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Introduction To Forex Trading

What is Forex

Forex is a short form of **Foreign exchange**. The foreign exchange market is the 'Place' Where Currency, Commodity and Index are traded. Most of people around the world are traded in Currency, because currencies need to be exchanged in order to conduct foreign trade and business. For example you living in US and want to buy cheese from France, either you are the company that you buy the cheese from has to pay the French for the cheese in Euros (EUR). This means that the US importer would have to exchange equivalent value of US Dollar (USD) in to Euros.

The market is an open 24 hours a day, five days a week, and currencies are traded worldwide in the major financial centers of London, New York, Tokyo, Zurich, Frankfurt, Hong Kong, Singapore, Paris and Sydney- across almost every time zone. As such, the forex market can be extremely active any time of the day, with price quotes changing constantly.

Unlike the stock market where investors have thousands of stocks to choose from, in the currency market, you only need to follow six major economies and then determine which will provide the best undervalued or overvalued opportunities. These following six countries make up the majority of trade in the currency market:

- United States
- Euro zone (Germany, France, Italy and Spain)
- United Kingdom
- Japan
- Switzerland
- Canada

Forex Trading Terminology

Currency pair

In the word of Forex, currencies are called currency pairs. A currency pair is a simply one currency expressed terms of other like- USD/JPY, USD/CHF, EUR/USD, GBP/USD etc. The currency to the left of the slash is the base currency, while the currency on the right is called the variable or counter currency. When a currency is quoted, it is done in relation to another currency, so that the value of one is reflected through the value of another. Currency pairs are quoted on a Bid-Ask basis.

USD = US Dollar
EUR = Euro
JPY = Japanese Yen
GBP = British Pound
CHF = Swiss Franc
CAD = Canadian Dollar
AUD = Australian Dollar
NZD = New Zealand Dollar

EUR/USD = "Euro"
USD/JPY = "Dollar Yen"
GBP/USD = "Cable" or "Sterling"
USD/CHF = "Swissy"
USD/CAD = "Dollar Canada" (CAD referred to as the "Loonie")
AUD/USD = "Aussie Dollar"
NZD/USD = "Kiwi"

Bid Price – The bid is the price at which the market (or your broker) will buy a specific currency pair from you. Thus, at the bid price, a trader can sell the base currency to their broker.

Ask Price – The ask price is the price at which the market (or your broker) will sell a specific currency pair to you. Thus, at the ask price you can buy the base currency from your broker.

Bid/Ask Spread – The spread of a currency pair varies between brokers and it is the difference between the bid and ask the price.

BID

means The party quoting will buy one currency

ASK

means The party quoting will sell one currency

For Example

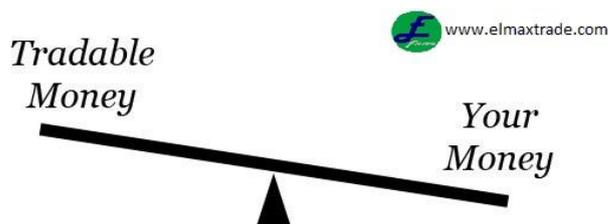
<u>EURO / USD</u>	
1.24000	/ 1.24004
BID PRICE	ASK PRICE

Spreads and pips

The difference between the bid price and the ask price is called a spreads. If we were look at the following quote:- EURO/USD = 1.24000 / 1.24004, the spread would be 0.00004 or 4 pips, also known as points. The pip is smallest amount a price can move in any currency quote.

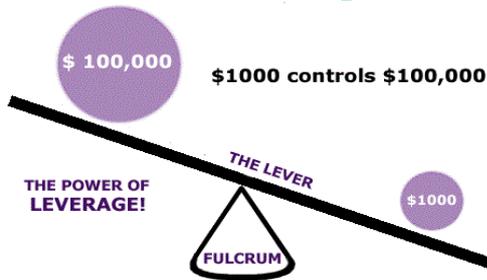
What is leverage?

Leverage allows a client to trade without putting up the full amount. Instead a margin amount is required. For example, 50:1 leverage, also known as 2% margin requirement, means \$2,000 of equity is required to purchase an order worth \$100,000. If leverage 400:1 means \$250 is required to purchase an order worth \$100,000. Leverage increases both side to risk as the account is now that much more sensitive to price movements.



EXAMPLE:

If you had a trading capital of \$1000 and you choose a 1:1 leverage, the max you can trade is a one mini lot (0.1 lot) (Lot size definition) but that would leave you with no margin amount. On the contrary, if you used 1:100 leverage and want to trade one mini lot, you would simply use 1% of your capital, leaving you with enough capital to cover any risks to your



Margin

The deposit required to open or maintain a position. Margin can be either “free” or “used”. Used margin is that amount which is being used to maintain an open position, whereas free margin is the amount available to open new positions. With a \$1,000 margin balance in your account and a 1% margin requirement to open a position, you can buy or sell a position worth up to a notional \$100,000. This allows a trader to leverage his account by up to 100 times or a leverage ratio of 100:1.

If a trader's account falls below the minimum amount required to maintain an open position, he will receive a “margin call” requiring him to either add more money into his or her account or to close the open position. Most brokers will automatically close a trade when the margin balance falls below the amount required to keep it open. The amount required to maintain an open position is dependent on the broker and could be 50% of the original margin required to open the trade.

Lot size / Contract size

In Forex, positions are quoted in terms of ‘lots’. The common nomenclature is ‘standard lot’, ‘mini lot’ and ‘micro lot’.

Order Types

Buy and Sell

The basic idea of trading the markets is to buy low and sell high or sell high and buy low. I know that probably sounds a little weird to you because you are probably thinking “how can I sell something that I don't own?” Well, in the Forex market when you sell a currency pair you are actually buying the quote currency (the second currency in the pair) and selling the base currency (the first currency in the pair).

Limit Entry Order

A limit entry is an order placed to either buy below the market or sell above the market at a certain price.

For example, EUR/USD is currently trading at 1.2050. You want to go short if the price reaches 1.2070. You can either sit in front of your monitor and wait for it to hit 1.2070 (at which point you would click a sell market order). Or you can set a sell limit order at 1.2070 (then you could walk away from your computer to attend your ballroom dancing class). If the price goes up to 1.2070, your trading platform will automatically execute a sell order at the best available price. You use this type of entry order when you believe price will reverse upon hitting the price you specified!

Stop Entry Order

A stop entry order is an order placed to buy above the market or sell below the market at a certain price.

For example, GBP/USD is currently trading at 1.5050 and is heading upward. You believe that price will continue in this direction if it hits 1.5060. You can do one of the following to play this belief: Sit in front of your computer and buy at market when it hits 1.5060 OR Set a stop entry order at 1.5060. You use stop entry orders when you feel that price will move in one direction!



Stop Loss Order

A stop loss order is a type of order linked to a trade for the purpose of preventing additional losses if the price goes against you. If you are in a long position, it is a sell STOP order. If you are in a short position, it is a buy STOP order. A stop loss order remains in effect until the position is liquidated or you cancel the stop loss order.

For example, you went long (buy) EUR/USD at 1.2230. To limit your maximum loss, you set a stop-loss order at 1.2200. This means if you were dead wrong and EUR/USD drops to 1.2200 instead of moving up, your trading platform would automatically execute a sell order at 1.2200 the best available price and close out your position for a 30-pip loss. Stop losses are extremely useful if you don't want to sit in front of your monitor all day worried that you will lose all your money

Analysis

Analysis is the study of how global economic news and other news events affect financial markets. Market analysis encompasses any news event, social force, economic announcement, Federal policy change, company earnings and news, and perhaps the most important piece of Fundamental data applicable to the Forex market, which is a country's interest rates and interest rate policy.

The idea behind Fundamental analysis is that if a country's current or future economic picture is strong, their currency should strengthen. A strong economy attracts foreign investment and businesses, and this means foreigners must purchase a country's currency to invest or start a business there. So, essentially, it all boils down to supply and demand; a country with a strong and growing economy will experience stronger demand for their currency, which will work to lessen supply and drive up the value of the currency.

For example, if the US economy is gaining strength, the US dollar will increase in value relative to other currencies. One main reason a country's currency becomes more valuable as its economy grows and strengthens is because a country will typically raise interest rates to control growth and inflation. Higher interest rates are attractive to foreign investors and as a result they will need to buy US dollars in order to invest in US, this of course will drive up the demand and price of the currency and lessen the supply of it.

Major economic events in Forex

Now, let's quickly go over some of the most important economic events that drive Forex price movement. This is just to familiarize you with some more of the jargon that you will likely come across on your Forex journey, you don't need to worry too much about these economic events besides being aware of the times they are released each month, which can be found each day in my Forex trade setup commentary.

Gross Domestic Product (GDP)

The GDP report is one of the most important of all economic indicators. It is the biggest measure of the overall state of the economy. The GDP number is released at 8:30 am EST on the last day of each quarter and it reflects the previous quarter's activity. The GDP is the aggregate (total) monetary value of all the goods and services produced by the entire economy during the quarter being measured; this does not include international activity however. The growth rate of GDP is the important number to look for.

Trade Balance

Trade balance is a measure of the difference between imports and exports of tangible goods and services. The level of a country's trade balance and changes in exports vs. imports is widely followed and an important indicator of a country's overall economic strength. It's better to have more exports than imports, as exports help grow a country's economy and reflect the overall health of its manufacturing sector.

Consumer Price Index (CPI)

The CPI report is the most widely used measure of inflation. This report is released at 8:30 am EST around the 15th of each month and it reflects the previous month's data. CPI measures the change in the cost of a bundle of consumer goods and services from month to month.

The Producer Price Index (PPI)

Along with the CPI, the PPI is one of the two most important measures of inflation. This report is released at 8:30 am EST



during the second full week of each month and it reflects the previous month's data. The producer price index measures the price of goods at the wholesale level. So to contrast with CPI, the PPI measures how much producers are receiving for the goods while CPI measures the cost paid by consumers for goods.

Employment Indicators

The most important employment announcement occurs on the first Friday of every month at 8:30 am EST. This announcement includes the unemployment rate; which is the percentage of the work force that is unemployed, the number of new jobs created, the average hours worked per week, and average hourly earnings. This report often results in significant market movement. You will often hear traders and analysts talking about "NFP", this means Non-Farm Employment report, and it is perhaps the one report each month that has the greatest power to move the markets.

Retail Sales Index

The Retail Sales Index measures goods sold within the retail industry, from large chains to smaller local stores, it takes a sampling of a set of retail stores across the country. The Retail Sales Index is released at 8:30 am EST around the 12th of the month; it reflects data from the previous month. This report is often revised fairly significantly after the final numbers come out.

Housing Data

Housing data includes the number of new homes that a country began building that month as well as existing home sales. Residential construction activity is a major cause of economic stimulus for a country and so it's widely followed by Forex participants. Existing home sales are a good measure of economic strength of a country as well; low existing home sales and low new home starts are typically a sign of a sluggish or weak economy.

Interest Rates

Interest rates are the main driver in Forex markets; all of the above mentioned economic indicators are closely watched by the Federal Open Market Committee in order to gauge the overall health of the economy. The Fed can use the tools at its disposable to lower, raise, or leave interest rates unchanged, depending on the evidence it has gathered on the health of the economy. So while interest rates are the main driver of Forex price action, all of the above economic indicators are also very important.

Strategies

Discovering the best Forex strategy for you.

Forex Scalping

Forex scalping is a day trading technique where Forex trader executes a trade and exit within minutes or seconds on some cases. So essentially, when you a forex scalp trader, you are not looking for big profit targets, you are looking for very small profit targets per trade like 5 pips, 10 pips or even 15 pips. And you are trying to take many trades throughout the trading session with these small profit targets.

Forex Currency News Trading Strategies

If you'd like to trade non farm payroll or interest rates decisions or employment/unemployment figures that are released monthly, these forex news trading strategies and systems are what you should be using.

All price movement in Forex comes from bulls (buyers) and bears (sellers). When GBPUSD moves up it's because there are more bulls than bears and vice versa. The Forex market (and any market for that matter) is in a constant state of struggle between bulls and bears.



Price action trading is about analyzing who currently controls price, bulls or bears and if they are likely to stay in control. If your analysis shows that bulls are in control and that they are likely to stay in control, then you can buy (long). If it shows that bears are in control and that they are likely to stay in control, then you can sell (short).

How do you analyze who's in control of price? By using two simple price action techniques.

Support and Resistance Areas

These are buy and sell areas you can easily identify and place on your chart. Once price hits these areas you know it is likely to stall or reverse completely. This allows you to buy or sell at the right time.

Advanced candlestick analysis

This is not that basic doji equals reversal stuff you may have seen elsewhere. Advanced candlestick analysis goes much deeper than that so that you have a full understanding of what a chart is telling you. Once you understand this, one glance at a chart will tell you who's in control of price (bulls or bears) and if you should buy or sell.

These two techniques make up the core of my price action trading strategy. In fact, those are the only techniques I use to find and trade high probability setups.
