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INTRODUCTION/HISTORY OF FOREIGN EXCHANGE

1. Foreign Exchange as we know it today has evolved over a number of years, notable was the gold standard that fixed currencies to amounts of gold held by respective Central Banks. This system collapsed following the outbreak of the Second World War to be followed by the Bretton Woods Agreement which broadly speaking kept the currencies of the industrialized powers in certain bands a bit like an early version of the ERM. This system became undermined as economies began to experience different growth; also the oil crises of the early seventies caused problems for exchange rates. Free floating exchange rates were then introduced and have, thus, only been with us for a relatively very short time.

Free-floating exchange rates allow the market to determine the value of a specific currency, obviously under the watchful eye of the Central Banks. The Foreign Exchange Markets have evolved to such a size that trillions of Dollars are traded daily and as has been seen many times, no one can "buck" the market - not even the Central Banks, or as seen recently not even the largest of hedge funds.

Fixed exchange rates can give protection to an economy but this can be seen as a false economy, one example being the former Soviet Union with the Rouble pegged to the USD at a vastly overvalued rate, causing full employment but no goods in shops. Fixed exchange rates tend to be used by developing countries as their economies are unable to compete and they need to insulate themselves from fiscal inflation.

2. Partly fixed rate systems as we have seen in the ERM do allow an element of free floating within target bands. After September 1992 the bands were increased to 15% either side of determined central rates, This system has had much said about it, the political will continued and has led to Euro Monetary Union, and the creation of the Euro with cases for and against both economically and politically. The Euro is now part of the geopolitical capitalist system which will in the future compete ever increasingly for goods and services with the " Americas" (USD) and " Asia" (JPY). As the world is becoming a smaller place through the inter linking of economies exchange rate fluctuations seen recently and into the future will probably take into account how one geopolitical region is doing against the other.

3. The advantage that free floating rates can offer the investor are basically that one can move capital from one currency to another without any Government restrictions. Industry too can look to maximize efficiency by looking at competing currencies for its goods and services. In a market where no one can forcibly manipulate exchange rates, industry does have the "safety" of knowing a sudden devaluation or revaluation will not cause havoc to policy.

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FOREIGN EXCHANGE IN THE FUTURE

With the increased volatility seen in recent years opportunities for the speculator have never been more in evident. Please see movements of respective currencies, in particular: -



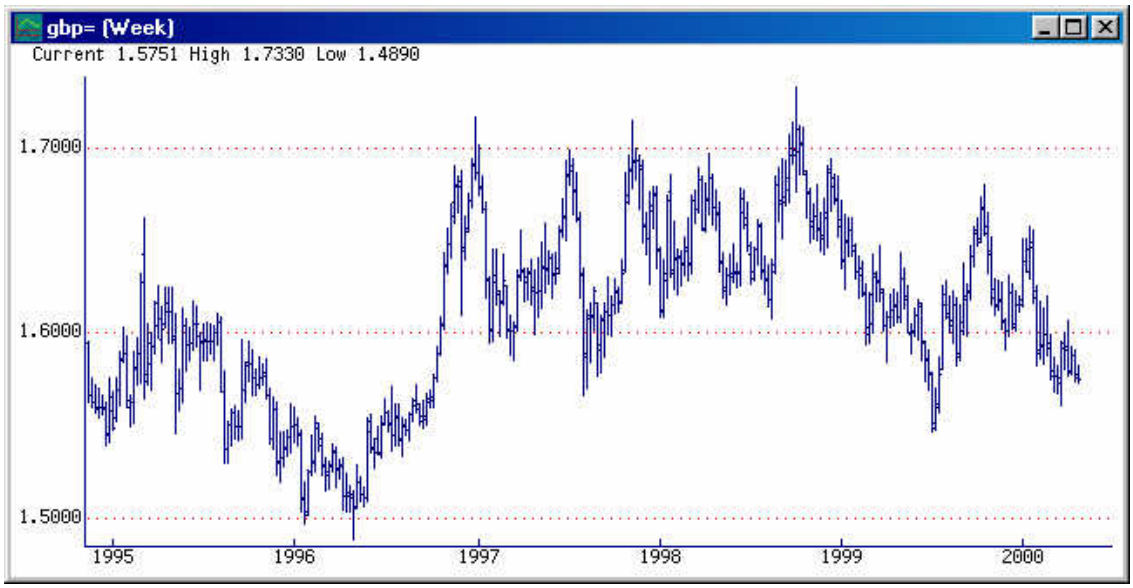
DEM/ITL



USD/JPY

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GBP/USD
EUR/USD

The volatility increasing in cross currencies allow greater flexibility when determining what positions to establish.

With World economies now able to trade freely, a free floating currency goes hand-in-hand; thus future Foreign Exchange volumes look set to continue rising rapidly.

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MARGIN FOREIGN EXCHANGE TRADING

1. Margin Foreign Exchange trading works on the basis that one can leverage (Gear up) in order to maximize currency position. An example of this is seen as follows:

$$\text{i.e.} \quad \frac{20{,}000}{4} \times 100 = 500{,}000$$

USD 20,000 at a margin of 4% allows for an open position in the market of USD 500,000. This allows profit to be made on USD 500,000 for an outlay of USD 20,000.

This form of trading is basically the key in allowing the speculator to gain Interbank rates for a relatively small outlay. A margin protects market participants against an adverse swing in currency position.

E.G. a long USD 500,000 Vs JPY @ 114.50 would require further margin or liquidation at 109.92 a 4% move from 114.50 to 109.92).

E.G. a short USD 500,000 Vs JPY@ 114.50 would be making a profit of JPY 2,290,000 at a rate of 109.92

2. The advantages and disadvantages of Foreign Exchange trading can be seen clearly from the two examples above. In one scenario all initial outlay is **lost**; in the other initial capital outlay is **doubled.**

Perhaps the main advantage offered to the speculator is cost of trading unlike Futures and equity trading where P/L is effected by commissions, Margin Foreign Exchange trading does not entail any commission.

Futures trading only allows market access in multiples of currency EUR 125,000; JPY 12,500,000; GBP 62,500 and CHF 125,000 etc. Margin Foreign Exchange allows market access in any amount providing margin is sufficient. Placing stop loss orders can minimize the disadvantage of too large a loss. This will be explained later.
It would be wise not to utilize all the margin that your broker is offering i.e. using the example above if you traded $500,000 and lost $3,000.00 on your first deal then you would only have $17,000.00 margin and able to trade $425,000 thus you would need a bigger move in the market to regain the lost $3,000.00

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3. A position is a holding of a particular currency. One must bear in mind that each position is held Vs a corresponding currency, as an exchange rate is always expressed as one currency Vs another: -

E.G. 1.6300 USD per GBP

1.1600 USD per EUR

Cross rates are one currency Vs another without the USD variable involved: -

E.G. 0.7150 GBP per EUR

It is the norm in the market to indicate a "long" position as being long the USD and short respective currency apart from USD/GBP (cable) where a long position is known as "long cable" long GBP Vs USD and EUR Vs USD is known as “long Euros”.

A position is opened by simply calling a Bank (Broker) and asking for a dealing quote. A quote is therefore a market rate at that given time for one currency Vs another: -

E.G. USD/JPY quote obtained is 114.50/114.57

114.50 being the rate Bank will buy USD (the bid) from the person asking for the quote. Likewise 114.57 the Bank will sell (the offer) USD. (Once again it must be remembered that all currencies are respective of one against the other).

On the quote the speculator views the USD appreciating Vs the JPY. Therefore he buys USD @ 114.57. He has now a long position. In this case he has a position of USD long 500,000 (taking into account he is on 4% margin and has USD 20,000 in his account). He may choose to keep his position until he sees 100 pip profit or just 10 pips profit. It is entirely his decision. Conversely he may not want to loose more than 60 pips; therefore he may place a stop to sell USD 500,000 at 113.97. It would be wise to work on a **profit to loss ratio of 3 : 1.**

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If the USD moved higher and one wanted to take profit, a close out quote could be obtained of 115.05/115.12. The Speculator would sell USD 500,000 at 115.05. A profit of 115.05 - 114.57 = 0.48 pips USD 500.00 x 0.48 = JPY 240 000 profit.

Should the position be held to a following trading day then the position would be rolled over at corresponding rates taking into account interest differentials between respective currencies (see concept of roll-overs).

4. Your broker has the ability to offer interbank quotes by having more "clout" when obtaining dealing quotes from Banks. This is simply because of volumes traded with the Banks and their reputation. An individual attempting to obtain a rate from his High Street Bank would not be able to receive a bid ask spread of 10/20 pips.

National Westminster Bank PLC do specify on Ceefax currency page (BBC service page 241 others include SKY News page 233 and CNN page 731, also worthwhile is CNBC) that prices are for deals +500,000 GBP (and this is not on a margin basis one would have to actually deal and settle in GBP 500,000). Your broker also acts as Principal in trading so there is no time delay in having to call a trading floor, or go via a Corporate Desk or Account Executive.

All orders can be worked with your broker, such as limit orders (taking profit); stop orders (limiting loss); and OCO orders (one cancels other) should one wish to put in a profit take and a loss limit on a position. It is therefore very important to be aware of <u>all</u> the services a reputable broker can offer you and to use these to your advantage.

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Calculating profit and loss

In the example below you can see two purchases of Euro against the USD one at 1.0890 and one at 1.0855 this giving you a position of Long Euro 1,000,000
Then you have a Sell of Euro 250,000 against the USD at 1.0910 this giving you an open position of long Euro and short USD. The long Euro position being Euro 750,000 and the short USD being $814,500 by dividing the USD position by the Euro position you have the rate at which you are long Euro 750,000 and What it is valued at. In this example 1.0860. If the position is then sold at 1.0920 then a profit has been made in this case .0060 points. There is now no open position in Euro (flat) the profit is in USD by subtracting 814,500 from 819,000 you have a profit of USD4, 500 or another way to do the calculation is
The Position Euro 750,000 multiply by .0060 Points = USD 4,500

Euro		**USD**
Deal	Rate	
500,000	1.0890	-544,500
500,000	1.0855	-542,750
-250,000	1.0910	272,750
750,000	1.0860	-814,500
-750,000	1.0920	819,000
000,000		4,500

It should be noted that *Positionwatch* would do the above calculation for you and track your profit and loss real time.

FACTORS CAUSING THE FOREIGN EXCHANGE MARKET TO MOVE

These can be divided into three categories: -

Fundamental, technical and political.

A. FUNDAMENTAL

This includes facts and figures concerning a nations economy such as trade figures, fiscal policy concerning money supply, interest rates. See economic indicators for breakdown.

B. TECHNICAL

Technical factors look at charts of previous currency movements and try to interpret future moves. Whether a currency looks in a downtrend, oversold, overbought or patterns like Head and Shoulders, Trend lines and support resistance areas.

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C. POLITICAL

Political factors include Government policy comments by Politicians and how the market views a particular administration.

TOOLS OF THE TRADE

In order to be successful in the Foreign Exchange Market, one is required to make an initial investment, such as price data; the simplest form is a Television Teletext service offering 2 to 5 minute updates during London hours. Channels to note are BBC page 241, SKY News page 233, CNN page 731 and CNBC,

More advanced forms are to be found in Futures Pager which is mobile and offers 24 hour rates every 2 minutes.

In order to obtain real market rates one has to obviously invest in what the "market players", the Banks are seeing. It is not unknown to have a Reuters, Knight-Ridder or Bridge machine or broker voice box in ones home. Although with the advent of the Internet, price feeds are available for a very little outlay.

As the Foreign Exchange Markets are open 24 hours a day, 5 days a week it cannot be stressed how important it is to have data available for all markets.

Another overlooked tool quite simply, is good accounting for all trades. One may want to trade 10 to 40 times a day or feel 1 or 2 trades suffices, being aware of your profit and loss and equity is very important see (Positionwatch) also keeping a record of all telephone calls to your broker is essential.

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MARKET TERMINOLOGY AND ORDERS

When Foreign Exchange dealing is undertaken there are various factors, which one must adhere to in order to avoid confusion and minimize delay especially in a fast moving market. Before calling your Foreign Exchange Dealer: -

1. Knowing where the market is trading i.e. the level of a particular exchange rate. It is important to know what you want to do, what currency you wish to buy and which one you are looking to sell.

   Remember that all exchange rates are respective of one against the other. In the Foreign Exchange Market it is impossible to buy or sell both currencies or sell and buy none. E.g. if you are buying Sterling then you would be selling another currency, USD if you done a Cable Deal.

2. Become familiar with recent levels of various exchange rates: -

   FOR INSTANCE: -

CURRENCY	QUOTED AS
EUR/USD	1.6000 to 0.8100
USD/DEM	1.6000 to 2.3000
USD/STG	1.5000 to 2.2000
USD/ITL	1500 to 3200
USD/JPY	80.00 to 160.00

   Whilst there are no fixed bands in the Foreign Exchange Market it is impossible to ask for USD/STG and receive a quote 1600.00/1700.00.You should know immediately that you have been misquoted.

3. The first thing to do on getting through to your Foreign Exchange Broker is to introduce yourself by either your name or your account number or both. Familiarity will often not require such formality. However initial identification is very important.

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4. In order to obtain a dealing price it is market practice to use some of the following expressions:-

E.g. "hello this is John Smith - account 2212 can I have a dealing quote for USD/JPY for USD 500,000 please"

Dealer will quote a price: "114.50/114.57"

(Or the answer may come as 50/57 taking 114. as known by both parties).

This quote represents a bid/offer spread of USD/JPY The rate 114.50 is the Dealers bid (the rate at which he will bid for Dollars i.e. buy from you) and 114.57 is the Dealers offer for Dollars (i.e. sell) to you.

Continuing this example with the assumption you think the Dollar will weaken Vs the JPY - on hearing the Dealer quote you say: "sell USD 500,000". The Dealer will then confirm to you the trade: "OK at 114.50 - you sell USD 500,000".

5. By instigating this trade you now have an open position. You are now "short" USD Vs JPY. If you had bought USD Vs JPY then you would commonly be known as "long".

This applies to all Dollar denominated exchange rates apart from USD/STG which has a historical acronym of "cable", so being "long cable" signifies a long STG (short) USD position. Being short cable is short STG long USD.

6. Now one must look into the overall picture: -

You now have an open position in the market. At a rate of USD 114.50 you sold USD 500,000 and bought JPY. The actual execution of the deals is therefore very straight forward providing clear and concise language is used.

7. It must be noted that should one wish to trade in currency amounts, then the bid/offer thinking is reversed i.e. on a price of USD/JPY of 114.50/114.57 then you would sell JPY at 114.57 or buy JPY at 114.50.

E.g. "hello this is John Smith - account 2212 can I have a dealing quote for USD/JPY for YEN 100,000,000 please"

Dealer will quote a price: "114.50/114.57"

(Or the answer may come as 50/57 taking 114. as known by both parties).

This quote represents a bid/offer spread of USD/JPY The rate 114.50 is the Dealers offer (the rate at which he will sell YEN) and 114.57 is the Dealers bid for YEN (the rate at which he will buy YEN)

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8. With the position you now have and as the market move 24 hours a day it is obviously very difficult to see all movements, so the placing of orders goes hand in hand with having open positions in the Foreign Exchange Market.

There are various types of orders that can be placed. These are: -

LIMIT ORDERS

Orders which look to take profit on an existing position or wish to buy or sell at a rate, which is better, then the prevailing market rates.

E.g. Current market rate 119.50 you have a long position at 119.00 so a Limit order would be to sell at 119.80

STOP ORDERS

Orders which look to limit loss on an open position.

E.g. Current market rate 119.50 you have a long position at 119.80 so a stop order would be to sell at 119.40
You would not necessarily need to have a position in the market to have a stop order. The definition of a stop order is an order, which is to buy above the current market price or sell below the current market price

Do also bear in mind that a stop order can be used to initiate an open position this can be done should one feel that the USD may trend higher or lower should a certain level is breached. See Fig 2 Trading Techniques.

ONE CANCELS THE OTHER (OCO)

Orders that can be used to give the position holder both a profit take should the market move favorable or limit loss should the adverse occur.

E.g. Current market rate 119.50 OCO order placed to sell at 119.80 limit oco 119.20 stop on a long position established at 119.40

An OCO can also be used to instigate a position using two stop orders.

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IF DONE ORDERS

An order would be placed to enter the market with another order placed as an if done order, The second order only being made active if the first order is executed.

E.g. Current market 105.50 a buy stop is placed to enter the market at 105.80 with an if done to sell at 105.20
Should the market reach 105.80 a long position would occur with the stop coming in at 105.20
But should the market fall first to 105.20 then nothing would be done.

THE CONCEPT OF ROLL - OVERS

Rollovers are a vehicle to move an open position in the Foreign Exchange Market to the next trading day. One must realize that each deal done in the Foreign Exchange
Market is for two business days in the future. This is to allow for settlement to occur because of global time differences, i.e., a bank in Tokyo wanting to trade USD Vs EUR with a bank in Sydney will need to settle via banks in Europe and New York.

In order to explain how roll - overs work one must take into account certain criteria.
For our working example

Taking a notional deal of USD 1,000,000/CHF at the exchange rate of 1.4800

The rate to borrow CHF for one day (the tomorrow next day deposit rate) is 3.88 %

The rate to borrow USD for one day (the tomorrow next day deposit rate) is 4.69%

(Please note these rates are subject to change)

Using the above rates and applying them to the following, we can calculate the interest per day or USD 1,000,000 at 4.69% divided by 360 days = USD 130.27 per day and CHF 1,480,000 at 3.88% divided by 360 days = CHF 159.51 per day.
Dividing the CHF amount including one day accumulated interest gives you an exchange rate of 1.47997.
This implies that the tomorrow next deposit rate for USD//CHF is 0.00003: -

$$\frac{1{,}480{,}159.51}{1{,}000{,}130.27} = 1.47997$$

Therefore, the spot rate (1.4800) - Forward rate (1.47997) = Swap .00003.

Interest rate tomorrow next day rates are a traded market and the interbank market for USD/CHF tomorrow next swap points are -0.4/-0.2 currently.
You must also take into consideration the fact that supply and demand effects the interbank tomorrow next day market as it is not only driven by interest rate differentials but also liquidity in the respective currencies.

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Going back to the initial example based on a position of long USD/CHF and rolling the position to the next trading date, you would have to sell and buy USD and buy and sell CHF. This would be done at -0.00002 so the rates would be as follows: -

Client bought USD 500,000/CHF at the spot rate of 1.4800 value 19 January 1998.

If the position has not been closed that day, then the following roll-over would be applied to the Clients account: -

Selling USD 500,000 at 1.48702 value 19 January 1998 and buying USD 500,000 at 1.4870 value 20 January 1998. The rate 1.4870 was used, as it was the market rate at the time of transacting the rollovers. Therefore, your position would still be long USD 500,000 against CHF at now a new rate of 1.4870.

This would give you a profit of CHF 3,500 on value 19 January 1998 together with the profit from the roll-over of CHF 10 credited to you account again on 19 January 1998.

In conclusion a roll-over is merely a mechanism whereby a position is carried forward from one trading day to the next by applying the interest rate differentials for the two currencies of the position.

POINTS TO NOTE: -

1. Current market rates are used for roll-overs.

2. The base currency (USD in most cases) amount remains the same in the roll-over.

3. The P/L will occur in the other currency, as in the example in CHF.

4. It is important to remain focused on original position entry and to view a roll-over as just a vehicle to move an open position forward to the next trading day ; also any profit or loss whilst the original deal is open should be viewed as unrealized until one has actually closed out the position.

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Structure of the Forex Interbank market

As forex is the largest and most liquid market there is, the structure that it has is both fluid and very resilient. Forex as we have already discussed is the only true 24-hour market during the business week. For example a trader situated in London is able to trade forex from 22.00 in London Sunday evening (which is 09.00 Wellington time) through until 22.00 Friday evening (which is 17.00 New York time).
Forex is made up of commercial trades, speculative trades, bond issues, share issues, hedge fund trading and Central Bank purchases and sales.
Forex does not have a central exchange or a single data feed displaying each and every trade done, when one looks at any data feed, prices tend to be indicative of where the current market is trading. Banks display their names plus exchange rates merely to advertise their presence in the market. Recent developments have seen certain banks create live trading systems such as EBS with rates displayed being "live prices" but accessibility is restricted to the major banks.
A typical trade would look to follow the flow chart below:

PRICE DISPLAYED ON DATA FEED USD /YEN 122.30/35

INSTITUTINAL CLIENT wishes to purchase $ 10 000 000 v yen

Client contacts banks	rates offered
Bank of Tokyo	122.31/35
Bank of New Zealand	122.32/36
Barclays Bank	122.29/34

After receiving the above quotes the institutional client chooses to purchase $ 5 000 000 / yen from Barclays Bank @ 122.34 and $ 5 000 000 / yen from Bank of Tokyo @ 122.35

Each bank is both a client and a market maker to each other hence the term the "Interbank market" what differs is the limits they set between themselves as to trading exposure.G7 major banks would set very high trading limits between them selves which would be reduced to banks from the developing world.

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If the USD/YEN RATE MOVED HIGHER to 122.50/55 THE FOLOWING TRADES IN THE INTERBANK MARKET MAY OCCUR

Bank of Tokyo	-5 000 000 @ 122.35 (from sale to client) 122.53/56 quoting
Bank of New Zealand	no position displaying 122.49/54 has a need to sell usd
Barclays Bank	- 5 000 000 @ 122.34 (from sale to client)
Chase Bank	no position displaying 122.50/55 has no real market interest
Lloyds Bank	no position displaying 122.52/55 has a need to buy usd

Bank of New Zealand who has a need to sell dollars may contact all the above banks and as Bank of Tokyo are short may receive an attractive bid 122.53/56 so Bank of Tokyo would be square and Bank of New Zealand has sold some of its dollar requirement at a better rate then currently displayed.
Note as most trades in the Interbank market are actually settled and to take account of the global time differences each trade is done for "spot" which is two business days ahead of the trade day.

Where the margin forex client fits in

Margin is used by clients to access the Interbank quotes, your broker is unable to offer spreads of under 10 pips if trades done are not for a marketable amount.

A margin client would therefore be represented as below in the Interbank jigsaw puzzle.

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Margin Account trading deal size $ 1 000 000 looking to sell $ 1 000 000 / yen @ 122.50

Broker quotes 122.50/55 Deal done client short $ 1 000 000 broker long position

Broker has three counterparties he either chooses to hold trade for a while, trade against another customer or hedge out at a small profit or loss .Broker receives three quotes :

LLOYDS BANK 122.49 / 54

BACLAYS BANK 122.51/55

DRESDNER BANK 122.50/54

Broker trades out of position with Barclays bank @ 122.51 thus making 0.0001 pip profit

BARCLAYS BANK then quotes the following to other banks 122.48/53 thus being the best offer

Should another bank accept this offer then Barclays bank would have sold at 122.53 therefore making 0.0002 pips profit on the deal.

A trade that may originate from a margin client can therefore pass quite easily into the Interbank market hence the fluid nature of forex. Also note the price transparency, there is rarely the case of quotes being excessively wider for a margin client as opposed to the Interbank market.

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CROSS RATES

As you would have seen above most currencies are traded against a base currency (USD EUR GBP) but it is also possible to trade cross currencies. These are rates that are derived from other rates i.e. say the GBP/USD is currently trading at 1.5730 and the USD/JPY at 106.30 then by multiplying the two rates 1.5730 x 106.30 = 167.21 this is then the GBP/JPY cross rate, which can be traded on its own.
Creating synthetic cross-positions can be a way of hedging/lessening risk on your current position.

E.g. A long GBP/USD position is opened £500,000 at 1.5800 the market then goes against your trade to 1.5760 you could create a synthetic GBP/JPY by buying USD/JPY $800,000 at the current rate and calculate your cross rate.

Market rates when you did your deal GBP/USD 1.5800 USD/JPY 106.50
Current market rates GBP/USD 1.5760 USD/JPY 106.30

Your original deal +£500,000 x 1.5800 = -$790,000

Your second deal +$800,000 x 106.30 = - jpy 85,040,000

As you will see your USD exposure to the market has been reduced to $10,000 yet you still have +£500,000 and -JPY 85,040,000 at a GBP/JPY rate of 167.95 (1.5800 x 106.30).

It should be noted that your new position would still be out of the money as the current GBP/JPY rate would be 167.52 (1.5760 x 106.30) But this trading can be used if your perception is that the JPY is going to get weaker (in this example) without GBP moving to much.

From the table on the following page you can see almost all free floating currencies expressed not only against the USD but against each other therefore each and every " cross rate", whilst it would be possible To convert lets say NZD into CHF it would be difficult to receive an outright quote and that this cross rate would have been obtained by "going through the dollar".
The way to therefore read each and every exchange rate is- remaining with the NZD/CHF- 0.8418/0.8432

How many CHF = 1 unit of NZD? **In this case if you wanted to buy 1 NZD you would have to pay 0.8432 CHF.**

From the table you can therefore take the EUR/USD rate .9095 / .9101
and the USD/JPY rate 106.35 / 106.40 to obtain a cross rate for EUR/JPY.

.9095 x 106.35 = 96.72 .9101 x 106.40 = 96.83

As you can see from the table the rate expressed for EUR / JPY is 96.73 / 96.83 so
an arbitrage opportunity does not present itself at this moment in time and with the sophistication of The markets very rarely do!

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	rates	as at	20.15	London	time	27th	April 2000
BASE	CURR	BID	ASK				
GBP	CAD	2.325	2.3265				
GBP	NZD	3.2294	3.2314				
GBP	EUR	1.7313	1.7331				
GBP	JPY	167.56	167.66				
GBP	CHF	2.7188	2.7198				
GBP	USD	1.5747	1.5752				
GBP	AUD	2.675	2.6770				
CAD	GBP	0.4298	0.4301				
CAD	NZD	1.3872	1.3887				
CAD	EUR	0.7442	0.7447				
CAD	JPY	71.99	72.09				
CAD	CHF	1.1689	1.1696				
CAD	USD	0.6770	0.6773				
CAD	AUD	1.1497	1.1514				
NZD	GBP	0.3095	0.3097				
NZD	CAD	0.7201	0.7209				
NZD	EUR	0.5361	0.5365				
NZD	JPY	51.88	51.93				
NZD	CHF	0.8418	0.8432				
NZD	USD	0.4876	0.4883				
NZD	AUD	0.8280	0.8302				
EUR	GBP	0.577	0.5776				
EUR	CAD	1.3429	1.3442				
EUR	NZD	1.8638	1.8653				
EUR	JPY	96.73	96.83				
EUR	CHF	1.5702	1.5717				
EUR	USD	0.9095	0.9101				
EUR	AUD	1.5454	1.5462				
JPY	GBP	0.005964	0.005968				
JPY	CAD	0.013872	0.013891				
JPY	NZD	0.019256	0.019275				
JPY	EUR	0.010327	0.010338				
JPY	CHF	0.016230	0.016233				
JPY	USD	0.009398	0.009403				

JPY	AUD	0.015967	0.015978				
CHF	GBP	0.3677	0.3678				
CHF	CAD	0.8550	0.8555				
CHF	NZD	1.1862	1.1876				
CHF	EUR	0.6363	0.6369				
CHF	JPY	61.60	61.61				
CHF	USD	0.5791	0.5792				
CHF	AUD	0.9833	0.9848				
USD	GBP	0.6350	0.6348				
USD	CAD	1.4765	1.4770				
USD	NZD	2.0479	2.0509				
USD	EUR	1.0988	1.0995				
USD	JPY	106.35	106.40				
USD	CHF	1.7264	1.7269				
USD	AUD	1.6981	1.7001				
AUD	GBP	0.3736	0.3738				
AUD	CAD	0.8688	0.8695				
AUD	NZD	1.2060	1.2063				
AUD	EUR	0.6467	0.6471				
AUD	JPY	62.56	62.66				
AUD	CHF	1.0155	1.0170				
AUD	USD	0.5882	0.5889				

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TRADING TECHNIQUES: -

Once you have entered a trade you should have an idea where you would like to take profit on the deal. It is wise to place a stop to limit any losses that may occur, we would recommend a three to one profit to loss ratio. The decision at how many points away to place the stop is up to the individual. The factors that should be looked at are: -

1. How much can I afford to loose on this trade?

2. Where are the support or resistance levels on this currency?

3. Is the market volatile at present?

Once the stop has been placed and the market moves in profit for you it is wise to move the stop to your entry level thus giving you a "free trade", but if the stop is moved too soon it is very frustrating to be stopped out only to see the market then move your way.

Fig.1 shows a sale of EUR/USD at 1.0650 and stop placed at 1.0685 as the market then moves lower the stop is moved to 1.0645 this giving you a free trade.

Fig.1



In markets that are range bound it is possible to enter a position on a stop order by having a stop placed above the trading range and a stop placed below the trading range. This would take advantage of the market when it breaks out of the range whether it is on the upside or the downside. As one order is executed you have automatic protection as you would still be working the other stop.

Fig.2 Stop placed at 1.0966 to buy should the market rise and a stop placed at 1.0846 to sell should the market fall. Please note these are NOT placed as OCO so maximum loss would be 120 points.

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Fig.2



To take the above example one stage further its possible to trade the range i.e. look to sell at 1.0934 and buy at 1.0872 whilst still leaving the stops 1.0966 and 1.0846 in place. As in this case you would have been long at 1.0872 the market then went lower stopping and reversing your position at 1.0846 a loss of only 26 points. In this example you would be able to do two sell trades at 1.0934 and two buy trades at 1.0872
note the stops would have to be for double your position size See Fig.3

Fig.3



The above example in Fig.2 can be utilized before important data is released to the market. As markets tend to go quite before important data is released i.e. Trade Figures, Unemployment etc. (see economic indicators) this allows you to place the stops, then if the data is not as expected whether good or bad you would be instigating a position at the beginning of the move.
If you are not able to monitor the markets then you need to place an OCO (one cancels the other) order. Placing a Limit order to take profit on the position and a Stop order to limit any losses does this. Which ever order gets filled first the other is automatically canceled.

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Fig.4 Purchase USD/JPY at 117.60 an OCO placed, stop at 117.40 and limit at 118.20. Limit order filled at 118.20
(00.15 GMT) stop then automatically canceled. Note the use of the profit to loss ratio of 3 to 1

Fig.4



Wallwood Swing Trading

The rationale behind "swing trading" is to attempt to be correctly positioned should the market move in either direction. With so many factors influencing currency movements it is also very difficult to have the correct timing as to when the market is going to move and in what direction. With our version of swing trading these factors are to some extent eradicated.

The idea of swing trading is to swing with the market moves. To achieve this once a position has been established a stop order has to be placed for double the size of your current position. This stop order is then trailed behind the market and moved according to the market direction to a level determined by support/resistance. If the position is long and the market continues to trade higher the stop would be moved upwards. At all times the attempt is to move the stop order to a breakeven level to where trade entry was recorded. At no times is a profit level determined on the trade as decision making is left entirely to market swings. When the market does change direction and eventually execute the stop order a new stop order is placed once again for twice the open position at a new perceived support / resistance level and the process then works again.

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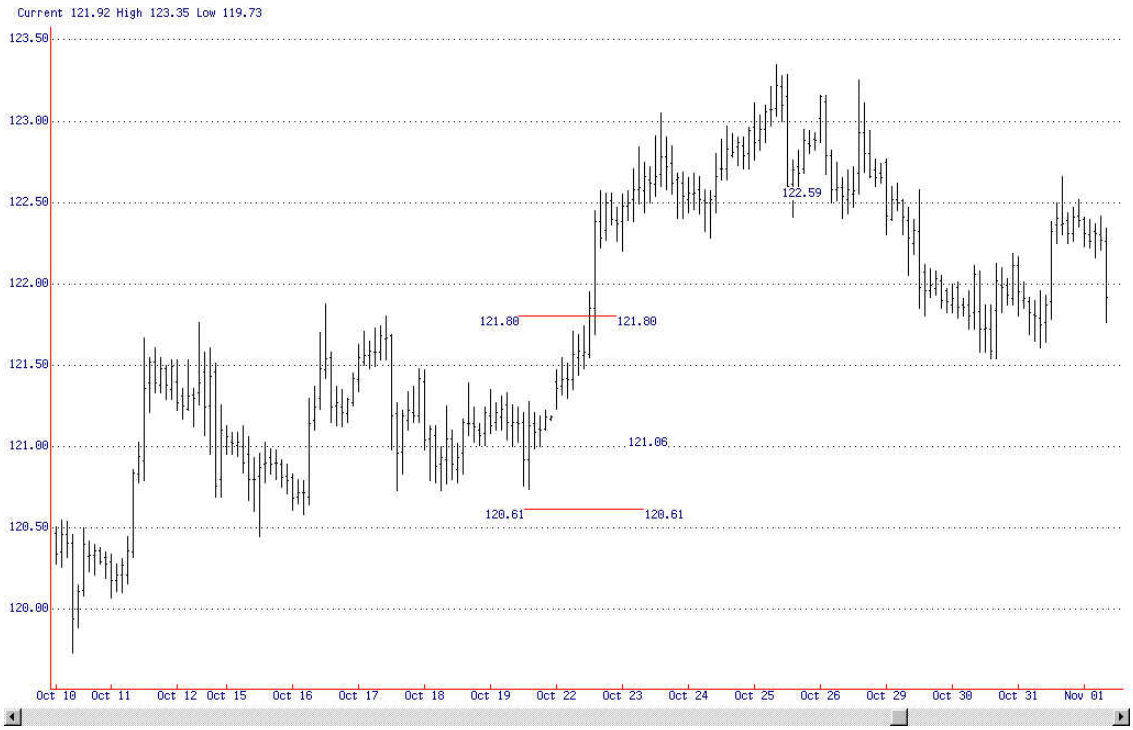


From the above chart for Eur/Usd after two stop entry orders are placed 0.9050 and 0.8920 both for Euro 250,000 the downside order is triggered at 0.8920 and the order on the upside is adjusted lower to 0.9020 and size is increased to Euro 500,000, as the euro has continued to trade lower the stop order has been trailed lower and is now at a breakeven position .As the market continues to trade lower the stop order can be adjusted lower to lock in profit, when the market does eventually correct back higher a new stop order is placed on the down side for Euro 500,000 and the process is repeated. Note the position size in this example is always Euro 250,000 Closing trades only occurs when the market has no direction and two stop orders are then placed to instigate a new position as and when new direction occurs.

The examples below show actual trades done by Wallwood Consultants Ltd.

On 18th October at 20.00 London time two stop orders were placed on the USD/JPY one at 121.80 the other at 120.60 at this point in time no prediction was made as to the next market move.
On 22nd October at 13.23 the stop order at 121.80 was filled, the stop at 120.60 is then moved higher to 121.06 and size increased to double the original order size. Throughout the next few days the order was trailed behind the rising market being moved a total of seven times until on 25th October at 11.55 it was moved to 122.59 This order was then filled at 14.15 when another order was then placed at 123.20 again for double the position size.

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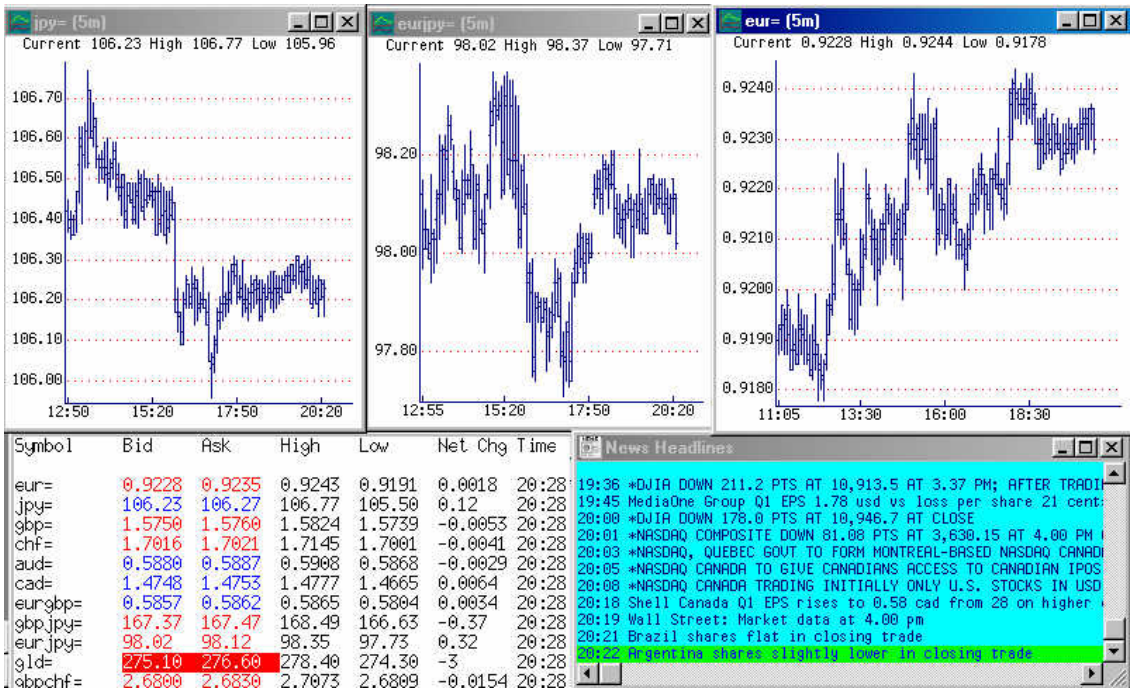
Simultaneously two stop orders were placed on the EUR/USD one at 0.9095 the other at 0.8987
On 19th October at 8.10 the stop order at 0.8987 was filled, the stop at 0.9095 is then moved lower to 0.9033 and size increased to double the original order size. As before the order is then trailed behind the falling market and moved a total of six times until on the 23rd October at 16.20 it was moved to 0.8921 This order was then filled at 6.47 on the 24th when another order was then placed at 0.8897 again for double the position size



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Instructions for charting

After downloading webtrader from our website (www.wallwood.com) install as per the instructions you are now able to configure charts prices and news as to your own particular wish.
It is worth becoming familiar with the software in order to maximize its uses we will help you to do this and any problems you come across in the future please don't hesitate to call us with any queries you may have.
Below is a typical trader's screen



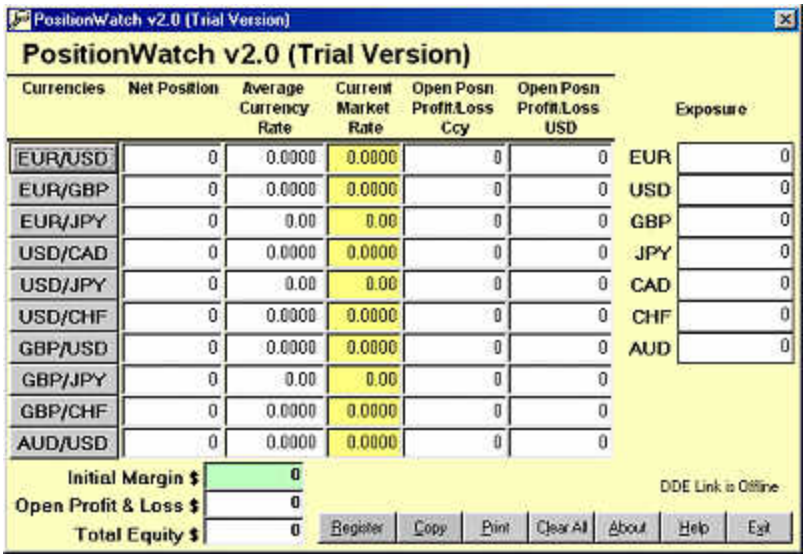
Instructions for using audio

Providing your computer has a sound card using the audio to receive real time
inter bank quotes is very straight foreword if you do not have a sound card one can be obtained from your computer supplier usually for around £ 50.00. Apart from the sound card piece of hardware you also require a piece of software known as a real player this can be down loaded free of charge from the Internet.
After accessing Tullets Internet page http://www.tullett.com/ you have to logon using your password then click on audio then simply click on EUR/USD the computer will automatically pick the audio and put it on to the real player.

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Instructions for using Positionwatch V.2

After downloading a copy from http://www.wallwood.com/ and following the installation procedures Positionwatch V.2 is ready for use. You would need to enter your margin deposit in the GREEN BOX Labeled "initial margin". Selecting the currency pair traded from the list to the left of the screen allows A deal to be entered, this information will then be expressed showing your open position and revaluation at current market rates.



For more help on any of the above please call as procedures are subject to change

SUMMING UP

Foresight is an obvious disadvantage of the human race. Therefore there can never be guaranteed profit. Ask any hedge fund or indeed any one speculating. Margin Foreign Exchange thus allows you to fully control your own capital and for some, it is this together with the advantage of being able to have access to the financial markets in these times of low interest rates that are some of the attractions.

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GUIDE TO BASIC CHARTING

SUPPORT AND RESISTANCE

There are two terms, which define the peaks and troughs on a chart. A previous trough usually forms a support level. *Support* is a level *below the market* where buying pressure exceeds selling pressure and a decline is halted. *Resistance* is a level *above the market* where selling pressure exceeds buying pressure and a rally is halted.

Support and *resistance levels reverse roles once they are decisively broken.* That is to say a broken support level under the market becomes a resistance level above the market. A broken resistance level over the market functions as support below the market. The more recently the support or resistance level has been formed the more power it exerts on subsequent market action. This is because many of the trades that helped form those support and resistance levels have not been liquidated and are more likely to influence future trading decisions.

From the chart below it can be seen that resistance is seen at around the 123.50 level and a previous resistance level
of 116.70/80 of mid February is now proving to be a support area.



TRENDLINES AND CHANNELS

The trendline is perhaps the simplest and most valuable tool available to the chartist. An up trendline is a straight line drawn up and to the right, connecting successive rising market bottoms. The line is drawn in such a way that all of the price action is above the trendline. A down trendline is drawn down and to the right, connecting the successive declining market highs. The line is drawn in such a way that all of the price action is below the trendline. It takes two points to draw a trendline. An up trendline, for example is drawn when at least two rising reaction lows (or troughs) are visible. However, while it takes two points to draw a trendline, a third point is necessary to identify the lines as a valid trendline. If prices in an uptrend dip back down to the trendline a third time and bounce off it, a valid up trendline is confirmed.

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Trendlines have two major uses. They allow identification of support and resistance levels, which can be used, while a market is trending. to initiate new positions. As a rule, the longer a trendline has been in effect and the more times it has been tested, the more significant it becomes. The violation of a trendline is often the best warning of a change in trend.



REVERSAL PATTERNS: -
THE HEAD AND SHOULDERS

The head and shoulders is the best known and probably the most reliable of the reversal patterns. A head and shoulders top is characterized by three prominent market peaks. The middle peak, or the head, is higher than the two surrounding peaks (the shoulders). A trendline (the neckline) is drawn below the two intervening reaction lows. A close below the neckline completes the pattern and signals an important market reversal.

Price objectives or targets can be determined by measuring the shapes of the various price patterns.
The measuring technique in a topping pattern is to measure the vertical distance from the top of the head to the neckline and to project that distance downward from the point where the neckline is broken. The head and shoulders bottom is the same as the top except that it is turned upside down.

From the chart below it can be seen that 117.15 is the left and right shoulders and the head is at 116.78 when the neckline at 118.74 was breached then a rapid upward move was seen.

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DOUBLE AND TRIPLE TOPS AND BOTTOMS

Another one of the reversal patterns, the triple top or bottom, is a variation of the head and shoulders. The only difference is that the three peaks or troughs in this pattern occur at about the same level. Triple tops or bottoms and the head and shoulders reversal pattern are interpreted in similar fashion and mean essentially the same thing.

Double tops and bottoms (also called M's and W's because of their shape) show two prominent peaks or troughs instead of three. Two prominent peaks identify a double top. The inability of the second peak to move above the first peak is the first sign of weakness. When prices then decline and move under the middle trough, the double top is completed. The measuring technique for the double top is also based on the height of the pattern. The height of the pattern is measured and projected downward from the point where the trough is broken. The double bottom is a mirror image of the top.

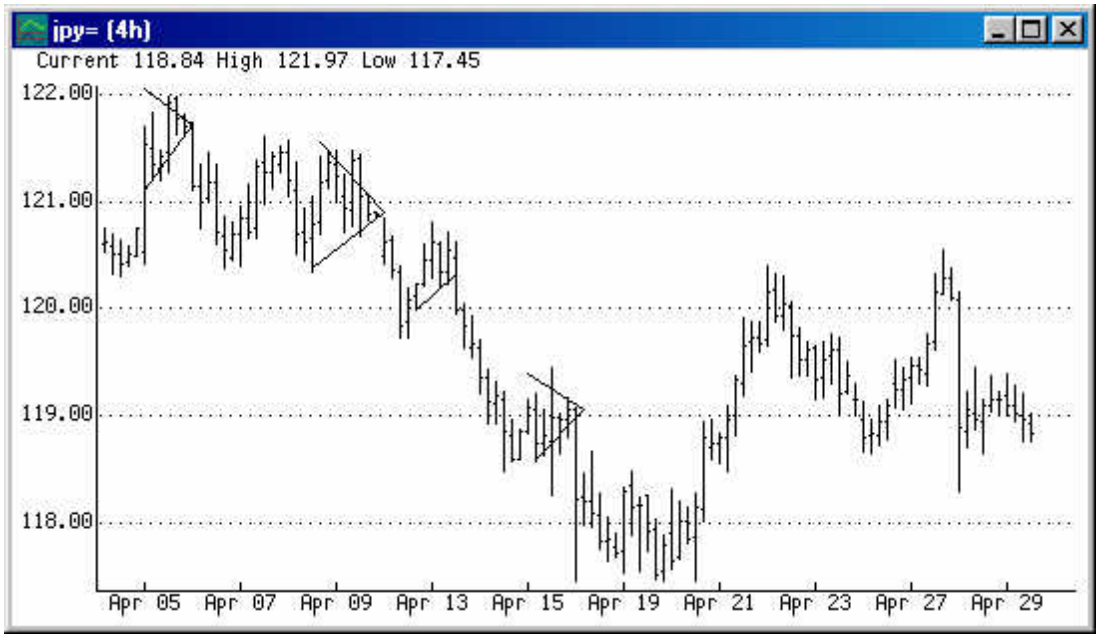
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FLAGS AND PENNANTS

These two short-term continuation patterns mark brief pauses, or resting periods during dynamic market trends. Both are usually preceded by a steep price move (called the pole). In an uptrend, the steep advance pauses to catch its breath and moves sideways for two or three weeks. Then the uptrend continues on its way. The names aptly describe their appearance. The pennant is usually horizontal with two converging trendline (like a small symmetrical triangle). The flag resembles a parallelogram that tends to slope against the trend. In an uptrend, therefore, the bull flag has a downwards slope; in a downtrend, the bear flag slopes upwards. Both patterns are said to "fly at half mast", meaning that they often occur near the middle of the trend, marking the halfway point in the market move.

In addition to price patterns, there are several other formations that show up on the price charts and that provide the chartist with valuable insights. Among those formations are price gaps, key reversal days, and percentage retracements.

From the chart below it can be seen that when the pause periods have ended the following price action outside the pennant has been very dramatic or steep this is often described as the " pole."



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THE ECONOMIC INDICATORS

On a monthly basis, the government releases economic indicators that is used to track the general level of economic activity. Credit market participants try to anticipate each month what the announced numbers will be. Day to day bill and bond prices are affected by the announcements only to the extent that the actual numbers deviate from the amounts expected. However, the basic trend of debt market prices is influenced by the general trend to these economic indicators. Some of the more important monthly indicators are listed and explained below.

CONSUMER PRICE INDEX

Released monthly by the Bureau of Labour Statistics, U.S Dept of Labour usually near the end of each month for the preceding month. Measures the price level of a selected market basket of consumer goods and services. Included is food, home ownership fuel, and utilities, household furnishings, apparels, transportation (both private and public) and medical care. The categories that receive the most weight are food, home ownership and transportation.
If consumer price index is up = yields up = inflationary

DURABLE GOODS ORDERS

Released monthly by the Bureau of Census, U.S Dept of Commerce, usually during the third or fourth week of each month for the preceding Month. Measures new orders for durable goods under five major categories:

1 Primary metals (including blast furnaces, steel mills, and non-ferrous and other primary metals)

2 Fabricated metal products

3 Machinery (except electrical)

4 Electrical machinery

5 Transportation equipment (including aircraft, missiles, and parts)

The inclusion of "big ticket" items such as aircraft makes this series highly volatile since one or two large orders can produce wide swings in the month to month figure.

HOUSING STARTS

Released monthly by the Bureau of Census, U.S. Dept of Commerce, usually during the third week of each month for the preceding month. Represents the number of housing units for which ground was broken during the month. It includes single family units and structures with two units or more. Mobile homes are not included. The housing industry accounts for approximately 8% of real GNP.
If housing starts are up = Yields up = Growth in the economy with new housing, demand for goods and mortgages rise. Fed may tighten.

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GROSS NATIONAL PRODUCT (GNP)

Released quarterly by the Bureau of Economic Analysis, U.S. Dept of Commerce usually in the third week of the month for the preceding quarter. The preliminary figure appears in the month that follows the end of the quarter. One month after the preliminary figure is issued, a first revision is announced. A second revision appears 2 months after the preliminary figure is issued, and the figure is subject to further revisions for the following 3 years, usually in July.
Measures the total market value of the nation output of goods and services. When adjusted for rising prices, the figure measures real output and is referred to as "real GNP". Although it covers activity for the quarter, GNP is always expressed in annualized terms.
If GNP is down = Yields down = Slowing economy; Fed may loosen by allowing rates to go down.

INDUSTRIAL PRODUCTION

Released monthly by the Federal Reserve Board, usually around the fifteenth of each month for the preceding month. Measures the physical output of the nations factories, mines, and electric and gas utilities.

If industrial production down = Yields down = slow economic growth; Fed may ease.

LEADING INDICATORS

Released monthly by the Bureau of Economic Analysis, U.S. Dept of Commerce, usually late in each month for the preceding month. An index of twelve economic indicators that historically have reached their cyclical peaks and troughs earlier than corresponding business-cycle turns. The twelve indicators are:

1. Average workweek of production workers, manufacturing (in hours)
2. Lay-off rate, manufacturing (per 100 workers)
3. New orders for consumer goods and materials (in 1972 dollars)
4. Vendor performance, percentage of companies receiving slower deliveries.
5. Net business formation (index: 1967 = 100)
6. Contracts and orders for plant and equipment (in 1972 dollars)
7. New building permits, private housing units (index: 1967 = 100
8. Net change in inventories on hand and on order (in 1972 dollars, a weighted Four - term moving average)
9. Change in sensitive crude - materials prices (a weighted four - term moving average)
10. Change in total liquid assets (percent, a weighted moving average). Defined as M3 plus non-personal time deposits, short term treasury securities, commercial paper, bankers acceptances, term Eurodollars held by United States residents other than banks and money market mutual fund shares.
11. Stock prices, 500 common stocks (index: 1941 - 1943 = 100)
12. Money supply (M2 in 1972 dollars)

If leading indicators up = Yields up = Advance signals about health of economy.

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PERSONAL INCOME

Released monthly by the Bureau of Economic Analysis, U.S. Dept of Commerce, usually in the third week of each month for the previous month. Includes wages and salaries, proprietors income, rental income, dividends, personal interest income, and transfer payments minus personal contributions for social insurance.
If personal income up = Yields up = The higher your income, the more you consume, leading to more demand and higher prices- inflationary.

RETAIL SALES

Released monthly by the Bureau of Census, U.S. Dept of Commerce, usually in the second week of each month for the preceding Month. Represents total sales at the retail level. Included is sale by hardware stores, car dealers, furniture stores, department stores, food stores, petrol service stations and restaurants.

If retail sales up = Yields up = Indication of economic growth; Fed may tighten.

PRODUCER PRICE INDEX (PPI)

Released monthly by the Bureau of labour statistics, U.S. Dept of Labour, usually in the first week of each month for the preceding month. Measures the average change in prices received for finished goods (goods that will be sold to final users or business firms and not processed further). Included are trucks, machine tools, and foods clothing, and petrol.

If producer price index is up = Yields up = Demand for goods rises- inflation indicator.

BUSINESS INVENTORIES

Represents book value at end of month of inventories of non durable and durable goods held by manufacturers, retailers and wholesalers.

If business inventories up = Yields down = Indicator of duration and intensity of business slow - down.

UNEMPLOYMENT

Released monthly by the Bureau of Labour Statistics, U.S. Dept of Commerce, usually in the first week of each month for the preceding Month. Measures percentage of unemployed people in civilian labour force. This number is based on a household survey conducted during the calendar week containing the Twelfth Day of the month.
Released at the same time are the results of an establishment survey that reports employment conditions (average workweek and average overtime hours) at business firms. The establishment survey is conducted for the pay period that includes The Twelfth Day of the month, but it may not correspond to the calendar week that contains the twelfth.
If unemployment up = Yields down = High unemployment indicates lack of expansion in economy.

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U.S. TRADE BALANCE

Released monthly by the Bureau of Census U.S. Dept of Commerce, usually at the end of each month for the preceding Month. Measures net exports: government and non-government shipments abroad (excluding Dept of Defence Military Assistance Program Grant - Aid shipments) minus imports.

If trade balance up = Yields up = Dollar strengthens, anticipates foreign demand.

CONSUMER CREDIT

Released monthly by the Federal Reserve Board, usually early in each month for the previous month. Measures short and intermediate term credit extended to individuals through regular business channels. Such credit is usually extended to finance the purchase of consumer goods and services, or to be repaid in two or more installments (or there may be an option to repay). Included is automobile credit, revolving credit (issued by commercial banks, retailers, and gasoline companies), and credit extended for mobile homes.

CONSTRUCTION EXPENDITURES

Released monthly by the Bureau of Census, U.S. Dept of Commerce, usually on the first business day of each month for the month previous to the preceding month.
1. Private residential construction
2. Private non-residential construction (industrial, hospital, institutional, and educational)
3. Public construction (education facilities, sewer systems, conservation structures and highways and streets)

MONEY SUPPLY

Released each Thursday M1 = cash in circulation, checking accounts, mutual savings; M2 = M1 plus money market accounts, time deposits, overnight repos, overnight euros.

If money supply up = Yields down = Excess growth in money causes inflation and fear that Fed will tighten.

If Fed buying bills = Yields down = Fed adds money to system.

If Fed tightening = Yields up = Fed fears growth in money supply, Fed funds may rise with other short-term rates.

If Fed doing repos = Yields down = Fed puts money in system by purchasing securities and agreeing to resell - increases money supply.

If Fed doing reverses or match sales = Yields up = Fed takes money out of system by selling securities and agreeing to repurchase- decreases money supply.

If Fed raises discount rate = Yields up = Increase in rates between Fed and member banks means increase in customer loan rates; used to slow inflation.

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TERMINOLOGY LIST

Bear

A person who believes the market will go lower.

Bear Market

A market in which prices are declining.

Bid

Price where bank dealer buys.

Bull

A person who believes the market will go higher.

Bull Market

A market in which prices are rising.

Broker

An agent who accepts orders to buy and sell and charges a commission

Cable

Terminology for the Sterling/US Dollar exchange rate.

Cash Market

The market for the purchase and sale of physical currencies.

Convertible Currency

Currency which can be freely exchanged for other currencies.

Counterparty

The customer or bank with which a Forex deal is made.

Cross Rate

Exchange rate that does not involve the US Dollar.

Currency Swap

See Rollover.

Currency Option

An Option contract that gives the holder the right to buy or sell a currency at a specified exchange rate during a specified period.

Day Trading

Opening and closing a position within one day's trading usually until New York close.

Flat / Square

When a Client has no position in the market or a particular currency pair.

Floating Exchange Rate

When the value of a currency is decided by supply and demand.

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Foreign Exchange Swap
Transaction which involves the actual exchange of two currencies (principal amount only) on a specific date at a rate agreed at the time of the conclusion of the contract (short leg), at a date further in the future at a rate agreed at the time of the contract (the long leg). This is also known as a Rollover

Forex
An abbreviation of foreign exchange.

Forward Points
The interest rate differential between two currencies expressed as an exchange rate.

Forward Rate
The rate at which a foreign exchange contract is struck today for settlement in the future at a fixed date.

Fundamental Analysis
Analysis based on economic factors.

FX
An abbreviation of foreign exchange.

GTC
An order that is left "Good Till Cancelled".

Hedging
A hedging transaction is one, which protects a position against a fluctuation in the Forex rate.

Initial Margin
Deposit required by a Broker or Market maker before a Client can deal.

Interbank Rates
The FX rates large international banks quote other large international banks. The difference between the buy and sell rate, (the spread) can be around 0.05%.

Limit Order
Orders, which look to take, profit on an existing position or wish to buy or sell at a rate, which is better, then the prevailing market rates.

Long Position
Where the Client has bought a currency to open a position.

Market Maker
A company that makes its own price in the market.

Margin
A deposit provided by clients (usually cash) as collateral to cover any losses that may result from Foreign Exchange trading.

Margin Call
A demand for additional funds.

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Maturity
Date for settlement.

Offer
Price where bank dealer sells.

One Cancels Other Order (OCO)
Where the execution of one order automatically cancels a previous order. Orders that can be used to give the position holder both a profit take should the
market move favorable or limit loss should the adverse occur

Open Position
Any deal which has not been closed or settled by physical payment

OTC
Over The Counter (options).

Overnight Trading
Refers to a purchase or sale after New York close and before London open

Pip or Points
One basis point. Euro/USD 0.0001, USD/JPY 0.01

Plaza Agreement
Agreement made between the US, France, Germany, Japan and the UK in 1985 to work together on influencing exchange rates.

Principal
A company that makes its own price in the market.

Rollover
Where the settlement of a deal is rolled forward to another value date based on the interest rate differential of the two currencies.

Settlement
Physical delivery of one currency for another.

Short
Where the Client has sold a currency to open a position.

Spot
Spot means the settlement date of a deal, which is two business days forward.

Spread
The difference in price between bid and offer rates.

Stop Loss Order
Orders, which look to limit loss on an open position. Do also bear in mind that a stop order can be used to initiate an open position -
This can be shown should one feel that the USD may trend higher or lower should a certain level be breached.

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Technical Analysis
Analysis based on market action through the study of charts and price history to determine future movements.

Tomorrow to Next
See Rollover

Two-Way Price
Rates for which both a bid and offer is quoted.

Value Date
Settlement date of a spot or forward deal.

Variation Margin
Additional funds paid on margin call.

Volatility
A measure of price fluctuations.

Whipsaw
A failed attempt to trade a break from a currency range

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Multiple Choice Questions

1.
If you bought 1 000 000 usd Vs the Jpy at 105.50 and sold 1 000 000 usd Vs jpy at 105.93 have you made a profit and how much

a) No profit a loss of jpy 430 000
b) A profit of jpy 430 000
c) A profit of usd 430 000
d) A profit of usd 43000

2.
If you bought 1 000 000 usd Vs jpy at 105.50 and sold usd 500 000 at 105.86
What is your current position and average rate?

a) Long usd 500 000 @ 105.14
b) Short usd 500 000 @ 105.14
c) Long usd 500 000@ 105.50
d) Long usd 500 000 @ 105.24

3.
If you bought 1 000 000 usd Vs jpy at 105.50 and sold usd 300 000 @ 105.62 and sold 350 000 usd @ 105.93 what is your current position and average rate?

a) Long usd 350 000 @ 105.40
b) Long usd 300 000 @ 104.96
c) Long usd 350 000 @ 104.96
d) Square with profit of $ 4960

4
If you bought jpy 105 000 000 @ 105.50 and sold jpy 105 000 000 @ 105.12 have you made a profit and how much?

a) A profit of jpy 35 900
b) A profit of usd 3 597
c) No profit a loss of usd 3597
d) A loss of jpy 35 900

5
If you bought usd 500 000 @ 105.50 and bought usd 500 000 @ 105.90
Versus Japanese yen and sold usd 1 000 000 @ 1.6600 versus Swiss Francs
What position have you and at what rate?

a) square euro yen at 63.79
b) long SWF 1 660 000 @ 63.67
c) Short SWF 1 660 000 @ 63.67
d) Long SWF 1 660 000 @ 175.46

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6
If you sold 1 000 000 gbp @ 1.5750, bought 500 000 gbp @ 1.5810 and
Bought 300 000 gbp @ 1.5650 and bought 200 000 gbp 1.5735 all against
The US Dollar have you made a profit and how much?

a) no profit a loss of $ 300
b) a profit of $ 500
c) a profit of $ 300
d) a profit of $ 30

7
If the market for euro/usd is trading @ .9850/55 and you wish to place a limit order which instructions are correct?

a) work to buy 1 000 000 Euro @ .9870
b) work to buy 1 000 000 Euro @. 9820
c) work to sell 1 000 000 Euro @ .9890
d) work to sell 1 000 000 Euro @ .9830

8
If the market for euro/usd is trading @ .9960/65 and you wish to place a stop
order which instructions are correct?

a) work to buy 1 000 000 Euro @ .9950
b) work to sell 1 000 000 Euro @ .9993
c) work to buy 1 000 000 Euro @ .9995
d) work to sell 1 000 000 Euro @ .9985

9
Which of the following order instructions have no relevance in spot forex trading?

a) stop orders
b) limit orders
c) O.C.O (one cancels the other)
d) M.O.C (market on close)

10
If you are working on a 4% margin and have $ 30 000 as trading equity what is the maximum size position allowed?

a) $ 120 000
b) $ 500 000
c) $ 750 000
d) $ 30 000

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11
It is 20.00 hrs you wish to go out but have a profitable long dollar position versus yen @ 105.50 and the current market rate is 105.90 which of the following options is least favorable?
a) Close position at current market rate 105.90 making 40 pips profit and enjoy the evening!
b) do nothing hoping the dollar continues to move higher
c) place a stop at entry level leaving the position open
d) place an O.C.O at 105.60 and 106.30

12
When asking your broker / bank for a quote which of the following bits of information should you refrain from passing over

a) your account number
b) the currency pair you wish to trade
c) the size of the deal required
d) whether you wish to buy or sell

13
When your broker / bank sends you a confirmation note should you

a) Phone him saying you are in receipt of the confirmation
b) Check the relevant details agree with the trade in your perception
c) File them in a relevant place for tax purposes or any other
d) Treat them as " junk mail" as the trade has already been done.

14
Which of the following is not a recognized technical analysis study

a) Fibbonacci
b) Elliot wave theory
c) Reverse polarity stochastics
d) Swing trading

15
Which of the following is not a recognized trading currency pair

a) EUR/USD
b) EUR/ZAR
c) USD/SWF
d) EUR/XAU

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16
If you buy Euro v Usd, sell Swf v Usd, buy Gbp v Euro all trades for equal amounts what positions have you?

a) Long Euro short Swf
b) Long Swf short gbp
c) Long gbp short Swf
d) Square on all currencies

17
A position is against you by 50 pips, which of the following action is the most adverse?

a) Place a stop a further 50 pips away - hoping for the market to move in your favour.
b) Do nothing – wait for the market to move in your favour.
c) Take out a new position in a differing currency pair
d) Double up on position providing you have sufficient equity and place a stop for the whole position size 50 pips away.

18
You are long gbp against jpy and you hold the position overnight do you

a) Lose on the rollover
b) Gain on the rollover
c) Make no gain or loss

19
The tom/next rollover points on usd/jpy are .015/.01 you have a position of 500,000 short usd against jpy are you gaining or losing on the rollover and how much

a) Profit jpy 7500
b) Profit usd 7500
c) Loss jpy 7500
d) Loss usd 7500

20
The tom/next rollover points on usd/jpy are .015/.01 you have a position of 250,000 long usd against jpy are you gaining or losing on the rollover and how much

a) Loss jpy 2500
b) Profit jpy 2500
c) Loss usd 2500
d) Profit usd 2500

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21
Your current position is long eur against usd at 0.9725 with the current market trading at 0.9710, which of the following are stop orders

a) Sell euro at 0.9685
b) Sell euro at 0.9705
c) Sell euro at 0.9755
d) Buy euro at 0.9610

22
Your current position is short eur against usd at 0.9725 with the current market trading at 0.9710, which of the following are stop orders

a) Sell euro at 0.9685
b) Sell euro at 0.9705
c) Sell euro at 0.9755
d) Buy euro at 0.9610

23
Your current position is short gbp against usd at 1.6570 with the current market trading at 1.6520, which of the following are limit orders

a) Buy gbp at 1.6505
b) Sell gbp at 1.6570
c) Buy gbp at 1.6555
d) Sell gbp at 1.6470

24
After asking your broker for a quote in 250,000 usd/jpy the reply is 105.10/15 you say sell what price would you have dealt at?

a) 105.15
b) 105.05
c) 105.10

25
If you have just dealt in half a million cable what two currencies would have been involved

a) Usd/jpy
b) Eur/usd
c) Gbp/usd
d) Gbp/jpy

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26
If an order is left GTC is it

a) Good till cancelled
b) Good till close
c) Good till called

27
If your broker is offering you margin of 5% and you had on deposit $70,000 what is the maximum exposure allowed in the market.

a) $2,300,000
b) $4,100,000
c) $800,000
d) $1,400,000

28
Which of the following is not a US recognized economic statistic?
a) Non Farm Payroll
b) PPI
c) Inventories
d) Housing Completions

29
What is the current REFI Interest rate in the Eurozone?

a) 4.50%
b) 4.25%
c) 1.5%
d) 5.00%

30
If you went "short" usd/yen have you

a) bought yen and sold dollars
b) sold yen and bought dollars
c) had a yen sell and buy rollover done
d) had a yen buy and sell rollover done

31
If you had a sell and buy yen swap done have you

a) sold yen and bought dollars
b) bought yen and sold dollars
c) had a rollover long/short dollars done
d) had a rollover short/long dollars done

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Answers

1.b
2.a
3.c
4.b
5.b
6.c
7.b
8.c
9.d
10.c
11.b
12.d
13.b
14.c
15.d
16.c
17.b
18.b
19.c
20.b
21.a & b
22.a & b sell stops are always below the current market price regardless of your position
23.a
24.c
25.c
26.a
27.d
28.d
29.c
30.a
31.c

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