

The FX Market

Vishal Shah

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Agenda

- Market description, size, liquidity
 - What moves it, How important is it?, The Players
 - The Spot Basics: counter currency, spreads
 - Institutional vs. Retail: leverage
 - The Carry Trade
 - Trading Demo, Notable Trades
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The Market

- World's Largest Market
 - Close to \$3 Trillion a day in transactions
 - World's Most Liquid Market
 - Paper money is the most liquid asset
 - Macro, quantitative strategies on the horizon
 - Retail, Buy-Side, Interbank Market, Central Banks
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The Basics

- There is always a counter currency! (except indices)
 - EUR/USD 1.45 means 1.45 USD per Euro
 - Most currencies quoted to the 4th decimal place. i.e. 1.4575 (exception are JPY crosses)
 - No formal exchange, an OTC market with dealers collecting spreads on transactions. Largely commission free
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Institutional vs. Individual

- Institutional
 - Sales of new products
 - Hedging
 - Speculation
 - Hedge funds
- Retail
 - Mom & pop investors
 - Day traders
 - 80% lose all of their investment
 - Bogus trading strategies; heavy reliance on technical analysis -> doesn't work well

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The Carry Trade

- Most popular trade in FX for the past 6 years
- Borrow currencies with low interest rates, invest in currencies with high interest rates
- Violates International Fisher Effect?
Covered Interest Rate Parity
- One-Way bet, the biggest mover in risk-aversion and flight to quality
- Common Funders: JPY, CHF

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Links

□ Sites:

- www.shahsignals.com
- www.fxcm.com
- www.dailyfx.com

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