

An Introduction to Forex Trading

A lot of individuals have started getting into Foreign Exchange trading, more popularly known as Forex Trading. The foreign exchange market is considered to be one of, if not the, most liquid market today.

What exactly is Foreign Exchange? Foreign Exchange, also known as Forex or simply FX, is a term used to refer to the trading of the different currencies of the world. This term caters to the Forex market - which is the biggest market in the world, trading more than USD1.5 trillion in a single day.

Most of trading is speculative, with just a percentage of activity corresponding to governments and companies conversion needs.

Forex trading, unlike trading in the stock market, is not carried out through a central exchange, but instead conducted through an interbank market. This interbank market is mostly described as an over the counter market wherein trading of currencies takes place between two correspondents making a trade directly, either over the phone or through electronic networks worldwide.

Trading for the foreign exchange market has its main centers of activity in Sydney, Tokyo, Frankfurt, New York, and London. This distribution of trading centers world wide indicates that forex trading caters to a 24 hour market.

In forex trading, some of the most frequently traded currencies are the major currencies such as the EURUSD, USDJPY, USDCHF, and GBPUSD. The spot market is the most vital market since it contains the largest volume. This market is called as such since trades done in this market are settled immediately - which means settlement within two banking days.

With other ways to earn money and trade, why consider forex trading? Forex trading has certain advantages over other forms of market trading. One of its major advantages is the 24-hour trading window, giving traders an opportunity to instantly react to news that affects the market as it happens. Market liquidity is also a factor. There will always be sellers and buyers to conduct transactions with. This liquidity, which comes from banks that provide liquidity from investors, institutions and other market players, also helps in ensuring the stability of prices. The absence of commissions makes forex trading a very attractive opportunity for investors who want to make deals frequently.

The abundance of opportunities for trading is also another advantage of forex trading. Due to the constant movement of the market, trading is always an option - whether a currency is weakening or gaining strength against other currencies. Trading in this manner ensure that the different currencies work against each other, thereby ensuring the presence of more opportunities to make deals.

There are a lot of gains from forex trading, however, it is important to know as much about the market and the practices before embarking on your first deal.

About the Author

Source: <http://www.fxarticles.info>