Knowing Some Basics Concerning the Foreign Exchange Market

We come face to face with our local money every day. The time will come when some of us will need to make or receive a payment in a foreign currency.

To jump this hurdle, we go to the bank to handle the currency exchange, or to a number of foreign currency exchange companies we can find on the internet, who will invariably quote far better rates of exchange. Believe me they will, they could not exist if they did not offer a better deal.

You do not have to be a mechanic to know some essential words about a car like the steering wheel, the hand brake, clutch pedal, the engine etc. But you do need to know these fundamental words to be able to understand what they refer to when becoming a car driver otherwise life would be hard.

Similarly, it is important to know a little about the foreign exchange market so that when the day comes and you will be need to buy foreign currency to get that house of your dreams or anything else abroad, you are not at a disadvantage.

The FOREIGN EXCHANGE MARKET also called FOREX or FX, has no trading centre.

Unlike the London Stock Exchange or the New York Stock Exchange centres, it has no fixed abode, but manages very well and is extremely active.

There are hundreds of brokerage companies and banks, who deal between themselves including big corporations. Put these on one level. On another level, there are smaller agents who handle the buying and selling of the foreign currencies, going by the rates as signalled by Reuters or other agencies. These rates are aligned to the actual events taking place non stop in the market.

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The difference between these two levels is a wholesale and retail classification as existing in other trades. When the media talk about the foreign exchange market, it is the wholesale level they refer to.

Foreign exchange currency institutions have better access to obtaining a more advantageous rate of exchange than the ordinary small company or the man in the street.

The foreign exchange market operates 24 hours per day.

BID is the rate at which a dealer is ready to purchase the base currency.

OFFER is the rate at which the dealer is ready to sell the basic currency.

The difference between the BID and ASK price is called the SPREAD.

The MARKET MAKERS make the profit from the spread. They make no commission.

BASIC CURRENCY is the currency against which the other currencies are quoted.

BULL MARKET refers to a price rising market.

BEAR MARKET refers to a declining price market.

BOTTOM: a description of a price decline meeting heavy support against further price decline.

CABLE: When the steel cable was connected under the Atlantic in 1850 thus linking USA with UK enabling telegraph transmission between the London and New York Exchanges, it was called ATLANTIC CABLE. Satellite and optic cables are now used, and the word CABLE refers to GBP/USD currency pair rate.

CROSS RATES: This refers to currency pairs where the USD is not included like GBP/EUR or GBP/JPY

MARGIN refers to a deposit in cash required to cover the possibility of loss the client may encounter trading the foreign exchange.

MARGIN CALL refers to a requirement for additional money, to make up the minimum cash deposit needed to cover any losses the client may encounter trading in the foreign exchange market.

VOLATILITY refers to the extent of price fluctuation.

There are of course, many more terms used in the foreign currency business, but you have here a selection which will help you to know some of the basics.

Good luck.

About the Author

Paul Dubsky is director Foreign Currency Exchange Services Ltd. The company is focused on being able to offer really friendly currency exchange rates http://www.foreigncurrencyexchangeservices.co.uk
We believe we are the only Foreign Currency Exchange company which offers special rates to Senior Citizens.

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