



FxPro Trading Academy

FxPro
Trade Forex Like a Pro

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Welcome

Welcome to FxPro Trading Academy. If you're reading this you have decided to join one of the world's fastest growing online communities. Since the Internet revolution made it possible to trade currencies online a little over a decade ago, more and more people have turned to Forex, either as a way to supplement their existing incomes, or as a way to completely escape the workaday world and earn money on their own terms. Most seasoned Forex traders will tell you that those who end up profiting, in the long run, are in the minority. But despite this the number of people turning to online Forex continues to grow. Trading Forex is indeed risky, and we're not here to obscure these risks, or to give you a false sense of your own abilities. We're in the business of helping to create educated traders; this is what FxPro Trading Academy is all about.

One thing that not many people in the industry discuss very often is that the churn rate in online Forex is incredibly high. One of the more sobering statistics is that most beginners tend to wipe out their trading account balances within their first few months of trading. Brokers draw novices in, convince them that currency trading is as simple as applying a few technical indicators or clicking 'Buy' when an economic report comes in better than expected, then they watch them lose it all, safe in the knowledge that more beginners are flocking to their websites all the time. Our business model is different. We want our traders to have long and profitable trading careers. And while we may not be able to guarantee your success, we do our best to ensure that you go in with your eyes open and take your best self to the markets every time you trade.

A few things about this course.

FxPro Trading Academy has been designed to prepare a complete beginner for the challenges of trading on the world's currency markets. By the end of this course you should know how Forex works, where you stand in the currency trading food chain, and what steps you can take to increase your edge. Don't feel that you have to go through the material linearly. If there is a specific subject that intrigues you please feel free to tackle it first, and then move on to other sections depending on the questions that arise as you move through the material.

Many people pick things up quicker when they direct their own learning, and our Trading Academy has been created to allow for this. If you are new to Forex it's advisable that you eventually cover all of the material, but the order in which you choose to do so is entirely up to you. If you have some knowledge of trading there are sections that you will no-doubt want to skip, feel free to pick and choose what's useful to you. If you fancy yourself as some kind of Forex-trading mastermind then you're in the wrong place, surely. Shouldn't you be out there making us all some money?

Recent developments in neuroscience are starting to throw older, more established methods of learning into question. What is being demonstrated over and over again is that experiencing the difference between what you have attempted to do and the actual result, then correcting your behaviour accordingly and trying again, is a much more efficient way to acquire new skills than plain old textbook learning or attending lectures. The most important part of this trading academy, by far, will be the demo account that you will use to practice trading with as you progress through the material. We regard it as essential to your growth as a trader; this is why FxPro offers unlimited demo accounts for both of its main platforms. Should you lose the demo balance you started with you can always re-deposit more funds from FxPro Direct entirely free of charge. An unlimited demo account wasn't always as easy to come by in online Forex, so take advantage of it. The more practice you put in on your demo account, the more proficient you will be when you finally start trading with your own money. Make sure you sign up for one before proceeding any further.

[Register for a demo account here](#)

Finally, we recommend that you to take advantage of the trader's glossary and FAQ sections of our help centre. As you work through the trading academy you will come across unknown words and concepts. Rather than stopping to explain a new term each and every time it arises, we have decided to gradually immerse you in this language until you become proficient in it yourself. Hovering your cursor over certain words will bring up further information from our trader's glossary. Beyond this we encourage you to be active while working through the trading academy, the help centre should be regarded as supplementary to this course so make sure you refer to it often.

Right, let's get started!

Why Trade Forex

High liquidity and price stability

Forex is hands down the largest market in the world. The preliminary report from the Bank of International Settlements (BIS) for April of 2013 has foreign exchange turnover at a record-breaking 5.4 trillion US dollars per day. This figure dwarfs the daily turnover of all the world's equity markets combined.

What this means for you as a prospective trader is that Forex markets are highly liquid; currencies can easily be bought and sold in large quantities without prices being substantially affected. This in-turn means increased price stability. Also, the fact that currencies are traded in pairs, their value being determined by one currency's value in relation to another's, means that the value of currency pairs tend to stay within a certain established trading range most of the time. This is unlike stock markets which have been known to be vulnerable to all-out crashes in certain conditions.

24 hour trading

Unlike stocks, bonds and options, Forex markets are open around the clock between Monday and Friday. Each trading day is actually comprised of three trading days rolled into one because the Asian, European, and American markets overlap as they open and close throughout the day. As a result you do not have to wait for markets to open, they are always open, leaving you free to trade whenever you like.

Profit in both upward and downward trending markets

Forex traders buy, or go long, when they expect a currency pair to rise in value, and sell, or go short, when they expect a currency pair to drop in value. However, since currencies are always quoted in pairs, every position you take involves being long on one currency and short on the other. So when buying EUR/USD, for example, you are long on the first currency in the pair and short on the second. This means that as a Forex trader you are easily able to position yourself in a way that allows you to profit, regardless of the state of the underlying market. This is not the case for all investment vehicles. Stocks are a perfect case in point because even though the facility does exist for investors to short stocks, shorting a stock is more complicated, involves taking on more risk, and in some cases additional fees, than when buying or going long.

Low entry and transaction costs

The sheer number of market participants and stiff competition between brokers has led to low entry and transaction costs compared to other financial instruments. This is a relatively recent phenomenon; traditionally Forex markets were only open to institutional investors and very wealthy individuals. This was because the minimum lot sizes and margin requirements from the banks were high. As the retail sector has grown, brokers who aggregate the positions of smaller investors and forward them to the markets have come onto the scene.

Lot sizes and margin requirements have shrunk so much over the past decade or so that you can now open a Forex account and start trading with as little as \$500 US dollars. Also, with more and more retail brokers competing for your trades, spreads have narrowed and commissions have dropped drastically over the past few years. This has led to online Forex being one of the most cost-effective trading vehicles available to retail traders.

High leverage

Leverage is, of course, a double-edged sword, and we will get into this in further detail later on in the course. Nevertheless the current state of play reflects what traders have been demanding of their brokers, and one of these demands has been for ever-increasing leverage ratios. Compared to other instruments where leverage is limited, Forex boasts the highest leverage in retail trading. It is now commonplace for traders with modest trading account balances to leverage their capital up to 500:1 and command far larger positions than they ever would have been able to in the past. Also, it should be noted that interest is not charged on leverage in Forex. This is because, in essence, you are not buying or selling, but rather agreeing to do so at a future date. This means that in Forex leverage is not borrowed capital as it is in stock trading, which does involve paying interest on the capital used to leverage your positions (more on this later).

Negative balance protection

One of the criticisms levelled at Forex brokers, is that by offering highly leveraged trading accounts they expose their clients to the risk of losing more than they invested in the first place. This is not so. While using leverage carries with it the risk of exacerbating losses in the same way as it provides the potential of amplifying returns, it is now standard practice for all reputable brokers to offer their clients negative balance protection. What this means is your trading account will never fall below zero. You will receive margin calls if your margin level drops below a certain percentage of your equity, depending on the platform you are trading on. Should it continue to drop your broker will begin automatically closing any open positions you have so as to protect you from incurring losses beyond the capital you have in your account.

No suspensions or de-listings

Unlike stocks the foreign exchange markets are live 24/5, irrespective of the underlying market conditions. This means that no-matter what is happening you as a trader can take the appropriate position and potentially profit. Stock trading can be suspended during times of high market volatility in order to curb dramatic changes in price, only to reopen with a gap between closing and opening prices. Also if a company fails to meet an exchange's regulations and financial criteria it can be delisted entirely from the exchange it is traded on, which can be catastrophic for an investor holding shares in it. In contrast the foreign exchange markets suffer from no such issues; currencies are always available for trading, 24 hours a day, 5 days a week.

Instant execution

The online Forex industry has had to be very technically resourceful in order to address the fact that Forex is an entirely decentralised market, meaning that trades are not made over an exchange. The way traders, brokers and the interbank network are dispersed across the globe has required the development of advanced trading platforms that can provide traders with up to the second price quotes in a constantly changing environment, and to facilitate transactions between parties that can be separated by entire continents.

These technological advances have led to Forex traders enjoying better trade execution speeds than almost any other form of online trading.

Forex as an asset class

Historically currencies were not regarded as an asset class, but rather as a medium of exchange facilitating the trade of other assets. Now with a daily turnover of \$5.4 trillion, of which Spot transactions account for more than \$2 trillion, it's fair to say that a great deal of Forex's daily turnover is speculative in nature, meaning that today an increasing percentage of traders and investors treat foreign exchange as an asset class in its own right.

Increasingly level playing field

This applies to all trading instruments, but especially to online Forex. The same technologies that have made online Forex trading possible have also made information freely available. Nowadays resources that were once only available to large financial institutions are open to everyone. In addition to this, the speed at which information travels across the globe has meant that a trader monitoring their open positions from home can react just as swiftly as a professional trading from the very thick of it in London, New York, or Tokyo. Knowledge is indeed power, and today's information technology provides it in abundance. Especially considering how incredibly complex the Forex markets are, and the myriad of influences which they are subject to, both macro and micro-economic, online traders are now better positioned than they have ever been in the past to take advantage of information and use it to manage their capital intelligently.

Forex Basics

Easy to grasp, difficult to master

Forex and FX are interchangeable abbreviations for Foreign Exchange, which is a term used to refer to the global currency markets. As complex as these markets are, currencies are probably the easiest of all the asset classes for beginners to get to grips with. Even people who have never traded before will have a basic understanding of what currency trading involves. After all, everyone is familiar with using their national currency, and many have had the experience of converting this currency into another one of a different value when travelling. This, in a nutshell, is what currency trading is all about. Currencies differ in value and these differences are constantly changing; buying an undervalued currency as it begins to rise yields profits, selling an over-valued currency as it begins to fall also yields profits. Conversely, selling in the former example and buying in the latter will cause you to incur losses. Simple enough, right? Yes, but learning to discern the influences that cause these fluctuations, and being able to act upon them in a timely and consistently profitable way, that's the real challenge of trading Forex.

Exchange rates explained

Exchange rates are the relative values between currencies that belong to different countries or economic regions. When you are presented with an exchange rate, say for EUR/USD, you are being quoted the value of one currency in relation to the other (in this case the euro against the US dollar). This is why you see two currencies in an exchange rate quote but only one figure; the value of one is determined by how much of it you can buy with the other. It makes no sense to think in terms of absolute values when it comes to currencies as their values are interdependent. This is one of the main differences between trading Forex and trading equities or commodities.

The first currency in every pair is called the base currency, this is the one that you are being given the value of. It is also the one on which you are performing the action of either buying or selling when trading Forex. The second currency in the pair is the quote or counter currency, the figure quoted in an exchange rate is denominated in this currency. Essentially when you see an exchange rate you are being informed what the base currency is worth in terms of the quote currency. So when looking at an exchange rate for EUR/USD you are being quoted what the euro is worth in US dollars, or more accurately how many US dollars are required to purchase 1 euro.

So a EUR/USD exchange rate of 1.33 means that 1 euro is worth 1 dollar and 33 cents, or that \$1.33 is required to purchase 1 euro. Currencies are always quoted in this way, were it not for this convention 1 euro would just be worth 1 euro, and that would tell us nothing about anything.

When EUR/USD rises, this means that the euro is growing stronger and/or the dollar is getting weaker. As a Forex trader you can position yourself in different ways, taking advantage of any eventuality. You can buy, or go long on EUR/USD when you think the euro is likely to rise, or when the US dollar is likely to fall. You can also sell, or short EUR/USD when you foresee that the euro is due to drop in value, or when you think the US dollar is about to rise.

A closer look at currency pairs

All currencies are given a three letter abbreviation known as that currency's ISO code, in most cases the first two letters refer to the country, and the third letter refers to the name of the currency in question.

The most commonly traded currencies are known as the majors. These are: The US dollar (USD), the euro (EUR), the Japanese yen (JPY), the Great British pound (GBP), the Swiss franc (CHF), the Canadian dollar (CAD), the Australian dollar (AUD) and the New Zealand dollar (NZD).

The major pairs all involve USD being paired with each of the other major currencies listed above.

Major Currency Pairs

EUR/USD (Euro-zone/ United States)

USD/JPY (United States/ Japan)

GBP/USD (United Kingdom/ United States)

USD/CHF (United States/ Switzerland)

Pairs that do not feature the US dollar as either base or quote are known as the cross pairs, or crosses. The main crosses consist of any of the major currencies listed above (except, of course, USD) crossed with each other (the most common cross pairs are those which feature the euro, pound sterling, or yen).

One thing to keep in mind is that the euro is always the base currency in any pair. It's easy enough to reverse an exchange rate though, if you need to. So, for instance, if you want to find out the value of USD/EUR (how many euros it takes to purchase one US dollar) all you have to do is divide 1 by the EUR/USD exchange rate ($1/1.33 = 0.75$). In this example one US dollar can be purchased with 75 euro cents.

In addition to the majors and the crosses there are also the exotic pairs. Exotics consist of a major crossed with a lesser traded currency such as one belonging to an emerging market. Exotic pairs are less liquid and can cost more to trade due to them having wider spreads.

Buying and selling

Most beginners will quickly gain an understanding of how exchange rates work, but then they log into their broker's trading platform for the first time and are greeted by two prices, as well as the option to buy or sell, and their heads start to spin. It may be a little confusing at first but it's really not as complicated as it seems.

In Forex trading you have the option to buy or sell the base currency in the pair. How exactly do you sell something that you don't actually own in the first place? Well you borrow it from your broker. So if you want to sell, or short, 1 lot (or 100,000) of EUR/USD, then you essentially have to borrow it from your broker before being able to sell it (it's not quite a loan but we'll look at this 'borrowing' in further detail when we focus on how CFDs work). Doing this means that you are expecting EUR/USD to drop in value so that you can then buy it back cheaper at a later time, returning those 100,000 units to your broker, and keeping the profit you made for yourself.

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As confusing as this may initially sound, don't be daunted by the option to sell and the two different prices you are quoted. All currency trades involve both buying and selling; closing a position you have opened requires you to perform the exact opposite action you took when you opened the trade. So if you clicked 'Buy' and bought 1 lot of a currency, then later you when click 'Close Order' you are effectively selling back those 100,000 euros you bought at the new price, keeping the profit or taking the hit depending on what the pair is valued at when you sell. Naturally, it follows that closing a short position, as we saw in the example of selling EUR/USD above, involves buying back the same amount of the currency that you initially sold to open the position. When this balance is restored and you no-longer have any open positions you are said to be square, or flat. If you went long, then squaring-up requires you to sell the same amount of the currency you initially bought. If you shorted, then squaring-up involves you buying back the same amount of the currency you initially sold.

Also keep in mind that since every currency you buy is a pair of currencies, every position you take involves buying one and selling the other. This is not something you have to think about when you decide to click Buy or Sell, but to go long on a pair involves simultaneously buying the base and selling quote, conversely shorting involves selling the base and buying the quote (more on this later in the course).

Bid and Ask

The two different prices that you see quoted on your trading platform for each currency pair are the respective Bid and Ask (or Sell and Buy) prices available for that pair, the difference between these two prices is known as the spread. The Bid is the price on the left, this is the price at which you can sell a given currency pair and is the lower of the two prices listed. The Ask is the price on the right, it's the price at which you can buy a given currency pair and is the higher of the two prices listed.

Essentially the Bid price tells you the most that buyers are prepared to pay for a currency, and the Ask price tells you the least that sellers are prepared to accept to sell a currency. All currency transactions involve a Bid/Ask spread. FxPro receives Bid and Ask quotes from our own liquidity providers, and by making different banks compete for your trades we select the most competitive Bid and Ask prices available to us and forward them to you. We make our commissions either by slightly marking up the spread if you trade on our MT4 platform, or by charging a set commission for opening and closing positions if you trade on our cTrader platform. A transparent broker's revenue should only come from these sources.

Pips and Ticks

When viewing currency prices on your trading platform you'll notice that they are displayed to more decimal places than you may be used to. Most of us are accustomed to calculating our country's currency to two decimal places. This is because as mediums of everyday exchange most currencies have 100 fractional units. There are one hundred pennies to the pound, one hundred cents to the dollar etc.

On the Forex markets changing currency values are calculated by smaller increments. A pip is the name of the smallest increment that currency values can fluctuate by. For most currencies the pip is the fourth decimal place, in the case of the Japanese yen it is the second decimal place. FxPro calculates currencies to five decimal places on most pairs and to three decimal places on the Japanese yen. The ability to price pairs to an extra tenth of a pip allows us to more accurately reflect market conditions, which means that you get a narrower spread than when prices are just rounded up or down to four (or indeed two) decimal places. There is no convention for the naming of this fifth decimal place, some call it a fractional pip, some refer to it as pip decimal precision, and others have affectionately called it a pipette.

Pips should not be confused with ticks. While a pip is the smallest increment by which a currency can change in value, a tick is the increment by which it actually does change in value. So say a currency pair's value changes 3 times between 13:01 and 13:02, these fluctuations can be as small as a single pip but they can also be larger. It could, for instance, jump 3 pips in value from 1.33912 to 1.33942, then drop by a single pip to 1.33932, and then jump by another four pips to 1.33972. The actual moves it makes, irrespective of the number of pips that each move is worth, are called ticks.

Even though ticks are what you will observe as you monitor a live chart of a currency, pips are what will make the difference to your trading account balance. This is why it is so important that you understand them. Pips are important for a couple of reasons. Broker spreads are quoted in pips, so a 1.2 pip spread means that there is a difference of 1.2 pips between the Bid and Ask prices on a given currency pair. Also, as a trader, your profits and losses are governed by how many pips the pair you have invested in rises or falls before you Buy or Sell. Once you have opened a position each pip up or down will be worth a certain amount of money to you, depending, of course, on the volume of your position and how much leverage you are using.

Successful currency trading can be boiled down to a very simple formula. **Make pips; keep pips; repeat.** As you will find out when you begin practicing with your demo account this formula is much easier expressed than it is realised.

Volume, leverage and margin

Trade volumes, leverage and margin are also common points of confusion for many beginners. Let's begin with volume.

Volume: refers to the actual size of a trade and is ordinarily calculated in lots. In Forex a lot represents 100,000 units of a currency, in other words one lot of EUR/USD is a position worth 100,000 euros. Over the past few years mini and micro lots have also been made available to traders; a mini-lot is worth 10,000 units and a micro-lot is worth 1000 units of the currency being bought or sold.

Depending on the platform you are using this can be represented differently. On the MT4 platform your trade execution window has a section labelled 'Volume', from here you can select the size of the position you are to open. 1.0 is one lot, 0.1 is a one mini-lot and 0.01 is one micro-lot. So, for example, a trade volume of 0.4 on EUR/USD is a position worth 40,000, euros. On the cTrader platform volumes are labelled in a more familiar way, with options to enter trades anywhere from 10k (thousand) to 100m (million) being available as long as you have adequate margin in your account.

Let's move on to leverage.

Leverage: enables you to command positions that exceed the value of your initial investment. Any time you borrow money or use a financial instrument such as a CFD to make an investment that exceeds the value of your capital, you are using leverage. In trading leverage is expressed as a ratio. FxPro offers its clients leverage from 1:1 (no leverage) to 500:1 (500 times the amount invested). So, say you want to buy 100,000 euros (1 lot) and have your account leveraged 100:1, then you will only need to have 1000 euros (or the equivalent depending on the currency your account is denominated in) as margin to guarantee the position.

Now on to margin.

Margin: can be thought of as a deposit that is required when using leverage. Each time you open a leveraged position a certain amount of your account balance is secured as margin. The exact amount is dependent on the size of the position and the leverage which is being used. Margin is there to guarantee the position you have opened in case it goes against you. Just as each pip up or down in an open trade will be reflected in your account balance, it can also eat into your margin should it turn against you.

Your free margin is the amount you have in your trading account which is not currently being used to guarantee any positions; this amount can be used to guarantee the opening of further trades.

Your equity is your trading account balance plus or minus the profits or losses from any open positions you have.

Your margin level is calculated as a percentage and is the ratio of your equity to used margin. When this figure drops to 100% it means that all of your trading account balance is being employed as margin and no further positions may be opened. Keeping your margin level as high above 100% as possible is important, especially for traders who invest on longer time frames. A high margin level means that you don't have to worry about a trade temporarily turning against you because you have more than enough in your trading account balance to weather the storm. If you are confident in the position you have taken and regard the market's move against it as temporary, you can afford to ride it out and wait for the trend you have invested in to reassert itself.

As mentioned earlier, the reasons that Forex trading used to be much less accessible to individual investors are related to volumes and leverage. Before mini- and micro-lots the minimum trade volume was 1 lot, factor in that leverage also used to be very limited, and it becomes apparent that opening the smallest possible Forex position only a decade ago required a substantial amount of capital. This is not the case today. Today an educated trader with a solid grasp of risk management can trade on the world's currency markets, and be successful, with a relatively small initial investment.

The Art of the Chart

Learning how to use price charts is an indispensable part of Forex trading. There are a few wizened old Forex masters out there who claim not to use charts at all when taking positions, their trading activities are so deeply entrenched in the fundamental trends that charting plays little or no role for them. However, for most Forex traders the use of charts is essential, so it's of the utmost importance that you get to grips with how they work and how to use them early on.

Price charts are graphs that track the changing values of assets in real time. You will ordinarily find a list of the available assets on the left, and a chart of the one you are currently viewing centre screen. FxPro offers trading facilities on two main platforms; MT4 and cTrader. Both have very similar charting functions and indeed most platforms will offer you the same set of basic options. Charting is a huge subject in its own right, but for now you will be introduced to a few basic concepts that will give you an understanding of why charts are important and how they work. We will delve into the subject in more detail when we look at technical analysis later on in the course.

Chart Durations

When monitoring an asset's price you can specify the duration at which changes in price are being registered on the chart. These durations can be anywhere between a single minute all the way up to a month. So if, for instance, you are charting at the monthly duration, every change in the chart will represent a month's worth of data. This will naturally obscure all of the price moves which occur within the month. Similarly, charting at the hourly duration won't provide you with any of the changes in price that take place at any period of time shorter than one hour. This is why the shape of the chart changes so radically at different time frames; you are effectively viewing the same data at different resolutions. Regardless of the time frame you select, all of the trading data is being recorded down to the minute, so you can go back at any point and see exactly what took place at the shorter durations.

Open your trading platform and chart a currency pair at the monthly duration. Change this to weekly, then daily, and gradually move all the way down to the 1 minute duration. Notice how much the shape changes? This is what happens when you narrow in to reveal more and more information about what is happening at the shorter time frames.

The time frame you choose will be largely dependent on your trading style. If you are opening and closing multiple positions within a single day then obviously a daily chart will not provide you with sufficient data to make educated choices. Similarly if you are taking long term positions which you intend hold for weeks, charting at the one minute time frame won't provide you with any useful information regarding the deeper trends that are at work. Picking a suitable time frame, and indeed learning to switch between them to gain a wider, or more localised perspective, will become more important as you begin to develop your own trading system.

Chart Types

There are three main chart types that you can choose between when monitoring the price action of an asset. These are: line charts, bar charts and candlestick charts. Generally there are up to four key pieces of information provided by a price chart.

1. The opening price of the asset.
2. The closing price of the asset.
3. The highest price registered in each period.
4. The lowest price registered in each period.

Let's discuss and compare the information that the three chart types listed above are able to provide at a glance.

Line charts: Line charts use a simple line to represent the upward and downward movement of an asset's price. Line charts are the simplest of the three to understand, but are only equipped to provide you with an asset's closing price. Their jagged lines are created by plotting a single point at the closing price of each period, and then drawing a line between it and the next period's closing price. You will see the end of this line waver as the price changes, only to be plotted as a fixed point when the period has closed. When this happens the line is extended from the last fixed point and will begin to fluctuate until the next close.

Bar charts: The bar charts used on most charting platforms are also known as Western line charts or OLHC charts (short for Open, Low, High, Close). These charts are basically a Western re-working of the Japanese candlestick charts, which we will look at next. Just like candlestick charts they provide you with all four pieces of data listed above. Bar charts are composed of a vertical line and two smaller horizontal lines, one connecting to the vertical line from the left and one from the right side. Each vertical line provides you with the price range the asset moved through in the period of time you are charting at. The bottom of the line represents the lowest point that the price fell to, and the top of the line represents the highest point the price reached. Also, the horizontal line on the left informs you of the asset's opening price for that period and the horizontal line on the right informs you of the asset's closing price for the period.

Candlestick charts: Candlestick charts originated in 17th century Japan where they were employed by traders to track changing rice prices. Candlestick charts are the most popular chart type among traders for the simple reason that they are very information dense, efficiently providing you with a great deal of information in a very intuitive and eye-catching way. Each candlestick represents a unit of time at the period being charted. They are composed of a main part, called the 'real body', as well as upper and lower 'shadows', also known as 'wicks'. Each candlestick represents the price action that took place within one unit of time frame you are charting at. So at the minute duration each candlestick represents a minute of trading activity, at the monthly duration each candlestick represents a month of trading activity, and so on. Unlike the other chart types we have looked at candlesticks are coloured differently depending on whether they represent a rising or a falling price. If the opening price is higher than the closing price then the body of the candlestick is filled in, in this way traders can easily discern trends as they emerge. The shadows, or wicks, are lines that extend upwards and downwards from the top and bottom of the real body, these represent the highest and lowest prices that were reached within the given time frame.

The Sun Never Sets on Forex Traders

Monday Morning

A typical week in the currency markets kicks off on Monday morning in Wellington, New Zealand. This is the first financial centre in the world to see the dawn of a new trading day. When Wellington opens for business it is very early Monday morning in Asia, while still being Sunday evening in Europe, and Sunday afternoon in North America. The exact opening times of each market will vary depending on whether your country observes daylight savings or not. Wellington is where the currency markets resume trading after the North American close on Friday evening. Unlike other markets they will remain open for business all the way through to 5p.m Eastern time on the following Friday.

Open your trading platform; choose a currency pair and using either a bar or candlestick chart try to find the most recent Monday opening with a distinct break in price action. If you have trouble finding one try viewing the data at a shorter duration. In many cases you will see a gap in the chart between where the market closed on Friday evening in New York and where it opened in Wellington on Monday morning. You will be able to find a particularly pronounced break on all USD pairs between the 13th and 15th of September 2013. Over this weekend Larry Summers withdrew from running as the next chairman of the Federal Reserve. This news caused the dollar to trade much lower when the markets re-opened on Monday.

The Wellington opening is important because it is the first point in the week where the market has an opportunity to digest the events that took place over the weekend. As a result, it's not uncommon to see a gap up or down between the close of the North American session on Friday evening and the New Zealand opening on Monday morning. This is something to keep in mind when you are holding positions over the weekend. Even though trading ceases on Friday currency traders don't take days off, so always stay abreast of the news that may affect the currencies you are trading because you could be in for a shock come Monday morning.

Three Trading Sessions

Forex trading is divided into three main sessions that overlap throughout the day as different markets open and close. These sessions are the Asian/Tokyo session, the European/London session, and finally the North American/New York session. Even though Tokyo, London and New York are the big three financial players, there are many other countries contributing, both in terms of liquidity and also by extending opening hours beyond those of the cities which have become synonymous with each session. For instance, as already mentioned New-Zealand is open hours before Tokyo gears up for trading, but the Asian session also includes other important global players such as Australia, Singapore and China.

Asia

During the Asian session important economic data from the region is released, so traders are watching closely for developments that will have knock-on effects on the European and North American regions throughout the rest of the trading day. As the third most traded currency in the world the yen is by far the biggest player during the Asian session. According to the preliminary findings of the BIS Triennial Central Bank Survey, the yen accounted for around 23% of daily turnover in April of 2013. During this session you can expect a great deal of activity on USD/JPY, EUR/JPY and AUD/JPY.

Europe

At the midpoint of the Asian trading day European markets start coming online. The European session is important to traders because it coincides with the second half of the Asian trading day and the first half of the North American trading day. Positioned as it is between these two other major financial centres, and with the euro being the second most traded currency globally (33.4% of daily turnover by the last BIS count), the European session benefits from being in the very thick of it as far as trading activity is concerned. Liquidity and market activity are at their highest during the European session and even though London is the biggest player here, other large European financial centres, such as Germany and France, are also very important and begin trading in advance of London's opening. Economic data from the Eurozone, as well as from the United Kingdom and Switzerland cause the biggest movements in price action to come from EUR/USD, GBP/USD and USD/CHF, as well from the EUR/GBP and EUR/CHF cross pairs.

North America

The North American session coincides with afternoon in the European session. The fact that the markets using the first and second most traded currencies are live at the same time (USD was on one side of 87% of all trades in April of 2013) and that most key economic indicators from the United States are released in the morning, causes this period to be by far the most active in terms of trade volumes and price movements. At midday the European markets start winding down; this can result in some final flurries of activity which have been known cause surprises. In the afternoon trading activity can be a little subdued as the American continent finds itself trading on its own, however volatility can be generated by several economic indicators that are routinely released in the afternoon as well as public addresses by FOMC members. Obviously New York is the main player here but activity from the Canadian and South American market shouldn't be overlooked. In fact the Mexican Peso was one of 2013's big surprises in the triennial BIS survey. It saw a large increase in market share compared to the other emerging market currencies to become one of the top ten most actively traded currencies, with a global market share of 2.5%.

Trading wraps up at 5p.m Eastern time in New York and the markets will remain dormant until Wellington re-opens for business bright and early on Monday morning.

A Brief History of Forex

What follows is a brief rundown of some of the major historical developments that have led to the Forex market you are now preparing yourself to trade on.

Bretton Woods 1944. USD Becomes the World's Reserve Currency.

In July 1944, with the Second World War still raging in Europe and South East Asia, 730 representatives from the 44 Allied nations convened at the Mount Washington Hotel in Bretton, New Hampshire, USA, for the United Nations Monetary and Financial Conference. Bretton Woods was an attempt to reach a consensus on how to govern the international economy in the aftermath of the war, as well as to address the isolationist policies of economic discrimination and trade warfare, which many believed had contributed to both World Wars, as well as to the Great Depression. As such, eradicating what had come to be known as “beggar thy neighbour policies” (policies that alleviate a country's economic woes at the expense of other countries), and encouraging a freer flow of trade between nations, became a focal point for the conference. Essential to the agreement was an international system of payments to facilitate trade with safeguards in place to prevent large fluctuations in currency value or competitive devaluations. For all these reasons Bretton Woods was a major milestone in the development of the foreign exchange market, and indeed the global financial system we have today.

It was the first time a comprehensive monetary system had been negotiated between nation states, and even though most of the key points of the Bretton Woods system have since been abandoned, its legacy lives on in the institutions it gave rise to. The agreement that was reached at Bretton Woods on the 22nd of July 1944 led to the creation of the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (now part of the World Bank) and the General Agreement on Tariffs and Trade (GATT).

Key to the Bretton Woods agreement was a system of fixed exchange rates between countries whose currency values were all pegged to the U.S dollar, and the US dollar's convertibility to gold at a fixed rate of \$35 dollars per ounce. This effectively made the US dollar the world's reserve currency as it took on the role that gold had formerly played under the gold standard. In addition to becoming the world's currency, its interchangeability with gold made it the currency with the highest purchasing power. Also, the way other currencies were pegged to it, each with its own fixed rate, meant that the majority of international transactions were denominated in US dollars. Taking into account that in the wake of WWII the European powers most affected by the conflict were also heavily in debt to the United States, the geopolitical and economic climate was absolutely ideal for the rise of the United States as the world's superpower. While Britain had been the dominant economic force in the 19th and early 20th century, with the sterling taking pride of place as the world's reserve currency during this period, the second half of the twentieth century would see dominance passing to the United States.

Post Bretton Woods. The Rise of Free Market Capitalism.

Bretton Woods would last until 1971, at which point it was superseded by the short-lived Smithsonian agreement brokered by US President Richard Nixon. However, the golden age of Bretton Woods only really lasted until 1968, up until this time there was a steady improvement in global production and trade, and from 1959 onwards all currencies that were part of the agreement enjoyed full convertibility. But it was the dollar's relationship to gold that would prove to be the real problem that would eventually unhinge the system, this and the fact that the United States was running a large balance of payments deficit to help fund European recovery and keep the financial system liquid.

Economists foresaw this eventuality more than a decade in advance, and indeed the problem of keeping gold at \$35 per ounce was a real issue as far back as the late 1950's.

The main problem with Bretton Woods was perhaps best stated in 1960 by Robert Triffin, an economist who wrote of what would later come to be known as Triffin's Dilemma. Simply put, Triffin's Dilemma stated that the US deficit was vital to economic growth and to the liquidity of the financial system, but that eventually the very deficit that was aiding Europe's post-war recovery was bound to undermine confidence in the US dollar as the World's reserve currency, and could eventually lead to widespread financial instability.

The US dollar was the only currency that enjoyed gold convertibility, and at the end of the Second World War the US held around 65% of the world's gold reserves. However, inflation had led to it not being economically viable to produce much more gold, and as more and more US dollars flooded into the global financial system, and US gold reserves hardly budged, dollar confidence started to wane as it became apparent that the US would be unable to meet its commitments should dollar holders desire to enforce dollar convertibility. Also, the fact that there was a free market on which gold was traded (separate from the transactions conducted by central banks under Bretton Woods rates), led to a situation where it was cheaper to buy gold at the Bretton Woods rate and then sell it on to the open market.

By 1971 the US only held enough gold to cover 22% of foreign US dollar reserves and was running a \$56 billion reserve deficit. Add to this the country's growing public debt which was being used to fund the Great Society initiatives introduced by President Lyndon B. Johnson, as well as the on-going Vietnam War, and it became clear that the Bretton Woods system had become untenable. In November of 1967 the U.K devalued the sterling from \$2.80 to \$2.40. In November of 1968 an exchange crisis led to the close of the French, German and British markets. In August of 1968 The French franc was devalued from 0.18 grams of gold per franc to 0.16 grams. In October of the same year the German Deutsche mark was revalued from \$0.25 to \$0.273. Finally in May of 1971 the Deutsche mark and the Dutch guilder were floated. On August 15th 1971, US President Richard Nixon withdrew US dollar gold convertibility as well as imposing a 10% import duty and temporarily locking down wages and prices. This came to be known as the Nixon Shock and caused all major economic powers except France to float their currencies and begin intervening by buying up dollars.

In December of 1971 the Smithsonian Agreement was signed by the G-10 countries. It was an attempt to keep the Bretton Woods system alive by adjusting its fixed rates to more accurately reflect the market pressures of the early 1970s. The dollar was re-pegged to gold at the new price of \$38 per ounce and was allowed to fluctuate within a range of 2.25%, rather than the 1% range permitted by Bretton Woods, with other nations agreeing to readjust their fixed rates to the newly devalued dollar accordingly. The biggest difference the Smithsonian Agreement had to Bretton Woods was that the US dollar was no-longer to be convertible to gold. While the Smithsonian agreement adjusted the relationships between the world's currencies, it did not address the fundamental imbalances that had led to the dollar's devaluation in the first place. The US continued to run a huge deficit, as well as increasing its money supply at an inflationary rate, this led to other central banks being forced to intervene in order to keep their own currencies from appreciating, pegged as they were to the dollar at a fixed rate. By 1972 the sterling was finally allowed to float against the dollar. A rise in the value of gold led to the dollar having to be revalued again in February of 1972 at \$42.22 per ounce (causing all major currencies to also revalue against the dollar). By March of the same year, after huge interventions by European Central banks costing around \$3.5 billion, the fixed rate system collapsed entirely and the value of the US dollar was henceforth to be determined by free market economics.



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