUR in exchange for \$14,321 USD. For the sake of example, assume the price appreciated to 1.4350; the same €10,000 EUR owned by the investor is now worth more US Dollars – \$14,350 USD – thus making a profit of \$29 on the transaction - less the pip spread which we'll cover shortly.

Price Interest Point

Forex prices and profits are often referred to in 'PIPs', which is the last digit seen in a price: 1.432**1**. From the previous example, the trader saw a profit of 29 pips (also simply known as 'points'):

$$1.4350 - 1.4321 = 0.0029$$

What Influences Price?

Forex markets and prices are mainly influenced by international trade and investment flows. It is also influenced, but to a lesser extent, by the same factors that influence the equity and bond markets: economic and political conditions, especially interest rates, inflation, and political stability, or as if often the case, political instability. Though economic factors do have long term effects, it is often the immediate reaction that causes daily price volatility, which makes Forex trading very attractive to intra-day traders.

Currency trading can offer investors another layer of diversification. Trading currencies can be viewed as a means to protect against adverse movements in the equity and bond markets, movements that of course also impact mutual funds. You should bear in mind that trading in the off-exchange foreign currency market is one of the riskiest forms of trading and you should only invest a small portion of your risk capital in this market.

View live currency prices with a free demo account. A demo account gives you access to:

- Live streaming prices quotes for 26 currency pairs
- Up to \$50,000 in "play" money to practice trading with
- Free professional charting
- Unlimited access to our award winning customer service

Understanding Forex Pricing

Currencies in Pairs

New traders often struggle to grasp the concept of trading currencies in pairs. “Why not just buy the Euro?” they might ask. “Why does it have to be paired with the US Dollar?” The currency on the right side of the pair is there to establish a comparative value, without it we would be unable to assign a value to the base currency (currency on the left side of the pair). If the currencies were not paired, we would be unable to determine what a single currency would gain or lose value against. By pairing two currencies against each other a fluctuating value can be established for the one versus the other.

Cross Currency Pairs

Currency pairs that do not include the US dollar are commonly referred to as Cross Currency Pairs. Cross Currency trading can open a completely new aspect of the Forex market to speculators. Some cross currencies move very slowly and trend very well. Other cross currency pairs move very quickly and are extremely volatile; with daily average movements exceeding 100 pips.

Many of these cross currencies have a higher swap value. Swap is a credit or debit as a result of daily interest rates. When traders hold positions over night, they are either credited or debited interest based on the rates at the time. Often, cross currencies yield higher interest rates than major currencies.

Common Currency Pairs

Here is a list of common currencies with their 3 letter standardization code, and common nicknames for the currency.

Code	Currency	Nickname
EUR	Euro	Euro, Fiber
USD	U.S. Dollar	Dollar, Greenback
GBP	Great British Pound	Pound, Sterling, Cable
CHF	Swiss Franc (Confoederation Helvetica Franc)	Swissy, Franc
AUD	Australian Dollar	Aussie
NZD	New Zealand Dollar	Kiwi
CAD	Canadian Dollar	Cad, Loonie
JPY	Japanese Yen	Yen

Understanding Leverage & Margin

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What is Leverage?

Leverage is the ability to increase purchasing power in the market. Without it, a trader would need to front \$100,000 in order to control 1 mere standard contract in forex. Unfortunately, this may take forex out of many traders' realm of investment possibilities.

Leverage was introduced to help lower the barrier of entry. It allows for a sense of collateral where the trader need only to provide a portion of the contract value, giving the trader 'skin in the game', while the rest of the contract is provided by the broker or bank. Traders can trade up to 100:1* leverage, which means the trader would only need to provide \$1,000 in order to control the same 1 standard contract (valued at \$100,000). Remember, the higher the leverage, the higher the risk. Read our full leverage risk disclaimer [here](#).

Friend or Foe?

Leverage allows for a lower barrier to entry and increased market exposure, but there is such a thing as too much of a good thing. While leverage can be a great tool in gaining access to an otherwise inaccessible market, it can also quickly work against the trader. However, properly employing risk management techniques can go a long way to minimizing the losses caused by the increased leverage.

For example, here is a common error made in the market. A trader will start out with \$10,000 (an arbitrary number for example's sake), and purchase 5 contracts. The margin (or collateral) required for these 5 contracts is \$5,000, or 50% of the account value. If the trade goes negative a mere 30 points, the account value is losing \$800 (\$50/point), which is nearly 10% of the account value! A couple of small losing trades can quickly wipe out the account.

This is the common error of assuming too much risk.

Manage Your Risk

To help traders manage the added risk that comes with leverage, a general guideline is that traders should risk no more than 5% of account value on any given trade. In the previous example, the trader risked 50% of the account. Fortunately, we offer traders flexible lot sizes, which are very helpful to zeroing in on the risk amount that's right for you. First is the option to trade either standard or mini lot sizes. As mentioned before, a standard lot is \$100,000. A mini lot is essentially 10% the size of a standard lot, with 1 contract being valued at \$10,000 - thus requiring only \$100 in margin.

Traders always have the option of choosing a lower level of leverage. Doing so may help manage risk, but bear in mind that a lower level of leverage will mean that a larger margin deposit will be needed in order to control the same size contracts.

The amount of margin required to place a trade can be calculated using the following formula:

$$\text{Margin} = (\text{Contract size} / \text{Leverage})$$

Traders can also take advantage of fractional lot sizes, which allow a trader to trade less than 1 lot, as low as 0.01 of a lot. A mini contract size of 0.01 would be a contract valued at \$100, requiring only \$1 in margin. These fractional lot sizes really allow traders to trade almost any contract size!

Practice smart trading with a free non-expiring demo account. No obligation, no risk - download yours today!

Contract Sizes and Margin Calls

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Understanding Contract Sizes

Each standard lot traded in the Forex market is a \$100,000 (of the base currency) contract. In other words, when trading one lot in a standard account, a trader is essentially placing a \$100,000 trade in the market. Without leverage, many investors would not be able to afford such a transaction. Leverage of 100 – 1 would allow a trader to place the same one lot (\$100,000) trade with the post of \$1,000 in margin. \$100,000 divided by 100 equals \$1,000, thus 100 : 1 leverage means that \$1,000 of margin is able to control a \$100,000 position.

Many retail Forex brokers also offer a mini account option. Mini accounts are essentially 10% the value of standard accounts, meaning that mini contracts are \$10,000 (of the base currency). A trade of one mini lot would be a \$10,000 trade. Trading with 100:1 leverage would mean that \$100 of margin would control a \$10,000 contract.

Calculating Margin

Margin is calculated 2 ways: Used Margin and Free Margin. Used margin is the amount of money used to hold open positions. Free margin is the amount of funds available to place additional positions.



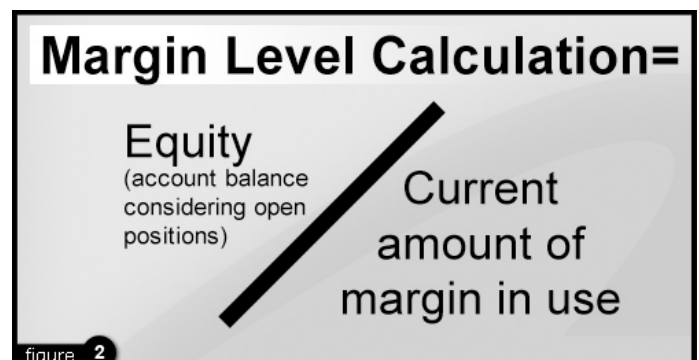
Order #	Time	Type	Lots	Symbol	Price
21646377	2007.02.05 18:26	buy	3.00	eurusdm	1.2931
21646385	2007.02.05 18:26	sell	2.00	gbpusdm	1.9588
Balance: 5 000.00 Equity: 4 986.00 Margin: 250.00 Free margin: 4 736.00					

As seen in figure 1, \$250 is used to hold their current positions, totaling 5 mini lots. \$4,736.00 is available for the trader to open additional positions.

Calculating a Margin Call

Fail-safes have been put in place to help prevent a trader from going into the negative and owing their broker additional funds. This is commonly referred to as a Margin Call. In the Forex market, a margin call typically means that their open positions will be automatically closed. While in other financial markets a client is called upon to send additional funds or the position(s) will be closed at market price.

The margin level is calculated by dividing the current equity in an account by the current amount of margin in use (used margin).



After dividing the equity by the margin move the decimal two places to the right. A trader whose equity is at \$1,000 and who is using a \$500 of margin would divide 1,000 by 500 which of course equals 2. Then move the decimal two places to the right; this trader's current margin level or percentage is thus 200%. At 100% margin level a trader is essentially using their entire available margin. When the margin level drops to a certain percentage, trades will automatically be closed.

Majors, Crosses & Pips

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ISO (International Organization for Standardization)

Established in 1947, ISO established a standard for country and Forex currency pair abbreviations. Since foreign currencies are quoted in terms of value of one currency against another, a Forex currency pair consists of an acronym for both currencies, separated by a slash “/”.

For example:

GBP = Great British Pound
 EUR = Euro
 CHF = Confoederatio Helvetica Franc (Swiss Franc)
 USD = United States Dollar
 CAD = Canadian Dollar
 JPY = Japanese Yen
 AUD = Australian Dollar
 NZD = New Zealand Dollar

Currencies are always traded in pairs, for example EUR/USD, USD/JPY. Every position requires the buying of one currency and selling of another. When someone says they are “buying the EUR/USD”, they are buying Euros and selling Dollars.

There are many other Forex currency pairs available to trade, such as the Danish Krone, Mexican Peso, and Russian Ruble. However, these currency pairs are generally traded less, and are not considered major currencies.

Pips

Market increments are measured in PIPs, or Percentage in Point. A pip is the last digit in the value of a currency pair (if you are trading from a 4 digit price feed); 1.3294, 115.13 etc. All Forex currency pairs, except for the Japanese Yen, measure the pip from the 4th decimal place.

For example, let’s assume a Forex trader buys 1 standard lot of GBP/USD. The current exchange rate is 1.9615. Essentially this trader is buying £100,000 in exchange for \$196,150. Again, for examples sake, assume the Forex market rate rose 15 PIPs to 1.9630 and the trader liquidates the position. The same £100,000 is now worth \$196,300, the trader realizing a \$150 profit.

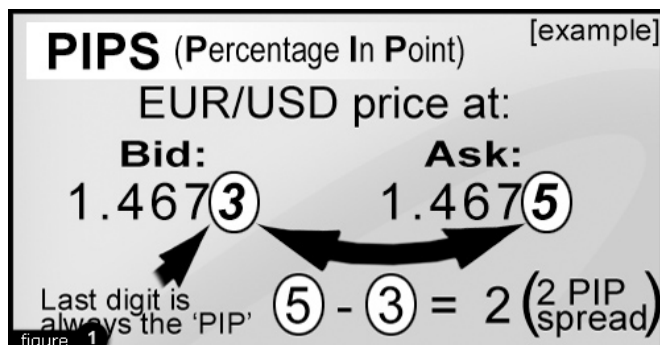
Major Forex Currency Pairs

Some Forex currency pairs are traded more heavily than others. The currency pairs that have the most volume consist of the “majors”. It is widely agreed that the following 6 pairs are considered the majors:

EUR/USD
 GBP/USD
 USD/JPY
 USD/CHF
 USD/CAD
 AUD/USD

Nicknames are sometimes used for currency pairs. Here is a list of Forex currency pairs and commonly used nicknames for each:

GBP – Pound, Cable, or Sterling
 EUR – Euro
 CHF – Swissy, or Franc
 USD – Greenback
 CAD – Loonie
 AUD – Aussie
 NZD – Kiwi
 JPY - Yen



Forex vs. Other Markets



Investors and speculators using the Internet as an investment tool will find that the Forex market offers several advantages over trading on other markets.

*100:1 is the entry leverage value. Brokerages will have margin calls set at different levels, exact leverage may vary.

**The traders cost of doing business is called the Spread. It is the difference between the bid and the ask price on your chosen currency pair.

Higher Volume = Better Liquidity

The Forex market is open 5.5 days a week, 24 hours a day. The forex market, in conjunction with the interbank market, is one of the largest financial markets in the world. However, the retail sector is only a small portion of the overall forex market. Conversely, after hours trading in the other markets has several limitations. In the US, for example, equities and futures traders have access to ECNs (Electronic Communications Networks), also known as "matching systems". These networks are established to provide a method for traders to buy and sell amongst each other. Because after hours trading typically has lower liquidity, such networks are usually not able to offer as tight of spreads as would be offered during normal market hours.

Easy to Read Price Quotes

Currency futures quotes are inversions of the spot Forex, or cash, price. For example, if the spot price for USD/CHF is 1.7100/1.7105, the futures equivalent is .5894/ .5897. In the spot price, the bid price is always shown on the left and the ask price on the right. The value of the base currency is always 1 (one). In the example above 1 US Dollar (USD) = 1.7100 CHF.

Currency futures' prices also have the added complication a forward Forex component that takes into account a time factor that is not necessary in the spot Forex Market.

Higher Risk

The off-exchange retail foreign currency market (or Forex market) has many differences, as outlined above. However, one of the most significant factors is the element of risk. The Forex market is the riskiest of all investment vehicles and is suitable only for experienced traders. The higher leverage and volatility found in this market increase the trader's risk of loss. There is the potential to lose, all or more, of your original investment.

Forex vs. Stocks

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Forex inherently appeals to traders world-wide with its advantages.

24-Hour Trading

One of the foremost advantages of trading Forex is 24-hour trading.

Forex is able to trade 24 hours because it isn't traded on an exchange; rather by banks around the globe. Even though it may be 9:00 pm on a Wednesday, there is a market open somewhere in the world in which currency is available for trading. Forex is a true 24-hour market, trading from Sunday afternoon ET to Friday afternoon ET. Such 24-hour trading allows investors to trade on their own schedule - and not on the schedule of an exchange.

Fewer Fees

The only transaction cost to trade Forex is the spread - the difference between the bid and ask prices. On top of that, our spreads are as low as 1 pip. ([Learn more about what a spread and pip is](#))

Enjoy low spreads with us. But don't take our word for it: on our website we publish actual previous spreads to substantiate our low spreads claim. Say goodbye to commissions, account maintenance fees and service fees, inactivity fees, account closing fees, and say hello to the simple power of trading Forex with us.

Fewer Short Selling Restrictions

With the same margin requirements as buying long, a trader can sell short in the Forex market without added costs and hassle. This allows traders to act on a bullish market as well as a bearish one.

6 Majors vs. 45,800 Stocks

Finding a good opportunity in stocks can be like finding a needle in a haystack due to the sheer number of stocks available to a trader. The World Federation of Exchanges cites over 45,800 stock listings on 52 different exchanges in the world. Forex traders can cut down on the research with only 6 major currency pairs to evaluate and follow.

And for the traders who want to branch out from the 6 major currency pairs, we offer 26 different currency pairs for trading.

Much of the data that can influence the Forex market is publicly available data published by government bodies (e.g., GDP, Non-farm Employment report, Inflation, etc), where the numbers are not likely to be 'cooked'. Moreover, this data is released to everybody at the same time, which means you don't have to be an insider to be in the know.

Instant Execution

With us, all forex trades are 100% executed anonymously without human intervention. Removing the human element helps make placing trades fast and more accurate, which is helpful in a fast moving market.

As seen on our performance page - a page dedicated to showing actual trade statistics - our traders enjoy fast execution rates. Visit our performance page to view our most recent execution rates - and our other performance statistics.

Increased Liquidity

Forex's unmatched liquidity has many advantages for today's traders.

1. The entire foreign exchange market trades some 3.2 trillion each day* (of which the retail sector is a small portion). Because market price is based on supply and demand, large purchases of millions, or tens of millions, are miniscule compared to overall daily volume, and thus won't artificially influence market price.
2. With instant 1 click liquidity available up to 5,000,000 per trade, traders needn't worry as much about filling a large order.
3. The sheer amount of volume helps provide price stability and continuity.

*As of April 2007

Access to Your Profits

Profits from Forex trades are treated differently than in other markets. For example:

Use Unrealized Profits - In Forex, all of your unrealized profits can be used to manage and place new positions.

No 3-day settlement - Once you close a profitable Forex trade, the profits are immediately available for withdrawal.

Learning Your Risk Tolerance

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One of the secrets to investing is learning your own trading method(s) that work for you. There is no correct approach that everyone should learn. Part of that process is assessing how much risk you can comfortably handle. We feel that it is the most important investment issue for trading in the Forex market.

Are you able to stomach the risk when the markets are moving up or down as fast as your nervous heartbeat? Do you carefully consider the various risks that are associated with each trade you make? The fact is, many people either don't have a clue how or don't feel they need to protect themselves from unnecessary risk. In most cases they don't even understand all the types of risk their investing is exposed to. We will be reviewing the various types of risk and proper risk management to maximize your personal performance, including:

What is risk?

The different types of risk

The risk / return Balance

Diversifying your trading

What is Risk?

Whether it is investing, driving, flying, swimming, or just walking down the street, everyone exposes themselves to risk. Your personality and lifestyle play a big role on how much risk you are comfortable with. For most investors, risk simply means "losing money." But if your investment choices leave you unable to sleep at night you are probably taking on too much risk.

The dictionary's definition of risk is "The variability of returns from an investment or the chance that an investment's actual return will be different than expected. This includes the possibility of losing some or all of the original investment. It is usually measured using the historical returns or average returns for a specific investment. The greater the variability of an investment (i.e. fluctuation in price or interest), the greater the risk."

The enhanced daily price movements and the leverage available in the off-exchange retail foreign currency (or Forex) market compared to other financial instruments like stocks is the reason the Forex market is categorized as a "high risk investment vehicle". As investors are generally averse to risk, investments with greater inherent risk must promise higher expected yields to warrant taking on additional risk. Others add that higher risk means a greater opportunity for high returns or a higher potential for loss. However a higher potential for return doesn't always mean that it must have a higher degree of risk. This is why identifying and adhering to a strict trading strategy is so im-

portant to the overall performance. Learn more about use of proper money management to minimize your risk exposure. Do you have a hard time giving money back to the market when you feel that you have worked so hard for every penny of profit? If so, you would find yourself amongst the "risk adverse" category of investors. On the other hand, super active day traders feel most comfortable making dozens of trades per day and are considered "risk loving". When investing in currencies, stocks, bonds, commodities, futures or any investment instrument there is a lot more risk than most investors think. Learn more about the different types of risk that effect your trading strategy.

The Different Types of Risk

There are two basic classifications of risk:

- **Systematic Risk** - A risk that influences a large number of currency pairs. Examples of systematic risk are global political events, natural disasters, or war.
- **Unsystematic Risk** - Sometimes referred to as "specific risk". Its risk affects a very small number of currencies and currency pairs. An example is economic news that affects a specific country or region, such as a sudden strike by employees or a change in the Canadian interest rate. Diversification across multiple non-related currency pairs is the only way to truly protect yourself from unsystematic risk.

Now that we've determined the two main classifications of risk let's take a closer look at more specific types of risk.

Default Risk – This refers to risk that the company with whom you have your trading account will be unable to pay out an investor's account balance when a withdrawal request is submitted. Many traders remember Refco in the fall of 2005. Unfortunately Refco, one of the world's largest investment firms with brokerage arms within commodities, futures and forex filed for bankruptcy protection and each of the brokerages were auctioned off to competitors or former subsidiaries. Their clients were unable to withdraw profits and initial capital until the brokerages were sold off. Many former customers did not end up receiving complete compensation. Choosing a suitable, stable broker is more than choosing the biggest.

Country Risk – This refers to the risk that a country won't be able to honor its financial commitments. When a country defaults it can harm the performance of all other financial instruments in that country as well as other countries it has relations with. Country risk applies to stocks, bonds, mutual funds, options, futures and most importantly the currency that is issued within a particular country. This type of risk is most often seen in emerging markets or countries that have a severe deficit.

Learning Your Risk Tolerance

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Forex Risk – When investing in foreign currencies you must consider that the currency exchange rate fluctuations of closely linked countries can drastically move the price of the primary currency as well. For example, economic and political events directly tied to the British Pound (GBP) have an effect on the Euro's trading (i.e. the EUR/USD might have similar reaction as GBP/USD even though they are both separate currencies and are not in the same currency pair). Knowing what countries affect the currency pairs you trade is vital to your long-term success.

Interest Rate Risk – A rise or decline in interest rates during the term a trade is open will affect the amount of interest you might pay per day until the trade is closed. Open trades at rollover are assessed either an interest charge or interest gain depending upon the direction of the open trade and the interest rate levels of the corresponding countries. If you sell the currency with the higher interest rate you will be charged daily interest at the time of rollover based on your broker's rollover/interest policy. For more specifics on understanding your interest risk, please consult your broker for complete details of their policy including time of rollover, interest price (also called swap) and account requirements to receive interest paid to your account.

Political/Economic Risk – This represents the risk that a country's economic or political events will cause immediate and drastic changes in the currency prices associated with that country. Another example of this risk is government intervention that we typically see with Japan and the need to maintain low currency prices to bolster their exports.

Market Risk – This is the most familiar of the risks we have discussed, and according to some, really the main risk to consider. Market risk is the day to day fluctuations in a currency pair's price; also referred to as volatility. Volatility is not so much a cause but an effect of certain market forces. Volatility is a measure of risk because it refers to the behavior, or "temperament," of your investment rather than the reason for this behavior. Because market movement is the reason why people can make money, volatility is essential for returns, and the more unstable the currency pair the higher the chance it can go dramatically either way.

Technology Risk – This is a particular risk that many traders don't think much about. However, with the majority of individual Forex traders executing trades online, we are all technology reliant. Are you protected against technology failure? Do you have an alternative internet service? Do you have back-up computers that you could use if your primary trading computer crashes?

As you can see, there are several types of risk that a smart investor should consider and pay careful attention to in their trading.

The Risk Reward Balance

The risk/return balance could easily be called the iron stomach test. Deciding what amount of risk you can take on while allowing yourself to walk away from your computer without worrying and to get sound rest at night while you have long-term trades open is a trader's foremost important decision. The risk/return balance is the balance a trader must decide on between the lowest possible risk for the highest possible return. Remember to keep in mind that low levels of uncertainty (low risk) are associated with low potential returns and high levels of uncertainty (high risk) are associated with high potential returns. Trading is all about risk and probabilities. Understanding the inner functions of your Forex trading strategy(s) and proper placement of entry and exit orders will assist in limiting your risk exposure while maximizing your profit potential.

What about how much of your account to place on each trade, or in other words the number of lots per trade? How much of your account have you lost in a single trade? Was it too much to swallow? If so, you might not have utilized proper risk management and over leveraged your trade. Establishing the right level of leverage and corresponding margin requirements are a big part of managing risk.

There is Not One Correct Risk Level

Just as there is no single favorite food for everyone, there is no right risk level for everyone. Only you can determine what level of risk is right for you. You need to find the right balance between the amount of risk you think you are willing to take, and the amount of risk you can actually stomach. All too often investors think they are willing to take risk, but when the worst happens, they find out they aren't.

You will likely lose money during this learning process, but if this loss helps you achieve this level of understanding then you can financially afford the loss. It is important to identify in advance the amount you are willing to "pay" for this education. This financial and emotional tuition is a valuable trading resource and something most experienced investors have paid through the process of trial and error.

In Conclusion

Different individuals will have different tolerances for risk. Tolerance is not static; it will change along with your skills and knowledge. As you become more experienced, tolerance to risk may increase. Don't let this fool you into not adhering to and thinking about proper money management practices.

Diversification

We all hear diversification is the best policy for an overall investment portfolio. This is also true amongst our currency focused investments as well. To be well diversified, we should master the use of multiple trading strategies and multiple currency pairs to equalize our overall return. Some trading strategies boast 80% accuracy in specific market conditions. However a full-time trader must utilize more than this single strategy as many times there are long periods of time when the trading conditions are not met, such intervals can last anywhere from a few days to several months. What good is a single strategy that can yield profits for only a small portion of the year? Diversification may be the answer.

Diversifying your investment is not the most popular of investment topics. In fact many people believe diversifying dilutes trading profits. But most investment professionals agree that while it does not guarantee against a loss, diversification is the most important component to helping you reach your long-term financial goals while minimizing your risk. But, remember that no matter how much diversification you do, it can never reduce risk down to zero.

A Well Defined Portfolio

What do you need to have a well diversified portfolio? Three aspects to ensure the best diversification:

1. Your portfolio should be spread among many different trading strategies
2. Your trades should vary in risk and time held. Picking different trade opportunities with different potential rates of return will help the gains offset losses of other trades. Keep in mind that this doesn't mean blindly placing trades all across the spectrum!
3. Your currency pairs should vary by region and crosses, minimizing unsystematic risk to small groups of countries

Another question people always ask is how many currency pairs they should trade to reduce the risk of their portfolio. One portfolio theory for stocks tells us that after 10-12 diversified stocks you are very close to optimal diversification. However in the currency market this doesn't mean buying 12 currency pairs will give you optimal diversification, instead, it has been recommended to trade currencies of different regions and importance levels (i.e. majors, crosses and more exotic currencies).

Pivot Points

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In recent years pivot points have become a very well known and widely used technical analysis tool. To understanding pivot point levels you need to understand the ideas behind support and resistance. Support and resistance levels give traders a visual gauge of pressure points within the market, specifically at certain price levels.

Summary of Support & Resistance:

In short, support levels are considered levels at which price decline is continually rejected. Conversely, resistance levels are considered levels at which price increase is continually rejected. Traders looking at a support level and resistance level in conjunction with one another are essentially examining what is referred to as a channel. It is very common to see price trends within the bounds of trading channels; meaning that for hours, or perhaps days at a time, a currency may trade within the bounds of support and resistance levels. Many times throughout a trend the price may test either the support or resistance level, but ultimately if the price is to remain within the channel the support and resistance levels will be tested, but not pushed through.

Just the opposite of what is explained above, if a support or resistance level is tested for hours or days on end without a breakout, and finally the price does push through the bounds of this channel, it may be considered a strong indication that the price will take on an entirely new direction / trend.

Using Support & Resistance to Trade:

Traders watching support and resistance levels are generally looking for one of the following trading opportunities:

A chance to sell after a resistance level has been pushed, but not broken through several times. The trader's entry would likely be at the end of a strong bearish candle that began with a touch of the resistance level.

A chance to buy after the support level has been pushed, but not broken through several times. The trader's entry would likely be at the end of a strong bullish candle that began with a touch of the support level.

Or:

A chance to buy after a previously tested resistance level is finally pushed through with a strong bullish candle. In other words, buyers in the market have tried numerous times to push prices above a resistance level, yet have failed. Finally prices breakthrough in the form of a strong up-candle, indicating that perhaps, buyers will finally have their way and push the price higher.

A chance to sell after a previously tested support level is finally pushed through with a strong bearish candle. In other words, sellers in the market have tried numerous times to push prices below the support level, yet have failed. Finally prices breakthrough in the form of a strong down-candle, indicating that perhaps, sellers will finally have their way and push the price lower.

Understanding the Pivot Point Difference:

There are multiple scenarios in which a trader might utilize support and resistance levels as a means to identify key entry and exit points. Pivot points are simply a series of support and resistance levels, with the inclusion of a median price level. Standard pivot points include 5 levels (levels that are represented as distinct lines on your charts). The median level, or middle line of the 5, is called the 'pivot point'. The other 4 levels are found above and below the pivot point in the form of 2 support lines (S1 and S2) and 2 resistance lines (R1 and R2).

Using the previous trading session's open, high, low and close in order to calculate these pivot levels gives traders an added advantage beyond simply looking at one support level and one resistance level. Through the use of pivot points, traders are able to gauge support and resistance levels on a scale in relation to an average price range (the pivot point or line itself) for the trading session.

Always bear in mind the crucial importance of market sentiment; mathematically pivot points may or may not correlate with future price movement, but because pivot points are now very widely used by technical traders – their potential to impact price direction is certainly worth considering. Said another way, if millions of technical traders are all watching the same support and resistance levels and buying and selling in accordance with those levels; market sentiment can quickly become market reality. Pivot points may be as effective as they are at times simply because so many traders are basing trades on the same levels.

Pivot Points

Calculating Pivot Points:

Key figures are derived from the open, high, low and closing price of the previous day's trading session. These figures should be based on trading days or sessions considered started and ended at 0:00 GMT (Greenwich Mean Time). GMT is used because of the global aspect of currency trading; with various markets (Australia, Asia, Europe, US) constantly opening and closing globally – a 24-hour-a-day market is created. GMT is used to mark the start and end of trading days because it is considered a globally central time.

These calculations are shown for your reference. Most pivot products will draw these levels on your chart for you.

Pivot Point (PP): $\text{High} + \text{Low} + \text{Close} / 3$

The calculations for support and resistance levels are based on the number calculated for the pivot point itself and are as follows:

First Support (S1): $(2 \times \text{PP}) - \text{High}$

Second Support (S2): $\text{PP} - (\text{High} - \text{Low})$

First Resistance (R1): $(2 \times \text{PP}) - \text{Low}$

Second Resistance (R2): $\text{PP} + (\text{High} - \text{Low})$

Use Discretion:

As is the case with many technical analysis methods, strategies, and indicators – pivot points are far from an exact science. Pivot points may be completely irrelevant technically when trading right after a major fundamental news announcement. Traders should also consider other technical indicators, the overall trend of the currency pair, and the time frame of the chart they are analyzing pivots on in correlation with how long they plan to remain in an open position.

Heads up:

Typically, pivot points tend to work well if traders consider a few of the following tips.

Prices tend to volley between two pivot lines. If a price is right at S1 it is most likely to move back toward PP, only a fairly strong bearish candle would indicate a further break and move towards S2. Conversely, if a price is at R1 it is most like to move back towards PP and only a strong bullish candle would indicate a move towards R2. When prices are trading at the pivot line itself, look for a strong series of bullish or bearish candles to indicate a move back towards R1 or S1.

Pivot points seem to work the best in moderately sideways markets, or on a currency pair that is not experiencing significantly strong bullish or bearish trend over the previous few days.

Prices within pivot points can move two or three lines at a time during major news announcements, or what is more likely; pivot points may be completely irrelevant during news announcements.

Trade Breakouts - Ed Ponsi

GOT MONEY FX

Guest Author Profile: Ed Ponsi

Ed Ponsi is the President of FXEducator LLC and is the former Chief Trading Instructor for Forex Capital Markets (FXCM). An experienced professional trader and money manager, Ed has advised hedge funds, institutional traders, and individuals of all levels of skill and experience. A sought-after public speaker, consultant, commentator and writer, Ed has appeared in numerous seminars, trading magazines, and live broadcasts, and is a frequent contributor to trading websites.

Introduction:

When trading intraday breakouts, or when engaging in any type of trading for that matter, it is important for the trader to use every type of advantage possible. In all forms of trading, no matter if the vehicle is the equity, futures, or the forex market, there are many instances of false breakouts. In order to reduce the negative effects of these events, let's take a closer look at intraday breakouts and how to trade them.

Triangles before breakouts:

Ascending and descending triangles create excellent breakout patterns, because the pattern itself establishes a directional bias for the trade. An ascending triangle is formed by a combination of diagonal support and horizontal resistance; a descending triangle is formed by a combination of diagonal resistance and horizontal support. In the case of an ascending triangle, the bulls are gaining strength and buying at higher and higher levels, while the bears are merely trying to defend an established level of resistance. In the case of a descending triangle, the bears are gaining strength and selling at lower and lower levels, while the bulls are merely trying to defend an established level of support.

When trading ascending or descending triangles, the trader can gain an edge by looking to the direction of the currency pair prior to the formation of the triangle pattern. Ideally, we search for situations where the triangle and the prior trend are in agreement, directionally speaking. This is because it is not unusual for currency pair to trend, then

consolidate, and then resume trending. The directional bias of a triangle is to break the horizontal support or resistance, and if the pair was trending in the same direction prior to the formation of the pattern, the trade becomes all the more compelling.

For example, on the hourly chart of the EURUSD pair, we see the formation of a descending triangle.

Figure 1: A descending triangle on the hourly EUR/USD chart.



The first thing the trader needs to ask is, what was the trend prior to the formation of the triangle? If we take a longer view of the pair, we can see that the pair has been trending steadily lower.

Figure 2: Descending triangle harmonizes with the prior downtrend.



It's important that we use the power of this trend to our advantage, to reduce the occurrence of false breakouts. As a general rule, traders should always trade with the trend, and never fight the trend. It is essentially the difference between swimming with the tide or against the tide, and traders that fight against trends often regret their actions.

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Time of day & volume:

Another edge that we can put to use when trading intraday breakouts is the time of day. Perhaps you are familiar with the trading axiom that a breakout is considered significant if it occurs on high volume, and is considered less significant if it occurs on low volume. While forex traders are not able to easily access accurate volume figures, we do know that trading is not equally liquid at all time of the day, and there are certainly times of day that generate more volume than others. Let's take a closer look at the forex trading day to see how we can use this to our advantage.

When we're dealing with a vast, liquid market like the Forex, it's important to understand which times of day are the most active and most liquid. Because this market follows the sun around the world, trades take place literally all day and night. Let's take a closer look at the Forex trading day, to gain a better understanding of the market and of its optimal trading times.

The Forex trading day is considered to begin at 6:00 PM Eastern U.S. time. Because Forex trades 24 hours per day, the trading day also ends at 5:00 PM Eastern. Why is this particular time used? Consider that when it is 5:00 PM on Sunday in New York, it is Monday morning in places like Australia and New Zealand. Overall, volume is low at this time of day because the three biggest Forex volume centers – Great Britain, the United States and Japan – are mostly inactive at this time. However, the Australian dollar and the New Zealand dollar (also known as the "Kiwi") may see some price activity during these hours.

A few hours later, around 7:00 PM Eastern U.S. time, Japan awakens and the Forex markets begin to stir. Japan is the third largest Forex trading center, and comprises about 10% of all Forex trading volume, as many major banks have offices in Tokyo. The Japanese Yen is particularly active at this time, especially vs. the Euro, the U.S. dollar, and the Great Britain pound. Most of the volume occurs during the early part of the Japanese session, and the liquidity lessens considerably as the trading day continues.

As the Japanese trading day winds down around 3:00 AM Eastern U.S. time, European markets open for business, and the London trading day begins soon afterward. Great Britain is by far the most important and influential Forex trading market in the world. The dealing desks for many

of the world's major banks are run from London, and the market is responsible for roughly 30% of all spot forex volume. London tends to be the most orderly forex market due to its tremendous liquidity.

About midway through the London trading session, U.S. Forex traders come to life. New York is the second most important market in Forex trading. New York trading is very liquid and accounts for about 20% of the world's total forex volume. Trading is especially active early in the New York session, as the London session is still ongoing. U.S. Economic news releases often occur early in the New York session, and can cause a tremendous amount of volatility.

Trading often becomes choppy after midday in New York as the London market winds down, and liquidity and volatility begin to dissipate. By mid to late afternoon New York time, London traders have gone home for the day, and it is late at night in Japan. New York traders, while still active at this time of day, have already finished with the bulk of their trading. Friday afternoons in the U.S. are generally the least active, because for much of the trading world, it is already Saturday.

Finally, as the U.S. markets close, a new trading day is just about to begin in the western Pacific, as the Australian and New Zealand markets begin to stir, starting the process once again. The cycle continues all week, with most dealing desks closed from Friday afternoon until Sunday afternoon, when trading resumes.

A closer look:

Now that we have a greater understanding of the forex market's liquidity as it relates to various times of day, let's see how this can affect our trading. Just like an equity trader, I'll assume that a breakout that occurs at a time of high volume is legitimate, and a breakout that occurs at a time of low volume is suspect.

For example, let's take a look at the daily chart of EU-RUSD. The pair had formed strong support in the summer of 2004 at 1.2000, which is also a number that takes on psychological significance because it is a large round number. In fact, the pair could not close below 1.2000 and then trended higher, before returning to the same area of support in the summer of 2005, when it cautiously hovered near 1.2000. Finally, during the August 24 session,

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the pair suddenly tries to break support. However, we can see in the five-minute chart that the break was short-lived, a classic example of a false breakout.

Figure 3: False breakout below support on EUR/USD.



A trader who pays attention to the time of day would have noted that the break occurred late in the Japanese session, a time of day that is notorious for low volume and for false breakouts. Such a trader would have considered the timing of this event to be suspicious and would have refrained from entering a trade.

One week later, on July 1, the pair tries to break the support level once again, only this time the breakout occurs at approximately 1430 GMT

Figure 4: A true breakout below support.



At this time of day, the London session is ongoing, and the New York session is well underway. As a result, this is a time of high volume and the trade is more likely to succeed. The pair finally breaks 1.2000 and drifts as low as 1.1865 over the next few days.

As we can see, there are steps we can take to alleviate the problem of false breakouts. These are just a few of the subtle nuances that traders use to gain an edge.

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Gann Theory

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The Basics: Pattern, Price and Time

The three basic concerns of Gann theory are pattern, price and time. By “pattern” Gann meant identifiable and recurrent price formations in charts of stocks and commodities. Gann taught that these patterns could be recognized time and again, and could be used to forecast price movements since these various patterns tend to repeat.

Gann also placed special emphasis on “price” by which he meant that a trader should constantly focus on the price of the stock or commodity itself. Gann had several ways of doing this. He taught his students to compare the current price of a stock or commodity to its previous high or low price in order to get an indication of where it was in the trading range (a trading range is a concept that will be more fully explained in a later chapter). He also taught that a chart should be divided up into percentages from one significant bottom, placing special emphasis on the 50% portion of the divided range. Percentages were also a big part of his technique. As a student of geometry, Gann even taught that the geometric angle at which the price of a stock or commodity is positioned on a chart has meaning (another concept we’ll discuss later on).

Finally, Gann emphasized “time” in the study of market. In fact, he considered the time element to be of the greatest importance, since time is the least common denominator in the equation of the marketplace and it is the only constant factor in the study of all kinds of markets. A great deal of Gann’s work was centered on the study of time cycles. Seasonal trends, and historical dates. Gann gave special weighting and consideration to each of these three basic factors at different times, depending on the marketing environment in which he was trading. He believed that each of the three factors dominated at various times.

Role of Scientific Law

Gann considered the key to his success a theory he formulated based on his study of scientific laws and his observation of the laws governing the motion of bodies, which he called the “Law of Vibration”. He insisted that his scientific law governed the motion of everything from humans to planets, and could also be seen in the marketplace. He described his discovery of this law in detail in an interview he gave to Richard D. Wyckoff, editor of The Magazine of Wall Street, in the early 1900s. Part of that interview is excerpted below:

“I soon began to note the periodical recurrence of the rise and fall in stocks and commodities. This led me to conclude that natural law was the basis of market movements. After exhaustive researches and investigations of the known sciences, I discovered that the Law of Vibration enables me to accurately determine the exact points to which stocks or commodities should rise and fall within a given time. The working out of this law determines the cause, and predicts the effects, long before the Street is aware of either. Most speculators can testify to the fact that it is looking at the effect and ignoring the cause that has produced their losses...”

“It is impossible to give an adequate idea of the Law of Vibration as I apply it to the markets; however, the layman may be able to grasp some of the principles when I state that the Law of Vibration is the fundamental law upon which wireless telegraphy, wireless telephone and phonographs are based. Without the existence of the law the above inventions would have been impossible...”

“In going over the history of markets and the great mass of related statistics, it soon becomes apparent that certain laws govern the changes and variations in the value of stocks and there exists a period of cyclic law, which is at the back of all movements. Observation has shown that there are regular periods of intense activity on the Exchange followed by periods of inactivity... The law which I have applied will not only give these long cycles or swings, but the daily and even hourly movements of stocks. By knowing the exact vibration of each individual stock I am able to determine at what point each will receive support and at what point the greatest resistance is to be met...”

“Those in close touch with the markets have notice the phenomena of ebb and flow, or rise and fall in the value of stocks. At certain times a stock becomes intensely active, large transactions being made in it; at other times this same stock will become practically stationary or inactive with a very small volume of sales. I have found that the Law of Vibration governs and controls these conditions. I have also found that certain phases of this law govern the rise in a stock and entirely different rules operate on the decline. I have found in the stock itself exists its harmonic or inharmonic relationship to the driving power or the force

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behind it... "Science teaches 'that an original impulse of any kind finally resolves itself into periodic or rhythmical motion,' also, 'just as the pendulum returns again in its swing, just as the moon returns in its orbit, just as the advancing year brings the rose to spring, so do the properties of the elements periodically recur as the weight of the atom rises...'

"From my exhaustive investigations, studies and applied tests, I find that not only do the various stocks vibrate, but that the driving forces controlling the stocks are also in the state of vibration. These vibratory forces can only be known by the movements they generate on the stocks and their values in the market. Since all great swings or movements of the market are cyclic they act in accordance with the periodic law...

"If we wish to advert failure in speculation we must deal with causes. Everything in existence is based on exact proportion and perfect relationships. There is no chance in nature, because mathematical principles of the highest order lie at the foundation of all things. Faraday said: 'There is nothing in the Universe but mathematical points of force.'..."

"Through the Law of Vibration every stock in the market moves in its own distinctive sphere of activities, as to intensity, volume and direction; all the essential qualities of its evolution are characterized in its own rate of vibration. Stocks, like atoms, are really centers of energies, therefore they are controlled mathematically. Stocks create their own field of action and power; power to attract and repel, which in principle explains why certain stocks at times lead the market and 'turn dead' at other times. Thus to speculate scientifically it is absolutely necessary to follow natural laws."

Gann: The Mathematician

Gann possessed an extraordinary gift for mathematics. He was a mathematician by nature, so it only followed that much of his technical theory should be concerned with numbers and with mathematical relationships in the markets. Certain numbers took on a special significance in his work, namely, 16, 25, 36, 49, 64, 121, and 144. His numerical theory of the market was based on his study of the Bible, along with ancient Egyptian number theory.

He found for instance, that the number 7 had a special significance in the bible and thereby used it to develop a seven-day cycle theory for the short-term study of the market. He considered the number 7 to represent completeness; therefore, seven to him symbolized time and rhythm, as well as the complete cycle – the basis of Gann theory.

He also considered the half-cycle of 3 1/2 to be vitally important in his studies of the markets. The number 7 is a harmonic of 3 1/2. This number is also quite prominent in the Bible and is mentioned, among other places, as being the timeframe of Daniel's vision (3 1/2 years); the time of Christ's public ministry on earth (3 1/2 years); as well as the hiding of the Christ child in Egypt for 3 1/2 years. Thus, Gann used this to formulate a theory demonstrating the existence of a 3 1/2-day, -week, -month, and -year cycle. He applied this knowledge in trading the markets.

The number 12 also took on a special significance for Gann as it denoted for him the concept of space. Twelve is also considered to be the reference point of the cycle, since a cycle geometrically represented is a circle, which is composed of 360 degrees. Since there are 12 divisions of the circle of time (i.e., the clock), 12 months in a year, 12 houses in the zodiac, etc., the number 360 divided by 12 yields 30, a number which, besides being the number of days in a month, was important in Gann's trading strategy. Gann posited the existence of a 30-day, 30-month and 30-year trading cycle based on the study of this number.

The number 144 (which is a product of 12 times 12) was also important for Gann, the number also representing the number of minutes in a day (1441, with zero at the end being disregarded). The number 144 also recurs throughout the Bible, and therefore took on an even greater significance for him.

Based on his many years of studying number theory, then, he concluded that markets adhere to mathematical law. From this conclusion he was able to develop his trading theory. This theory basically stated that market movement is governed by the forces of pattern, price, and time.

Time: The Strongest Market Influence

According to Gann, time had the strongest influence on the market because when time is up, the trend changes.

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Concerning the importance Gann assigned to the time factor, consider the following Gann quote, in reference to his analysis of the October Eggs futures contract:

“The greatest time period from January 24 to February 8 was 11 market days. And the last advance from April 18 was 11 market days; therefore, when the market declines more than 11 days, it will overbalance the greatest time period. When it declines more than 75 points it will overbalance the last price declines or space reversal, and indicate lower prices.”

Notice that Gann used the term “overbalance [of] time.” This was a common expression of Gann’s in his market writings, and forms an integral part of his theory of technical analysis. Overbalance occurs when a move in price and time over extends and travels too far in one direction. When this happens, the market can be expected to react in the opposite direction with the same force and magnitude, including the time factor. This confers a certain amount of predictability in the movements of prices once this concept has been mastered.

Combining time and price forms the basis for much of Gann theory. Author John Murphy, in *Technical Analysis of the Future Markets*, wrote “Gann saw a definite proportional relationship between the two. One of his methods for finding tops or bottoms is based on the squaring of price and time – that is, when a unit of price equals a unit of time. For example, Gann would take a prominent high in a market, convert that dollar figure into a calendar unit (days, weeks, months, or years), and project that time period forward. When that time period is reached, time and price are squared and a market turn is due. As an illustration, if a market hit a prominent high at \$100, Gann counted 100 days, weeks, months, or years forward. Those future dates identified possible turning points.”

Among the timing tools Gann used is a concept he referred to as “anniversary dates.” This term refers to the historical dates the market made major tops and bottoms. The information collected in effect reflects the seasonality of the market because often an anniversary date repeats in the future. A cluster of anniversary dates indicates the strong tendency of a market to post a major top and bottom each year at the same time. The dates and time spans between these anniversary dates – top to top, top to bottom, bottom to bottom, and bottom to top – were fundamental factors in his thinking. And these relationships further led

to his development of theories of time cycles in his quest to accurately forecast price movements in the market.

In his book, *Pattern, Price & Time*, James A. Hyerczyk wrote concerning Gann’s time cycle studies, “When looking at anniversary dates he saw a series of one-year cycles. In geometric terms, the one-year cycle represented a circle or 360 degrees. Building on the geometric relationship of the market, Gann also considered the quarterly divisions of the year to be important timing periods. These quarterly divisions are the 90-day cycle, the 180-day cycle, and the 270-day cycle. In using the one-year cycle and the divisions of this cycle, you will find a date where a number of these cycles line up (preferably three or more) in a single point in time in the future. A date where a number of cycles line up is called a time cluster. This time cluster is used to predict major tops and bottoms. Time cycles are a major part of Gann analysis, and should be combined with price indicators to develop a valid market forecast.”

Introduction to Technical Analysis



“Technical analysis” is an industry term that more often than not sounds much more complicated than the actual process is. Really, it ought to be referred to as “price analysis”, as this would be a more accurate description. Through the use of charted data, Forex traders around the world analyze their market of choice. The objective: determine future price movement. The means: understanding price movement patterns of the past.

Forms of technical analysis are far and wide, and all technical analysis is common with one very important fact: it uses the past to try and predict the future. This is similar to using only your car’s rear-view mirror to drive forward: looking only in the mirror one can use the lines on the road to make sure the car is driving straight forward, and a corner can be spotted when the lines start to move away from the direction the car driving. Just like technical analysis, driving by only using a rear view mirror can be difficult – if not impossible – to spot upcoming sharp corners, especially when moving at fast speeds.

Before delving into technical indicators and strategies, we think it is important to have a general understanding of the basics to technical analysis.

Trends

When using technical analysis, it is often important to be able to recognize the type of trend the market is in. Generally any market condition can be classified into one of 3 conditions: an uptrend, downtrend, or sideways. For a market to be trending up, new highs need to break previous highs (higher highs) and the lows must be higher than previous lows (higher lows). Once the market fails to break previous highs - or if lows dip below previous lows - an uptrend may be in jeopardy and either a sideways market or a downtrend may follow.

Determining the type of trend a market can sometimes be arbitrary because of trend length. There are 3 different trend lengths: long term, intermediate, and short term. The market will never go straight up – or straight down – without making corrections; therefore, a long term trend may be going up, with a correction leading to an intermediate downtrend within the long term’s uptrend.

Support and Resistance

As the market moves up and down, price levels will form; levels that seemingly provide a level of support, or a ceiling of resistance. These levels are appropriately called support and resistance. In the case of our trend example, each consecutive higher-high will be a resistance level, and each higher-low will, likewise, be a support level. The opposite is true for down trends: subsequent lower-lows will be support levels, and lower-highs will be new resistance levels.

These support and resistance lines can form trend lines, where a trend may seem to be defined by bouncing up off of a rising support level, or bouncing down off of a falling resistance level. In order to draw a trend line at least 2 market points are needed, though ideally a trend line will have 3 or more points which will confirm the trend line drawn. The more points a trend line has, the more confirmed and the more important the trend line becomes.

There are many technical indicators that aid a trader in determining a trend and potential entry and exit points. There are some basic technical indicators that a trader should know which will also help a trader understand more advanced technical indicators.

Moving Averages

Most literature written on technical analysis, more specifically technical indicators, begins with moving averages. The reason for this is simple; they are considered by most analysts the most basic and core trend identifying indicators. As its name would suggest a moving average calculates an average of price range over a specified period. For example, a 10 day moving average gathers the closing prices of each day within the 10 day period, adds the 10 prices together and then of course divides the sum by 10 to determine the average. The term moving implies that as a new day’s closing price is added to the equation, and the day that is now 11 days back is dropped from the equation.

There are many different types of moving averages. To read more about the different types of moving averages – and to learn how to use moving averages to trade – read the Moving Average course from our education center.

Introduction to Technical Analysis

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Moving Average Convergence / Divergence

The MACD indicator is another indicator that helps provide a fundamental understanding of technical analysis for various different reasons. A typical MACD will consist of 2 lines – the ‘MACD’ line, and the ‘signal’ line – and will also have vertical bars that comprise the histogram. The main MACD line is a PIP measurement of the distance between 2 moving averages on the chart. Using default settings, the MACD line will tell the number of PIPs between a 12 and 26 period exponential moving average.

The signal line is then an exponential moving average of the main MACD line – by default, set to a period of 9. The histogram then measures the vertical distance between the main MACD line and the signal line.

There are many ways to decipher what the MACD is trying to tell us. To read more about the MACD, and how to use it to trade, read the MACD course from our education center.



Stochastic Oscillator

The stochastic oscillator is a basic form of oscillator that measures current price in relation to previous prices. Chartists use this indicator – and other similar oscillators – to gauge if the current price is overbought or oversold.

Because a market move typically does not make a move in one fell swoop without any corrections, the stochastic gives an indication if it thinks the market due for a possible downside correction (by being overbought) or due for a possible upside correction (by being oversold). Traders set levels at 80 and 20 and would consider anything above 80 to be overbought, and anything below 20 to be oversold. Generally speaking, a sell signal would be generated once the stochastic drops below 80 and a buy signal once it rises above 20.



Basic Technical Analysis Concepts

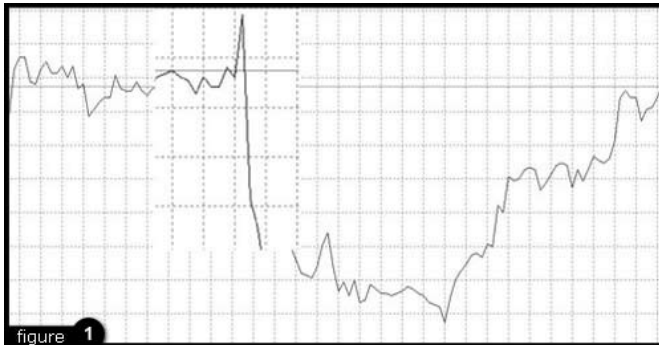
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Charting & Charting Styles

'Charting' is essentially the most basic expression of technical analysis. There are many different charting styles and methods. We will cover three of the basics: line charts, bar charts, and candlestick charts.

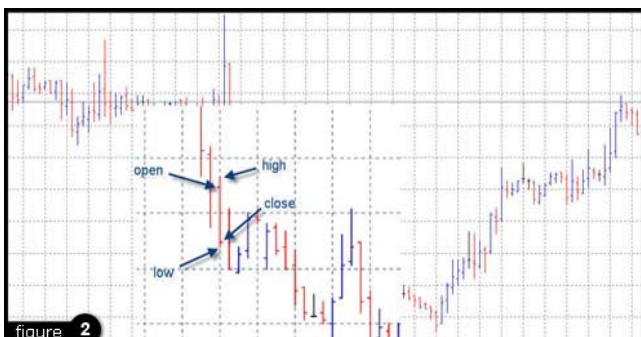
Line Charts

A line chart is a simple visual representation of data. It generally plots the closing price of a given period and over the course of time connects the dots. The following image shows an example of a basic Forex line chart:



Bar Charts

Bar charts are one of the most popular types of trading charts. A Bar Chart displays a price's open, high, low and closing prices. As shown in the following image the top of the bar chart represents the highest price of the period, and the bottom of the bar represents the lowest price of the period. The opening price of the bar is shown by a short horizontal line on the left hand side of the bar. The closing price is shown by the same short horizontal line on the right hand side of the bar.



Candlestick Charts

Candlestick charting is widely believed to have first appeared sometime after 1850. Much of the credit for candlestick development and charting goes to a legendary rice trader named Homma from the town of Sakata.

The candlestick is comprised of a "body" and an upper and lower "wick". The body of the candle is typically a dark color when the close is at a lower price than was the open (a bearish candle). Conversely, if the close is at a higher price than was the open the candle will be hollow or a light color (a bullish candle). The wick of the candle represents the entire range of price for that period. The top of wick of course represents the price at its highest point, while the bottom of the wick represents the price at its lowest point.

Looking for Trends

There are certainly a few things that you are going to want to consider when looking at a chart. Ask yourself what the Forex chart on your screen is telling you, and which of the following questions are worth considering:

Is there an obvious trend or direction of the market within the time frame that you are viewing?

Are there any basic chart patterns formations such as triangles, wedges, pennants, double tops or bottoms or otherwise that might suggest a pending breakout or trend reversal?

Is the market trading within the walls of any obvious support and resistance levels, or is the market trading within a channel?

Have you considered any technical indicators?

Trends

The following chart shows an example of an upwards trend. (view figure 4)

It takes two or more points to draw a trend line. The trend line in our example was drawn by identifying the lowest low of the trend and connecting the line to the following low preceding a new high. A solid trend line should continue in this manner until several lows followed by new highs are plotted.

Basic Technical Analysis Concepts

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Support and Resistance

Support and resistance represent key junctures where the forces of supply and demand meet.

Support is the price level at which demand is thought to be strong enough to prevent prices from declining further. Support levels are usually below the current price, though it is not uncommon for prices to dip below support briefly. Support does not always hold and a break below support levels signals that the bears (sellers) have won out over the bulls (buyers). A decline below a support level indicates a new willingness to sell and/or a lack of incentive to buy. Once a support level has been broken, another support level will be established at a lower level.

Resistance is the price level at which demand is thought to be strong enough to prevent prices from rising further. Resistance levels are usually above the current price, though it is not uncommon for prices to rise above resistance briefly. Resistance does not always hold and a break above resistance levels signals that the bulls (buyers) have won out over the bears (sellers). A raise above resistance levels indicates a new willingness to buy and/or a lack of incentive to sell. Once a new resistance level has been broken, another resistance level will be established at a higher level.



Moving Averages

Most literature written on technical analysis, more specifically technical indicators, begins with Moving Averages. As its name would suggest a moving average calculates an average of price range over a specified period. For example, a 10 day moving average gathers the closing price (or the open, high or low) of each day within the 10 day period, adds the 10 prices together and then of course divides by 10. The term moving implies that as a new day's closing price is added to the equation, the day that is now 11 days back is dropped from the equation. Figure 1 shows an example of a simple moving average line placed on a candlestick chart.



The example in figure 1 outlines what would be considered a Simple Moving Average. There are at least 7 varieties of moving averages, we will focus on the following three:

- Simple Moving Averages
- Exponential Moving Averages
- Weighted Moving Averages

What are moving averages trying to tell us?

It is essential that you understand what a moving average is trying to tell you. A moving average calculating the last 30 days of prices in the market essentially represents a consensus of price expectations over that 30 day period.

Understanding a moving average is at times as simple as comparing the market's current price expectations to that of the market's average price expectations over the time frame that you are viewing. The average gives us a range that traders are comfortable trading within.

When prices stray from this zone, or from the moving average line, a trader should begin to look for potential entry

points into the market. For example, a price that has risen above the moving average line typically implies a market that is becoming more bullish.



Just the opposite, when prices begin to fall below moving average lines the market is becoming visibly bearish.

Notice the angle of the moving average shown above at various points across the chart. Moving averages not only give traders a much smoother look at the true trend of the market, they also offer keen directional insight found in the angle of the moving average line. Erratic sideways markets tend to be represented by moving average lines that are flat or sideways, whereas markets that are beginning to trend strongly in one direction or another will begin that trend with a strongly angled moving average line.



Simple Moving Averages

Calculating simple moving averages is really quite simple (no pun intended). As was outlined in the beginning of this section the sum of all closing prices is divided by the number of days in the equation. With each new day the now oldest day that is no longer a part of the time frame is

Moving Averages

subsequently dropped from the equation. A simple moving average is considered a lagging indicator. In fact, the simple moving average perhaps epitomizes the meaning of lagging indicator in that its visual data often comes a bit after the fact. Nevertheless, simple moving averages are an indication of where the price range should be trading at. When prices begin to break away from the moving average line in conjunction with a sharply angled moving average line – basic mathematics is indicating a move up or down in the market. The down side when observing lagging indicators is that the prediction often comes too late; thus the reasons for other types of moving averages, averages that more heavily weigh recent data and can offer more rapid predictions.

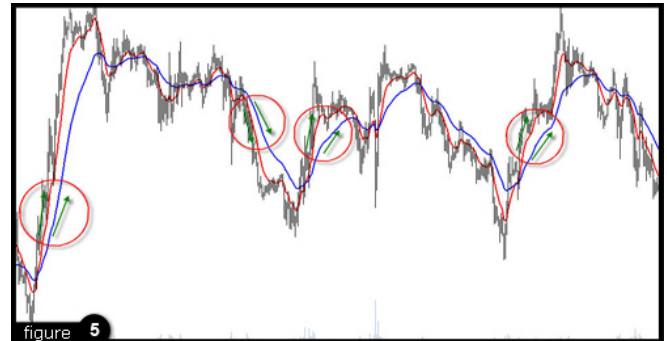
Exponential Moving Averages

Exponential and weighted moving averages attempt to resolve the issue of lagging directional forecasts. This is done by placing greater emphasis on more recent price data. Instead of evenly distributing plotted points of a moving average across all candles in the period, a weighted or exponential moving average puts more emphasis on the most recent data; allowing the angle of the moving average to react more quickly.

Reading moving averages is about comparing an average view of the market's recent trends to an actual view of recent price data. Notice in figure 4 that the exponential average reacts more quickly to price change than does this simple moving average.



The Moving Average Cross



The moving average cross is a tool that many traders use. As can be seen in figure 5 (view figure 5) there are two moving average lines plotted on this chart. The idea is to combine a short term moving average with a long term moving average. For example, a 10 day moving average on top of a 20 day moving average. Of course the shorter moving average period will react more quickly to price direction, whereas the longer moving average period will be represented by a smoother less volatile line. When the two lines cross this is considered an indication of a quickly approaching trend reversal or change in price direction. As always, watch for the angle of the moving average line, particularly the shorter time frame (in this case the 10 day moving average). When lines cross with a sharp angle and an obvious separation from one another this may be an indication of a change in price direction.



MACD (Moving Average Convergence / Divergence)

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The Moving Average Convergence / Divergence is a technical indicator that illustrates the difference between a fast and a slow exponential moving average (EMA), usually 12 day EMA and a 26 day EMA with a 9 day EMA used as a trigger line. The 12 day EMA will react to the market more quickly than will the 26 day EMA. Visually this results in a MACD that is slanted upwards. Conversely when prices fall or trend downwards the opposite will occur and the 12 day EMA will decrease faster than will the 26 day, creating an obvious visual slant downwards. The MACD does oscillate at what would be considered a zero line.

As is the case with trading moving average crosses, buy and sell signals derived from a MACD will come from the crossing of two lines. However, these two lines are not your two EMA lines, rather one is the combined level of the two EMA lines and the second is the signal, or trigger line (the 9 day exponential moving average of the actual MACD itself). The MACD crossing signal line from above would indicate a sell order and conversely the MACD crossing the signal line from below would indicate a buy order.



MACD as a Histogram

The histogram is a visual indication of convergence (moving average lines of MACD moving towards one another) and divergence (moving average lines of MACD moving away from one another).



As the moving average lines cross the histogram will show no lines whatsoever, indicating to traders that lines (prices) may now start in a new direction.



Pattern Recognition

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Chart Patterns - Double Tops & Double Bottoms

Double Tops & Double Bottoms Double Tops provide technical traders with an indication of a beginning downward trend. Double Tops occur when a new high is plotted, raising the resistance level. The price then retraces and declines, only to rise again and reach the same high or resistance level.



The psychology behind a double top is thought to work like this:

Traders around the globe push the price to a new high; because the new high is a tad extreme the price retraces.

Again traders push up to the same level, testing it just one more time; again the price feels too extreme.

The market has decided that an upwards trend is just not in the cards, twice a new high was tested and twice the market sold to push it back down.

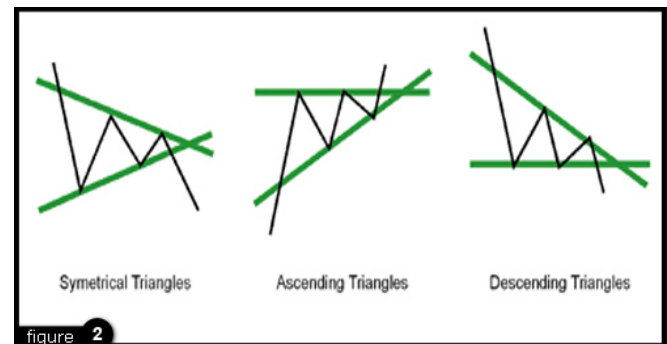
After observing a Double Top, many traders assume that for the time being the market will move in a downwards trend, thus affording an opportunity to sell, or exit a soon to be falling long position.

Double Bottoms are just the opposite of Double Tops. Twice the market will test a new low, and twice the market will refuse the idea of pushing beyond that point. The buyers will rally and an uptrend will follow.

Pattern Recognition Systems can automatically identify and alert Forex traders of double tops and double bottoms patterns.

Chart Pattern - Triangles

There are three types of triangles that technical traders focus on:



1. Ascending Triangle
2. Descending Triangle
3. Symmetrical Triangle

Ascending triangles are considered bullish Forex chart pattern formations, though depending on whether they are formed during an up-trend or a down-trend they may have different implications regarding future price movement. Spotted within an up-trend an ascending triangle is typically considered an indication that the upwards trend will continue. Just the opposite, if an ascending triangle forms during a downwards trend it is considered an indication of a trend reversal. Essentially, ascending triangles are comprised of a series of candles that form the shape of a triangle. The term ascending triangle refers to the fact that the triangle's two trend lines are not created equally; the top line of the triangle will represent a fairly even level of high prices, while the lower level of the triangle will represent a continued series of higher lows.

The consolidation between buyers and sellers at an upward slant suggests pressure from the buyers. The resistance line can typically only hold for so long before the buyers get the best of the sellers and the price breaks out in an upwards trend, at which point the resistance level often becomes the new support level. Figure 3 shows an example of an ascending triangle chart pattern.

Pattern Recognition

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Descending triangles are just the opposite of ascending triangles. In a downwards trend the triangle forms as an indication that the trend will continue downwards. In an upwards trend the triangle forms as an indication of a trend reversal. Descending triangles are formed when there is a series of progressively lower highs and relatively even lows. As can be seen in the image below the top line or resistance line of the triangle will be angled down, while the lower line or support level will appear as a level horizontal line.

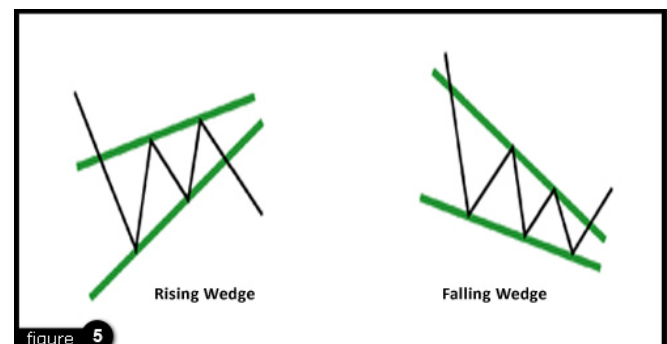
Symmetrical triangles are most often considered a continuation chart pattern. Symmetrical triangles can be seen as a series of lower highs and higher lows develop forming the shape of a triangle. This pattern represents a struggle between buyers and sellers, as is usually the case with price consolidation; more often than not symmetrical triangles precede a price breakout. Though it is generally safe to assume that symmetrical triangles will only present themselves as an indication that the current trend either upwards or downwards will continue, this may not always be the case.



Triangle patterns can automatically be identified by Pattern Recognition Systems and alert Forex traders as they emerge.

Chart Pattern - Wedges

Wedges are often considered a difficult Forex chart pattern to recognize, and are often confused with triangles. The key to spotting the difference is found in the slant or the angle of the support or resistance line. When observing triangles notice that ascending triangles show a flat or even resistance line, conversely descending triangles show a flat or even support line. Symmetrical triangles, as their name suggests, are neither slanted downwards or upwards. Wedges on the other hand, are represented by support and resistance lines that both slant in the same direction, be it up or down.



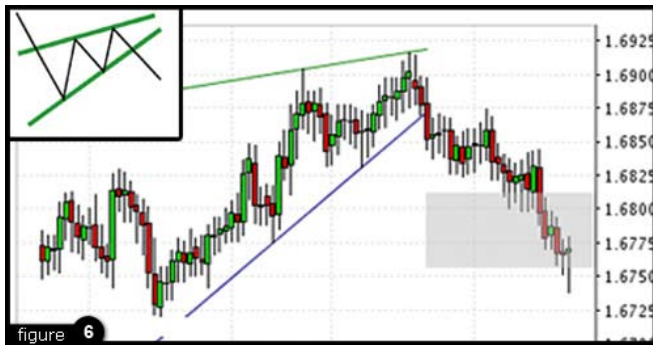
There are two types of wedges: **rising wedges** and **falling wedges**.

Falling wedges are considered bullish Forex chart pattern formations. When found in a downwards trend the falling wedge suggests a reversal of the trend. When found in an upwards trend the falling wedge suggests a continuation of the upwards trend. The falling wedge is formed by a series of lower highs and lower lows. Notice that both the support and resistance levels of the wedge are slanted downwards, this is what sets this pattern apart from a triangle chart pattern. Prices within the falling wedge will continue to tighten until the resistance line is finally penetrated and the breakout upwards begins.

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Rising wedges, the opposite of falling wedges, are considered bearish patterns and are represented by a series of continued higher highs and higher lows which are narrowing or consolidating. The rising wedge suggests that though the buyers are reaching new highs, these highs are progressively tighter and tighter. These progressively tighter highs indicate that the upwards trend is losing steam. A rising wedge found in an upwards trend would suggest a trend reversal and a rising wedge found in a downwards trend would suggest a short rally from the buyers, but ultimately a continuation of the downwards trend.

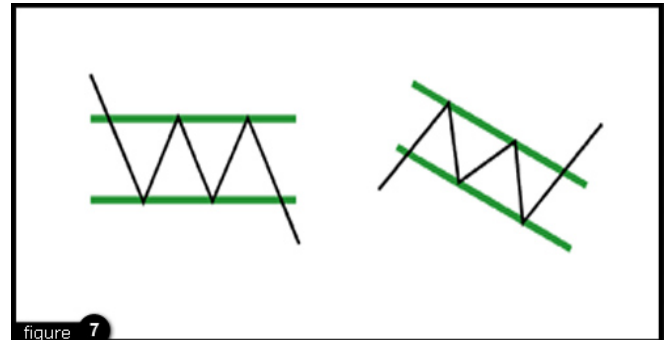


Pattern Recognition Systems can correctly identify and alert Forex traders of wedge patterns.

Chart Pattern - Flags & Pennants

Flags and pennants are perhaps the most common of continuation chart patterns. Spotting a flag or a pennant usually begins with noticing the flag pole, or the trend line. Flags and pennants typically form after a substantial trend up or down as an indication that the price is consolidating or being tested before continuing in the initial direction of the trend. Often the consolidation period (the flag or pennant) is slanted in a direction opposite of the initial trend, this demonstrates the Forex market's hesitation to continue upwards or downwards, but ultimately it is nothing more than a hesitation and an indication that the initial trend is continuing.

Though both flags and pennants indicate a continuation of the current trend, there is a distinct visual difference between the two.



The flag is usually represented by a more rectangular consolidation period, meaning both support and resistance levels will be about an equal distance from one another. A pennant on the other hand will be represented by support and resistance levels that are moving towards one another in the shape of an asymmetrical triangle. Both the flag and the pennant are always spotted at the end of the flag pole, or at the end of a sharp directional trend.

A good Pattern Recognition System can automatically identify and alert Forex traders of flag and pennant patterns.

Chart Pattern - Head & Shoulders / Reverse Head & Shoulders

Head and shoulders are usually found after a long trend either up or down. . Consisting of three peaks, one of which (the head) is centered and higher than the two lower and relatively equal peaks (the shoulders). Head and Shoulders is perhaps the most well known reversal patterns. Formed after a long upwards trend the left shoulder begins to form while still in the upwards trend. Essentially the left shoulder forms as prices rally up and quickly thereafter retrace, typically the upwards trend line, or resistance level will not be broken as this happens. Notice that when the left shoulder is seen alone, it can also be viewed as a forming flag. As the left shoulder completes, prices again rally, this time to a new high which will become the head of the chart pattern. After the high peak or head of the pattern is formed and prices have retraced back down, again prices will rally to near the same level as the left shoulder to form the right shoulder.

Pattern Recognition

Essentially, within an upwards trend prices have attempted to rally three times and each rally has seen limited success, or in other words has been rejected by the sellers. Once the right shoulder breaks through the support line equal with the right shoulder (the neck line), the reversal of the trend has officially begun. Buyers have tried to continue the upwards trend, and three times have lost their battle to the sellers.



Reverse head and shoulders represent essentially the same situation as normal head and shoulders, but of course are found in long term downwards trends as opposed to long term upwards trends. Instead of the head and shoulders represented by new peak highs they are represented by new peak lows. The reverse head and shoulders tips the trader that the downwards trend is losing steam as three new lows have been tested and each time bested by the buyers in the market.

Use our Pattern Recognition System from our Forex trading tools section to automatically detect and alert you to emerging head & shoulder patterns.

Introduction to Fundamental Analysis



There are 2 different schools of thought used when predicting price movement: technical and fundamental analysis. Understanding both can be a great tool in your repertoire of trading tools.

While technical analysis uses price action and charting to anticipate market movement, fundamental analysis takes a look at the underlying reasons as to what caused the market to move (high unemployment, inflation etc). Think of a train station: fundamental analysis can hint which way the train is going, and technical analysis can help tell the passenger when to get on.

What Makes the Market Tick?

As with all other commodities freely traded on the open market - currency is considered a commodity - the price is determined by supply and demand. The choices a country's elected leader make can affect the global demand for their currency. Here are a couple of factors that influence the market:

Interest rates

Central banks, like the U.S. Federal Reserve, have the ability to set core interest rates, which use these rates to help steer economic conditions in their respective economy.

Take for example the recent USD/JPY carry trade from 2006. The Japanese central bank had an interest rate of 0.25%, while the U.S. Federal Reserve's interest rate was 5.25%. Traders would borrow Japanese Yen (and pay an interest rate of 0.25%) and invest it in US Dollars (bearing interest of 5.25%), yielding a net gain of 5% interest. This situation attracted many investors which increased the demand of USD in exchange for JPY, and the value of the USD/JPY appreciated greatly as result.

Inflation

The rate of inflation can quickly erode away one's profits: if the rate of inflation is higher than the rate of return, the investment is at a net loss.

A modern example of inflation can be seen in Zimbabwe. Inflation got so out of hand that, for example, if an investor had \$10,000 worth of investments in Zimbabwe, that investment would have been worth less than \$1 in 15 days. While this is an extreme example, it illustrates the point: even a slow deterioration of an investment from inflation is avoided by major investors. A country with inflation higher than return on investment will be avoided by investors, which will lessen the demand for that nation's currency.

Economic Health

It should be no surprise that overall economic health is a contributing factor. There are many important economic indicators (GDP, unemployment etc) that give insight to a nation's well-being. Visit our education center to learn more about the important economic indicators that influence each currency.

Market Sentiment

As the word sentiment describes, market sentiment is simply what investors feel about the market - regardless if their feelings are entirely justified or true. As such, market sentiment could be - and is - influenced by rumors and false reports.

For example, recently a reporter from The Independent reported that the oil states of the Middle East were in talks to stop using the US Dollar for oil trading. Even though the report was repeatedly denied as false, it still had an impression on the market.

Stay in Touch

To help our traders stay in touch with the happenings of the market, we provide a free economic calendar and Dow Jones news streaming straight to the platform.

Central Banks

What is the Central Bank?

The central bank (also sometimes referred to as the reserve bank or monetary authority) is the entity responsible for the monetary policy of a country or of a group of member states. Its primary responsibility is to maintain the stability of the national currency and money supply, but more active duties include controlling subsidized-loan interest rates, and acting as a “bailout” lender of last resort to the banking sector during times of financial crisis. Most wealthy countries today have an “independent” central bank—that is, one which operates under rules designed to prevent political interference.

- Implementation of monetary policy

- Controls the nation’s money supply

- Acts as the government’s banker as well as the bankers’ bank (“lender of last resort”)

- Manages the country’s forex and gold reserves, as well as the government’s stock register

- Sets the official interest rate, used to manage both inflation and the country’s exchange rate

Central Banks of “The Majors”

Below is a list of central banks for several of the world’s major currencies:

Bank	URL
Bank of Canada	www.bankofcanada.ca
Bank of England	www.bankofengland.co.uk
United States Federal Reserve	www.federalreserve.gov
Swiss National Bank	www.snb.ch
Bank of Japan	www.boj.or.jp
Reserve Bank of Australia	www.rba.gov.au
Reserve Bank of New Zealand	www.rbnz.govt.nz
European Central Bank	www.ecb.int

Economic Indicators by Currency or Region

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Why Study by Currency or Region?

One of the keys to understanding global economics can perhaps be found within the core economic indicators that drive market sentiment. Often, these indicators are not exclusive to the US economy. Many economic indicators are used by multiple countries, while others are specific only to certain economies. You should consider a looking at the following fundamental indicators that drive the following countries and their currencies:

Code	Definition
GBP	Great Britain Pound
JPY	Japanese Yen
EUR	European Dollar
CHF	Swiss Franc
NZD	New Zealand Dollar
AUD	Australian Dollar
CAD	Canadian Dollar

A Global Economic Game Plan

Every currency that you trade is paired with another currency for the purpose of establishing a comparative value. Consider it a battle of economies if you like, If trading the GBP/USD you had better know about not only the economic indicators that move the Dollar, but also of the key indicators that move the Pound. The dollar might be gathering strength across the board, but what could happen if the UK released a Trade Balance report showing an increase in exports. As most economists know, increased exports tend to precede an increased demand for a nation's currency. The point is to have an eye on both of the economies, or currencies, that you are dealing in.

Continuing Your Fundamental Analysis Education

You may notice in many books and websites, a heavy emphasis is placed on the US economy. This is not an issue of pride, but rather is the case because of the position of the US economy globally. Also, the US Dollar is either the Base or the Cross currency in 7 major pairs:

USD/CHF ~ USD/JPY ~ EUR/USD ~ GBP/USD
 USD/CAD ~ AUD/USD ~ NZD/USD

Traders need to be aware of major economic indicators around the entire globe. Each currency has a very unique place in the global market, and moreover, each currency is impacted by various economic indicators.

Economics of the USD

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The US Dollar's Presence Globally

The US Dollar has maintained a vital presence on the world stage for nearly a century. Most major governments maintain some of their currency reserves held in USD, this means the ripple effect of inflation and other valuation issues connected to the US Dollar have far reaching consequences.

There are many economic indicators pertinent to the US economy. Some of the relevant economic indicators to the US Dollar are released directly through the Federal Reserve (Fed), while others may be released from private data analysis firms. Each of the economic indicators listed and described below have the potential to affect the price and stability of the US Dollar upon their release. This is not a complete list of economic indicators that have an impact on the US Dollar.

The economic indicators outlined below can potentially move the price of any currency pair the US Dollar is involved with, regardless of whether the US Dollar is the base or quote currency in the pair. These currency pairs include:

USD/CHF ~ USD/JPY ~ EUR/USD ~ GBP/USD
USD/CAD ~ AUD/USD ~ NZD/USD

The reports are listed in alphabetical order, for more on the report and its strength ranking take a look at each individual indicator description below. For the date and time of the next release for each report please browse our current economic calendar.

Reports Listed in Alphabetical Order

ADP Nonfarm Employment Change

The ADP (Automatic Data Processing, Inc.) Nonfarm Employment Change is a measurement of the number of new jobs created in the previous month (of course excluding farming related employment). This report is said to be a precursor to the much more widely followed Nonfarm Payroll Report, which of course is released two days later. The ADP Nonfarm Employment Change report began in March of 2006, and though it is said to offer insight into the pending Non Farm Payroll Report, its brief history accounts for its lesser credibility with traders.

Average Hourly Earnings m/m

This indicator gathers numbers relevant to wage inflation, specifically price increases in wages paid to nonfarm employees. When corporations and businesses are forced to pay higher wages this increased will soon be seen on the consumer end, thus wage inflation is viewed as a preemptive look into consumer inflation. Higher trends seen in this indicator tend to have a positive impact on a nation's currency, as wage inflation leads to consumer inflation and consumer inflation is relative to a strong economy.

Beige Book

The Beige Book gathers regional information from Federal Reserve branches on the strength of the economy within their own region. This information is collected two weeks prior to the FOMC's (Federal Open Market Committee) monetary policy meetings. The FOMC will use the Beige Book when considering the future of interest rates.

Chicago PMI

PMI stands for Purchasing Managers Index. Measured in Chicago (essentially accounting for the Midwest region of the United States) the Chicago PMI is conducted by the National Association of Purchasing Managers (NAPM). Before the report is published purchasing managers in the area are surveyed on the present situation of their firm, specifically whether the firm's purchasing activity is lower than, higher than, or equal to the previous month's activity. The word 'activity' is meant in reference to employment, inventories, prices, orders, output, etc. The indicator uses a reading of 50 to measure expansion, or the lack thereof. A reading above 50 would indicate economic expansion in the region.

Consumer Confidence

In a monthly survey respondents are asked to measure and evaluate the future strength of the economy. Consumer optimism will of course have a positive impact on the strength or weakness of an economy, and ultimately the nation's currency; when consumer confidence is high the purchase of goods and services tends to increase as well, thus stimulating economic growth.

Economics of the USD

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Consumer Sentiment

In a monthly survey conducted by the University of Michigan 500 respondents are asked to measure and evaluate both the present and the future strength of the economy. Consumer optimism will of course have a positive impact on the strength or weakness of an economy, and ultimately the nation's currency; when consumer confidence is high the purchase of goods and services tends to increase as well, thus stimulating economic growth.

Core Durable Goods Orders m/m

Core Durable Goods Orders essentially reports the same data as does 'Durable Goods Orders' minus data including Transportation components. This is because purchase orders for aircraft and automobile components often see rapid increases for brief periods – such numbers weaken the clarity of the overall trend. As such, Core Durable Goods Orders is typically more widely watched than is Durable Goods Orders. Core Durable Goods Orders is a measurement of the total value of purchase orders placed through manufacturers for products with a shelf life of more than three years. This indicator is watched closely by traders primarily because of what it has to say about the future of an economy. When the total value of purchase orders is higher than previous months it can be expected that manufacturers will be pressed to fill the pending orders, as such employment will likely see an increase. When productivity and employment are expected to increase as a direct result of increased purchase orders the coming months are more likely to see an increased GDP (Gross Domestic Product).

Core PCE Price Index m/m

PCE stands for Personal Consumption Expenditures; The Core PCE Price Index is a measurement of consumer inflation rates, as seen when purchasing goods and services. Essentially, PCE is very similar to CPI (Consumer Price Index), the subtle difference lies in the fact that PCE gauges the level of price changes seen within consumer goods and services, specifically those targeted towards individual consumers (as opposed to production consumers). As is the case with other economic indicators, Core PCE Price Index implies that certain statistics are left out of what would be included in the normal indicator. In this case, Core PCE excludes Food and Energy because month-to-month purchase volatility of such can skew underlining consumer trends. The Federal Reserve tends to favor this indicator for its clear look at consumer inflation, for this reason traders watch the Core PCE closely.

Currency Manipulation Hearings

The US House Committee on Ways and Means will conduct a hearing to examine possible evidence of potential currency manipulation seen by countries in the Asian region. China and Japan will be closely looked at. The committee will then recommend whether or not the US should take action, and what the most plausible solution would be.

Durable Goods Orders m/m

Durable Goods Orders is a measurement of the total value of purchase orders placed through manufacturers for products with a shelf life of more than three years, i.e. automobiles and parts, appliances, airplanes and parts, computers, etc. This indicator is watched closely by traders primarily because of what it has to say about the future of an economy. When the total value of purchase orders is higher than previous months it can be expected that manufacturers will be pressed to fill the pending orders, as such employment will likely see an increase. When productivity and employment are expected to increase as a direct result of increased purchase orders the coming months are more likely to see an increased GDP (Gross Domestic Product).

ECI q/q

ECI stands for Employment Cost Index, a measurement of inflation rates found within salaries, wages and benefits paid to non-government employees. A rise in wage inflation rates are seen as a positive for a nation's currency. This is because wage inflation is directly linked to consumer inflation; when employers are forced to pay higher wages prices seen by consumers will soon be increased in order to compensate. Traders keep an eye on wage inflation as a means to gauge pending consumer inflation, which will of course ultimately affect GDP (Gross Domestic Product).

Existing Home Sales

Each month the National Association of Realtors releases a report measuring the number of homes sold in the prior month. Existing Home Sales and New Home Sales have collectively gained more respect from traders since the beginning of 2007, when sub-prime lending in the US began to fall under scrutiny. Most traders view Existing Home Sales as the report that carries the most weight between the two.

Economics of the USD

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GDP Annualized q/q

This release is a quarterly look at Gross Domestic Product, revisions will follow in next two months. Gross Domestic Product is considered by most the broadest, most comprehensive barometer of a country's overall economic condition. It measures the sum of all market values on final goods and services produced in a country (domestically) during a specific period of time. A rising trend seen in a country's GDP of course indicates that the economy of said country is improving; as a result foreign investors are more inclined to seek investment opportunities within that nation's bond and stock markets. It is not uncommon to see interest rate hikes as a follow-up to a rising GDP, as central banks will have an increased confidence in their own growing economies. The combination of a rising GDP and potentially higher interest rates can lead to an increase in demand for that nation's currency on a global scale.

GDP is calculated and reported on a quarterly basis as part of the National Income and Product Accounts (NIPAs). NIPAs were developed and are maintained today by the Commerce Department's Bureau of Economic Analysis (BEA). NIPAs are the most comprehensive set of data available regarding US national output, production, and the distribution of income. Each GDP report contains the following:

- Personal income and consumptions expenditures
- Corporate profits
- National income

GDP Deflator Annualized q/q

Aside from basic GDP (Gross Domestic Product) figures the government also releases GDP deflators. The GDP Deflator report publishes the difference between nominal and actual GDP. The report takes a measurement of annualized quarterly inflation rates as applicable to all economic activity.

Interest Rate Statement

The Federal Open Market Committee (FOMC), which is the governing body of the US central bank, publishes an Interest Rate Statement eight times each year. Perhaps at the core of all economic indicators are those that relate to interest rate decisions. In fact, most would argue that other economic indicators are used by the average trader as nothing more than a means to anticipate pending in-

terest rate changes. The bulk of the statement includes an explanation of the various economic factors that influenced the change in rates (or lack thereof) for the nation's short term interest rate, also referred to as the "fed funds rate". The report will also include insight as to what the next interest rate decision might be. Short term interest rates are of monumental importance to traders in any of the major financial markets. This is due to the fact that high interest rates attract foreign investors who are seeking the highest possible return in exchange for the lowest possible risk. Central banks are most concerned with price stability. If inflation rates are continually rising interest rates will likely be increased in an effort to bring prices back down. Globally, increased interest rates are said to entice foreign investment flows, which would of course, in turn, increase the demand and the standing of a nation's currency on a global scale. Seasoned economists understand the relationship between inflation and interest rates, namely that inflation tends to precede higher interest rates, which ultimately increases the global demand for a nation's currency.

ISM Manufacturing Index

The ISM Manufacturing Index is a monthly report released by the Institute of Supply Management that tracks the amount of manufacturing activity that occurred the previous month. The values for the index range between 0 and 100. If the index has a value below 50, due to a decrease in activity, it tends to indicate an economic recession, particularly if they trend continues over several months. A value substantially over 50 likely indicates a time of economic growth.

ISM Manufacturing Prices

This manufacturing indicator, conducted by the Institute of Supply Management, surveys 400 firms in an attempt to gauge price inflation seen within the manufacturing sector. Firms are asked whether or not there has been an increase seen in the prices of materials and services.

ISM Non-Manufacturing Index

ISM stands for the Institute of Supply Management. The NON-Manufacturing Index of course focuses on the non-manufacturing portion of the services sector. In the US this Manufacturing Index seems to be closely watched by traders in each of the major financial markets. Before the report is published purchasing managers are surveyed on

Economics of the USD

the present situation of economic factors relevant to their position; factors such as new orders, inventories, production, employment, etc. Traders tend to keep an eye on this indicator because it tends to lead (leading indicator) into data that will later be released. This is because purchasing managers have an early view at the performance of their company. The indicator uses a reading of 50 to measure expansion, or the lack thereof. A reading above 50 would indicate economic expansion.

New Home Sales

New Home Sales reports the number of new privately owned homes sold or for sale in a given period (generally reported once a month). Economists note the correlation between changing mortgage rates and new home sales; namely that new home sales numbers tend to lag slowly behind changes made to mortgage rates. Also measured is the number of homes for sale in relationship to current sales prices; these numbers of course in turn will affect housing starts. Because the new home sales report is often subject to large revisions monthly numbers are often seen as unreliable. As a result this indicator's potential impact on the market is rather inconsistent; instead traders tend to give more credence to the existing home sales report which is released earlier in the month.

Nonfarm Employment Change

This indicator is a measurement of the total number of non farming related new jobs created in America for the previous month. It is perhaps the most important of all economic indicators in terms of its potential for immediate impact upon the currency market. The Nonfarm Employment Change (also referred to as the Nonfarm Payroll Report) is so largely influential because of its implications concerning the strength, or perhaps the weakness of the US economy. The number of new jobs created is closely connected to consumer spending, which in turn plays into GDP (Gross Domestic Product). This indicator is released on the first Friday of every month and contains data for the month prior. The report is the first of its kind (related to labor statistics) every month and is often regarded as an indicator in which surprise figures are generally anticipated. Traders in every major financial market watch this release very closely and are often forced to adjust trading strategies because of its immediate impact on the market.

Nonfarm Productivity q/q

This indicator takes a look at quarterly growth (annualized) in the non farming sector. Essentially labor efficiency for the production of goods and services is analyzed. This report is watched closely by traders because it tends to give a glimpse into the potential for inflation; as manufacturers may be forced to raise prices.

Personal Spending m/m

Personal spending is a simple measurement of the total amount spent by consumers in a given period (month) on goods and services. As consumer spending has far reaching implications into the overall picture of an economy, and considering that it accounts for more than half of GDP (Gross Domestic Product) a rise seen in the trends of this indicator should have a positive effect on a nation's currency.

Unemployment Rate

The Unemployment Rate, as one might presume, measures the total number of Americans that are unemployed and who are presently seeking employment. Because consumer spending is such a large part of economic health, and those who are employed tend to spend more than those who are not, a downtrend seen in this indicator will have a positive effect on a nation's overall economic strength. The Unemployment Report is considered by traders a lagging indicator, meaning that its insight offers little in the way of future projections. As such, this indicator is not as heavily regarded as perhaps its name would suggest.

Unit Labor Costs q/q

This indicator is a measurement that calculates output per hour minus inflation, or in other words the correlation between productivity per hour and compensation per hour. An increase in hourly compensation will of course increase unit labor costs; the only way to offset this cost is to facilitate higher labor productivity per hour. Higher trends seen in this indicator should positively affect a nation's economy and thus their currency as well. This is because when companies are forced to pay more for labor (wage inflation) consumers will soon see an increase in cost as well (consumer inflation). This indicator is important to traders, as wage inflation is often a precursor to consumer inflation, which will in turn affect Gross Domestic Product, interest rates, etc.

Economics of the GBP

GOT MONEY 

The British Pound's Presence Globally

The British Pound is third only to the US and the Euro in terms of the currency reserves held in GBP around the globe. The Bank of England has been operating since the late 1600s, but wasn't nationalized until the mid 1900s. The Bank of England is responsible for determining England's monetary policy, which is key to the positioning of the Pound on a global level. Various economic and political factors combine to drive the ever-changing value of the GBP, but key to traders are the many economic indicators pertinent to the British economy. Some of the relevant economic indicators to the GBP are released directly through the Bank of England, while others are released from private data analysis firms.

Each of the economic indicators listed and described below have the potential to affect the price and stability of the GBP upon their release. There are other indicators that are directly relevant to the GBP that are not listed below.

The economic indicators outlined below can potentially move the price of any currency pair the GBP is involved with. These currency pairs include:

GBP/USD ~ EUR/GBP ~ GBP/JPY ~ GBP/CHF

Some of the below reports are commonly released by most economic powers around the globe, others are specific only to the British Economy. The reports are listed in alphabetical order, for more on the report and its strength ranking take a look at each individual indicator description below. For the date and time of the next release for each report please browse our current economic calendar.

Reports Listed in Alphabetical Order

Average Earnings Index + Bonus q/y

AEI (Average Earnings Index) is a measurement of averages wages + bonuses paid to employees on a quarterly basis. The indicator compares the results of a new quarter not to that of the most recent quarter, but rather to that same quarter the year prior.

BOE Inflation Rate

(+) BOE Inflation Rate The Bank of England publishes an Inflation Rate Statement each quarter. The purpose of the

statement and data included therein is to outline the various methods of economic analysis that will be used by the bank's Monetary Policy Committee to later determine potential changes to interest rates. The publication will also include projections for the coming two years and potential inflation rates.

BOE Meeting Minutes

BOE Meeting Minutes is an exact transcript of the Bank of England's meeting, usually held about two weeks prior. The transcript offers a record of official voting as it pertains to changes in interest rates and other fiscal policy. Though very straightforward in its content, this report is considered one of key importance to the British economy and the strength of the Pound.

BRC Retail Sales Monitor y/y

BRC stands for British Retail Consortium. In conducting the Retail Sales Monitor the BRC surveys retailers in an effort to gauge sales increases or decreases seen over the previous year. Retailers that have been open for less than are of course excluded from the survey. This indicator examines annual trends seen in retail sales.

CBI Distributive Traders Expected q/q

CBI stands for the Confederation of British Industry. In this indicator executives are surveyed on expected sales numbers for the coming year. As is the case with most economic indicators, specifically those that are considered leading indicators, expectations are often everything. Though simply stated, a positive trend seen in this indicator should positively affect the nation's economy; high expectations for the coming year may have positive short term implications for the economy, but if sales numbers in fact do not increase and thus expectations are not met, overzealous numbers seen in this indicator could potentially damage the economy.

CBI Distributive Trades Realized

CBI stands for the Confederation of British Industry. In this indicator executives are surveyed on the sales numbers of their firms. More specifically, they are asked whether their firm saw an increase or a decrease in sales in comparison to the previous year. The collected data of this indicator gives traders a look at the economy in relation to the retail

Economics of the GBP

sector. An increasing trend would of course positively affect an economy, as Retail Sales account for a large portion of consumer spending; and consumer spending is a very key source of economic strength, or if consumer spending is low, economic instability.

Claimant Count Change

This indicator is a measurement of the number of people within the British economy claiming unemployment related benefits (data is for the month prior). A drive down in the trends of this indicator would of course positively impact the position of the nation's currency. This is because of the simple fact that those who are employed tend to spend more than those who are not. Low unemployment rates translate to increased levels of consumer spending, which of course accounts for a large portion of many other economic indicators.

Core CPI y/y

CPI stands for Consumer Price Index, a fundamental indicator that establishes the rate of price inflation or price increase as seen by consumers when purchasing goods and services. Core CPI as released by the British government excludes energy, food, tobacco and alcohol items from collected data, as they are considered more volatile and can thus skew overall inflation trends. With the exclusion of volatile food and energy items, Core CPI shows a smoother trend than does normal CPI. The Consumer Price Index is touted as a timely and detailed inflation indicator. Typically, it is assumed that a rising trend in CPI will positively impact a nation's currency. Central banks are most concerned with price stability. If inflation rates are continually rising interest rates will likely be increased in an effort to bring prices back down. Globally, increased interest rates are said to entice foreign investment flows, which would of course, in turn, increase the demand and the standing of a nation's currency on a global scale. CPI is a well respected fundamental indicator and is ranked highly in terms of its potential impact in the market.

CPI y/y

CPI stands for Consumer Price Index, a fundamental indicator that establishes the rate of price inflation or price increase as seen by consumers when purchasing goods and services. The Consumer Price Index is touted as a timely and detailed inflation indicator. Typically, it is assumed that a rising trend in CPI will positively impact a

nation's currency. Central banks are most concerned with price stability. If inflation rates are continually rising interest rates will likely be increased in an effort to bring prices back down. Globally, increased interest rates are said to entice foreign investment flows, which would of course, in turn, increase the demand and the standing of a nation's currency on a global scale. CPI is a well respected fundamental indicator and is ranked highly in terms of its potential impact in the market.

GDP q/q

(+) GDP q/q Gross Domestic Product is considered by most the broadest, most comprehensive barometer of a country's overall economic condition. It measures the sum of all market values on final goods and services produced in a country (domestically) during a specific period of time. A rising trend seen in a country's GDP of course indicates that the economy of said country is improving; as a result foreign investors are more inclined to seek investment opportunities within that nation's bond and stock markets. It is not uncommon to see interest rate hikes as a follow-up to a rising GDP, as central banks will have an increased confidence in their own growing economies. The combination of a rising GDP and potentially higher interest rates can lead to an increase in demand for that nation's currency on a global scale.

Industrial Production

Industrial production is a measurement of the cumulative dollar amount of product produced by factories and other industrial production facilities. Increased levels of production would of course signify a strengthening economy, thus an increased trend seen in this indicator should positively affect the position of a nation's currency. Industrial production is closely tied with personal income, manufacturing employment and average earnings in that its quick reaction to the business cycle often allows for a preemptive leading look into these indicators.

Interest Rate Statement

The Monetary Policy Committee of the Bank of England (BOE) publishes an Interest Rate Statement every month. Perhaps at the core of all economic indicators are those that relate to interest rate decisions. In fact, most would argue that other economic indicators are used by the average trader as nothing more than a means to anticipate pending interest rate changes. The bulk of the statement

Economics of the GBP

includes an explanation of the various economic factors that influenced the change in rates (or lack thereof) for the nation's short term interest rate, also referred to as the "bank rate". The report will also include insight as to what the next interest rate decision might be. Short term interest rates are of monumental importance to traders in any of the major financial markets.

Central banks are most concerned with price stability. If inflation rates are continually rising interest rates will likely be increased in an effort to bring prices back down. Globally, increased interest rates are said to entice foreign investment flows, which would of course, in turn, increase the demand and the standing of a nation's currency on a global scale. Seasoned economists understand the relationship between inflation and interest rates, namely that inflation tends to precede higher interest rates, which ultimately increases the global demand for a nation's currency.

Manufacturing PMI

PMI stands for Purchasing Managers Index. Before the report is published purchasing managers are surveyed on the present situation of economic factors relevant to their position, factors such as new orders, inventories, production, employment, etc. Traders tend to keep an eye on this indicator because it tends to lead (leading indicator) into data that will later be released. This is because purchasing managers have an early view at the performance of their company. The indicator uses a reading of 50 to measure expansion, or the lack thereof. A reading above 50 would indicate economic expansion.

Manufacturing Production

This indicator is a measurement of the total value of output (produced materials) by manufacturers within the sub-sector of production. It is important to note that while this indicator is very similar to Industrial Production, it differs slightly because it is specific to only manufacturing industries, which by most estimates account for approximately 80% of total Industrial Production.

MPC Treasury Committee Hearings

The Monetary Policy Committee (MPC) of the Bank of England (BOE), along with Governor Mervyn King, will speak on the standing of the British economic picture. The testimony is given before Parliament's Treasury committee.

Nationwide House Prices m/m

The Nationwide House Prices report in the UK acts as a preemptive inflation indicator within the housing market. The report includes data collected on any monthly changes of average sale prices for houses in the UK.

PPI Input m/m

PPI stands for Producer Price Index, a fundamental indicator that establishes the rate of inflation, or in other words, the rate of price changes as seen by manufacturers who must purchase goods and services. As PPI relates to the GBP it is broken into two separate economic indicators; PPI Input (measure of goods and services bought) and PPI Output (measure of goods and services sold). Of the two, PPI Input is generally more closely watched by traders. The Producer Price Index is touted as a timely and detailed inflation indicator. Typically, it is assumed that a rising trend in PPI will positively impact a nation's currency. When manufacturers are forced to pay higher prices for the goods and services they need, these higher prices are then soon seen by the consumer. As such, the PPI is considered an indication of consumer inflation. The potential impact of PPI in the market is well respected by traders, though it is generally not thought to have as large of an impact as does its closely related cousin; Consumer Price Index (CPI), which is usually released shortly after PPI.

Public Sector Net Borrowing

Public Sector Net Borrowing as its name suggests measures borrowing in the public sector, including government corporations. Increased trends seen in the amount of borrowing are said to imply economic expansion (investment flows), thus a positive or rising trend seen in this indicator should positively affect a nation's economy and their currency.

Retail Sales m/m

Retail Sales is a measurement of the total value of retail sales in a given period. Because a large portion of consumer spending is accounted for in this indicator and because this indicator is typically the first of the month to report numbers concerned with consumer spending, traders tend watch this indicator closely. Retail Sales gives traders a good look at the consumer spending situation, which of course, will account for approximately half of GDP (Gross Domestic Product). In other words, traders watch Retail Sales because of its lead into consumer spending, which, in turn, is important because of its lead into GDP.

Economics of the GBP

RICS House Price Balance

RICS stands for the Royal Institute of Chartered Surveyors; their House Price Balance indicator is a measurement of price increases or decreases seen within the housing market in the UK. The information used to report this indicator is gathered through the means of survey; chartered surveyors report on price changes seen in their area. The percentage reading of the indicator would indicate that more surveyors saw an increase in price. 25%, for example, would indicate that 25% more surveyors saw an increase in price than did those who reported declining prices.

Rightmove House Price Index m/m

This indicator may be noteworthy simply because it is reported in the same month that figures are gathered. This is important when considering that most fundamental indicators released concerning the housing market are lagging indicators. Rightmove is a leading property website in the UK; their publication of same month housing data, specifically changes seen in the average asking price of residential properties, leads well into potential inflation that might be seen soon thereafter in the housing sector.

RPI y/y

RPI – Retail Price Index is much like CPI in that it measures inflation rates as seen by consumers. However, RPI differentiates itself in the sense that it looks only at goods and services bought for the purpose of household consumption.

Services PMI q/q

Measuring essentially the same information as normal PMI, the Services PMI simply focuses on the services sector. PMI stands for Purchasing Managers Index. Before the report is published purchasing managers are surveyed on the present situation of economic factors relevant to their position, factors such as new orders, inventories, production, employment, etc. Traders tend to keep an eye on this indicator because it tends to lead (leading indicator) into data that will later be released. This is because purchasing managers have an early view at the performance of their company. The indicator uses a reading of 50 to measure expansion, or the lack thereof. A reading above 50 would indicate economic expansion.

Trade Balance

Trade balance compares the amount of imported goods and services to the amount of exported goods and services of a given economy. Economically, it is in the best interest of an economy to have more goods and services exported than have been imported. Thus, a positive trade balance measures a period in which more goods and services were exported than were imported. An increased number of exports translate to an increase in the demand for said nation's currency, as other countries will be forced to exchange currency in order to purchase the exports. GDP (Gross Domestic Product) is also largely impacted by the trade balance, as an increase in the demand for exports will increase the work load of domestic factories, thus increasing employment levels.

Economics of the JPY

The Yen's Presence Globally

The Japanese GDP (Gross Domestic Product) generally ranks among the top 3 – 4 globally. Their currency, the Yen, is the primary Asian representative in the off exchange retail foreign currency market.

The Bank of Japan is the stabilizing force behind the Yen and is central to Japan's financial infrastructure. Some of the relevant economic indicators to the Yen are released directly through the Bank of Japan, while others may be released from private data analysis firms. Each of the economic indicators listed and described below have the potential to affect the price and stability of the Yen upon their release. There are other indicators that are directly relevant to the Yen that do not appear in the list below.

The economic indicators outlined below can potentially move the price of any currency pair the Yen is involved with. These currency pairs include:

USD/JPY ~ EUR/JPY ~ GBP/JPY
CHF/JPY ~ AUD/JPY ~ NZD/JPY

Some of the below reports are commonly released by most economic powers around the globe, others are specific only to Japan. The reports are listed in alphabetical order, for more on the report and its strength ranking take a look at each individual indicator description below. For the date and time of the next release for each report please browse our current economic calendar.

Reports Listed in Alphabetical Order

Bank of Japan Outlook Report

The BOJ (Bank of Japan) publishes a semi-annual report in April and October that outlines the Bank's stance and feelings on economic issues. The report includes an overall gauge of the economy, a look at inflation (which ultimately relates to interest rates), and a detailed look at economic policy. Because the report is semi-annual its outline projections are for the coming six months.

Core CPI

CPI stands for Consumer Price Index, a fundamental indicator that establishes the rate of price inflation or price increase as seen by consumers when purchasing goods and services. Core CPI as released by the Japanese government excludes fresh food items from collected data, as they are considered more volatile and can thus skew overall inflation trends. With the exclusion of volatile food items, Core CPI is considered a more reliable calculation of CPI. The Consumer Price Index is touted as a timely and detailed inflation indicator. Typically, it is assumed that a rising trend in CPI will positively impact a nation's currency. Central banks are most concerned with price stability. If inflation rates are continually rising interest rates will likely be increased in an effort to bring prices back down. Globally, increased interest rates are said to entice foreign investment flows, which would of course, in turn, increase the demand and the standing of a nation's currency on a global scale. CPI is a well respected fundamental indicator and is ranked highly in terms of its potential impact in the market.

Core Machinery Orders

Core Machinery Orders is a measurement of the sum value of new orders for machinery related products placed with machine manufacturers. An increased trend seen in this indicator is a sign of a strengthening economy and thus a strengthening currency. An increase in orders placed from manufacturers implies that the manufacturing industry is poised for expansion.

GDP y/y

Gross Domestic Product is considered by most the broadest, most comprehensive barometer of a country's overall economic condition. It measures the sum of all market values on final goods and services produced in a country (domestically) during a specific period of time. A rising trend seen in a country's GDP of course indicates that the economy of said country is improving; as a result foreign investors are more inclined to seek investment opportunities within that nation's bond and stock markets. It is not uncommon to see interest rate hikes as a follow-up to a rising GDP, as central banks will have an increased confidence in their own growing economies. The combination of a rising GDP and potentially higher interest rates can lead to an increase in demand for that nation's currency on a global scale.

Economics of the JPY

GDP Deflator q/q

Aside from basic GDP (Gross Domestic Product) figures some governments also releases GDP deflators. The GDP Deflator report publishes the difference between nominal and actual GDP. The report takes a measurement of annualized quarterly inflation rates as applicable to all economic activity.

Industrial Production

Industrial production is a measurement of the cumulative dollar amount of product produced by factories and other industrial production facilities. Increased levels of production would of course signify a strengthening economy, thus an increased trend seen in this indicator should positively affect the position of a nation's currency. Industrial production is closely tied with personal income, manufacturing employment and average earnings in that its quick reaction to the business cycle often allows for a preemptive leading look into these indicators.

(+) Interest Rate Statement

Perhaps at the core of all economic indicators are those that relate to interest rate decisions. In fact, most would argue that other economic indicators are used by the average trader as nothing more than a means to anticipate pending interest rate changes. The Bank of Japan's (BOJ) Monetary Policy Committee publishes its interest rate statement monthly. The bulk of the statement includes an explanation of the various economic factors that influenced the change in rates (or lack thereof) for the nation's short term interest rate, also referred to as the "overnight call rate". The report will also include insight as to what the next interest rate decision might be. Short term interest rates are of monumental importance to traders in any of the major financial markets. This is due to the fact that high interest rates attract foreign investors who are seeking the highest possible return in exchange for the lowest possible risk. Central banks are most concerned with price stability. If inflation rates are continually rising interest rates will likely be increased in an effort to bring prices back down. Globally, increased interest rates are said to entice foreign investment flows, which would of course, in turn, increase the demand and the standing of a nation's currency on a global scale. Seasoned economists understand the relationship between inflation and interest rates, namely that inflation tends to precede higher interest rates, which ultimately increases the global demand for a nation's currency.

Manufacturing PMI

PMI stands for Purchasing Managers Index. Before the report is published purchasing managers are surveyed on the present situation of economic factors relevant to their position, factors such as new orders, inventories, production, employment, etc. Traders tend to keep an eye on this indicator because it tends to lead (leading indicator) into data that will later be released. This is because purchasing managers have an early view at the performance of their company. The indicator uses a reading of 50 to measure expansion, or the lack thereof. A reading above 50 would indicate economic expansion.

Monetary Base

This indicator is a measurement in changes seen annually to Japan's total currency in circulation. This would include current account balances and of course banknotes and coins. Essentially the report exposes the total amount of additional currency being issued by the Bank of Japan each year. When the monetary base increases in the course of a year, or over the course of a few years, the result is usually a higher rate of inflation for the Yen.

Overall Household Spending

Overall household spending measures the total amount of consumer expenditures on household goods and services. Rising trends seen in this indicator tend to strengthen the position of a nation's currency. Quite obviously, an increase in consumer spending will positively impact an economy. Important to note is the correlation between consumer spending and GDP (Gross Domestic Product), namely that consumer spending accounts for approximately half of GDP, which of course is considered a very key economic indicator.

Retail Sales

Retail Sales is a measurement of the total value of retail sales in a given period. Because a large portion of consumer spending is accounted for in this indicator and because this indicator is typically the first of the month to report numbers concerned with consumer spending, traders tend watch this indicator closely. Retail Sales gives traders a good look at the consumer spending situation, which of course, will account for approximately half of GDP (Gross Domestic Product). In other words, traders watch Retail Sales because of its lead into consumer spending, which, in turn, is important because of its lead into GDP. Rising

Economics of the JPY

trends seen within this indicator should positively affect the standing of a nation's currency.

Tertiary Industry Activity Index

This indicator gathers a measurement of spending related changes seen in the services sector. Increased spending seen in this sector may be representative of increased employment rates, which in theory should precede a hike in consumer spending; thus a positive trend seen in this indicator should positively affect the economy of a nation and its currency.

Economics of the EUR

The Euro's Presence Globally

The Euro finds itself in an interesting position globally. Because the Euro is used by many countries across Europe its global economic impact is substantial. Listed in alphabetical order the Euro is the official currency of the following countries: Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain – these countries comprise what is known as the Eurozone. The economic standing of any of the aforementioned countries can potentially impact the stability and price direction of the Euro. That said, traders dealing in Euro must pay close attention to political factors, and the various economic indicators of each country in the Eurozone.

Some of the relevant economic indicators to the Euro are released directly through the European Central Bank (ECB), while others are released from private data analysis firms. Each of the economic indicators listed and described below have the potential to affect the price and stability of the Euro upon their release. There are other indicators that are directly relevant to the Euro, but that have been excluded from the list below.

The economic indicators outlined below can potentially move the price of any currency pair the Euro is involved with. These currency pairs include:

EUR/USD ~ EUR/JPY ~ EUR/CHF
EUR/GBP ~ EUR/CAD ~ EUR/AUD

Some of the below reports are commonly released by most economic powers around the globe, others are specific only to countries within the Eurozone. The reports are listed in alphabetical order, for more on the report and its strength ranking take a look at each individual indicator description below. For the date and time of the next release for each report please browse our current economic calendar.

Reports Listed in Alphabetical Order

French GDP

Gross Domestic Product is considered by most the broadest, most comprehensive barometer of a country's overall economic condition. It measures the sum of all market values on final goods and services produced in a country (domestically) during a specific period of time. A rising trend seen in a country's GDP of course indicates that the

economy of said country is improving; as a result foreign investors are more inclined to seek investment opportunities within that nation's bond and stock markets. It is not uncommon to see interest rate hikes as a follow-up to a rising GDP, as central banks will have an increased confidence in their own growing economies. The combination of a rising GDP and potentially higher interest rates can lead to an increase in demand for that nation's currency on a global scale.

French Nonfarm Employment

Nonfarm Employment Change is a measurement of the number of new jobs created in the previous quarter (of course excluding farming related employment). The number of new jobs seen in a given economy is of course largely influential in regards to the strength of that nation's currency; as the number of new jobs directly impacts consumer spending. Consumer spending accounts for nearly half of Gross Domestic Product. GDP is of course one of the most important economic indicators in terms of driving economic progression and the increase of a nation's currency.

German CPI

CPI stands for Consumer Price Index, a fundamental indicator that establishes the rate of price inflation or price increase as seen by consumers when purchasing goods and services. The Consumer Price Index is touted as a timely and detailed inflation indicator. Typically, it is assumed that a rising trend in CPI will positively impact a nation's currency. Central banks are most concerned with price stability. If inflation rates are continually rising interest rates will likely be increased in an effort to bring prices back down. Globally, increased interest rates are said to entice foreign investment flows, which would of course, in turn, increase the demand and the standing of a nation's currency on a global scale. CPI is a well respected fundamental indicator and is ranked highly in terms of its potential impact in the market.

German GDP

Gross Domestic Product is considered by most the broadest, most comprehensive barometer of a country's overall economic condition. It measures the sum of all market values on final goods and services produced in a country (domestically) during a specific period of time. A rising trend seen in a country's GDP of course indicates that the economy of said country is improving; as a result foreign

Economics of the EUR

investors are more inclined to seek investment opportunities within that nation's bond and stock markets. It is not uncommon to see interest rate hikes as a follow-up to a rising GDP, as central banks will have an increased confidence in their own growing economies. The combination of a rising GDP and potentially higher interest rates can lead to an increase in demand for that nation's currency on a global scale.

German Ifo Business Climate Index

The Ifo (Information and Forschung) Business Climate Index surveys manufacturing, wholesale, retail and construction firms in an effort to measure economic confidence in the coming months. Over 7,000 firms are said to participate in the survey which has become a very key indication of economic confidence, or the lack thereof, in the German economy.

German Industrial Production

Industrial production is a measurement of the cumulative dollar amount of product produced by factories and other industrial production facilities. Increased levels of production would of course signify a strengthening economy, thus an increased trend seen in this indicator should positively affect the position of a nation's currency. Industrial production is closely tied with personal income, manufacturing employment and average earnings in that its quick reaction to the business cycle often allows for a preemptive leading look into these indicators.

German Manufacturing PMI

PMI stands for Purchasing Managers Index. Before the report is published purchasing managers are surveyed on the present situation of economic factors relevant to their position, factors such as new orders, inventories, production, employment, etc. Traders tend to keep an eye on this indicator because it tends to lead (leading indicator) into data that will later be released. This is because purchasing managers have an early view at the performance of their company. The indicator uses a reading of 50 to measure expansion, or the lack thereof. A reading above 50 would indicate economic expansion.

German ZEW Economic Sentiment

ZEW stands for Zentrum für Europäische Wirtschaftsforschung; for non German speakers, probably an irrelevant fact. At any rate, the ZEW Economic Sentiment takes a look at investor sentiment on the institutional level. Participants in

the gathering of data state whether they feel optimistic or pessimistic concerning the state of their investments and the health of the economy in the coming six months. The indicator compares the percent of investors who feel positive about the pending economy to those who feel negative and then factors the number of those who expect no change. If 40% of investors feel optimistic concerning the pending economy and 30% expect a falling economy, leaving a remaining 30% that expect no change the reading would measure +10. Investor sentiment, particularly investors on an institutional level, can largely impact overall economic sentiment, thus a positive trend seen in this indicator should positively impact the economy.

Industrial New Orders

Industrial New Orders is a simple measurement of the number of new purchase orders as seen by domestic manufacturers for either durable or non-durable goods in a given period of time.

Interest Rate Statement

The Governing Council of the European Central Bank (ECB) publishes an Interest Rate Statement every month. Perhaps at the core of all economic indicators are those that relate to interest rate decisions. In fact, most would argue that other economic indicators are used by the average trader as nothing more than a means to anticipate pending interest rate changes. The bulk of the statement includes an explanation of the various economic factors that influenced the change in rates (or lack thereof) for the nation's short term interest rate, also referred to as the "cash rate". The report will also include insight as to what the next interest rate decision might be. Short term interest rates are of monumental importance to traders in any of the major financial markets. This is due to the fact that high interest rates attract foreign investors who are seeking the highest possible return in exchange for the lowest possible risk. Central banks are most concerned with price stability. If inflation rates are continually rising interest rates will likely be increased in an effort to bring prices back down. Globally, increased interest rates are said to entice foreign investment flows, which would of course, in turn, increase the demand and the standing of a nation's currency on a global scale. Seasoned economists understand the relationship between inflation and interest rates, namely that inflation tends to precede higher interest rates, which ultimately increases the global demand for a nation's currency.

Economics of the CHF

The Franc's Presence Globally

The Swiss economy is largely impacted by the activity of the Swiss National Bank and its active participation in the forex process. Since the US's abandonment of the gold standard in 1971 it has been the policy of the Swiss National Bank to actively push the Franc in and out of the forex market place. As such, traders dealing in Franc should pay very close to the activity of the Swiss National Bank. Various economic and political factors combine to drive the ever-changing value of the CHF, but key to traders are the many economic indicators pertinent to the Swiss economy.

Some of the relevant economic indicators to the CHF are released directly through the Swiss National Bank, while others may be released from private data analysis firms. Each of the economic indicators listed and described below have the potential to affect the price and stability of the CHF upon their release. There are other indicators that are directly relevant to the CHF, but that have been excluded from this list.

The economic indicators outlined below can potentially move the price of any currency pair the CHF is involved with. These currency pairs include:

USD/CHF ~ EUR/CHF ~ GBP/CHF ~ CHF/JPY

Some of the below reports are commonly released by most economic powers around the globe, others are specific only to the Swiss economy. The reports are listed in alphabetical order, for more on the report and its strength ranking take a look at each individual indicator description below. For the date and time of the next release for each report please browse our current economic calendar.

Reports Listed in Alphabetical Order

Consumption Indicator

The consumption indicator is a measurement of the total consumer expenditure on goods and services for a given period of time. This indicator is typically released 3 months before actual or official statistics are reported to the public.

CPI m/m

CPI stands for Consumer Price Index, a fundamental indicator that establishes the rate of price inflation or price increase as seen by consumers when purchasing goods and services. The Consumer Price Index is touted as a timely and detailed inflation indicator. Typically, it is assumed that a rising trend in CPI will positively impact a nation's currency. Central banks are most concerned with price stability. If inflation rates are continually rising interest rates will likely be increased in an effort to bring prices back down. Globally, increased interest rates are said to entice foreign investment flows, which would of course, in turn, increase the demand and the standing of a nation's currency on a global scale. CPI is a well respected fundamental indicator and is ranked highly in terms of its potential impact in the market.

Employment Level

Employment Level measures the total workers, both full and part-time, that were employed during the previous quarter. Because consumer spending is so closely tied to the number of new jobs created, the Employment Level indicator is closely watched by traders and economists alike who understand its ultimate connection to GDP (Gross Domestic Product). Positive trends seen in this indicator imply a strengthening economy.

GDP q/q

Gross Domestic Product is considered by most the broadest, most comprehensive barometer of a country's overall economic condition. It measures the sum of all market values on final goods and services produced in a country (domestically) during a specific period of time. A rising trend seen in a country's GDP of course indicates that the economy of said country is improving; as a result foreign investors are more inclined to seek investment opportunities within that nation's bond and stock markets. It is not uncommon to see interest rate hikes as a follow-up to a rising GDP, as central banks will have an increased confidence in their own growing economies. The combination of a rising GDP and potentially higher interest rates can lead to an increase in demand for that nation's currency on a global scale.

Economics of the CHF

Leading Index m/m

The Swiss Institute for Business Cycle Research (KOF) publishes this indicator monthly. Essentially, the report combines data from 25 leading indicators in an effort to gauge the overall health of the economy. Some of the indicators included are stock prices, interest rate spreads, consumer expectations, housing starts, etc.

PPI m/m

PPI stands for Producer Price Index, a fundamental indicator that establishes the rate of inflation, or in other words, the rate of price changes as seen by manufacturers who must purchase goods and services. The Producer Price Index is touted as a timely and detailed inflation indicator. Typically, it is assumed that a rising trend in PPI will positively impact a nation's currency. Logically enough, when manufacturers are forced to pay higher prices for the goods and services they need, these higher prices are then soon seen by the consumer. As such, the PPI is considered an indication of consumer inflation. The potential impact of PPI in the market is well respected by traders, though it is generally not thought to have as large of an impact as does its closely related cousin; Consumer Price Index (CPI), which is usually released shortly after PPI.

Retail Sales y/y

Retail Sales is a measurement of the total value of retail sales in a given period. Because a large portion of consumer spending is accounted for in this indicator and because this indicator is typically the first of the month to report numbers concerned with consumer spending, traders tend to watch this indicator closely. Retail Sales gives traders a good look at the consumer spending situation, which of course, will account for approximately half of GDP (Gross Domestic Product). In other words, traders watch Retail Sales because of its lead into consumer spending, which, in turn, is important because of its lead into GDP. Rising trends seen within this indicator should positively affect the standing of a nation's currency.

SVME PMI

SVME stands for Schweizerischer Verband für Materialwirtschaft und Einkauf; PMI of course standing for Purchasing Managers Index. Before the report is published purchasing managers are surveyed on the present situation of economic factors relevant to their position, factors such as new orders, inventories, production, employment, etc. Traders tend to keep an eye on this indicator because it tends to lead (leading indicator) into data that will later be released. This is because purchasing managers have an early view at the performance of their company. The indicator uses a reading of 50 to measure expansion, or the lack thereof. A reading above 50 would indicate economic expansion.

Trade Balance

Trade balance compares the amount of imported goods and services to the amount of exported goods and services of a given economy. Economically, it is in the best interest of an economy to have more goods and services exported than have been imported. Thus, a positive trade balance measures a period in which more goods and services were exported than were imported. An increased number of exports translate to an increase in the demand for said nation's currency, as other countries will be forced to exchange currency in order to purchase the exports. GDP (Gross Domestic Product) is also largely impacted by the trade balance, as an increase in the demand for exports will increase the work load of domestic factories, thus increasing employment levels.

Economics of the AUD

GOT MONEY 

The Australian Dollar's Presence Globally

The Australian economy has gathered strength globally in recent decades, particularly since the late 1960s when the Australian Dollar became the official currency of the Commonwealth of Australia. The Aussie Dollar, as it is commonly referred to, is popular among forex traders largely because of the fact that the Australian Government tends to intervene in the forex market substantially less often than do other governments. Various economic and political factors combine to drive the ever-changing value of the AUD, but key to traders are the many economic indicators pertinent to the Australian economy.

Some of the relevant economic indicators to the AUD are released directly through the Reserve Bank of Australia (RBA - Australia's governing bank), while others may be released from private data analysis firms. Each of the economic indicators listed and described below have the potential to affect the price and stability of the AUD upon their release. There are other indicators that are directly relevant to the AUD, but that have been excluded from this list.

The economic indicators outlined below can potentially move the price of any currency pair the AUD is involved with. These currency pairs include:

AUD/USD ~ AUD/JPY ~ AUD/CAD
EUR/AUD ~ AUD/NZD

Some of the below reports are commonly released by most economic powers around the globe, others are specific only to Australia. The reports are listed in alphabetical order, for more on the report and its strength ranking take a look at each individual indicator description below. For the date and time of the next release for each report please browse our current economic calendar.

Reports Listed in Alphabetical Order

Construction Work Done q/q

This indicator is a simple measurement of quarterly changes seen in the number of completed engineering and construction projects. The numbers for this indicator are taken from Building Activity Survey, which is also measured quarterly.

CPI q/q

CPI stands for Consumer Price Index, a fundamental indicator that establishes the rate of price inflation or price increase as seen by consumers when purchasing goods and services. The Consumer Price Index is touted as a timely and detailed inflation indicator. Typically, it is assumed that a rising trend in CPI will positively impact a nation's currency. Central banks are most concerned with price stability. If inflation rates are continually rising interest rates will likely be increased in an effort to bring prices back down. Globally, increased interest rates are said to entice foreign investment flows, which would of course, in turn, increase the demand and the standing of a nation's currency on a global scale. CPI is a well respected fundamental indicator and is ranked highly in terms of its potential impact in the market.

Australia reports their Consumer Price Index figures on a quarterly basis, as opposed to most other countries who report on a monthly basis. Because these numbers are released less often the potential impact on the Aussie is substantial.

Employment Change

The Employment Change indicator is a measurement of new jobs created within the Australian economy throughout the previous month. Consumer spending is closely linked to the creation of new jobs, as those who are employed tend to spend more (and put more back into the economy) than those who are unemployed. Employment levels and the creation of new jobs will largely impact the strength of an economy, thus a rising trend seen in this indicator should positively impact a nation's currency. Because this report is released early in the month it tends to command the attention of traders.

Interest Rate Statement

On the first Tuesday of every month the Reserve Bank of Australia (RBA) publishes an interest rate statement. Perhaps at the core of all economic indicators are those that relate to interest rate decisions. In fact, most would argue that other economic indicators are used by the average trader as nothing more than a means to anticipate pending interest rate changes. The bulk of the statement includes an explanation of the various economic factors that influenced the change in rates (or lack thereof) for the nation's

Economics of the AUD

short term interest rate, also referred to as the “cash rate”. The report will also include insight as to what the next interest rate decision might be. Short term interest rates are of monumental importance to traders in any of the major financial markets. This is due to the fact that high interest rates attract foreign investors who are seeking the highest possible return in exchange for the lowest possible risk. Central banks are most concerned with price stability. If inflation rates are continually rising interest rates will likely be increased in an effort to bring prices back down. Globally, increased interest rates are said to entice foreign investment flows, which would of course, in turn, increase the demand and the standing of a nation’s currency on a global scale. Seasoned economists understand the relationship between inflation and interest rates, namely that inflation tends to precede higher interest rates, which ultimately increases the global demand for a nation’s currency.

PPI q/q

PPI stands for Producer Price Index, a fundamental indicator that establishes the rate of inflation, or in other words, the rate of price changes as seen by manufacturers who must purchase goods and services. The Producer Price Index is touted as a timely and detailed inflation indicator. Typically, it is assumed that a rising trend in PPI will positively impact a nation’s currency. Logically enough, when manufacturers are forced to pay higher prices for the goods and services they need, these higher prices are then soon seen by the consumer. As such, the PPI is considered an indication of consumer inflation. The potential impact of PPI in the market is well respected by traders, though it is generally not thought to have as large of an impact as does its closely related cousin; Consumer Price Index (CPI), which is usually released shortly after PPI.

Trade Balance

Trade balance compares the amount of imported goods and services to the amount of exported goods and services of a given economy. Economically, it is in the best interest of an economy to have more goods and services exported than have been imported. Thus, a positive trade balance measures a period in which more goods and services were exported than were imported. An increased number of exports translate to an increase in the demand for said nation’s currency, as other countries will be forced to exchange currency in order to purchase the exports. GDP (Gross Domestic Product) is also largely impacted

by the trade balance, as an increase in the demand for exports will increase the work load of domestic factories, thus increasing employment levels.

Retail Sales m/m

Retail Sales is a measurement of the total value of retail sales in a given period. Because a large portion of consumer spending is accounted for in this indicator and because this indicator is typically the first of the month to report numbers concerned with consumer spending, traders tend watch this indicator closely. Retail Sales gives traders a good look at the consumer spending situation, which of course, will account for approximately half of GDP (Gross Domestic Product). In other words, traders watch Retail Sales because of its lead into consumer spending, which in turn, is important because of its lead into GDP. Rising trends seen within this indicator should positively affect the standing of a nation’s currency.

Unemployment Rate

The Unemployment Rate, as one might presume, measures the total number of citizens that are unemployed and who are presently seeking employment. Because consumer spending is such a large part of economic health, and those who are employed tend to spend more than those who are not, a downtrend seen in this indicator will have a positive effect on a nation’s overall economic strength. The Unemployment Report is considered by traders a lagging indicator, meaning that its insight offers little in the way of future projections. As such, this indicator is not as heavily regarded as perhaps its name would suggest.

Economics of the CAD

GOT MONEY 

The Canadian Dollar's Presence Globally

The Canadian economy is largely dependent upon the Bank of Canada, as its primary responsibility is to govern the stability of the Canadian Dollar. The Bank of Canada is responsible for determining Canada's monetary policy, which is key to the positioning of the Canadian Dollar on a global level. Various economic and political factors combine to drive the ever-changing value of the CAD, but key to traders are the many economic indicators pertinent to the Canadian economy. Some of the relevant economic indicators to the CAD are released directly through the Bank of Canada, while others are released from private data analysis firms.

Each of the economic indicators listed and described below have the potential to affect the price and stability of the CAD upon their release. There are other indicators that are directly relevant to the CAD, but that have been excluded from this list.

The economic indicators outlined below can potentially move the price of any currency pair the CAD is involved with. These currency pairs include:

USD/CAD ~ EUR/CAD ~ AUD/CAD

Some of the below reports are commonly released by most economic powers around the globe, others are specific only to Canada. The reports are listed in alphabetical order, for more on the report and its strength ranking take a look at each individual indicator description below. For the date and time of the next release for each report please browse our current economic calendar.

Reports Listed in Alphabetical Order

BOC Monetary Policy Report *Leading Indicators m/m*

The BOC (Bank of Canada) publishes its Monetary Policy Report on a semi-annual basis. The report is released each year in April and October; revisions to the report are released in July and January. The report essentially provides a look into the Canadian economy through the eyes of the BOC, which of course will largely impact the sentiment of the Canadian Dollar. In April of 2007 the bank lowered its previous estimates for economic growth, a drop from 2.3% to 2.2%. Growth estimates for the coming year (2008) were also lowered, from 2.8% to 2.7%.

Building permits m/m

This indicator is a measurement of new construction projects, or the number of new building permits issued in a given period. Considered a leading indicator, the information gathered from this report is used as a gauge for the pending expansion or lack thereof in the construction industry.

Business Conditions Orders

The data for this report is gathered through the means of a survey, in which respondents are questioned concerning the status of purchase orders seen within the manufacturing industry. Respondents to the survey note the previous month's level of purchase orders as 'declining', 'rising', or 'about the same'. The data collected gives economists a temperature gauge on the pending strength of the economy, as obviously an increased trend seen the number of purchase orders within the manufacturing industry signifies a strengthening economy.

Core CPI

CPI stands for Consumer Price Index, a fundamental indicator that establishes the rate of price inflation or price increase as seen by consumers when purchasing goods and services. Core CPI as released by the Canadian government excludes fruit preparation, fruit, vegetables, natural gas, fuel, gasoline, inter-city transportation, mortgage interest rates and tobacco from collected data, as they are considered more volatile and can thus skew overall inflation trends. With the exclusion of volatile items, Core CPI is considered a more reliable calculation of CPI. The Consumer Price Index is touted as a timely and detailed inflation indicator. Typically, it is assumed that a rising trend in CPI will positively impact a nation's currency. Central banks are most concerned with price stability. If inflation rates are continually rising interest rates will likely be increased in an effort to bring prices back down. Globally, increased interest rates are said to entice foreign investment flows, which would of course, in turn, increase the demand and the standing of a nation's currency on a global scale. CPI is a well respected fundamental indicator and is ranked highly in terms of its potential impact in the market.

Corporate Profits q/q

Corporate Profits is a simple measurement of all profits earned (before taxes) from business activities excluding

Economics of the CAD

interest owed on borrowed funds. Corporate strength and expansion of course parallels the overall economic strength of a nation, thus a positive trend seen in this indicator should positively affect the strength a nation's currency.

Core Retail Sales m/m

Core Retail Sales is a measurement of the total value of retail sales in a given period, excluding automobile sales. The exclusion of automobile sales in this indicator is because automobile sales can be rather volatile during certain months, thus skewing the overall trend of retail sales. Because a large portion of consumer spending is accounted for in this indicator and because this indicator is typically the first of the month to report numbers concerned with consumer spending, traders tend watch this indicator closely. Core Retail Sales gives traders a good look at the consumer spending situation, which of course, will account for approximately half of GDP (Gross Domestic Product). In other words, traders watch Core Retail Sales because of its lead into consumer spending, which, in turn, is important because of its lead into GDP. Rising trends seen within this indicator should positively affect the standing of a nation's currency.

CPI m/m

CPI stands for Consumer Price Index, a fundamental indicator that establishes the rate of price inflation or price increase as seen by consumers when purchasing goods and services. The Consumer Price Index is touted as a timely and detailed inflation indicator. It is assumed that a rising trend in CPI will positively impact a nation's currency. Central banks are most concerned with price stability. If inflation rates are continually rising interest rates will likely be increased in an effort to bring prices back down. Globally, increased interest rates are said to entice foreign investment flows, which would of course, in turn, increase the demand and the standing of a nation's currency on a global scale. CPI is a well respected fundamental indicator and is ranked highly in terms of its potential impact in the market.

Current Account

Current Account measures on a quarterly basis the following components: income flows, unilateral transfers, services, and imported and exported goods. More specifi-

cally, it compares the change in value of each. Essentially the indicator is a balance sheet reflecting the current status of trade with other nations. Traders seem to focus on unilateral transfer and income flow the most as they are the unique components of this indicator. Trade Balance (a separate economic indicator) reports on imported and exported goods, and most trades concerned with imports/exports give more credence to this indicator.

Employment Change

The Employment Change indicator is a measurement of new jobs created within the Canadian economy throughout the previous month. Consumer spending is closely linked to the creation of new jobs, as those who are employed tend to spend more (and put more back into the economy) than those who are unemployed. Employment levels and the creation of new jobs will largely impact the strength of an economy, thus a rising trend seen in this indicator should positively impact a nation's currency. Because this report is released early in the month it tends command the attention of traders.

GDP m/m

Gross Domestic Product is considered by most the broadest, most comprehensive barometer of a country's overall economic condition. It measures the sum of all market values on final goods and services produced in a country (domestically) during a specific period of time. A rising trend seen in a country's GDP of course indicates that the economy of said country is improving; as a result foreign investors are more inclined to seek investment opportunities within that nation's bond and stock markets. It is not uncommon to see interest rate hikes as a follow-up to a rising GDP, as central banks will have an increased confidence in their own growing economies. The combination of a rising GDP and potentially higher interest rates can lead to an increase in demand for that nation's currency on a global scale.

Housing Starts

Housing starts is a measurement of the total number of new buildings or homes (single-family) constructed in the previous month. The housing market is of course largely connected with economic expansion; a slowing trend seen in this indicator would more than likely parallel a slowing economy.

Economics of the CAD

GOT MONEY 

Interest Rate Statement

Perhaps at the core of all economic indicators are those that relate to interest rate decisions. In fact, most would argue that other economic indicators are used by the average trader as nothing more than a means to anticipate pending interest rate changes. Eight times per year the Bank of Canada (BOC) will release an Interest Rate Statement. The bulk of the statement includes an explanation of the various economic factors that influenced the change in rates (or lack thereof) for the nation's short term interest rate, also referred to as the "overnight rate". The report will also include insight as to what the next interest rate decision might be. Short term interest rates are of monumental importance to traders in any of the major financial markets. This is due to the fact that high interest rates attract foreign investors who are seeking the highest possible return in exchange for the lowest possible risk. Central banks are most concerned with price stability. If inflation rates are continually rising interest rates will likely be increased in an effort to bring prices back down. Globally, increased interest rates are said to entice foreign investment flows, which would of course, in turn, increase the demand and the standing of a nation's currency on a global scale. Seasoned economists understand the relationship between inflation and interest rates, namely that inflation tends to precede higher interest rates, which ultimately increases the global demand for a nation's currency.

International Securities Transactions

This indicator is very similar to the US's Long Term TIC Flows; essentially it is a measurement of the foreign demand for Canadian assets and debt. An increased trend seen in this indicator, or in other words, an increased foreign interest in Canadian assets and debt is said to strengthen the global position of the CAD dollar, as those seeking Canadian assets will need to convert currency before purchasing Canadian securities.

Ivey PMI

PMI stands for Purchasing Managers Index. Before the report is published purchasing managers are surveyed on the present situation of economic factors relevant to their position, factors such as new orders, inventories, production, employment, etc. Traders tend to keep an eye on this indicator because it tends to lead (leading indicator) into data that will later be released. This is because purchasing managers have an early view at the performance of their

company. The indicator uses a reading of 50 to measure expansion, or the lack thereof. A reading above 50 would indicate economic expansion.

Leading Indicators m/m

Combining ten leading indicators in an effort to gauge the overall economic health of an economy, Leading Indicators includes some of the following economic indications: interest rate spreads, average weekly hours, new orders, housing permits, consumer expectations and stock prices.

Manufacturing Shipments

This indicator is a measurement of the total dollar amount of shipments made by Canadian manufacturers in a given period.

Retail Sales m/m

Retail Sales is a measurement of the total value of retail sales in a given period. Because a large portion of consumer spending is accounted for in this indicator and because this indicator is typically the first of the month to report numbers concerned with consumer spending, traders tend watch this indicator closely. Retail Sales gives traders a good look at the consumer spending situation, which of course, will account for approximately half of GDP (Gross Domestic Product). In other words, traders watch Retail Sales because of its lead into consumer spending, which, in turn, is important because of its lead into GDP. Rising trends seen within this indicator should positively affect the standing of a nation's currency.

Trade Balance

Trade balance compares the amount of imported goods and services to the amount of exported goods and services of a given economy. Economically, it is in the best interest of an economy to have more goods and services exported than have been imported. Thus, a positive trade balance measures a period in which more goods and services were exported than were imported. An increased number of exports translate to an increase in the demand for said nation's currency, as other countries will be forced to exchange currency in order to purchase the exports. GDP (Gross Domestic Product) is also largely impacted by the trade balance, as an increase in the demand for exports will increase the work load of domestic factories, thus increasing employment levels.

Economics of the CAD

Unemployment Rate

The Unemployment Rate, as one might presume, measures the total number of citizens that are unemployed and who are presently seeking employment. Because consumer spending is such a large part of economic health, and those who are employed tend to spend more than those who are not, a downtrend seen in this indicator will have a positive effect on a nation's overall economic strength. The Unemployment Report is considered by traders a lagging indicator, meaning that its insight offers little in the way of future projections. This indicator is not as heavily regarded as perhaps its name would suggest.

Wholesale Sales m/m

This indicator is a measurement of sum value of sales by wholesalers. Typically, this indicator tends to be more volatile than that of Retail Sales. An increase in buying trends seen in orders placed through wholesalers would of course indicate an increase in the demand placed on retailers by consumer spenders. An increase in consumer spending and related indicators would add this indicator to the list of many that when a positive trend is seen the strength of the nation's currency should improve.

Economics of the NZD

GOT MONEY FX

The New Zealand Dollar's Presence Globally

The New Zealand Dollar, often known as the 'kiwi dollar' has been the official currency of New Zealand since 1967 when it replaced the New Zealand Pound. The Reserve Bank of New Zealand is completely government operated and owned, making it unique in the world of central banks; also making it more actively involved in currency trading in the forex markets than some other central banks. Various economic and political factors combine to drive the ever-changing value of the NZD, but key to traders are the many economic indicators pertinent to the New Zealand economy.

Some of the relevant economic indicators to the NZD are released directly through the Reserve Bank of New Zealand, while others may be released from private data analysis firms. Each of the economic indicators listed and described below have the potential to affect the price and stability of the NZD upon their release. There are other indicators that are directly relevant to the NZD, but that have been excluded from this list.

The economic indicators outlined below can potentially move the price of any currency pair the NZD is involved with. These currency pairs include:

NZD/USD ~ AUD/NZD ~ NZD/JPY

Some of the below reports are commonly released by most economic powers around the globe, others are specific only to the New Zealand economy. The reports are listed in alphabetical order, for more on the report and its strength ranking take a look at each individual indicator description below. For the date and time of the next release for each report please browse our current economic calendar.

Reports Listed in Alphabetical Order

Interest Rate Statement

Perhaps at the core of all economic indicators are those that relate to interest rate decisions. In fact, most would argue that other economic indicators are used by the average trader as nothing more than a means to anticipate pending interest rate changes. Eight times per year New Zealand's central bank, the Reserve Bank of New Zealand (RBNZ) will release an Interest Rate Statement. The bulk

of the statement includes an explanation of the various economic factors that influenced the change in rates (or lack thereof) for the nation's short term interest rate, also referred to as the "cash rate". The report will also include insight as to what the next interest rate decision might be. Short term interest rates are of monumental importance to traders in any of the major financial markets. This is due to the fact that high interest rates attract foreign investors who are seeking the highest possible return in exchange for the lowest possible risk. Central banks are most concerned with price stability. If inflation rates are continually rising interest rates will likely be increased in an effort to bring prices back down. Globally, increased interest rates are said to entice foreign investment flows, which would of course, in turn, increase the demand and the standing of a nation's currency on a global scale. Seasoned economists understand the relationship between inflation and interest rates, namely that inflation tends to precede higher interest rates, which ultimately increases the global demand for a nation's currency.

Trade Balance

Trade balance compares the amount of imported goods and services to the amount of exported goods and services of a given economy. Economically, it is in the best interest of an economy to have more goods and services exported than have been imported. Thus, a positive trade balance measures a period in which more goods and services were exported than were imported. An increased number of exports translate to an increase in the demand for said nation's currency, as other countries will be forced to exchange currency in order to purchase the exports. GDP (Gross Domestic Product) is also largely impacted by the trade balance, as an increase in the demand for exports will increase the work load of domestic factories, thus increasing employment levels.

Unemployment Rate

The Unemployment Rate, as one might presume, measures the total number of citizens that are unemployed and who are presently seeking employment. Because consumer spending is such a large part of economic health, and those who are employed tend to spend more than those who are not, a downtrend seen in this indicator will have a positive effect on a nation's overall economic strength. The Unemployment Report is considered by traders a lagging

Economics of the NZD

indicator, meaning that its insight offers little in the way of future projections. As such, this indicator is not as heavily regarded as perhaps its name would suggest.

Retail Sales m/m

Retail Sales is a measurement of the total value of retail sales in a given period. Because a large portion of consumer spending is accounted for in this indicator and because this indicator is typically the first of the month to report numbers concerned with consumer spending, traders tend to watch this indicator closely. Retail Sales gives traders a good look at the consumer spending situation, which of course, will account for approximately half of GDP (Gross Domestic Product). In other words, traders watch Retail Sales because of its lead into consumer spending, which, in turn, is important because of its lead into GDP. Rising trends seen within this indicator should positively affect the standing of a nation's currency.

PPI Input q/q

PPI stands for Producer Price Index, a fundamental indicator that establishes the rate of inflation, or in other words, the rate of price changes as seen by manufacturers who must purchase goods and services. As PPI relates to the NZD it is broken into two separate economic indicators; PPI Input (measure of goods and services bought) and PPI Output (measure of goods and services sold). Of the two, PPI Input is generally more closely watched by traders. The Producer Price Index is touted as a timely and detailed inflation indicator. Typically, it is assumed that a rising trend in PPI will positively impact a nation's currency. Logically enough, when manufacturers are forced to pay higher prices for the goods and services they need, these higher prices are then soon seen by the consumer. As such, the PPI is considered an indication of consumer inflation. The potential impact of PPI in the market is well respected by traders, though it is generally not thought to have as large of an impact as does its closely related cousin; Consumer Price Index (CPI), which is usually released shortly after PPI.

Visitors Arrivals m/m

This indicator is a simple measurement of the total number of foreign citizens arriving in the country in a given period (monthly). Tourism largely impacts the economy of a nation, as many nations' tourism related employment accounts for up to 10% of total employment; employment of course impacts consumer spending and ultimately Gross Domestic Product.

Glossary

GOT MONEY 

Base Currency

In a currency pair the base currency refers to the currency listed on the left hand side of the pair. The base currency's value is always equal to 1. The currency listed on the right is called the quote currency. The quote currency shows how much of that currency is necessary to purchase 1 unit of the base currency.

Bearish

The term bearish refers to a market in which prices are moving down continually. The term can also be used to describe the price direction of a single candle or bar within a chart. If the stock market has been trending downwards, traders will refer to it as a 'bearish market'. If a single price candle closes at a lower price than it opened, it can be referred to as a 'bearish candle'. Professional traders also often refer to 'the bulls' or the 'the bears' of a market, in this case 'the bears' would represent the sellers in the market.

Bullish

The term bullish refers to a market in which prices are moving up continually. The term can also be used to describe the price direction of a single candle or bar within a chart. If the stock market has been trending upwards, traders will refer to it as a 'bullish market'. If a single price candle closes at a higher price than it opened, it can be referred to as a 'bullish candle'. Professional traders also often refer to 'the bulls' or the 'the bears' of a market, in this case 'the bulls' would represent the buyers in the market.

Central bank

Most modern nations have central banks that perform similar functions. Usually a branch of government, a central bank is responsible for setting interest rates, stabilizing the economy and reporting to the general public on economic conditions. Typically, central banks will loan funds to commercial banks at a certain set interest rate. Commercial banks then base their lending rates accordingly. Key central banks to the global economy include: The Federal Reserve (USA), The Bank of Japan, the Bank of Canada, The European Central Bank, The Bank of England, etc. etc.

Chart Patterns

Price data plotted onto charts often forms unique and distinct patterns; patterns that often precede very specific bullish or bearish price moves. Also referred to as 'chart formations' or 'price patterns'; these patterns can be very helpful to technical traders when analyzing the market.

Consolidation

Price consolidation refers to the narrowing of price highs and lows in a given time frame. This is usually a result of buyers and sellers that are unsure of market direction. Often, consolidation occurs as a means to test the strength of a trend. Lower highs and higher lows demonstrate a lack of domination from either the buyers or sellers, and as if being squeezed through a narrow passage, prices eventually break free and typically do so in favor of a strong move up or down.

EMA

EMA (exponential moving average) refers to the type of moving average that more heavily weighs recent price data when calculating average levels. Simple moving averages (SMA) sometimes react too slowly to price changes because they give equal weight to even the oldest prices in the equation.

Exchange Rate

When examining currency pairs one must understand what is meant by 'exchange rate'. Obviously, the exchange rate refers to the rate, or price at which one currency can be exchanged for another. However, many traders look at a currency pair, EUR/USD for example, without understanding a very basic concept: A price quote of 1.4760 is to say that 1.4760 US Dollars (currency on the right) will purchase 1 Euro (currency on the left).

Fibonacci Levels

Leonardo of Pisa, also known as Fibonacci, was a famous mathematician. He also credited with discovering a number sequence called "Fibonacci numbers", a sequence of numbers where each successive number is the sum of the two previous numbers. For example:

Glossary

GOT MONEY 

0, 1, 1, 2, 3, 5, 8, 13, 21, 34, 55, 89, 144, ...

Fibonacci numbers are approximately exponential. The higher up in the sequence, the closer the two consecutive numbers of the sequence divided by each other will approach the golden ratio (approximately 1:1.618). Traders use Fibonacci levels as a means to gauge potential market retracements. Fibonacci levels offer traders a look at where prices might retrace or extend to in the form of a series of numbers (price levels) that are represented as lines plotted on a chart.

Indicators

Fundamental and technical indicators are comprised of statistical or mathematical data. Technical indicators are generally used to track the patterns of historical price data. The calculations and methods behind technical indicators vary depending on the purpose - be it to track price averages, price ranges, or repeated price cycles. Common technical indicators include moving averages, MACD, Oscillators and so on. Fundamental indicators are more often referring to statistical economic data published relating to the money flow and health of a given economy. Common fundamental indicators include GDP, Nonfarm Payroll, Producer Price Index and so on.

Intra-day Trader

An intra-day trader generally prefers to open and close positions within the same trading day. This type of trader is generally trading shorter time frame charts, and tend to stay in positions for hours at a time, as opposed to days at a time.

Inter-day Trader (or swing trader)

The term inter-day describes those traders who prefer to hold positions overnight, and possible for days or weeks at a time.

Lagging Indicator

A lagging indicator refers to a technical indicator that gives traders an indication that a trend has already begun, in other words the notification is a bit after the fact, hence the term 'lagging'. Though lagging indicators can be a bit behind, they still help traders catch onto trends that oth-

erwise might have gone overlooked. Moving averages are considered lagging indicators.

Leading Indicator

The opposite of lagging indicators would be 'leading indicators', indicators that work to warn traders ahead of time that something is developing.

Leverage

Leverage describes the set level at which a trader is essentially borrowing money from their broker or bank. Leverage set at 100 : 1 is to say that a trader can control a position or contract in the market that is 100 times the size of the margin they have posted in order to place the trade. For example, a standard \$100,000 contract (1 lot) in the Forex market would require a margin post of \$1,000 if a trader were at 100 : 1 leverage.

Liquidate

In financial markets the term liquid and its various forms take on a few different meanings; in this instance if a broker's trading agreement refers to the possibility that a trade will be liquidated, that is to say that the trade will be close, and unrealized profit or loss will become realized profit or loss.

Liquidity

A liquid market refers to a market that is cash heavy, and liquidity refers to substantial level of capital or funds existing within a market or bank. Markets with high trading volume and substantial money flow are considered liquid markets. Banks and brokerages that clear trades are considered liquidity providers, as they are providing the funds necessary to support the execution of trades.

Long

The Term 'long' refers to the buying side of the market and is most often used by traders as a verb, i.e 'I went long the Euro', thus meaning that I bought the Euro/US Dollar. Traders might also say that they are 'long 20 lots on the Pound', meaning of course that they have bought 20 lots of the GBP / USD.

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Lot

In the off-exchange retail Forex market contracts are most often referred to as lots. 1 lot would be the same as saying 1 contract. In a standard account a full lot is equal to \$100,000. Thus, a trader placing a 4 lot trade, for example, would be controlling \$400,000. In a mini account a full lot is equal to \$10,000. Thus, a trader placing a 4 mini lot trade would be controlling \$40,000.

Margin

Margin describes the amount of funds a trader must post in order to control a leveraged contract in the market. Often, accounts that are traded with leverage are also referred to as margined, or margin, accounts. At 100 : 1 leverage a standard FX contract of \$100,000 will require \$1,000 of margin. If a trader's account has less than a \$1,000 in equity they would not be allowed to open a position of this size.

Margin Call

Traditionally, a margin call occurs when a brokerage actually contacts a trader and informs them that their trade has moved against them enough to require a deposit of more margin (if they wish to keep the position open). In the FX market the term is more often used to describe a situation in which a brokerage firm actually closes the trader's position, usually without warning. Most brokerages have set margin call levels that traders are informed of when opening their account, it is generally safe to assume that if your position reaches this level, your broker will automatically close the trade.

Market Sentiment

Market sentiment refers to the general feeling of the majority of traders in a given market. If, because of a weak Nonfarm Payroll report, the majority of currency traders feel that the US Dollar will weaken; market sentiment surrounding the Dollar is thus negative. Often, a negative market sentiment surrounding a particular currency or economy can become reality. If many traders feel that the dollar should be weak and subsequently start selling the Dollar, the initial market sentiment may become a market reality as a mass of traders all selling the Dollar would in theory weaken its global standing.

Mini Account

In the off-exchange retail Forex market, a mini account refers to an account in which the full value of one single mini lot or contract is equal to \$10,000 (10% the value of a standard account). Traders can of course set trades that are multiple mini lots, or even fractional mini lots, but a single mini contract will always be equal to \$10,000. Many retail FX brokers offer 200 : 1 leverage on mini accounts; though traders can request to have their leverage set to a lower level.

Off-Exchange

The term off-exchange is often used to describe the Forex Market place. Because the Forex market has no central exchange, or physical location wherein trading is facilitated, it is considered an off-exchange market place. The NYSE (New York Stock Exchange) and CME (Chicago Mercantile Exchange) are examples of physical exchanges. Forex is essentially a network of banks and brokerages, all of which are connected globally to one another, but not through any one physical foreign currency exchange.

Oscillate

To oscillate is to volley between two key levels or values within a specified technical indicator. Most often, oscillating indicators are attempting to plot short-term overbought and oversold levels, thus offering traders a visual look at where prices might be too high or too low when an obvious trend is otherwise unidentifiable. Oscillating indicators are very popular, and include: Stochastic Oscillator, RSI, and many others.

PIP

The term PIP stands for Percentage In Point. Essentially, Forex traders are after profit in terms of pips; not Dollars or Yen or Euros, but pips. The reason for this is because the pip is the last digit represented in most currency's price quotes (on a four decimal price feed). For most pairs this is the equivalent of 1/100 of one percent (or one basis point).

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Price Volatility

Can also be referred to as price movement; price volatility describes continued and rapid price movement either bullish or bearish, or sometimes both. A market whose prices are fairly stagnant and not moving might be referred to as a sideways market. A volatile market on the other hand refers to prices that are moving and adjusting rapidly.

Quote Currency

In a currency pair the quote currency refers to the currency listed on the right hand side of the pair. The quote currency's value is always set in comparison to 1 unit of the base currency. The quote currency, establishes at what rate or price the currency will equal or purchase 1 unit of the base currency.

Range

A currency pairs' low and high prices for a particular trading period. If a currency pair trades in a range for an extended period of time it is sometime said to be trading in a channel.

Resistance

The price level that a currency pair has had difficulty rising above in the past.

Short

The Term 'short' refers to the selling side of the market and is most often used by traders as a verb, i.e 'I went short the Euro', thus meaning that I sold the EUR/USD. Traders might also say that they are 'short 20 lots on the Pound', meaning of course that they have sold 20 lots of the GBP/USD.

Sideways Market

Sideways markets typically suggest low volatility and a trading period in which, prices are neither trending up or down.

Standard Account

In the off-exchange retail Forex market, a standard account refers to an account in which the full value of one single standard lot or contract is equal to \$100,000.

Stop Loss

An order placed with a broker to exit a currency trade when it reaches a certain price.

Support

The price level that a currency pair has had difficulty falling below in the past.

Trend

In any given market, prices can essentially trend in one of three directions: up, down, or sideways. A trend is formed when prices maintain one of these three directions for a specified period of time, whether it is an hour or a week.

Trend Reversal

By definition, any dramatic change in the direction of a trend can be considered a reversal, but shorter term directional trends should be viewed only as retracements; directional changes lasting the duration of multiple candles, or hours and days on the other hand can be considered actual reversals.

Volume

In any market, trading volume refers to the number of contracts traded in security or market. Due to the decentralized nature of the currency market, there is no true volume indicator.