Lecture № 1

Introduction

The forex international exchange market represents a particular version of the world financial market. The Forex traders (market participants representing a company or trading at their own cost) aim to make a profit from purchasing and selling a foreign currency. The exchange rate of all currencies which are in the market turnover changes continuously due to demand and supply fluctuations, influenced significantly by any essential events in a community in the economic, political and environmental sectors. Consequently, the foreign currency price moves one way or another, for instance, dollar-denominated. Using this movement with the common Forex market cliché “Buy cheap, sell expensive,” traders draw income. The Forex market may be distinguished from other financial market sectors because of a fast reaction to the tearing dynamics of numerous externalities:

- Immensely high trade transactions easily accessible for any singular or company-wide players, which ensures the currency turn-round liquidity (a possibility of purchase or sale execution of any currency or other financial assets in the demanded volume).
- 24-hour performance, enabling the traders to work out of usual operational bounds and during the national holidays in their countries, using foreign markets working at this time.

As it happens in any other market, in addition to the extremely high profitability of the Forex trading, it is also tied to a great risk. Advancement may be achieved only by obtaining a certain background, including the familiarization with the Forex variability and structure, the currency price-setting policy, the factors influencing the price and risk level adjustments during deals, information providers, analysis and market trends forecast methods, trading guidance and instruments.

During the preparation period prior to trading on Forex, training on demo-accounts is of a great importance because it allows adapting the newly-acquired theoretical knowledge in practice and acquiring the trading experience minimum without any pecuniary losses.

The currency exchange has a centuries-long history coming from the Ancient East. The eventual currency market build-up began in the Middle Ages, when the emerging international banks introduced the exchange payment facilities available for third parties. They improved the flexibility and the trading deals quantity.

The rapid industrial and commercial development in Medieval Southern Europe required currency exchange operations. Up to that point, you could easily change dollar and pound for a local currency in any jewelry department of any Mediterranean country.

In Medieval Europe the exchange rates were determined by pure gold content in a coin and the main instrument of a jeweler - moneychanger was a pair of scales with weights. Having weighed on the scales two different gold coins and evaluated the gold content in density, a Florentine moneychanger could easily find out the coins' cross-rate. It was more complex to determine the quotations of gold and silver coins. A bullion dealer could concatenate the gold and silver prices quickly and correctly.

Local gold and silver price adjustments made it possible to carry on arbitrage operations. The earning capacity from the arb business was measured by exchange transactions volume and the accuracy of information held by a jeweler. Calculation errors were not lucrative for a money professional, so the increase of the weighting process's precision was indispensable for further professional improvement. It is interesting to know that the word "burse" came out from the Italian word "borso," meaning the wallet of a moneychanger. Using modern economic language, the exchange transactions of medieval jewelers were arranged in the form of a dealer's market, which remains till present day and acts as an OTC (over-the-counter) market - alternate exchanging market.

An existent currency market took shape in the late 18^{th} century and was juristically confirmed in 1867 in Paris. A foreign currency could be changed without restraint for gold in a quantity specified on a bank note. The exchange rate was almost fixed. The British pound turned out to be a major currency. The Paris Agreement period left its mark in the form of the "Gold Standard" in the history of currency system development.

Owing to the monetary system expanding in 1944 in Bretton Woods (USA), a new agreement was endorsed, amid which all the currencies would be pegged to the U.S. dollar, with the latter one pegged to the gold. As a result, there emerged a so-called smooth pre-determined rate. At the same time the International Monetary Fund (IMF) was launched.

The FOREX market improved further in the early 70s, when almost all leading capitalist countries began using a floating rate. In 1976 in Kingston, Jamaica, a settled intercourse on the currency market was legally confirmed and the American dollar was accepted as a key reserve currency worldwide with three main functions – payment facility, evaluation of other currencies, and as a reserve currency.

The FOREX market is a decentralized system consolidating all the participants by various connection means. With the development of advanced telecommunication resources apart from the traditional phone dealing, there also emerged the electronic dealing systems. The first electronic dealing system was developed by REUTERS in 1981. Nowadays, there is a great variety of trading systems using not only satellite-assisted information channels but also the Internet.

The present FOREX market insiders may be classified in the following way:

Central banks:

- FED - the Federal Reserve System of the USA;
- ECB – the European Central Bank;
- BoE – Bank of England, the oldest bank in the world (“Old Lady”);
- BoJ – Bank of Japan;
- BB – Deutsche Bundesbank of Germany;
- BoF – Bank of France;
- BoC – Bank of Canada.

Commercial banks:

Banks market-makers (banks which “make” the market - the price-setting is made up by reference to their quotations) are actively engaged with the market not only concerning the clients’ requests, but also accomplishing their own goals.

Banks market-users (banks using market rates) basically specialize in work on clients’ requests. The biggest among them are CitiGroup (USA), HSBC (UK), Deutsche Bank (Germany), CSFB (Switzerland), Bank of Tokyo-Mitsubishi (Japan), Barclays Capital (UK), ABN Amro Bank (Netherlands), Bank of America (USA), RBC Dominion Securities (Canada), and Morgan Stanley (USA).

Bourses:

- NZX – New Zealand Stock Exchange;
- ASX – Australian Securities Exchange;
- TSE – Tokyo Stock Exchange;
- HKE - Hong Kong Stock Exchange;
- SES - Stock Exchange of Singapore;
- DBG – Frankfurt Bourse (DEUTSCHE BÖRSE GROUP);
- TLSE - The Luxembourg Stock Exchange;
- SWX - Swiss Stock Exchange;
- PSE - Paris Stock Exchange;
- LSE - London Stock Exchange;

- NYSE - New York Stock Exchange;
- CHX - Chicago Stock Exchange;
- PCX - Pacific Exchange

Financial institutions:

- Various consulting organizations, mutual funds and hedging companies;

- Transnational companies: XEROX, IBM, Crown Cork, etc;

- Non-institutional investors: charitable trusts and co-partnerships;

- Brokerage/Dealing services – firms carrying out the trading mediation at their own cost and on their own behalf; the client base consists mostly of private investors.

It is worth pointing out that the last 4 items are working through their banks for the most part.

The Forex market is in operation day and night, from the New Zealand banks opening to the U.S. Western banks closing, 5 days a week except holidays when banks all over the world or in certain countries are inactive. You can find such holidays' calendar on our website.

FOREX market working hours *(24 hours a day)*

Moscow time (winter)

Location	City	Opening time	Closing time
ASIA	Tokyo	03:00	12:00
	Hong Kong	04:00	13:00
	Singapore	04:00	12:00
EUROPE	Frankfurt	09:00	17:00
	London	10:00	18:00
AMERICA	New York	16:00	24:00
	Chicago	17:00	01:00
PACIFIC	Wellington	00:00	08:00
	Sidney	01:00	09:00

The market activity varies. The most aggressive sessions are the American and Asian ones while the biggest trading volume is recorded in the European one. New Zealand and Australian deals are considered to be the calmest. This is due to the fact that during these sessions there are not many participants in the market, most of them being Australian and NZ banks and financial organizations. With the Asian session opening the situation becomes more intense, where the yen is a dominating currency, and economic climate news from Japan, performing as a South-East Asia leader, can give a great impulse to the market.

The main European session events take place in London with the biggest trading volumes at this time, where the move adjustments can be very significant. But the most essential doings take place on the American trading arena, where a great many market participants get their long-awaited data. As a rule, this news has a deep influence on the traders and on the currency rates, consequently.

When facing the financial markets concepts and the opportunity of gaining from trading with assets, a lot of people put a question – whether everybody can assimilate this wisdom, whether they would be able to become successful traders and earn their living by this activity. To answer these questions here is an example, known worldwide:

In late 1983 in the Street Journal, Barron New York Times emerged an advertisement that claimed Richard Dennis was searching for people who want to become traders. The job required a move to Chicago, where the trainees would get a low wage plus some share of the profit and Dennis in turn would instruct them using his own trading techniques. This ad was sensational because Richard was known as the "Prince of the Pit" (Pit - a section of an exchange where trading in a specific commodity is carried on.) He began trading when he was 17 with a start-up capital of $1200 and at 25 he made up his first million. Dennis chose 14 people out of those who came – among them were an actor, a guardian, two professional card players, a low-paid accountant, a pair of not-too-lucky traders, a financial consultant, a boy who had just left school, a woman – former bourse clerk, and even a fantasy games designer. For two weeks Richard was teaching the future traders what he knew. After that he allocated a limit for trading out of his company’s capital. That was the beginning of the Turtles’ history. And it is legendary. All of these people without exceptions managed to earn millions. They had become extremely successful traders. All of them opened their own firms, operating with a capital of more than 1 million dollars each.

The Turtles came into being after a bet between two traders. The matter in question was whether it is possible to learn to trade. Two old friends and business partners were arguing: one considered that for a profitable trading a person must have some kind of sixth sense, like an animal instinct for profit, and the other one considered everything to be simpler - with trading methods that can be passed from one prosperous trader to another. They argued for several years until they made a bet on $1. They decided to form a group of people and teach them everything they know. The results of these newly-trained specialists were to give an answer to the question if it is possible to learn how to trade successfully. The end of the experiment was described earlier and this story and has since become an indisputable evidence of the following facts:

- Firstly, an auspicious trade doesn't depend on inherent peculiarities. To the contrary, every person has an opportunity to trade profitably, having just average intellectual faculties; it is more essential to have a good teacher.
- Secondly, a recipe for success lies in a consequent following of the profit strategy, where a consequence performs as a determinant factor.

A knowledge necessity, at least concerning the main financial markets principles, is indisputable.

Even if a person doesn't aim to be a trader in the future, in any case, s/he has to know what a price trend is, what financial instruments exist, how to hedge a currency risk, and many other issues which are used on Forex and in all financial market sectors. It is impossible to overestimate these skills. This is often the answer of accomplished businessmen when asked how to avoid losses, how to emerge from rise or fall of currencies, how to develop a hedging strategy, how to comprehend this or that nuance of the financial market, and so on.

This course, alongside with an opportunity of obtaining a new trader specialization, is also oriented to carry out one of the most essential goals of our company – to help a person gain knowledge in the financial markets field; knowledge which will increase one's confidence while sorting out the financial issues across the board.

Relevant data for **"MetaTrader" terminal users:**

What can SuperForex offer?

- Currencies (Forex currency market – world major currencies);
- Shares of the largest American companies;
- Precious metals (gold, silver).

A broker appears to be a stakeholder between you and a market. An entrance to the financial market without a broker is almost impossible.

Trading at the stock exchange is also impossible – the bourse accredits as its participants only certified individuals and corporate bodies checked up by the supervisory authorities. As a private individual you are allowed to sell and buy the stocks only via these companies' broking.

A trader usually cooperates with his broker using the trading terminal – a program, which is installed on the computer connecting to the Internet. This gives the trader full informational support (quotations, news), an opportunity to make deals with different financial instruments and to receive closed deals data, orders data, etc. The convenience of using the trading terminal is one of the crucial factors in choosing a broker. Currently, SuperForex operates with the MetaTrader4 platform. This terminal provides means of settling the trades over the Internet, obtaining the rates online, looking through the history of open positions, deals and orders, monitoring the situation at the graphs using the technical indicators, and many other facilities.

Test Questions

1. What is Forex?
2. Who are the Forex market participants?
3. Whence does the Forex market come?
4. What are the market working hours? Where does a new trading session day open?