Cracking the Forex Code

The Forex market is the largest financial market in the world, with a daily trading volume of over 4 trillion US dollars.

To get an idea of how huge just 1 trillion dollars is, consider this example:

If I paid you USD1,000 every second, it would take me all of 32 YEARS to literally pay off 1 trillion US dollars! That is still just a quarter of what the forex market trades in a day.

Besides its size though, the real question is *why* do so many people take part in the forex market on a daily basis?

Here are the top 5 reasons:

1) 24 Hour Market

The forex market is the only market that is “open for business” 24 hours a day, 5 days a week. Traders all around the world can react to breaking news instantly.

2) Massive Liquidity

With a daily trading volume in excess of 4 trillion US dollars, there is always a pool of buyers and sellers ready to transact.

3) Easily Accessed

All you really need to access the forex market is a laptop and an internet connection. In fact, in today’s technologically advanced society, even the mobile phone can be used to trade forex!

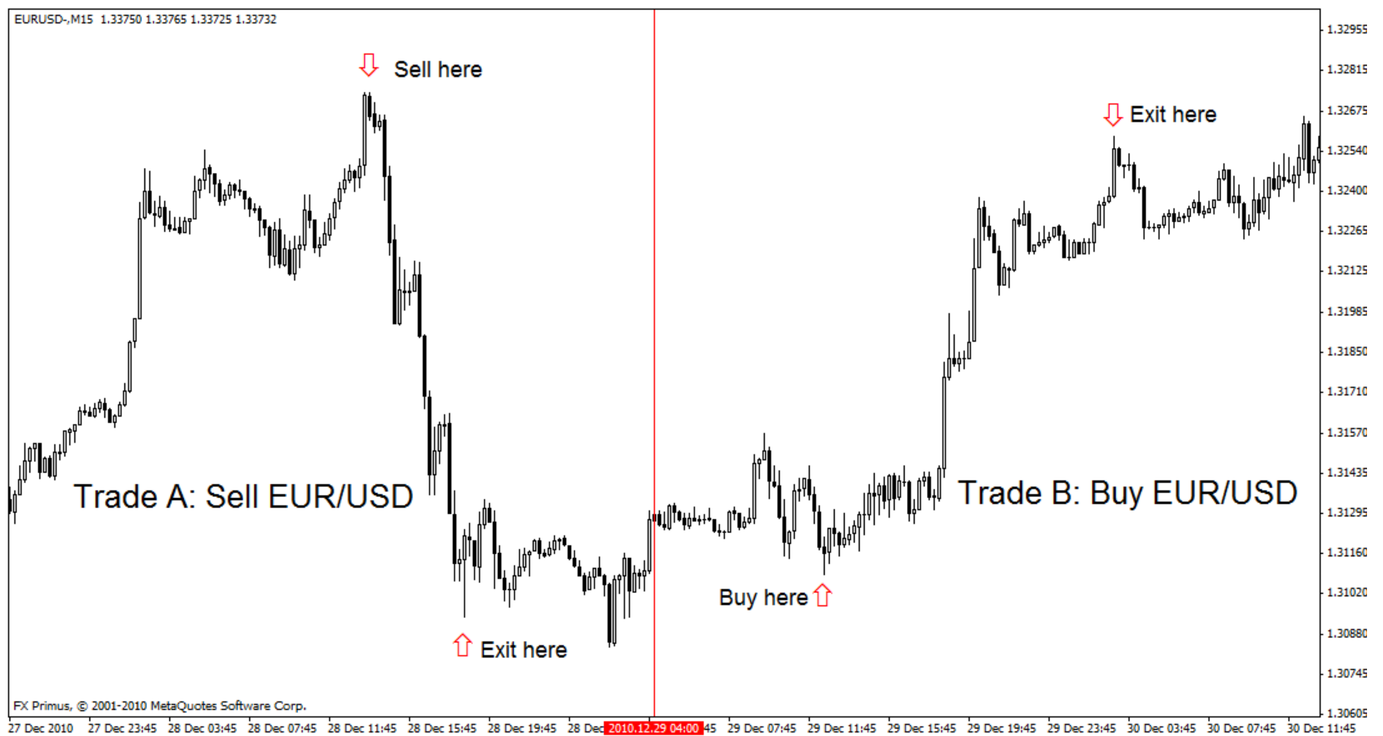
4) Highest Leverage

The forex market offers the highest leverage amongst all financial instruments. At a leverage of 100:1, a trader only needs to put down $1,000 to control a contract of $100,000.

5) Profit Either Way

Because the forex market is traded in pairs, there is always a case where one currency tends to strengthen over another. This sets the stage for massive profit potential.

Figure 1 below shows how a buy and sell trade is executed on the currency pair, EUR/USD:



Currency Wars

In the second half of 2010, we saw how political tensions were escalated in the major economic superpowers, namely USA and China.

The theme that took centre-stage was the debate on currencies. For one, the US felt that China's currency, the Yuan, was grossly undervalued. Many government officials from the US, including President Obama, accused China for deliberately depressing the value of the Yuan, thereby gaining an unfair advantage in their export business.

Why is a "currency war" breaking out between USA and China?

The answer is two-fold:

Firstly, due to the fact that the US has lost billions of dollars in the aftermath of the financial crisis, President Obama has got to rebuild the wounded economy. With high unemployment and low domestic consumption, his best bet is to "export his way out" of the economic doldrum.

Exports help to bring in money to the country, and a low-valued dollar will boost exports. At the same time, US needs China to increase the value of the Yuan so that more of USA's exports can reach China.

Secondly, China is still the world's largest exporter, and itself has to maintain a low-valued currency to drive exports and ultimately, its economy.

This is where war breaks out: both countries need to maintain a low valued currency to boost exports, and neither wants to increase its currency value to help the "other party." It's "every country for itself".

The on-going “currency war” between the 2 superpowers has put the forex market in a spotlight. Knowing how these currencies fluctuate can potentially set you up for significant profits.

Mario is the Founder and CEO of FX1 Academy, Asia’s largest Forex Academy. As an internationally renowned expert on Forex, his views are widely sought after in the industry. Mario is widely quoted on regional publications and he is a frequent guest on international media CNBC, where he shares his thoughts and analysis on the Forex Market.
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