

GLOSSARY OF FOREX (FOREIGN EXCHANGE)

A

Aggregate Demand - The sum of government spending, personal consumption expenditures, and business expenditures.

Appreciation - A currency is said to 'appreciate' when it strengthens in price in response to market demand.

Arbitrage - The purchase or sale of an instrument and simultaneous taking of an equal and opposite position in a related market, in order to take advantage of small price differentials between markets.

Around - Dealer jargon used in quoting when the forward premium/discount is near parity. For example, "two-two around" would translate into 2 points to either side of the present spot.

Ask Rate - The rate at which a financial instrument is offered for sale (as in bid/ask spread).

Asset Allocation - Investment practice that divides funds among different markets to achieve diversification for risk management purposes and/or expected returns consistent with an investor's objectives.

B

Back Office - The departments and processes related to the settlement of financial transactions.

Balance of Trade - The value of a country's exports minus its imports.

Bar Charts - Standard bar charts are commonly used to convey price activity into an easily readable chart. Usually four elements make up a bar chart, the Open, High, Low, and Close for the trading session/time period. A price bar can represent any time frame the user wishes, from 1 minute to 1 month. The total vertical length/height of the bar represents the entire trading range for the period. The top of the bar represents the highest price of the period, and the bottom of the bar represents the lowest price of the period. The Open is represented by a small dash to the left of the bar, and the Close for the session is a small dash to the right of the bar.

Base Currency - In general terms, the base currency is the currency in which an investor or issuer maintains its book of accounts. In the FX markets, the US Dollar is normally considered the 'base' currency for quotes, meaning that quotes are expressed as a unit of \$1 USD per the other currency quoted in the pair. The primary exceptions to this rule are the British Pound, the Euro and the Australian Dollar.

Bear Market - A market distinguished by declining prices.

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Bid Rate - The rate at which a trader is willing to buy a currency.

Bid/Ask Spread - The difference between the bid and offer price, and the most widely used measure of market liquidity.

Big Figure - Dealer expression referring to the first few digits of an exchange rate. These digits rarely change in normal market fluctuations, and therefore are omitted in dealer quotes, especially in times of high market activity. For example, a USD/Yen rate might be 107.30/107.35, but would be quoted verbally without the first three digits i.e. "30/35".

Book - In a professional trading environment, a 'book' is the summary of a trader's or desks total positions.

Broker - An individual or firm that acts as an intermediary, putting together buyers and sellers for a fee or commission. In contrast, a 'dealer' commits capital and takes one side of a position, hoping to earn a spread (profit) by closing out the position in a subsequent trade with another party.

Bretton Woods Agreement of 1944 - An agreement that established fixed foreign exchange rates for major currencies, provided for central bank intervention in the currency markets, and pegged the price of gold at US \$35 per ounce. The agreement lasted until 1971, when President Nixon overturned the Bretton Woods agreement and established a floating exchange rate for the major currencies.

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Bull Market - A market distinguished by rising prices.

Bundesbank - Germany's Central Bank. **Buying/Selling** - In the forex market currencies are always priced in pairs; therefore all trades result in the simultaneous buying of one currency and the selling of another. The objective of currency trading is to buy the currency that increases in value relative to the one you sold. If you have bought a currency and the price appreciates in value, then you must sell the currency back in order to lock in the profit.

Cable - Trader jargon referring to the Sterling/US Dollar exchange rate. So called because the rate was originally transmitted via a transatlantic cable beginning in the mid 1800's.

Candlestick Chart - A chart that indicates the trading range for the day as well as the opening and closing price. If the open price is higher than the close price, the rectangle between the open and close price is shaded. If the close price is higher than the open price, that area of the chart is not shaded.

Central Bank - A government or quasi-governmental organization that manages a country's monetary policy. For example, the US central bank is the Federal Reserve, and the German central bank is the Bundesbank. Others include the ECB, BOE, and BOJ.

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Chartist - An individual who uses charts and graphs and interprets historical data to find trends and predict future movements. Also referred to as Technical Trader.

Choice Market- A market with no spread. All trades buys and sells occur at that one price.

Clearing - The process of settling a trade. **Contagion** - The tendency of an economic crisis to spread from one market to another. In 1997, political instability in Indonesia caused high volatility in their domestic currency, the Rupiah. From there, the contagion spread to other Asian emerging currencies, and then to Latin America, and is now referred to as the 'Asian Contagion'.

Collateral - Something given to secure a loan or as a guarantee of performance.

Commission – A transaction fee charged by a broker.

Contagion - The tendency of an economic crisis to spread from one market to another. In 1997, financial instability in Thailand caused high volatility in its domestic currency, the Baht, which triggered a contagion into other East Asian emerging currencies, and then to Latin America. It is now referred to as the Asian Contagion.

Confirmation - A document exchanged by counterparts to a transaction that states the terms of said transaction.

Contract - The standard unit of trading.

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Contract (Unit or Lot) - The standard unit of trading on certain exchanges.

Counterparty - One of the participants in a financial transaction.

Country Risk – Risk associated with a cross-border transaction, including but not limited to legal and political conditions such as war etc.

Cross Rates - The exchange rate between two currencies expressed as the ratio of two foreign exchange rates that are both expressed in terms of a third currency. Foreign exchange rate between two currencies other than the U.S. dollar, the currency in which most exchanges are usually quoted.

Currency - Any form of money issued by a government or central bank and used as legal tender and a basis for trade.

Currency Risk - the probability of an adverse change in exchange rates.

Day Trading - Refers to positions which are opened and closed on the same trading day.

Dealer - An individual who acts as a principal or counterpart to a transaction.

Principals take one side of a position, hoping to earn a spread (profit) by closing out the position in a subsequent trade with another party. In contrast, a broker is an individual or firm that acts as an intermediary, putting together buyers and sellers for a fee or commission.

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Deficit - A negative balance of trade or payments.

Delivery - An FX trade where both sides make and take actual delivery of the currencies traded.

Depreciation - A fall in the value of a currency due to market forces.

Derivative – A contract that changes in value in relation to the price movements of a related or underlying security, future or other physical instrument. An Option is the most common derivative instrument.

Devaluation - The deliberate downward adjustment of a currency's price, normally by official announcement.

Economic Indicator - Economic indicators such as GDP, foreign investment, and the trade balance reflect the general health of an economy, and are therefore responsible for the underlying shifts in supply and demand for that currency.

End Of Day Order (EOD) - An order to buy or sell at a specified price. This order remains open until the end of the trading day which is typically 5PM ET.

EURO – since 2002 the Euro has been the currency of the European Monetary Union (EMU). A replacement for the European Currency Unit (ECU). Members of the EMU are Germany, France, Belgium, Luxembourg, Austria, Finland, Ireland, the Netherlands, Italy, Spain and Portugal.

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European Central Bank (ECB) - the Central Bank for the new European Monetary Union.

Federal Deposit Insurance Corporation (FDIC) - The regulatory agency responsible for administering bank depository insurance in the US.

Federal Reserve System - The central bank of the United States, with responsibility for implementing the country's monetary policy and regulating member banks of the System. The Fed was created in 1913 and is composed of 12 regional Federal Reserve Banks and a national Board of Governors.

Fixed Exchange Rate- Official rate set by monetary authorities for one or more currencies.

Floating Exchange Rates - Floating exchange rates refer to the value of a currency as decided by supply and demand.

Flat/square - Dealer jargon used to describe a position that has been completely reversed, e.g. you bought \$500,000 then sold \$500,000, thereby creating a neutral (flat) position.

Forward - The pre-specified exchange rate for a foreign exchange contract settling at some agreed future date, based upon the interest rate differential between the two currencies involved.

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Foreign Exchange - (Forex, FX) is the simultaneous buying of one currency while selling for another. This market of exchange has more buyers and sellers and daily volume than any other in the world. Taking place in the major financial institutions across the globe, the forex market is open 24-hours a day.

Forward Contract - A forward contract fixes the exchange rate for future delivery at a date to be agreed by both participants. A deposit (or a minimum margin) is usually required in forward transactions. For example, if I want to lock in today's rate to buy \$10,000 USD at 1.5820 Canadian for the next 4 months, I will have the ability to purchase up to \$10,000 USD at this rate.

Forward Rates (Swaps) - A Forward Rate refers to a cash price of 2 currencies interest difference for a fixed term. Forward rates can be calculated easily given the fixed term interest rates of each currency and the current spot rate.

Forward Trading - Forward trading is making the opposite trade of a spot trade in a given period of time. Often investors will swap their trades forward for anywhere from a week or two up to several months depending on the time frame of the investment. Even though a forward trade is on a future date, the position can be closed out at any time. The closing part of the position is then swapped forward to the same future value date.

Forward points - The pips added to or subtracted from the current exchange rate to calculate a forward price.

Fundamental Analysis - focuses on the economic forces of supply and demand that causes price movement. The Fundamentalist studies the causes of market movement, whereas the Technician studies the effects.

Futures Contract- An obligation to exchange a good or instrument at a set price on a future date. The primary difference between a Future and a Forward is that Futures are typically traded over an exchange (Exchange- Traded Contracts – ETC), versus forwards, which are considered Over The Counter (OTC) contracts. An OTC is any contract NOT traded on an exchange.

Gearing - Also known as margin trading. A term used to in the relationship of actual equity versus controlling equity.

Group of Five (G5) - are five leading industrial nations (France, Japan, Germany, the UK and US), which meet from time-to-time to discuss common economic problems.

Group of Seven (7) - are 7 leading non-communist industrial nations composed of G5 plus Canada and Italy.

Group of Ten (G10) - is also known as The Paris Club which includes Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, UK

and US. These nations signed an accord in 1962 to increase the fund available to the IMF and aid member countries with balance-of payments difficulties.

Goldilocks Economy was a term coined back in the mid-1902 to describe an economy that was not too hot and not too cold. This typically describes an economy that enjoyed steady growth with nominal rate of inflation.

Good 'til Cancelled (GTC) - An order to buy or sell at a specified price. This order remains open until filled or until the client cancels.

Hedging - A hedging transaction is a purchase or sale of a financial product, having as its purpose the elimination of loss arising from price fluctuations.

With regards to currency transactions it would protect one against fluctuations in the foreign exchange rate. (See Forward Contract)

Inflation - An economic condition whereby prices for consumer goods rise, eroding purchasing power.

Initial margin - The initial deposit of collateral required to enter into a position as a guarantee on future performance.

Interbank Rates - The Foreign Exchange rates at which large international banks quote other large international banks.

Leading Indicators - Statistics that are considered to predict future economic activity.

LIBOR - The London Inter-Bank Offered Rate. Banks use LIBOR when borrowing from another bank.

Limit order - An order with restrictions on the maximum price to be paid or the minimum price to be received. As an example, if the current price of USD/YEN is 102.00/05, then a limit order to buy USD would be at a price below 102. (i.e. 101.50)

Line Charts - The Line Chart connects single prices for a selected time period.

Liquidity - The ability of a market to accept large transaction with minimal to no impact on price stability.

Liquidation - The closing of an existing position through the execution of an offsetting transaction.

Long position - A position that appreciates in value if market prices increase.

When one buys a currency, their position is long.

M

Margin - The required equity that an investor must deposit to collateralize a position.

Margin Deposit - The margin deposit is not a down payment on a purchase of equity, as many perceive margins to be in the stock markets. Rather, the margin is a performance bond, or good faith deposit, to ensure against trading losses. The margin requirement allows traders to hold a position much larger than the account value, which allow for this high leverage. In the event that funds in the account fall below margin requirements, brokerage firms will automatically close all open positions.

Margin call - A request from a broker or dealer for additional funds or other collateral to guarantee performance on a position that has moved against the client. If the equity balance in your account falls below the margin requirement, a margin call will be generated. In the event that an account exceeds its maximum allowable leverage, ALL open positions are liquidated immediately, regardless of the size or the nature of positions held within the account.

Market Maker - A dealer who regularly quotes both bid and ask prices and is ready to make a two-sided market for any financial instrument.

Market Risk - Exposure to changes in market prices.

Mark-to-Market - Process of re-evaluating all open positions with the current market prices. These new values then determine margin requirements.

Maturity - The date for settlement or expiry of a financial instrument.

Narrow Market - occurs when there is light trading and greater fluctuations in prices relative to volume. This is often interchanged for THIN MARKET.

Offer - The rate at which a dealer is willing to sell a currency. Offsetting transaction - A trade with which serves to cancel or offset some or all of the market risk of an open position.

One Cancels the Other Order (OCO) - A designation for two orders whereby one part of the two orders is executed the other is automatically cancelled.

Open order – An order that will be executed when a market moves to its designated price. Normally associated with Good 'til Cancelled Orders.

Open position - A deal not yet reversed or settled with a physical payment.

Over the Counter (OTC) - Used to describe any transaction that is not conducted over an exchange.

Overnight - A trade that remains open until the next business day.

P

Pips - Digits added to or subtracted from the fourth decimal place, i.e. 0.0001.

Also called Points.

Political Risk - Exposure to changes in governmental policy which will have an adverse effect on an investor's position.

Point & Figure charts - The Point & Figure Chart disregards Time and focuses entirely on price activity.

Position - The netted total holdings of a given currency.

Premium - In the currency markets, describes the amount by which the forward or futures price exceed the spot price.

Price Transparency - Describes quotes to which every market participant has equal access.

Quote - An indicative market price, normally used for information purposes only.

R

Rate - The price of one currency in terms of another, typically used for dealing purposes.

Resistance - A term used in technical analysis indicating a specific price level at which analysis concludes people will sell.

Revaluation - An increase in the exchange rate for a currency as a result of central bank intervention. Opposite of Devaluation.

Revaluation Rates - The revaluation rates are the market rates used when a trader runs an end-of-day to establish profit and loss for the day.

Risk - Exposure to uncertain change, the variability of returns significantly the likelihood of less than-expected returns.

Risk Capital- The amount of money that an individual can afford to invest, which, if lost would not affect their lifestyle.

Risk Management - To hedge one's risk they will employ financial analysis and trading techniques.

Roll-Over - Process whereby the settlement of a deal is rolled forward to another value date. The cost of this process is based on the interest rate differential of the two currencies.

Rollover Rate -The daily rollover interest rate is the amount a trader either pays or earns, depending on the established margin and position in the market. To

avoid rollovers simply make sure positions are closed at the established end of the market day.

Settlement – The process by which a trade is entered into the books and records of the counterparts to a transaction. The settlement of currency trades may or may not involve actual physical exchange of one currency for another.

Short Position - An investment position that benefits from a decline in market price. When one sells a currency their position is short.

Spot/Next - A currency deposit transaction or the simultaneous purchase and sale of currency, or vice versa by means of swap for spot value day against the next working day.

Spot Price – The current market price. Settlement of spot transactions usually occurs within two business days.

Spot (Rate) - In FX Markets, Spot refers to the cash price without interest factored in.

Spot Trade - When you trade foreign exchange you are always quoted a spot price 2 business days in advance. This is under normal conditions where there are no bank holidays in the traded currencies countries or is not over a weekend.

Spread - The difference between the bid (buy) and offer (ask, sell) prices; in other words the spread is the commission that the brokerage house makes on each trade. This can vary widely between currencies and between brokerage firms. For example, USD/JPY may bid at 131.40 and ask at 131.45, this five-pip spread defines the trader's cost, which can be recovered with a favourable currency move in the market.

Sterling – slang for British Pound.

Stop Loss Order - Order type whereby an open position is automatically liquidated at a specific price. Often used to minimize exposure to losses if the market moves against an investor's position. As an example, if an investor is long USD at 156.27, they might wish to put in a stop loss order for 155.49, which would limit losses should the dollar depreciate, possibly below 155.49 .

Stochastics Oscillator - This technical analysis indicator is based on the premise that during an upward trading market, prices tend to close near their high, and during a downward trading market, and prices tend to close near their low.

Support Levels - A term used in technical analysis indicating a specific price level at which a currency will have the inability to cross below. Recurring failure for the price to move below that point produces a pattern that can usually be shaped by a straight line. It is the opposite of Resistance levels.

Swap - A currency swap is the simultaneous sale and purchase of the same amount of a given currency at a forward exchange rate.

Swift - Society of Worldwide Interbank Financial Telecommunications. It is a dedicated computer network that is set up to support fund transfer messages between member banks worldwide.

Technical Analysis - An effort to forecast prices by analysing market action through chart study, volume, trends, moving averages, patterns, formations and many other technical indicators.

Tick - Minimum price move.

Ticker - Shows current and/or recent history of a currency either in the format of a graph or table.

Tomorrow Next (Tom/Next) - Simultaneous buying and selling of a currency for delivery the following day.

Trading - Buying or selling of goods and services among countries called commerce. Forex Trading is the trading of Foreign Currencies.

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Transaction Cost – the cost of buying or selling a financial instrument.

Transaction Date – The date on which a trade occurs.

Trend - simply the direction of the market, usually broken down to three categories....major, intermediate and short-term trends. Three directions are also associated.

Trend Line - This is a Technical Analysis indicator also called or linear regression, which is a statistical tool used to uncover trends. It is calculated by using the "Least Squares" method. There are two ways to use the linear regression line: a. Trade in the direction of the Trend line. b. Construct a parallel trend channel above and below the Trend line to be used as support and resistance levels.

Turnover - The total money value of all executed transactions in a given time period; volume.

Two-Way Price - When both a bid and offer rate is quoted for a FX transaction.

Uptick – a new price quote at a price higher than the preceding quote.

Uptick Rule – In the U.S., a regulation whereby a security may not be sold short unless the last trade prior to the short sale was at a price lower than the price at which the short sale is executed.

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US Prime Rate - The interest rate at which US banks will lend to their prime corporate customers

Value Date - The date on which counterparts to a financial transaction agree to settle their respective obligations, i.e., exchanging payments. For spot currency transactions, the value date is normally two business days forward. Also known as maturity date.

Variation Margin - Funds a broker must request from the client to have the required margin deposited. The term usually refers to additional funds that must be deposited as a result of unfavourable price movements.

Volatility (Vol) - A measure of price fluctuations. The standard deviation of a price series is commonly used to measure price volatility.

Volume - represents the total amount of trading activity in a particular stock, commodity or index for that day. It is the total number of contracts traded during the day.

Weak Dollar/ Strong Dollar - dollar is said to be weak (relative to a previous time period) against another currency when more dollars are required to buy one unit of another currency. The dollar is strong or has gained in strength when

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fewer dollars are required to buy one unit of another currency. For example, if \$1 buys 10 FF in 1989 but today \$1 buys only 6 FF then the dollar has weakened against the franc.

Whipsaw – slang for a condition of a highly volatile market where a sharp price movement is quickly followed by a sharp reversal.

Y

Yard – Slang for a billion.

YIELD - Return on capital investment.

