FOUNDATION
SCHOOL GUIDE

2023-2

Section One

1.Why Forex

Forex is short for foreign exchange trading. It represents the financial market in which we trade one currency for another. World economies are increasingly interdependent, which emphasizes the need for currencies exchange.
Here are some of the reasons why you should start forex trading:

You Can Make Money Even In Times Of Crisis: When the stock market and commercial banks are struggling, the Forex market can be profitable. A falling market is just as profitable as a developing market in forex because you can short the falling assets.

You Can Work From Anywhere: All you need to join the Forex market is a computer or a smartphone and an internet connection.

You Can Start Trading With A Small Capital: Unlike other financial markets, Forex doesn't require a huge budget. Traders don't have to pay extra fees or commissions and they can start trading with just $300.

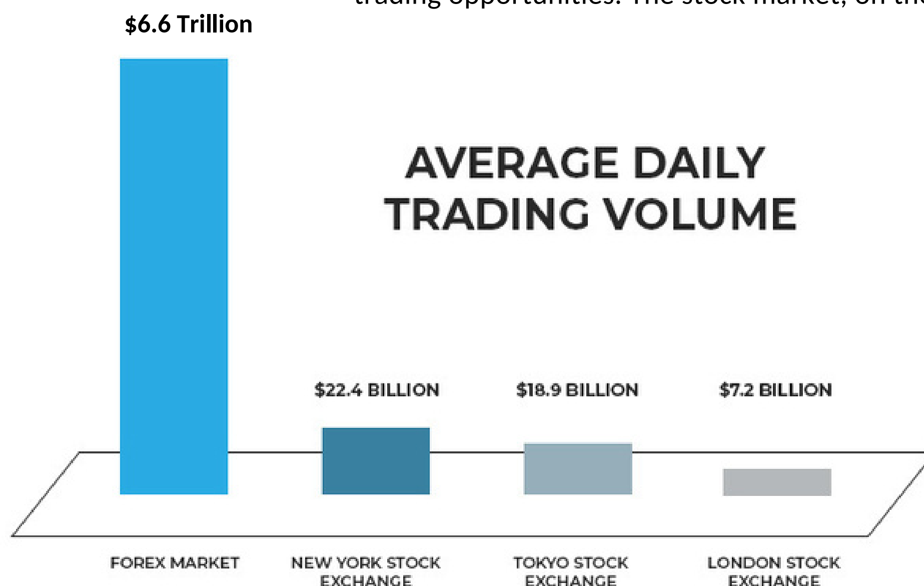
There Are Fewer Rules: Unlike the stock market in which there are thousands of different shares, Forex works with 8 major currency pairs. As a result, there are significantly fewer factors that influence the Forex market which makes trading much easier.

You Can Withdraw Your Profit Whenever You Want: You can get in and out of trades whenever you want.

2.Forex vs. World Stock Exchanges

Liquidity: Forex is the world's largest and most popular financial market in the world, which means it, is extremely liquid and volatile. It sees a daily turnover of $6.6 trillion, compared to the 200 Billion Dollars traded in the stock market.

Availability: As forex is a global market, it is open 24 hours a day, five days a week. This provides traders with ample trading opportunities. The stock market, on the other hand,



is limited to 8 hours a day. As a result, traders may find Forex trading more flexible than trading in the stock market.

Commissions and Fees: Most forex brokers charge no commission or additional transaction fees. Meanwhile, the stock market generally charges spreads and a commission fee.

Accessibility: The Forex Market includes all the currencies in the world, and several currencies are followed more than others that most traders focalize upon.

3.History of Forex

I. Ancient

Currency trading and exchange started in ancient times. They were important elements of trade in that period, enabling people to buy and sell items like food and pottery:

There were people called Money-changers in the Biblical times who took a commission to help others to change money.

During the 4th century AD, the Byzantine government kept a monopoly on the exchange of currency.

There is also much evidence showing the occurrences of coinage exchanged in Ancient Egypt. If a Greek coin held more gold than an Egyptian coin due to its size or content, the merchant would barter fewer greek gold coins for more egyptian ones, or more material goods. This is why, at some point in their history, most world currencies in circulation today had a value fixed to a specific quantity of silver or gold.

II. Medieval and Later

During the 15th century, the Medici family opened banks in foreign countries to exchange currencies for textile merchants.

During the 17th and 18th centuries, Amsterdam maintained an active Forex market.

In 1704, foreign exchange took place between agents acting in the interests of the county of Holland and the kingdom of England.

III. Early modern

Around 1850, Alex. Brown & Sons traded foreign currencies. It was the leading currency trader in the USA.

In 1880, J.M. do Esparto Santo de Silva was permitted to engage in a foreign exchange trading business.

The year 1880 marked the beginning of the modern foreign exchange. The market mainly relied on the gold standard monetary system.

Motivated by the onset of the First World War, countries abandoned the gold standard monetary system.

IV. Modern To Post-Modern

At the end of 1913, the number of foreign banks and the number of foreign exchange brokers significantly increased in London. Nearly half of the world's foreign exchange was conducted using the British pound and by the year 1928, Forex trade became integral to the financial functioning of the city.

In 1944, the Bretton Woods Accord was signed, allowing currencies to fluctuate within a range of ±1% from the currency's par exchange rate. However, U.S. President, Richard Nixon ended this According 1971 which even eventually resulted in a free-floating currency system.

After the Accord ended, the Smithsonian Agreement was made, allowing rates to fluctuate by up to ±2%. However, in March 1973, this agreement ceased to exist as well as it wasn't realistic. The gold standard was no longer used by any of the main currencies and organizations relied instead on reserves of currency. As a result, the volume of foreign currency trading increased by three times from 1970 to 1973.

In June 1973, Reuters introduced computer monitors, replacing the telephones and telex previously used for trading quotes.

In developed nations, state control of foreign exchange trading ended by 1973.

On 1 January 1981, the People's Bank of China allowed some of its local enterprises to participate in foreign exchange trading.

Sometime during 1981, the South Korean government ended Forex controls and allowed free trade to occur for the first time.

The United Kingdom had the highest involvement in foreign exchange trading in 1987, counting for over one-quarter of all trades conducted worldwide. The United States had the second-highest involvement in trading.

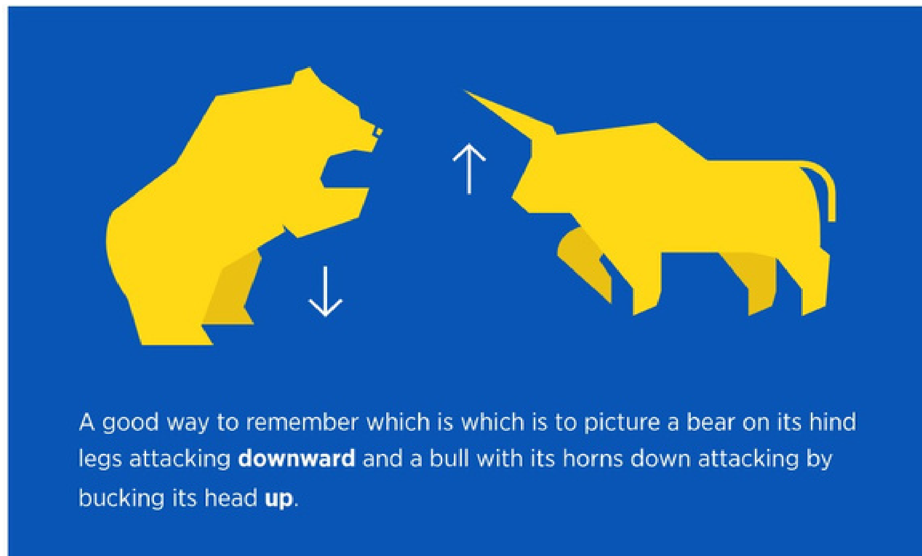
4. Basic Forex Currency Terms

Technical Analysis

Technical Analysis is on e of the three main trading approaches in the forex market.

Bullish and Bearish

Being bullish means you are optimistic that prices will go higher from where they currently are. Being bearish on the other hand is when you think prices will move lower from where they currently are.



Currency Pair

Forex trading consists of speculating the performance of one currency against another to make a profit. This is why currencies are always quoted in pairs.

Example: *EUR/USD*

If you were to buy EUR, you would be betting that the Euro is going to perform more strongly than the USD and that you would sell it for a higher price in the future.

Going Long / Short

When a trader expects the price to rise, they go long on a currency pair. In other words, he buys the first currency of the pair and sells the second.

Example: AUD / USD

Going long on AUD/USD consists of buying the Australian Dollar (AUD) against the US Dollar (USD). It means that you are expecting the price of AUD to rise.

When a trader expects the price to decrease. They go short on a currency pair. In other words, the first currency is sold while the second currency is bought.

Smart Money vs Retail Traders

Smart money is a group of winning traders that includes market makers, large institutions, hedge funds, and algorithms. They have early access to the news and more knowledge and resources about the market.

Retail forex traders all refer to similar strategies and indicators such as moving averages, candlesticks, and chart patterns to predict price movements and take trading decisions. Smart money traders are very familiar with these strategies and indicators and the know-how retail traders think. They rely on retail traders' poor decisions to make a steady stream of profits. They do this by manipulating the market and trapping retail traders at poor trade locations and then moving against these positions.

5.Market Participants

There are five broad groups of participants in the forex market:

i.Market Makers:

They are the only non-customers of the participants. Their main objective is to bring together buyers and sellers of foreign currency. Most brokers charge no commissions but instead get their profit from the spread.

There are two types of brokers:

Market Maker With Non-Dealing Desk: This type of broker doesn't participate in the trade. He only connects buyers and sellers. These are the type of brokers that usually charge a commission in addition to the spread.

Market Makers With Dealing Desk: The broker is the counterpart of every transaction made by the trader. In other words, the broker opens a transaction in the opposite direction of the transaction opened by the trader. For example, if the trader longs one currency pair, the broker shorts the same currency pair. This is the way for brokers to hedge themselves.

Largest Global Forex Brokers by Daily Trading Volume

Largest Global Forex Brokers	Broker	Average Trading Vol. Per Day
1.	IC Markets	USD 18.9 billion
2.	XM Group	USD 13.4 billion
3.	Saxo Bank	USD 12.3 billion
4.	Hot Forex	USD 11.5 billion
5.	IFC Markets	USD 9.1 billion
6.	AvaTrade	USD 7.8 billion
7.	FX Pro	USD 6.5 billion
8.	Instaforex	USD 5.8 billion

ii. Central Banks:

National central banks mainly intervene in the Forex market to control the nation's economy. For example, countries whose economy is heavily reliant on export may find that their currency is too strong for other countries to afford the goods they export. They may intervene to keep their currency in line with the currencies of the countries that import their goods.

Example: *The Swiss National Bank took this kind of action from September 2011 to January 2015. SNB set a minimum exchange rate between the Swiss franc and the euro to keep the Swiss franc from strengthening beyond the finances of other European countries importing Swiss goods.*

Most Prominent Types of Central Banks Interventions:

Verbal Intervention: Occurs when officials from the central bank "talk up", or "talk down" a currency. This is either done by expressing an intention to commit real intervention (actual buying or selling of a currency), or by indicating that the currency is undervalued or overvalued.

Operational Intervention: This is the actual buying or selling of a currency by a nation's central bank.

Example: *Let's say that the Federal Reserve is concerned about the dollar depreciation against the Indian rupee, they decide to take action to change this by selling their reserve of Indian rupee to the market and buying dollars.*

This will lead to an increase in the supply of the rupee and a decrease in the supply of the dollars. As a result, the objective of the Federal Reserve will be fulfilled. However, there is also a side effect to this policy: the number of dollars in the United States economy would increase as a result of this policy, causing inflation and other economic issues.

Concerted Intervention: This happens when several nations coordinate in driving up or down a certain currency using both operational intervention verbal intervention.

Example: *In March 2011, after the massive earthquake that hit Japan took place, the Bank of Canada, the U.S. Federal Reserve, the Bank of England, the European Central Bank, and the Bank of Japan performed a concerted intervention to support the Japanese yen.*

Sterilized Intervention: When a central bank sterilizes its interventions, it offsets these actions through open market operations. Selling a currency can be sterilized when the central bank sells short-term securities to drain back the excess funds in circulation as a result of the intervention.

The Most Influential Central Banks:

The Federal Reserve which is US central bank

The Bank of Japan
The Bank of England
The Bank of Canada
The Swiss National Bank
The European Central Bank
The Reserve Bank of Australia

Some of these Banks intervene regularly (like the Japanese Central Bank) and some of them do not very often (US Central Bank).

iii. Corporate Companies:

These corporations often need to trade their goods and services abroad. These corporations don't speculate on future exchange rates, but they count on already fixed rates to fix their costs or profits in their trading transactions.

Example*: Apple must first exchange its U.S.dollars for the Japanese yen according to the fixed rate before purchasing electronic parts from Japan for its products.*

iv. Speculators:

Speculators are made of commercial banks. They have no interest in acquiring real holding of the currency. They only buy and hold a currency in the hopes of selling that currency at a higher exchange rate in the future to make profits. Speculators usually don't maintain open positions in any currency for a long period.

v. Retail Traders:

Similar to speculators, Retails Traders are not interested in holding the currency they are buying or selling. A forex market trader simply predicts the future direction of one currency related to another to extract profits.

6.How Prices are Derived

Major retail banks set exchange rates according to their interbank trading. (The interbank market is a global exchange market where banks trade different currencies between themselves). The interbank liquidity is the starting point for the Forex market rates.

These rates are then delivered via several live feeds. The most expensive live feeds are provided by these three providers:
www.currenx.com
www.fxall.com
EBS

Individual traders can subscribe to these feeds directly. However, these feeds are generally way above a small retail trader's budget, and it is much less expensive to become a client of a broker (A broker uses one of these feeds to provide their live prices to their platform).

Anyhow, it is important to note that the prices quoted by one broker may vary from that quoted by another, and from the one set by the interbank market. Many of these brokers are in fact traders themselves and they sometimes manipulate the quotations set by the interbank market and present the prices they wish to serve their interest.

7.Market Hours

The forex market is open 24 hours a day and almost six days a week. This makes it easier for retail traders to participate. However, it makes it hard for a single trader to track and respond to all markets' movements at all times.

Liquidity

Different currencies are traded at different times of the day, so it's important to understand currencies' liquidity around the clock to maximize the number of trading opportunities and adapt them to the trader's schedule.

Volatility

Usually, the higher the liquidity of the currency, the lower its volatility.
There 3 major events that increase currencies' volatility and can even change the market's movements:

The intersection between two different pairs' sessions.

News release.
Central bank governor's speeches.

Trading sessions

The forex market can be broken up into four main trading sessions: the Sydney session, the Tokyo session, the London session, and the New York session.

LOCAL TIME	EST	UTC
Sydney Open – 7:00 AM Sydney Close – 4:00 PM	4:00 PM 1:00 AM	9:00 PM 6:00 AM
Tokyo Open – 9:00 AM Tokyo Close – 6:00 PM	7:00 PM 4:00 AM	12:00 AM 9:00 AM
London Open – 8:00 AM London Close – 5:00 PM	2:00 AM 11:00 AM	7:00 AM 4:00 PM
New York Open – 8:00 AM New York Close – 5:00 PM	8:00 AM 5:00 PM	1:00 PM 10:00 PM

i. The Sydney Session

Has the least volatility and is generally unfit for high volatility trading style.

ii. The Tokyo Session:

When liquidity is restored to the forex market at the beginning of the week, the Asian markets are naturally the first to see action.

Has low liquidity (price movements are minimal).

Because of this low liquidity, most currency pairs will trade within a range, especially if there was a big move in the preceding New York session.

21% of all forex transactions are carried out during this session.

Most activity takes place at the beginning of the session, as this is the time when economic news is released.

Economic news from Australia, New Zealand, and Japan will be released during this session, so stronger moves are carried in pairs that contain JPY, AUD, and NZD.

iii. The London Session:

The European session takes over the currency market just before the Asian trading hours come to a close.

Has high liquidity.

Has a huge trading volume (over 32% of all forex transactions).

Is the session with most market uptrends and downtrends.

Have low spreads compared to other sessions.

Volatility slows down a bit in the middle of this session as most traders are off for lunch until the New York trading session starts.

Market trends may sometimes reverse just before the session ends as European traders decide to lock their profits.

iv. The New York Session

The Asian markets have already been closed for a while by the time the New York session arrive, but the day is only halfway through for European traders.

Has high liquidity in the morning hours when it overlaps the London session.

Roughly 19% of all forex transactions are carried out during this session.

Most economic news reports are released at the beginning of this session.

Liquidity and volatility decrease during the afternoon.

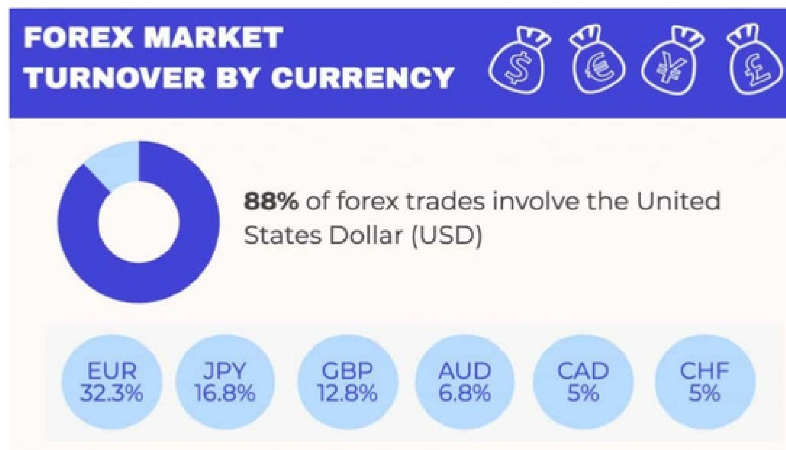
Witnesses little movement on Friday afternoon. There are also high chances for a trend reversal in the second half of the day.

Section Two

1.Major Currencies (Safe Havens and Commodity)

i. Haven Currencies

In times of fear and panic, people's tendency to make risky moves decreases. Traders move money to safe-haven currencies like the US dollar. However, in times of hope and greed, people's tendency to make risky moves increases, and traders move money into risk currencies. If you are greedy, you are most likely to be rewarded with higher returns but if you are fearful, your returns will be lower.
Here are the 5 haven currencies:



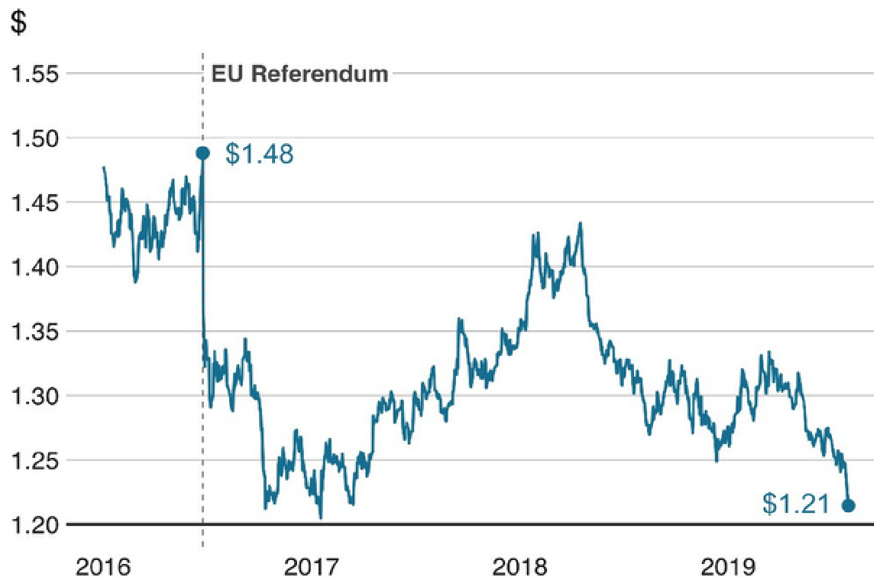
The US Dollar: Sometimes referred to as the greenback is the number one currency at present. It is the most traded currency on the planet, making up around 88% of forex trading. It is paired with all other major currencies and is often used as the intermediary in triangular currency transactions.

The Euro: Comes right after the US dollar. It is the single currency of most of Europe. It is the most widely held currency by banks around the world. However, considered to be a high-risk currency. It is heavily influenced by political factors. A forex trader should always be alert to political updates and politicians' statements when dealing with this currency.

The Japanese Yen: Just like the US dollar, it is considered to be a safe haven currency. Japan relies heavily on its export market. Therefore, it is against Japan's economic interest to have a strong yen. The national central bank of japan often intervenes in the market, to keep the Japanese Yen weak and to protect the country's export market.

The British Pound Also known as Sterling used to be very steady. It reflected the British personality perfectly as it is well controlled and measured with only very occasional bouts of excitement. However, since the Brexit vote in 2016, the exchange rate of the British pound against other leading currencies has fallen significantly. Britain's political instability and uncertainty following

Brexit made the country's currency seem riskier to investors which resulted in reducing investment flows.



The Swiss Franc: Is considered a safe-haven currency. The currency is heavily influenced by the price of gold. Gold itself is seen as a safe-haven asset, which results in a very stable Swiss franc. Just like Japan's central bank, the Swiss central bank often intervenes in the currency markets.

ii. Commodity Currencies

The Australian Dollar, the Canadian dollar, and the New Zealand dollar, all have something in common which is commodities. These countries all have a lot of natural resources. They heavily rely on their export market which in its turn heavily depends on the demand for these natural and basic commodities.

The Australian Dollar: Australia's natural and basic commodities are iron Iron ore, coal, and gold. The Australian Dollar is heavily influenced by the price of gold. If the gold falls in price, the Australian dollar tends to fall along with it and vice versa.

The Canadian Dollar: It is the second commodity-based currency, but this time the commodity in question is black gold and oil. The Canadian dollar closely follows the oil market and its fluctuations.

The New Zealand Dollar: It is the third commodity-based currency. It heavily relies on milk powder, butter, and cheese.

2.Currency Pairs (Major, Minor, and Exotic)

Forex trading is essentially the buying of one currency and the simultaneous selling of another so when a currency is quoted, it is done about another currency. In other words, the value of one is reflected through the value of another.

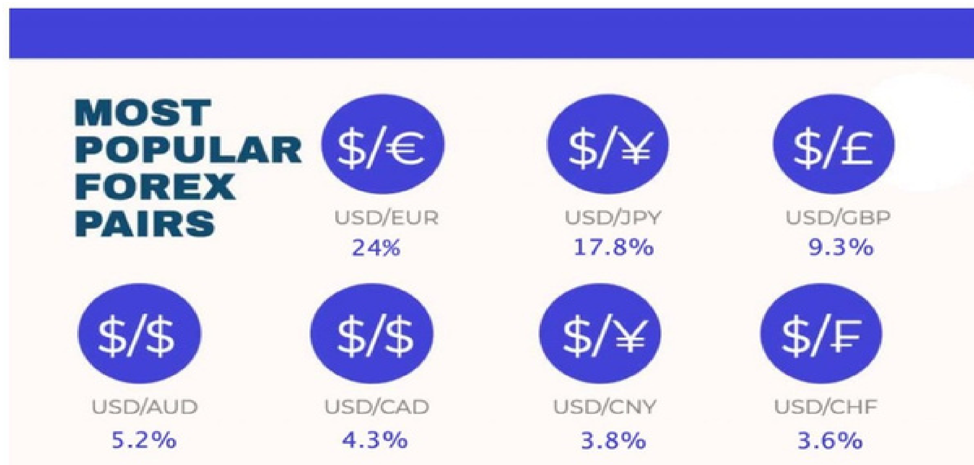
There are thousands of pairs. However, we can split them into three main categories: Major, Minor, and Exotic currency pairs.

I.Major Currency Pairs

Major currency pairs are the most frequently traded pairs in the market. They generally have the lowest spread and are the most liquid. There are seven major currency pairs and all of them contain the US Dollar either on the base side or quote side:

1EUR/USDThe Euro vs. the US Dollar

2USD/JPYThe US Dollar vs. the Japanese yen
3GBP/USDThe British Pound vs. the US Dollar
4AUD/USDThe Australian Dollar vs. the US Dollar
5USD/CHFThe US Dollar vs. the Swiss Franc
6USD/CADThe US Dollar vs. the Canadian Dollar
7NZD/USDThe New Zealand Dollar vs. the US Dollar



II. Minor Currency Pairs

These currency pairs are derived from the three major non-US dollar currencies (the Euro, the Japanese Yen, and the British Pound).

The EURO

1EUR/GBPThe Euro vs. the US dollar

2EUR/CHFThe Euro vs.the Swiss Franc
3EUR/CADThe Euro vs.the Canadian Dollar
4EUR/AUDThe Euro vs.the Australian Dollar
5EUR/NZDThe Euro vs.the New Zealand Dollar
6EUR/JPYThe Euro vs.the Japanese Yen

The Japanese Yen

7	GBP/JPY	The British Pound vs. the Japanese Yen
8	CHF/JPY	The Swiss Franc vs. the Japanese Yen
9	CAD/JPY	The Canadian Dollar vs. the Japanese Yen
10	AUD/JPY	The Australian Dollar vs. the Japanese Yen
11	NZD/JPY	The New Zealand Dollar vs. the Japanese Yen

The British Pound

12	GBP/CHF	The British Pound vs. the Swiss Franc
13	GBD/AUD	The British Pound vs. the Australian Dollar
14	GBD/CAD	The British Pound vs the Canadian Dollar

iii. Exotic Currency Pairs

Exotic currency pairs are made up of a major currency paired with the currency of an emerging or a strong but smaller county's economy.

1EUR/TRYThe Euro vs. the Turkish Lira

2USD/SEKThe US Dollar vs. the Swedish Krona
3USD/NOKThe US Dollar vs. the Norwegian Krone
4USD/DKKThe US Dollar vs. the Danish Krone
5USD/ZARThe US Dollar vs. the South African Rand
6USD/HKDThe US Dollar vs. the Hong Kong Dollar
7USD/SGDThe US Dollar vs. the Singapore Dollar

3.Base and Quote (Seesaw)

The currency to the left of the slash is called the Base and the currency on the right is called the Quote.

According to the current quoting convention, the first currency quoted is considered the stronger of the two while the second is considered to be the weaker.
For example: *in the case of EUR/USD; the Euro is stronger than the US Dollar. The Euro is referred to as the base currency and the US Dollar - the second currency – is the quote currency.*

4.Bid, Spread and Ask

Bid/Ask

There are always two figures quoted. The first is on the left and is called the bid or selling price while the second is on the right and is called the ask or the buying price. The Bid is always smaller than they ask.

Example:*1.3001(the ask) is the price at which the market will buy and 1.3000(the bid) is the price at which the market will sell.*

The Spread

The spread is the difference between the ask and the bid. The broker often makes a profit through this spread.

Example: *If the bid is 1.3000 and the ask is 1.3001, the spread is 1.3000 – 1.3001= 1 pip.*

The forex market is volatile and is moving quickly which will cause the spread to constantly change. Some brokers offer fixed spreads while other brokers constantly change their spread according to news releases. A fixed spread broker is less competitive than a variable spread broker.

When the liquidity is high, the volatility is low which results in a tighter spread. Highly liquid currency pairs like EUR/USD have tighter spreads than exotic pairs such as USD/RUB.

Section Three

1.Margin and Leverage

Leverage

Leverage is money borrowed from a broker. Through the use of leverage, traders can trade large deal sizes, despite having a small amount of money in their accounts. Leverage is a double-edged sword, the higher the leverage, the higher the level of risk, and the higher the possible profit.

For example: *If the EUR/USD rate moves up 100 pips from 1.1305 to 1.1405 and you had invested $1000, you would have made $10 on that trade. However, by using a leverage of 1:100, every $1 you invest is worth $100, and your $10 profit is magnified to $1000.*

Traders with $5,000 of capital or more can utilize conservative amounts of leverage. It is recommended that they use the leverage of 1:10. However, traders investing small amounts of capital ($50-$100) consider using bigger leverages to get tangible profits.

Margin

A margin is a security deposit that the trader gives to the broker/ lender when entering a forex trade position.
Leverage = 1/Margin
= 100/Margin Percentage

Example: *If the margin is 0.02, then the margin percentage is 2%, and the leverage = 1/0.02 = 100/2 = 50.*

2.What is a Pip, Pipette and the Difference Between JPY and Other Currencies?

A Pip

Currency quotations contain 5 decimal numbers (example: 1.30110). The fourth decimal place is generally the most important number in the forex market as the fifth decimal place changes too fast and can be ignored.

The pip is the fourth decimal place, representing 1/10,000 of a market movement. A pip is often used to reference gains or losses. It is our principal trading unit and the smallest unit of an exchange rate.

For example: *If a rate is quoted a 1.3000 and then after a while as 1.3005, then the exchange rate has changed by 5 pips(5-0=5pips).*

The Difference Between JPY and Other Currencies

Most currencies are quoted to four decimal places. However, Sometimes, JPY is quoted to three decimal places. The third decimal place is considered a tenth of a pip (1/10).

Example (JPY): *If we move from 99.550 to 99.595, we have moved 4.5 pip.*

Explanation:

1. 59-55 = 4 pips

2. The third decimal place: 0.5-0=0.55.
3. 4+0.5 = 4.5 pips

A Pipette

A pipette is 1/10 of a pip, representing 1/100,000 of a movement on the market. In other words, 10 pipettes = 1 pip.
It is the fifth decimal position for all pairs except JPY pairs and the third decimal position for JPY pairs.

3.Lot Sizes (Micro, Mini and Standard)

All transactions in Forex can be conducted via standard, mini, and micro-lots. Each lot size presents a different measure of units of the base currency, which in turn presents a different pip value. A micro lot is 1,000 worth of a given currency, a mini lot is 10,000, and a standard lot is 100,000.

The chart below illustrates the differences in lot sizes, measured in units, volume for the major pairs where the base currency is USD.

	Units of base currency	Volume	Pip Value (base: USD)
Standard Lot	100,000 units	1	1 pip = $10
Mini Lot	10,000 units	0.1	1 pip = $1
Micro Lot	1,000 units	0.01	1 pip = $0.10

The formula for calculating a pip value in the quote or counter currency is as follows:

1)Pip value per lot equals 1 pip (0.0001 for most currency pairs, and 0.01 if the JPY is the counter currency).
2)Divided by the exchange rate or current price of the pair.
3)Times lot size (in base currency).
Or: (1 pip/exchange rate or price of the pair) * lot size in base currency (the one on the left) = pip value in the quote currency (the one on the right).

Example: EUR/USD

1.Assuming a standard 100,000 lot size, the price of EUR/USD price is 1.4000, and your account is denominated in USD then:
(0.0001/1.4000) *100.000=
$7.14/pip for a standard lot
$0.74/pip for a mini lot,
And $0.074 pip for a micro lot
2.If you are trading 3 lots, each pip would be worth 3 times that amount.
3.If your account is denominated in USD, you'd be finished. However, if it is in EUR or JPY, then you'd need to convert the $7.14 into that currency. For example, if the account is denominated in EUR, then: 7.14*1.4000 dollars per Euro=
€10.00/pip/standard lot
€1.00/pip/mini lot
€0.1000/pip/micro lot

4.How to Calculate Pips

A pip represents 1/10,000 of a movement on the market.

Example one: *If the trader bought the euro for 1.1835 and exited the trade at 1.1901, he would make: 1.1901 - 1.1835 = 66 pips on the trade.*

Example two: if the trader bought the Japanese Yen by selling USD/JPY at 112.06, he would lose 3 pips if he exits the trade at 112.09 but would gain 5 pips if the position is closed at 112.01.

5.How to convert lots from US Dollars and vice versa

The value of a pip depends on the total amount in your account :

$100,000 Is Equivalent To $10 Per Pip: If the exchange rate for the EUR/USD is 1.400, then 100,00 euros become $140,000. If the exchange rate change from 1.4000 to 1.4500 (a total of 500 pips), the 100,00 euros become 145,000. The pip movement has increased the capital by $5,000(145,000-140,000=5,000). $5,000 divided by 500 pips is equal to $10. So each pip is equivalent to $10. In other words, for every one pip, we have gained $10.

$1,000 Is Equivalent To 0.10 Per Pip: If we start with 1,000 euro and the exchange rate is 1.4000, we would have $1400. If the exchange rate moves from 1.4000 to 1.4500, we would have $1450. In this case, the gain is $50 (1450-1400).
$50/500 pip=$0.10.

Similarly:**$10,000 is Equivalent To $1 Per Pip**.

6.Candlesticks- Anatomy and Most Popular Candles Doji, Hammers, etc

Anatomy

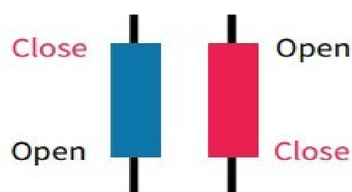
Technical analysts can use many charts to determine possible price movements based on past patterns. One of them is the candlesticks chart. This chart helps visualize currency data using many bars that resemble a candle. Each of these candles/bars presents four price points throughout the trading session:

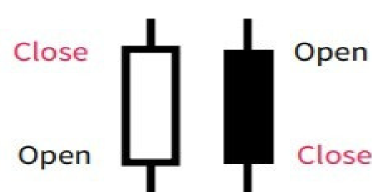
1.**The Open:** The pair's opening price during the trading period.

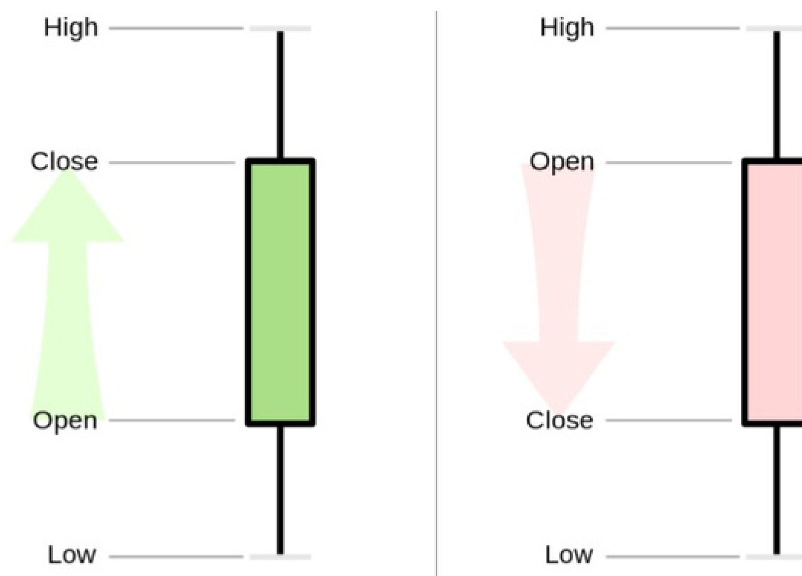
2.**The Close:** The pair's closing price during the trading period.
3.**The High:** The pair's highest price during the trading period.
4.**The Low:** The pair's lowest price during the trading period.

The area between the open and the closed is called the body of the candlestick. Traders can choose two colors for the body according to their liking. One of the colors indicates that the candlestick closed higher than it opened in the trading session (the Close is above the Open) while the other indicates that it closed lower (the Open is above the Close).

Color variation 1 **Color variation 2**







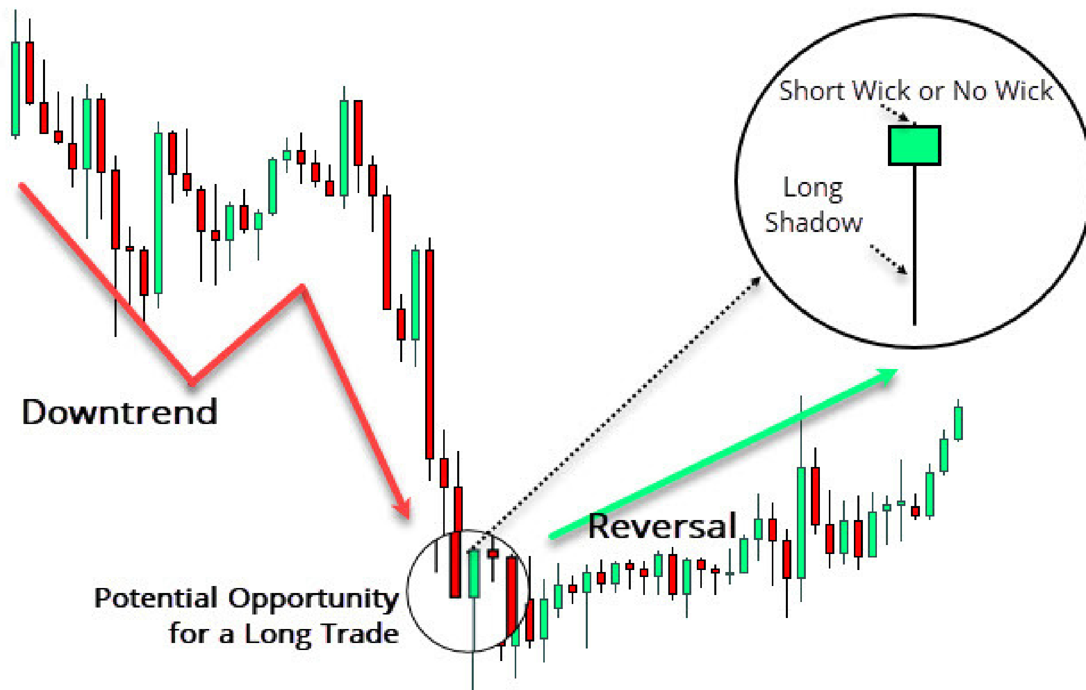
Many commonly used candlesticks patterns help traders gauge market sentiment. Here are a few examples of these candlestick patterns:

The Hammer Candlestick

A hammer candlestick is a technical trading pattern that looks like a hammer. Its long lower wick looks like a hammer's handle and its opening and closing price small body looks like the hammer's head.

This pattern indicates that the price of the asset majorly declined from its opening price, only to bounce back and close at a price that is near the opening price. On occasion, the opening and closing price will be identical, forming what is called a perfect hammer.

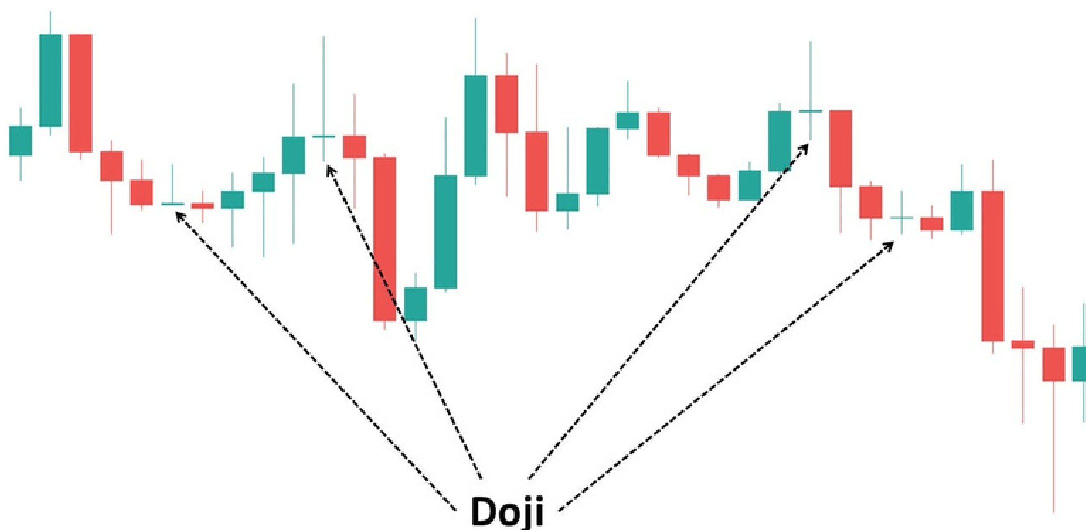
Example (GBD/ USD): The UK pound is being sold while the US dollar is being bought. As a result, the market is moving lower and the price of the UK pound is dropping, forming the long lower wick. However, at some point buyers come into the market. They start buying the UK pound and selling the US dollar. The higher demand on the UK pound stops its price from moving lower and the pair bounces back somewhere near the opening price.



The Doji Candlestick

A Doji is a candlestick pattern that looks like a cross since the opening and closing prices are equal or almost the same.

The buyers and sellers are repeatedly trying to cancel each other out. Sellers try to dominate the market by pushing the price down. However, buyers do not let them and are constantly trying to bring the price up. The Doji candlestick chart pattern is thus a sign of indecision between buyers and sellers and can be seen as a potential signal for a trading opportunity.



The Shooting Star Candle

This pattern indicates that the Open, Low, and close are roughly the same price.

A shooting star opens and then rises significantly during the trading session, forming the long higher wick. However, the sellers come into the market, pushing the price down. At the end of the trading session, the buyers lose control as the sellers have taken over and the closing price ends up near the opening price.
The shooting star candlestick pattern is similar to the Hammer candlestick pattern but in reverse, as it is the sellers who are coming into the market.

Section Four

1.Market Structure- Trends Up/Down and Consolidation

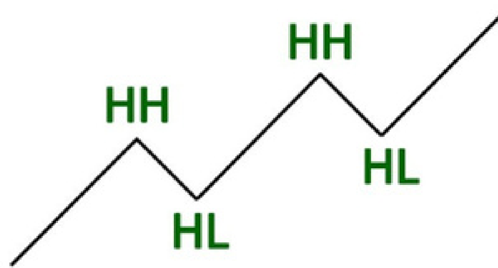
Market structure, also referred to as price action is the forex market price movement. Traders need to understand market structure to be able to identify profitable trading opportunities.

The market structure accommodates a series of key swing points.

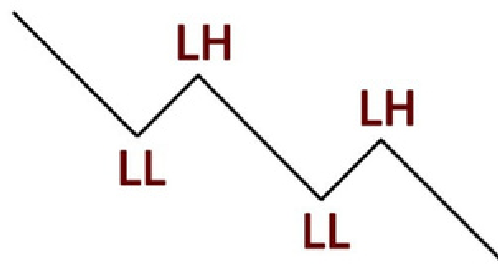
HH: Higher high (higher peak)
HL: Higher low (higher trough)
LL: Lower low (lower trough)
LH: Lower high (lower peak)

Identifying these key swing points helps market structure recognition:

1.**Bullish Structure (uptrend):** A bullish structure is defined by a series of higher highs (HH) and higher lows (HL).



2. **Bearish (downtrend):** A bearish structure is defined by lower lows (LL) and lower highs (LH).



3. **A Consolidation Period:** A period of stagnation.

2.Trading Approaches- Fundamentals, Technical and Relational (Sentiment)

There are various trading approaches. In this chapter, we will discuss three of them known as technical, fundamental, and relational.

I.Fundamental Analysis:

Fundamental traders believe that foreign exchange markets are mainly driven by the economy and the economic data shared. They do not believe that other factors playa part in market fluctuations. We can break all the economic data down into three main components.

Employment: Jobs are the heart of any economy. Therefore, low unemployment signals a strong economy.
Consumer Spending: Consumer spending could be measured by retail sales figures. If consumers are reluctant to spend, then businesses and the economy will struggle.
Business: This last component is a reflection of the two previous components (employment and consumer spending). Consumer spending creates jobs that are demanded by businesses to provide products and service.

II. Technical Analysis:

Technical traders are the majority of traders. They believe that every aspect of the market sentiment affects prices. This includes fear, greed, selling, buying, and many other factors. Unlike fundamental trading, technical trading is more of an art than a science.

Technical analysts work by the saying *"history repeats itself"*. They track historical economic data patterns to predict the market's future movements based on current data.

There are so many indicators that could help when using the technical analysis trading approach:
Volume and price analysis: the writer advises relying on these two indicators in making trading decisions.
Bollinger Bands, Fibonacci levels, and Gann angles: many traders use them in making trading decisions. However, the writer found them of little use.
MACD, Stochastics, and others...

III. Relational Analysis:

There are only a very few traders that use this approach. This approach suggests that all forex markets all interrelated, and that one market price affects the other. We use related markets to gain further insights into the movements of another currency market. Relational Analysis is based on the concept of correlation. There are two types of correlation:

Positive: Two markets which correlate positively move in the same direction (whether that is up or down).

Example: One of the positive correlations before the onset of the current financial crisis was between the EUR/ USD and the GBD/ USD. Any weakness in the US dollar would see strength in both the euro and the British pound.

Negative: If one market moves higher, the other falls.

Example: The EUR/USD and the USD/CHF are correlated negatively. If one pair falls, the other rises and vice versa.

Which Type of Analysis is Better

Is it advised for beginners to start forex trading with technical analysis because it is easier to understand and doesn't require many hours of news tracking?

It is possible to trade many currencies parallelly with technical analysis. However, due to the overwhelming amount of available fundamental data in the market, you can only trade one currency at a time when using fundamental analysis.

Trading on fundamentals alone has proved to be risky, so fundamental analysts should be aware of technical analysis techniques.
In conclusion, the best trading strategies consist in combining fundamental and technical analysis to get the best results.

3.Different Types of Traders:

I. Scalper Traders

Scalper traders usually only held onto a position for a few seconds to a few minutes at the most. Their name is derived from their trading technique as a scalper trader looking for relatively liquid markets and tries to “scalp” lots of small profits from a huge number of trades throughout the day.

Scalping requires hours of chart checking and analyzing, so it is best suited for those who can dedicate several hours of undivided attention to their trading.

II.Day Traders

Day trading is the most well-known active trading style. Day traders take advantage of small bursts of price throughout the day. They close positions within the same day they open them (no position is held overnight!).

Day trading is usually done by professional traders, such as specialists or market makers.

III.Swing Traders

Swing traders hold on to trades for several days to several weeks at a time. They rely on rules based on technical or fundamental analysis to carry out their trades.
Swing trading is often preferred by semi-professionals who cannot afford to tack their positions constantly.

IV.Position traders

Position traders hold their trades for long periods -several days to several weeks and sometimes even longer.

Position trading is preferred by the institutional experts who manage large amounts of money.

4.Support and Resistances and Trendlines

Price movement in the forex market is generally restricted within the limits of two levels called support and resistance.

Support

Support is a price level that can halt a downtrend due to buyers' demand.

Resistance

Resistance is a price level that repels an uptrend due to the emergence of an increased number of sellers.

Trendlines

A trend is when the price movement follows an imaginary path or a trend, despite being dynamic. Trend lines connect significant lows in an uptrend and significant highs in a downtrend.

5.Popular Indicators – Moving Avg, Pivot Points

There is no one way to trade in the forex market. However, there are a variety of indicators that can help determine the best time to buy or sell an asset. Traders can use multiple indicators at a time to increase the probability of profit. Here are some of the market indicators:

Moving Average (Moving avg)

Moving average (MA) indicates the average price value over a particular period that has been chosen by the trader. If the price is above the moving average, it means that buyers are controlling the market.

On the other hand, if the price is below the moving average, it means sellers are controlling the market. Therefore, a trader should focus on buying if the price is above the moving average.

Pivot Points

Pivot points are a type of technical analysis indicator that showcases the demand-supply balance levels of a currency pair.

If the price is at the pivot point level, the demand and supply of that pair are the same.

If the price crosses and exceeds the pivot point level, it shows higher demand for the currency pair.

If the price falls below the pivot point level, it shows a higher supply for the currency pair.

THANK YOU