Trading in Forex in India

The global foreign exchange market is the biggest market in the world. The nearly USD 2 trillion daily turnover exceeds the combined turnover of the entire world''s stock and bond markets.

There are many reasons for the popularity of foreign exchange trading, but among the most important are, the high liquidity 24 hours a day and the very low dealing costs associated with trading. The market is so large that a handful of players can never influence its outcome

The Retail Forex Market: All you wanted to know about Retail Forex Market.

Introduction to Forex

Forex, or Foreign Exchange, is the simultaneous exchange of one country's currency for that of another. Traders in the FOREX market wish to purchase or sell one currency for another with the hope of making a profit when the value of the currencies changes in favor of the investor, whether from market news or events that take place in the world.

The foreign exchange (FX or FOREX) market is the market where exchange rates are determined. Exchange rates are the mechanisms by which world currencies are tied together in the global marketplace, providing the price of one currency in terms of another.

For example, the U.S. dollar/Euro exchange rate is the price of a Euro expressed in U.S. dollars. On March 11, 2006 this exchange rate was 1.19 U.S. dollars per Euro, or, in market notation, 1.19 USD/Euro.

Exchange rate is just a price. The price of a liter of milk, for example, is Indian Rs 20, or 20 INR/milk, using the above exchange rate market notation. When we price exchange rates, the denominator refers specifically to one unit of a currency.

Like in any other market, demand and supply determine the price of a currency. At any point in time, in a given country, the exchange rate is determined by the interaction of the demand for foreign currency and the corresponding supply of foreign currency. Thus, the exchange rate is an equilibrium price determined by

supply and demand considerations.

The Forex Market

The foreign exchange market is the generic term for the worldwide institutions that exist to exchange or trade the currencies of different countries. It is loosely organized in two tiers: the retail tier and the wholesale tier.

The retail tier is where the small agents buy and sell foreign exchange. The wholesale tier is an informal, geographically dispersed, network of about 1200 banks and currency brokerage firms that deal with each other and with large corporations.

The foreign exchange market is open 24 hours a day, split over three time zones. Computer screens continuously show exchange rate prices. A trader enters a price for the USD/CHF exchange rate on her machine, and can then receive messages from anywhere in the world from people willing to meet that price. It does not matter to her whether the counterparties are sitting in London, Mumbai, or, in New York.

The 24-hour Inter-bank market literally follows the sun around the world, moving from major banking centers of the United States to Australia, New Zealand to the Far East, to Europe then back to the United States.

The foreign exchange market has no physical venue where traders meet to deal in currencies. When the financial press and economic textbooks talk about the foreign exchange market they refer to the wholesale tier.

The Forex market has become the world''s largest financial market, with over $2.0 trillion USD being traded on a daily basis. It is part of the bank-to-bank currency market known as the Inter-bank market.

Market Players in the Forex Market

The players in the foreign exchange markets are speculators, corporations, commercial banks, currency brokers, and central banks. Corporations enter into the market primarily as hedgers; however, corporations might also speculate. Central banks tend to be speculators, that is, they enter into the market without covering

their positions. Commercial banks and currency brokers primarily act as intermediaries, however, at different times, they might be also speculators, arbitrageurs, and hedgers. All the parties in the foreign exchange market communicate through traders or dealers.

Commercial banks account for the largest proportion of total trading volume. In 1995, the BIS reported that 89 percent of all foreign exchange trading was either inter-bank (74%) or between banks and financial institutions including investment houses and securities firms (15%). Only 11 percent of the trading was done between banks and corporations. The high volume of inter-bank trading is partially explained by the geographically dispersed nature of the market and the price discovering process.

The Retail Participation

Until the late 1990's, large financial institutions dominated the Forex market. Over the last several years the market has witnessed a dramatic evolution, with independent firms offering direct access to the Forex market via internet-enabled trading platforms. Savvy individual investors are now tapping into the FX market's significant profit potential, with access to the same pricing, market data and tools used by institutions, hedge funds and professional traders.

The explosion in the participation of retail segment in the Forex Market can be attributed primarily to the accessibility and affordability of enabling technologies and equipments. With the cost of PCs and internet accessibility crashing over the years, several established broker-dealer firms across the globe were able to offer Forex to their retail clients after building in required leverages. The popularity of this investment avenue, attracted many new firms to offer these services to a larger populace across the globe. The regulatory bodies like National Futures Association and CFTC in USA, and FSA in UK contributed their bit by keeping the industry minimally regulated and hence, aided the growth of this fairly new investment avenue for retail investors.

Today, there are several global broker dealers registered with regulatory bodies in different countries, offering Retail Forex to a clientele which is generally spread across 100-110 countries!

Structure of the Market

The FOREX market is an over-the-counter market with no centralized exchange. Traders have a choice between firms that offer trade-clearing services.

Unlike many major equities and futures markets, the structure of the FOREX market is highly decentralized. In other words, there is no central location where trades occur.

In the FOREX market there are multiple dealers whose business is to unite buyers and sellers. Each dealer has the ability and the authority to execute trades independent of each other. This structure is inherently competitive as traders are faced with a choice between a variety of firms with an equal ability to execute their trades. The firm that offers the best services and execution will capitalize on this market efficiency by attracting the most traders.

Some Interesting Facts

Find some Interesting facts on Forex Market investments/Trading here.

Trading Hours

- 24 hour market- 5 Days a week; 120 hours/week
  - Sunday 5pm EST through Friday 4pm EST.
  - Trading begins in New Zealand, followed by Australia, Asia, the Middle East, Europe, and America

Size

- Largest market in the world
  - $1.9 trillion average daily turnover, equivalent to:
    - i. More than 10 times the average daily turnover of global equity markets
    - ii. 40 times the average daily turnover of the NYSE
    - iii. $300 a day for every man, woman, and child on earth

- An annual turnover more than 10 times world GDP
- The spot market accounts for about one-third of daily turnover

Major Markets

- The US & UK account for more than 50% of turnover.

  Major markets: London, New York, Tokyo.

- Trading activity is heaviest when major markets overlap.

Nearly two-thirds of NY activity occurs in the morning hours while European markets are open.

Trading statistics

- An estimated 95% of transactions are speculative
- More than 40% of trades last less than two days
- About 80% of trades last less than one week

Currencies

The US dollar is involved in approximately 90% of all foreign exchange transactions, equivalent to over $1.9 trillion a day.

- Euro accounts for almost 37%, Japanese Yen for nearly 20%, British Pound for 17%, Swedish Franc for 6%, and Australian Dollar for 5.5%.
- Because two currencies are involved in each transaction, the sum of the percentage shares of individual currencies totals 200% instead of 100%.

Deciphering the Currency Quotes

Currencies are always quoted in pairs, viz. EUR/USD, USD/JPY, and so on. The reason behind this convention is simple; a currency's value can only be represented against another currency. For, example, EUR/USD implies the value or exchange rate of Euro against USD. To make the understanding clearer, let's begin by

enumerating the basic concepts:

Currencies are always quoted in pairs.

§ EUR/USD refers to the two currencies Euro and U.S. Dollar.

The first is referred to as the base currency, while the second as the quote currency.

The EUR/USD exchange rate specifies how many US Dollars you have to pay to buy one Euro, or conversely how many US Dollars you obtain when you sell one Euro.

The buy quote is displayed on the right and is the price at which you can buy the base currency. It is also referred to as the ask or offer price. Hence, in the above example, you can buy 1 Euro for 1.2003 US Dollars (the Ask price). *Buy on Right.*

The Bid Price will always be less than the Ask Price (1.2001 < 1.2003). The reason is not difficult to understand, had the reverse been true, a trader would have simply Bought at a lower price and Sold at a higher price-instantly. This would have made him a profit of USD(1.2003 − 1.2001) or USD .0002 without taking any risk or wasting any time.

But, in the above example, the trader would buy at 1.2003 and hence, will have to wait for the Sell Quote to become higher than 1.2003 to make a profit.

This brings us to two very important concept of Forex, that of "Spread" and "PIP

Spread can be understood as the difference between the Ask price and the Bid price at any point of time. In the previous example Spread = .0002 or (1.2003 − 1.2001).
Spread thus denotes the number of points (PIPs) that a currency should appreciate (when you have bought the currency) or depreciate (when you have sold the currency), to break even.
PIP or Price Interest Point is the smallest movement that is possible in a currency quote. This is a concept akin to that of Ticks in Stock Market. In the exchange rate of a currency pair a PIP can be either equal to 0.01 or 0.0001. If a currency-pair is quoted till 2 decimal points, it can only move by 0.01 at one go, in other words, if USD/JPY is quoted at 117.89/117.91, if USD strengthens against Japanese Yen, its

quote would move first to 117.90/117.92, then to 117.91/117.93 and so on. Meaning thereby, that when USD/JPY moves up, it will touch every price interest point at a difference of 0.01 between the previous and the final price.

Similarly, when a currency pair is quoted till 4 decimal points as in our EUR/USD example, it will only move by 0.0001 at one go. Meaning thus, that a sell quote of 1.2001 would be come 1.2002 before it goes to 1.2003; or the sell quote will go down to 1.2000, before it touches 1.1999.

Spread assumes greater significance when you place a trade because it takes your break-even point further in the future. If you buy EUR/USD when it is quoting at 1.2001/1.2003 (*you always buy on the Right Side of the quote- so you buy at 1.2003)* you need to wait till the currency pair is quoting at 1.2003/1.2005 *(so that you may sell at 1.2003)* before you break-even. Let's compare this to a dealer who is offering you a Spread of .0001 instead of .0002. In the latter case, the currency pair would quote at 1.2002/1.2003 and not 1.2001/1.2003 as in the former case.

Let's appreciate how the changed Spread improves our profitability-

In the second case, the currency pair needs to move to 1.2003/1.2004 i.e. by just 1 PIP before you break-even, while in the first case, you need an appreciation from 1.2001/1.2003 to 1.2003/1.2005 i.e. 2 PIPs before you break-even.

No wonder, higher the liquidity - lower/tighter the spread. So, you will find the more liquid currency-pairs quoting at a lower spread that the lesser liquid counterparts. Lower spreads also imply lower volatility and greater depth of the currency-pair.

To sum it up, a currency quote gives you information about the following:

The currencies constituting the pair- Base and Quote Currency

Sell/Bid Price and Buy/Ask Price, on the left and right hand side of the quote, respectively.

§ The spread between the bid and the ask price, and hence the liquidity

of the pair.

§ The value of 1 PIP for that particular currency pair.

Lot Size in Forex Market

Lot Size denotes the minimum transaction volume for a Forex trader. Different service providers offer different lot-sizes depending on their business needs and composition of their clientele. Some service providers might even offer their clients an option to choose their lot-size.

A lot-size of 100,000 USD is called "Major" while a lot-size of 10,000 is called a "Mini". A client is allowed to trade only in the multiples of permitted Lot-size.

Forex Trading: Basic Concepts Forex Trading: Basic Concepts

Opening an account and remitting Margin money

As a retail investor, you need to become client of some registered broking entity offering Spot Forex Trading. Majority of the entities offering Forex trading facilities to their clients are either registered with National Futures Association, and CFTC in USA, FSA in UK, or other applicable regulatory/self regulatory bodies.

Beware of such entities that are not regulated by any federal agency- they mostly are fly-by-night kind of companies. You interest is best protected with regulated entities.

Having said that, the regulations governing Spot Forex Trading are generally not excessive or rigid.

The above regulated entities usually tie up with some reputed financial services firms to expand their business across physical boundaries. These tie ups enable them to service their clients in a cost-effective and timely manner.

Almost all the broker-dealers have some minimum criteria specified under the applicable regulations that an applicant needs to fulfill before he/she is allowed to become a full fledged client. These criteria may be related to the applicant's previous trading experience, net worth, risk capital, education, etc.

An approved client is allowed to trade only after he/she remits the minimum

margin amount required to make the account active. These minimum amounts should not be confused with minimum deposits- most of the market players offer "Zero- minimum balance" accounts. Whatever you remit, is all tradable, i.e. you can use all the transferred moneys to place trades.

Our federal regulator, RBI, has allowed an individual to remit up-to USD 25000 per calendar year towards such permissible off-shore investments/transactions. So, in effect, the most that an Indian client can remit per calendar year is USD 25000. You are allowed to remit this money only through an Authorised Dealer, in this case, a Bank with whom you have held an account for the last 1 year. There is no restriction on the number of installments over which this USD 25000 limit is exhausted. These remittances are not netted against the amount brought back from off-shores. So, if you remit USD 25000, and bring back USD 10,000 that doesn't mean you may remit USD 15000 (USD 25000 – USD 10,000) again within the same calendar year!

Trading Mechanism

On successful opening of Forex Account, a client can place trades either through a Trading Platform or through a "Call and Trade center" set up by the service provider.

A Forex trading platform looks similar to an equity trading platform; only, it's much simpler to place trades. Placing a trade usually is a three click business on most available trading platforms. Several add-on features like charting, news and analysis is provided on the trading platform itself to aid the clients in taking informed trading decisions.

When you choose to place your trade through the call-and-trade center, your identity is verified and the Forex dealer places the desired trade on your behalf, using HIS login id. and password. To maintain additional security and possible dispute resolution, your telephonic conversation is recorded.

Understanding Margin and leverage

Margin can be understood as collateral against an open position. It is the amount that is blocked from your existing trading equity when you place a trade.

Different broker-dealers offer different margin requirements to their clients. Generally, margin requirement may vary from 0.5% to 5%; i.e. clients may be

allowed to take a position of USD 10,000 by committing somewhere between USD 50 to USD 500.

Let us understand this with an example:

Say, you have remitted USD 1000 to your Forex Trading Account as the first step to start trading and your service provider offers you a margin requirement of 1 %.

You may want to take a position of USD 10,000 by buying 10,000 USD/JPY at the market rate.

For the above position, [1% of value of the trade (USD 10,000)] or USD 100 would be locked from your total account equity.

Hence, after the trade, you will have [USD 1000- USD 100 (margin requirement)] = USD 900 available to take additional positions.

So, effectively, a margin of USD 100 allows you to trade value worth USD 10,000. This translates into a leverage of USD 10,000 ÷ USD 100 = 100 times.

Almost all trading platforms allow their clients to view their account valuation, account equity and margin requirements on a live basis.

Understanding Inherent Risk in Margin Trading

Margin trading enables a client to leverage his position and trade considerably higher values than they would have done without leverage. But this is not without inherent risks.

We will try to understand this risk by the way of an example:

§ A trader buys 10,000 USD/JPY at 113.89/92, i.e. buys at 113.92 JPY per USD

§ His total outlay for this trade = JPY 113.92 X 10,000 = JPY 1139200

§ For the above trade his margin requirement is 1% of total outlay which is JPY 11392=USD 100.

§ Scenario 1: USD/JPY is now quoting at 113.95/98

- He is running a profit of (113.95 − 113.92) X 10,000 JPY = JPY 300= USD 2.63
- This profit translates into a return of (JPY 300 ÷ JPY 11392) X 100 = 2.63 % (remember this is intra day and probably achieved in a span of 5 minutes).
- The USD 2.63 running profit also increases the account equity to [USD 1000 + USD 2.63] = USD 1002.63.
- Hence, a 1% margin requirement enabled the trader to take USD 10,000 worth of position by committing just USD 100 and thus, enhanced his profitability by the same factor.

§ Scenario 2: USD/JPY quoting at 113.87/90

- Client is running a loss of (113.92 − 113.87) X 10,000 = JPY 500 = USD 4.39
- This loss translates into a %age loss of 4.39%; again in a span of a few minutes.
- The client's account equity gets reduced to [USD 1000 − USD 4.39] =USD 995.61

The above example shows clearly that margin trading gears up profit as well as magnifies losses; hence, a client should be disciplined while placing trades in Forex marketplace.

Understanding Margin Calls

In case of running losses in their open positions, client's Account Equity may fall below the Margin Requirement for the said positions. In such a case, the trading system generates Margin Calls to be sent electronically to the client so that he/she may top up the account by remitting additional funds.

For Example:

If a client has USD 1000 in his account, let us assume three open positions

	IMR	Open Position	Margin Req (US$)
USDJPY	1%	10,000	100.00
USDGBP	1%	50,000	500.00
EURUSD	1%	10,000	100.00
		Total	$700.00

Where, IMR is Initial Margin Requirement = 1% of the open positions

In the above case, if the client overall loses money and his losses reach $300, his Account Equity drops down to $1000 - $300 = $700

§ That is, his account equity drops down to a level where the required margin is exactly equal to the Account Equity.

§ A margin call would be generated as soon as Margin Required > Account Equity.

§ The frequency of the margin calls vary from one service provider to another.

Understanding Position Liquidation

Liquidation is the next step to margin call if the account is not topped-up or the position(s) don't start moving in the favour of the client.

In case of margin calls, a client has the option to either liquidate/close one/more of his open positions; liquidation occurs when a client's open positions are closed by the trading-system itself when the account equity has fallen down to a pre-defined percentage of the margin requirement.

Most of the trading platforms enforce liquidation when the Account Equity falls down to 25% of the Margin Requirement. For example, in the table below, you can see the liquidation level in the last column.

	IMR	Open Position	Margin Req (US$)	Liquidation Level @ 25% (US $)
USDJPY	1%	10,000	100.00	25.00
USDGBP	1%	50,000	500.00	125.00
EURUSD	1%	10,000	100.00	25.00
		Total	$700.00	$175.00

Hence, if the Account Equity falls below $ 175, Liquidation is triggered. Liquidation process continues till Account Equity = Margin Requirement.

Liquidation always starts by closing out the position which requires the largest margin- in the above case that may be USDJPY or EURUSD. If liquidation of the first position equates the Account Equity to Margin Requirement, the process stops; else it continues to the next open position.

Understanding Value-date

All Spot Forex contracts are essentially a customized Forward Contract with set value dates, i.e. date on which Delivery of the contracted item has to take place in

exchange for the agreed upon price.

The spot FX market is traded on a 2-business day value date. For trades executed on Monday, the value day, or day of delivery, is Wednesday. However, if a position is opened on Monday and held until Tuesday, then the next value day will be Thursday.

In the event if value date occurs over a weekend or a public holiday of the respective currency, delivery will take place on the next business day.

Roll-over of Open Positions / Avoidance of Delivery

As brought out in the concept of value-date, a client needs to settle his open positions on a T+2 basis, unless there is a system to roll-over the open positions to the next business day continually.

In the context of Margin FX, the contracts are always cash-settled and there is no actual delivery of the underlying. Hence, the product is structured to automatically roll-over positions daily. Hence, any FX positions held past the close of the trading day will be automatically rolled-over to the following day. Closure of the FX position will end the roll-over process.

The rollover applies to all open positions at the end of the trading day.

Rollover takes place when the settlement of a trade is rolled forward to the next value date with the cost of this process based on the interest rate differential between the two currencies.

Pricing of Open Positions

To enable rolling over and hence, allowing the clients to keep their positions open till whatever date they wish to, all open positions are marked-to market with the latest price for the instrument during the day and at the end of the day (EOD).

Service providers have two pricing-options for open positions, viz

Price the open position at the Mid price of the bid and offer price; or

§ If the client has bought the underlying then the bid price, or, if the

client has sold the underlying then the offer price.

Most service providers use "Mid-Price" to mark open positions to the market. Using Mid-price provides some protection to the clients in the times of extreme volatile conditions or when the markets are relatively illiquid and the spread has widened abnormally.

Financing of Open Positions/ Rollover Charges and Credits

Rolling over of a position results into a charge against the client or a credit into the client's account. Rollover charges / credits are generally shown in the ledger activities column. A negative number represents a charge and a positive number shows a rollover credit.

Clients will **pay** rollover charges if they **sell** the currency with the higher interest rate in the pair and **earn** rollover credits if they **buy** the currency with the higher interest rate in the pair.

For example, if the US dollar has a higher interest rate than the Japanese Yen, a client will be receiving rollover charges on Long USD/JPY positions and pay rollover charges on Short USD/JPY positions. The amount of Rollover charges/credits is determined by the difference between US interest rates and the interest rates in the corresponding country. The greater the interest rate differential between the two currencies, the higher the rollover charge/credit will be.

For positions that are held after the closing time of Wednesday, the value delivery date is the following Monday, provided that there are no holidays in any of the participating markets before that Monday. **This implies two extra days of rollover charges / credits** when the delivery is rolled over the weekend when banks are closed and the actual delivery of currency cannot take place.

For Example:

Client ABC bought 100,000 of USD/JPY at the rate of 115.20. In essence, he has purchased USD 100,000 and sold the equivalent of JPY 11,520,000 (USD 100,000 x 115.20). The value date is on Wednesday.

If he does not liquidate the position by 22:00GMT, his position will be rolled-over

automatically.

Upon referring to his daily statement on Tuesday, he will notice a Roll-Over (Swap) entry, crediting him a nominal amount of interest.

Assuming that the US Fed Fund overnight benchmark rate is 3.75% and the Bank of Japan overnight benchmark rate is 0.03%, the indicative amount of swap receivable is as follows:

USD Overnight Benchmark Interest	:	3.75%
JPY Overnight Benchmark Interest	:	0.03%
Notional Amount	:	USD 100,000
Interest Differential (buy USD / sell JPY)	:	3.72% USD credit
Notional Amount Of Overnight Interest Credited	:	USD 10.33*

*(3.72% x USD100,000)/360 days = USD10.33

Placing Orders on the Trading Platform

Imagine a situation, wherein you have an open long position in EURUSD at 1.2735/38 and you are stuck in a meeting. There is a possibility that over the course of your meeting, the currency-pair would move UP to 1.2765/68 and by the time you are through with your meeting and come back to trade, it has again gone DOWN to 1.2729/31. Bad!! Isn't it? Wouldn't it have been great that somehow you could have closed your position near 1.2765/68 and booked your profit? This is just one of the facilities that "Order Function" on your trading platform can provide you.

Order functions provide clients with the ability to "Auto-execute" trades at "Pre-specified" price levels. Orders may be put to use for executing a trade, limiting down-side, booking profit when a particular price is reached, and so on. With the underlying technology getting more efficient day-by-day, trading platforms around the globe are providing their clients with a slew of "Order-choices". Let us sample some of them that are more relevant to retail clients.

· Market Orders

A market order is an order to buy or sell at the current market price. Customers using Reliance Forex trading platform click on the buy or sell button after having specified their deal size. The execution of the order is instantaneous; this means that the price seen at the exact time of the click will be given to the customer. Placing a market order by phone is quite similar but usually takes a few seconds more time.

Entry Orders

Entry Orders constitute of pre-specified Price and Duration- essentially used to initiate a fresh position when the currency-pair reaches at a certain level. Traders usually use entry orders when Technical analysis suggests strong Support or Resistance at certain price-levels. For example, a trader might want to go long in a falling EURUSD market when the rates have touched the bottom/near the bottom. In this case, the trader may place an Entry Order to Buy close to the suggested Support Level.

· Limit Orders/ Take Profit Orders

A limit order is an order placed to buy or sell at a certain price. The order essentially contains two variables, price and duration. The trader specifies the price at which he wishes to buy/sell a certain currency pair and also specifies the duration over which the order should remain active. The specified duration may be either Good till Cancelled (GTC) or valid up to a particular pre-specified time of the next trading day. When Limit Orders are used to book profit on an existing position, they are called "Take Profit Orders".

GTC (Good till cancelled): A GTC order remains active in the market until the trader decides to cancel it. The dealer will not cancel the order at any time therefore it is the customer's responsibility to remember that he possesses the order.

GFD (Good for the day): A GFD order remains active in the market until the end of the trading day. Since foreign exchange is an ongoing market the end of day must be a set hour.

For example, Investor A put an order to buy 100,000 EUR/USD at 1.2400. Investor A's order will be filled (Done) when EUR/USD is quoted at 1.2397/1.2400

· Stop orders/ Stop Loss orders(S/L orders)

A stop order is also an order placed to buy or sell at a certain price. The order contains the same three variables, price, amount and duration. The main difference between a limit order and a stop order is that stop orders are usually used to limit loss potential on a transaction whilst limit orders are used to enter the market, add to a pre-existing position and profit taking. A Stop Loss Order can be either GTC or GFD.

For example, Investor A is long (buy) 100,000 GBP/USD at 1.8700. Investor A is afraid that GBP/USD will fall. Therefore, he put a "Sell Stop" at 1.8500. This means that when the price of GBP/USD falls to 1.8500, a trade will be executed at the best available price and close out the open position of Investor A. If the market is falling rapidly, an S/L order may be executed a few pips away from the level at which the order has been placed. To illustrate, an S/L order placed at 1.8500 may get executed at 1.8495.

· OCO

An OCO (order cancels other) order is a mixture of both limit and stop orders. Two orders with identical amount and duration but different target prices (one take profit and/or one stop loss) are placed above and below the current traded price. When one of the orders is executed the other order is automatically cancelled. OCOs are usually placed when the trader expects that the currency movement may take either direction- up or down, and he wishes to book profit at a certain level, while covering his possible downside.

Putting a Market Order through Phone

1. A customer specifies the currency pair and the deal size to the dealer.

2. The dealer gives a two-way price (BID and ASK price).

3. The customer hits the dealer on EITHER the BID OR the OFFER. (he may ask for a re-quote).

4. The dealer confirms the trade. Under normal market conditions, dealers usually respond to market orders in about 5 to 10 seconds at most. Assuming the customer deals immediately on the offered prices a phone deal can be made in 10 to 15 seconds on average.

You should be aware that it is a correct market practice for institutions to quote two-way prices to a customer who wishes to trade. A firm that does not do so is almost certainly taking advantage of their customers' ignorance as far trading procedures are concerned.

The End