easyMarkets

# FOREX eBOOK

## GETTING STARTED

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### Tell me more

Throughout this book you will find additional information on the topic under discussion in the 'Tell me more' box, like this one. Also, at the end of each chapter, we give you tips on where to go to learn more. Any terms you don't understand can be looked up in our online forex glossary on the easyMarkets website.

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# Forex basics

## What is the forex market?

The forex market is the world's most exciing and dynamic market. With $5 trillion traded every day, it is also the largest financial market in the world.

Forex (or FX) stands for 'foreign exchange' which a traveller will know as the currency that you buy when visiting another country. For example, you may sell euros and buy dollars for your trip to the USA. The online forex market is, however, 90% speculative, which means that you don't take possession of the actual, physical currency. Rather, you open and close deals and make either a profit or loss which gets reflected in your online account.

The forex market is an over-the-counter (or OTC) market which means that trading takes place directly between two parties without dealing through an exchange. This means you can conveniently access the virtual market online anywhere in the world.

## Unique features

The forex market has several advantages over other types of trading, such as traditional stocks:

- **Liquidity.** The high volumes traded globally lead to high liquidity. The big advantage of liquidity is that you can always find demand to sell or buy the currency pair you wish.
- **Increased leverage.** Leverage is when you 'borrow' money so that you can use a small investment to get a greater yield. Most stock markets offer 1:2 leverage. With forex, 1:100 and higher is common. This means your opportunities for gain are greatly enhanced. Remember though that your risk increases too.
- **Increased opportunities.** Forex market conditions can change at any time in response to real-time events. While you must be aware of the risks such changing markets can pose, remember that volatile markets also offer high profit opportunities.
- **Easy access.** At easyMarkets you can start trading forex with a low first deposit. You can fund your account with a debit or credit card and start trading within minutes.
- **No commissions.** easyMarkets does not charge you a commission. Instead, as the market maker, we make our money from the spread (i.e. the difference between the buy and sell price), as well as any rolling/renewal fees if you have kept a trade open overnight.
- **Controllable risk.** Forex traders set a stop loss which means you set the maximum amount you are prepared to risk. At easyMarkets Proprietary Platform and Apps your stop loss is guaranteed.

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## What do you trade?

In forex trading you mainly trade currencies, which are always traded in pairs. There are four major currency pairs (called the majors) which are mostly traded against the US dollar. They are the euro/dollar (EUR /USD), the British pound/dollar (GBP/USD), the Japanese yen/dollar (JPY/USD) and the Swiss franc/dollar (CHF/USD). Trading in the four major pairs makes up the majority of the market and the most commonly traded currency pair is the euro/dollar (EUR/USD).

You can also trade hundreds of other currecies against each other (called cross currencies because the exchange rate is calculated via the US dollar), but remember that the majors are the most liquid. At easyMarkets you can trade precious metals (like gold and platinum), global equity indices and commodities (like oil, gas, wheat, corn and more).



### Tell me more

In a pair, the first currency is called the 'base' currency and the second is called the 'counter' currency. When you buy a currency pair you are always buying the base currency and selling the counter currency. Conversely, when you sell the pair, you always sell the base and buy the counter. For example if the exchange rate of the euro/dollar currency pair is 1.4100 this means that you need 1.41 US dollars to buy 1 euro. This also means that if you sell 1 euro you will get 1.4100 US dollars. Let us say you bought 10,000 euros against the US dollar. At an exchange rate of 1.4100 this means you would pay $14,100 (1 euro = $1.41, therefore €10,000 = $14,100). The next day the euro rises against the dollar and the exchange rate goes to 1.4200. This means that for every euro that you bought, you have earned 1 cent, which in this case means you would have profited by $100 ($14,200 minus $14,100). If you had decided to trade in the opposite direction by selling the currency pair, this means you would have sold the euro to buy the dollar and in our example the dollar then decreased in value against the euro. You sold 10,000 euros at 1.41, which means that for every euro that you sold you would have lost 1 cent. For a trade valued at 10,000 euros that would have been a loss of $100 ($14,200 minus $14,100).

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## Who trades?

There are two parties involved in an online forex deal: you as the trader and the market maker, for example easyMarkets. A market maker is a company that facilitates trading by offering an ask and bid price on a currency, literally making the market for traders to trade in.

Individual forex traders like you make up the fastest-growing segment of the global forex market. The other players include the interbank market which is mostly made up of the largest commercial banks and securities dealers, after which you have the smaller banks, multi-national corporations and hedge funds.

## When to trade

Because forex is a truly global market, you can trade 24 hours a day, five days a week. As one region's market day ends, the next region's market day begins. This means you can trade on any region's news as developments take place.



### Tell me more

The forex market is open 24 hours a day from the Monday morning open in Sydney to the close on Friday evening in New York. Each trading day can be broken down into three sessions: the Asian, the European (EU) and the US. Generally these are referred to as the Tokyo, London and New York sessions. The Asian session opens around 21:00 GMT (summer hours) and closes around 08:00 GMT. This overlaps with the EU session which opens around 06:00 GMT and closes around 16:00 GMT. Then the US session, which overlaps with the EU session, opens around 13:30 GMT and closes around 21:00 GMT. Then the cycle starts over again with the Asian open.

This means you can theoretically trade forex non-stop from 21:00 Sunday GMT (summer hours) until 21:00 GMT Friday!

The times when two sessions overlap are the most exciting as it is then that you will find high volumes being traded and maximum volatility which presents opportunities. The European session has the most volume traded since it is sandwiched between the Asian and the US sessions. Approximately 50% of the daily forex volume goes through the EU session.

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## Where can I trade?

Online, anywhere, anytime, on the device of your choice. You have full control to monitor the status of your trades, modify the terms of your open deals, close deals, or withdraw profits. The ability to access your deals 24/7 is a great benefit of online trading.

## How do I make a profit?

You can profit from forex trading by correctly determining whether one currency in a currency pair will go up (strengthen) or go down (weaken) relative to the other currency in the pair. With forex, you can profit whether the market is rising or falling. This is because currencies are traded in pairs. The key is to buy when a currency is low and sell it back once it is high. In Getting started we take you step by step through a trade.

Traders develop trading strategies based on technical and fundamental analysis. Technical analysis is the use of charts and other statistical measures to predict future price movements based on past prices, while fundamental analysis looks at how macro-economic data releases, news announcements and other reports may cause rates to change.

## What happens to my investment?

At easyMarkets, we like to keep things simple for you, and all transaction-related calculations are automatically done for you by the easyMarkets platform. It's simple to use and easy to understand. Your account is in a 'base currency' of your choice, often the local currency where you live. You trade using your base currency no matter which currency pair you choose to trade.

## What drives forex prices?

As with any marketplace, the main factor behind changes in exchange rates is supply and demand. In the forex market there are however many other factors that cause prices to fluctuate as well. These factors may be of an economic, political or geographical nature. Fundamental analysis explains how you can use these factors to forecast currency rate movements.

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## Tell me more

A number of economic indicators affect currency prices, ranging from unemployment to Gross Domestic Product (GDP) to retail sales data. One of the most influential indicators is interest rates. A change in interest rates in one country can have an impact on many other exchange rates at the same time. For example, when the Federal Reserve Bank (Fed) of the United States announces a change in the interest rate at which it loans to banks, this influences the value of the US dollar, which is involved in nearly 90% of all forex transactions.

Politics are closely related to economics and so it is natural for changes in government or policy to also play a role in currency price fluctuation.

Finally, geography can play an important role. Think of the earthquake in Japan in March 2011 and the negative effect it had on the value of the Japanese yen.

## How risky is forex trading?

While forex trading is risky, the risk can be minimised through the use of various controls you can put in place. For example, through setting a stop loss, you ensure that you cannot lose more than the amount you decide to risk on a trade (also called your 'margin'). In this way, your loss is capped while your potential profit is unlimited. You are strongly advised never to risk more than you can afford to lose. We also advise you to start with an investment that is comfortable for you and to continue to educate yourself as your interest in trading increases.

## Pulling it together

This section covered the what, where, when and who of forex trading. If you are happy that you understand the information, move on to the next which deals with the how of forex trading.

## Need more?

**Visit our learn centre to see:**

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- Forex articles
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**Remember you can also:**

- Look up terms in our online glossary
- Call a personal account service manager, email cs@easyMarkets.com or post your questions/ comments on our Facebook page.

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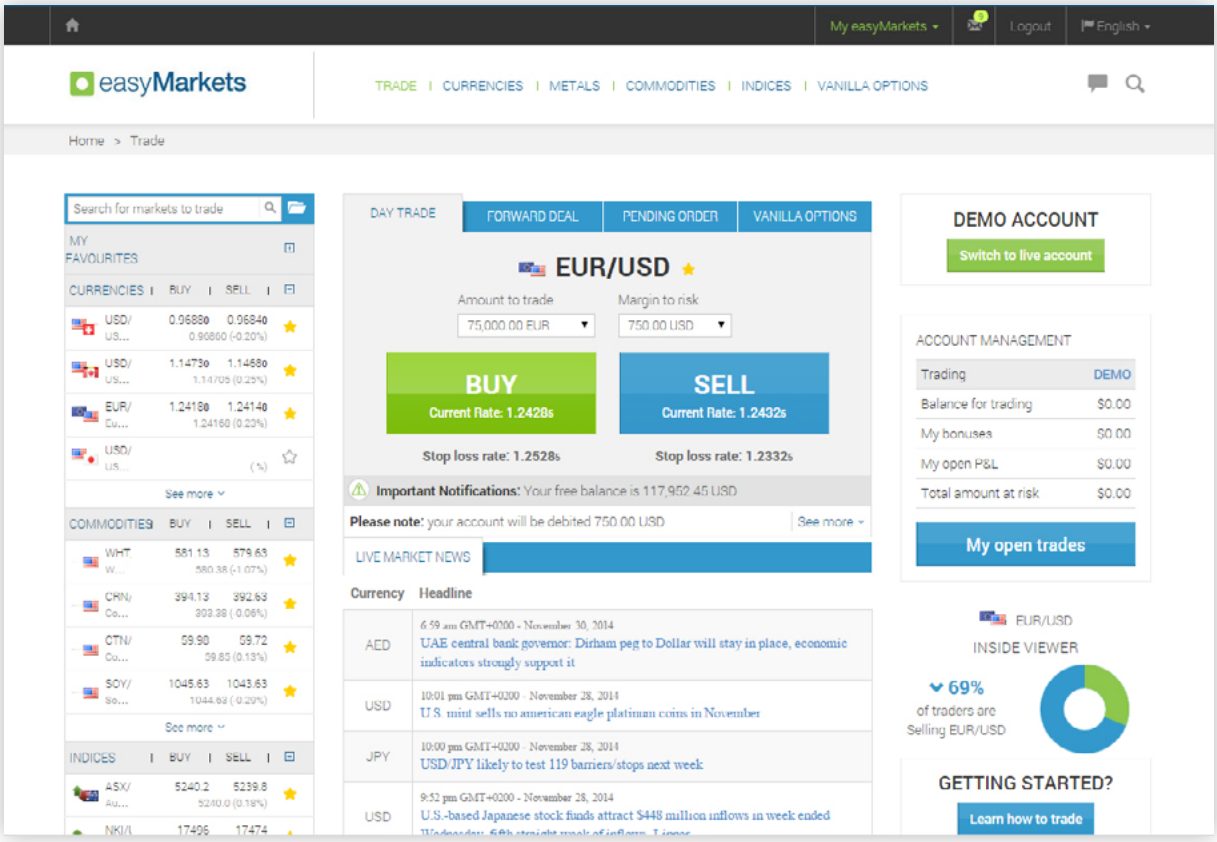
# Getting started

## How do I start trading?

It's simple. Register on the easyMarkets website and deposit the amount you wish to invest into your account. We accept many different payment types which vary according to the region you live in. Generally, we accept deposits via most major credit or debit cards, bank wire transfers and ewallets. Contact your account service manager by email cs@easyMarkets.com to find out which payment solutions are available to you. Once your deposit has been received, you are ready to start trading.

Your personal account service manager will provide you with one-on-one training and support. If you are new to forex or not ready to start trading yet, you can open a free demo account or try our trade simulator where you can experience trading under real market conditions without risking any real money. However, the best way to really understand the psychology of trading is to trade in a live account with real funds. You can get started by opening a mini account with a low first deposit and making small trades.

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### The easyMarkets advantage

Our web trading platform is fully web-based and does not require the download and installation of software, unlike many other online market makers. Traders are only required to log in, ensure they have available funds to trade and if not, top up their accounts and trade.

## What is a pip?

One pip is the smallest unit of change in price. It stands for 'percentage in point'. Because most currency pairs are quoted with four decimal points, one pip usually equals 0.0001 but there are some currency pairs such as the USD/JPY where 1 pip equals 0.01.

## What is a spread?

When looking to trade a currency there are always two prices. On the currency table the price you can buy for is on the right side and is called the ask or the buy price. The price you can sell at is on the left side and is called the bid or the sell price. Remember when you buy a pair you are buying the base currency and selling the counter and when you sell a pair you are selling the base and buying the counter. The difference between these two prices is called the spread, which is the difference between what you pay to buy a currency to what you get when you sell it.

The spread is essentially the cost of your trading. You may come across brokers advertising low spreads but be sure to check what other commissions and costs they may be charging you. With easyMarkets you only pay the spread.



### Tell me more

Let's look at a EUR/USD example. If the price moves from 1.2853 to 1.2873, it has gone up by 20 pips. If it goes from 1.2853 down to 1.2792, it's gone down by 61 pips. Pips provide an easy way to calculate the profit or loss (also known as the P&L) on a trade. To turn that pip movement into a profit or loss, all you need to know is the size of your deal. For a 100,000 EUR/USD position, a 20-pip move equates to $200 (€100,000 × 0.0020 = $200). For a 50,000 EUR/USD position, the 61-point move translates into $305 (€50,000 × 0.0061 = $305). Depending on which direction you decide to trade in (either to buy or to sell) you could make or lose the calculated corresponding amount.

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## What do ‘long’ and ‘short’ mean?

The forex market is bi-directional, meaning that you can trade both ways. You can buy or sell depending on your strategy. ‘Long’ means to buy, and you will go long when you are looking for prices to appreciate, or rise. If you are going ‘short’ you are selling because you are looking for prices to fall. Going short is just as common in currency trading as going long. If you are ‘square’ or ‘flat’, it means that your buy positions exactly offset your sell positions, or that you have no positions in the market at all.

## Margin and leverage

Through the use of leverage, traders are able to invest a small amount of money and trade much larger deal sizes. This is useful because the movement in currency rates can be very small, and larger trades represent larger profits/losses for every pip change in the rate.

Leverage allows you to trade with more money than you have in your account, because you effectively “leverage” your free balance to open a larger trade.

Leverage is shown as a ratio, for example 1:100. Note that leverage amplifies both potential profits and losses alike.



### Tell me more

Let’s say you decide to buy 100,000 EUR and sell USD at a rate of 1.4100. Your account leverage is 1:200. Do you need 100,000 US dollars to open the trade? No! With a leverage of 1:200 you will need to put down only 1/200 of the deal size as the margin, which works out to $500.

Calculate the margin:

Leverage 1:200

Deal size = 100,000

Divide 100,000 by 200= 500

Margin = $500

This is the amount that will be used to cover your potential losses. In other words, the margin is the actual amount that you are risking to lose if the trade goes against you.

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## Stop loss and take profit

Setting a stop loss is a way to limit your risk. You decide upfront what your maximum loss could be by choosing the stop loss rate. If the market reaches that rate, your deal will be automatically closed. Since you are the person setting the rate, you are in control of your investment.

Setting a take profit rate works in the same way. You decide on a desirable profit amount and your deal is automatically closed when the profit rate you have chosen is reached. Using a take profit rate helps you to control your trading without having to continuously monitor your position.

## Types of orders

You can decide to open a day trade, pending (limit) order or forward order.

- A day trade, also known as a market order, is an order to buy or sell at the best available price. This type of order is typically executed immediately.
- A pending order is an order to open a day trade deal at a rate that you have pre-defined when and if the market reaches that rate. The order will remain pending (i.e. waiting to be turned into a day trade) until the market reaches that rate, or the time expires. It has the usual features of a day trade, including a margin requirement.
- A forward order is an open trade with a value date greater than the spot value date. It has the usual features of a day trade, including a margin requirement.

All three types of orders can have tailored stop loss and take profit rates set by you, in order to help you manage your risk.

### The easyMarkets advantage

At easyMarkets we protect our traders by guaranteeing the stop loss, take profit and limit order rates on the easyMarkets platforms.

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## How long should I hold my position open?

If you are day trading, you usually hold your position open anywhere from a few minutes to a few hours and generally not longer than a day - hence the name, “day trading”. A medium-term trader will look to get the general market direction right and profit from more significant currency rate moves. This kind of trading requires many of the same skills that a day trader would use, especially when it comes to entering and exiting positions. However it also demands a broader view on the markets, additional analytical work as well as much more patience. Fundamental analysis and Technical analysis provide you with the basic tools and knowledge to take your trading further.

## Pulling it together

The section covered the ‘how’ of trading and some basic terms. We explained some terms and then took you step by step through a forex deal on the easyMarkets platform. Congratulations, now you are ready to move onto the next eBook of our forex series Fundamental and Technical analysis.

### Need more?

**Visit our learn centre where you can download other eBook guides to forex and trading vanilla options.**

**Remember you can also:**

- Look up terms in our online glossary
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## ARE YOU READY TO  TRADE?

**OPEN AN ACCOUNT**

Trading could lead to a loss of your invested capital

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