

Getting to Know How Foreign Exchange Markets Work

The Foreign Exchange Market is the platform through which the different currencies of the world are traded. Also known as the Forex or the FX Market, it is the largest of any of the financial markets. The numbers posted in trading volume on a typical day are close to \$4 trillion U.S. dollars, with around 1/3 of that amount traded in London markets.

The principle is easy enough to understand. In fact, any traveler has experienced it upon arrival in a foreign country. In order to obtain local currency, one must sell one currency and buy the other. FX traders operate on the same system, though on a much grander scale.

To take a closer look at FX Markets in action, it is useful to peruse the financial section of any newspaper. Where the currencies are listed, readers will notice a "bid" price listed along with an "ask" price. Since banks set the "ask" price, it will be slightly marked up in order to accommodate a transaction fee. If a person wished to sell the same currency, they would be offered the "bid" price by the bank, which is lower. The spread between these figures is one of the methods used by large banks to profit in Forex trading, which is a volume-dominated market.

Many different strategies are available to investors in the Forex Markets. While it is obvious that some currencies are devaluating or growing stronger in broader trends, the different fluctuations over a short period of time can be highly profitable for investors. At the same time, a long-term strategy may be a winning technique.

Forex markets are not a common item in the typical private investment portfolio. Because the control is in the hands of the banks which set the spread between the bid and ask price, these banks get a price available only to the top players in the financial world. In fact, with all of the trading which takes place on a daily basis, nearly 80% is done by the world's top ten in the banking industry. Deutsche Bank leads the way, with outfits like Barclay's and JP Morgan close behind.

Speculation in the FX Markets is rampant. Hedge funds - known for the aggressive style of investment - have been a major force in FX since the mid-1990s. One of the advantages of such an aggressive style is the ability to counteract influence made on behalf of a currency by its government. While financial ministers may be able to control devaluation using a country's central bank funds, investors can overwhelm a market with volume.

The reasons why a country's currency may become stronger or weaker are numerous. National budget deficits can contribute, as well as the ability of a government of handle a budget surplus. Overall GDP growth is always important, as well as political developments.

An interesting feature of the FX is the fact that they never close between Monday and Friday. After the close of business in New York, traders can continue on in Europe and finally Asia before New York markets open once again in the morning.

About the Author

Damian Papworth has successfully traded [high yield investments](#) for much of his adult life. He understands their importance in any [work from home](#) plan.

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