# FOREX – A NEW INSTRUMENT FOR MONEY MAKERS

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The very beginnings of Forex or currency trade have an important place in history. A careful glance at ancient cultures reveals that trade played a significant role in daily life. The earliest forms of currency in use were coins. However, sometime in the Middle Ages, a need was felt for a different form of payment.

Today, it is agreed that the Babylonians were among the first to use paper bills and receipts. From then onwards, till around the early 20th century, the markets themselves underwent a huge change as they became more volatile in nature due to the increased activity.

The Forex market, as we know it today, originated in 1973. The Forex market is relatively young and is the largest financial market in the world today. Some of the players in this huge playground include banks, currency speculators, multinational co operations, governments and other financial markets and institutions. Apart from them individuals too can be a part of this market, but individuals often participates indirectly through banks or brokers.

Reasons for popularity of Forex market: transactions can be made on the internet, or through the phone; the market is open 24 hours; the leverage that this market offers; the high liquidity and the low dealing costs are few of the reasons for its popularity. Since the brokers or dealers negotiate directly with each other, there are no clearinghouses or central exchanges, making it free from any external control. It is estimated that the average trade in the markets exceed 2- 2.5 trillion US dollars, on a daily basis. The underlying principle is the exchange of one currency for another with an intention of making profits on the difference of rates. In other words, money is bought and sold.

Due to the presence of trading centres worldwide, there is no one fixed single rate, but a number of different rates depending on which bank or trader is trading. Care is taken to ensure that the rates are more or less close, or else there would be a lot of exploitation. Exchange rates however are liable to change several times a day and are prone to fluctuations. This largely happens due to changes in monetary flows, because of inflation, changes in GDP growth, trade deficits or surpluses, mergers and acquisitions etc. In order to have some idea as to which direction the market is headed, players often make fundamental and technical analyses.

Making a fundamental analysis requires a player to take a step back in order to see a bigger picture, and to note important indicators around him, which could determine future trends or fluctuations in the markets. The factors can range from the political state of a country to its general economy. A technical analysis on the other hand, requires a player to take a closer, in depth look at factors such as the patterns of price movements, price charts, amount of transactions taking place etc in order to decide when an entry or exit from a market needs to be made.

Trade is usually carried out in US dollars as it has the highest currency value but other currencies are also used. The trading usually done is called Marginal Trading and it simply refers to a trade made using not only one's money but also borrowed money from a brokerage firm. This idea is mainly due to the fact that one does not need a real money supply in order to speculate. This enables overhead expenses for the transfer of money to be decreased, and allows players to trade with smaller amounts. However, the losses one can have too can also be substantial.

Types of contract arrangements in Forex markets are: a 'spot' transaction is a two day delivery transaction, which represents a direct exchange between currencies. A 'forward' transaction however, means that a previously decided trade occurs at a later date, and at a rate fixed by the players involved. A 'future' transaction has a standard contract size, and maturity dates with an average duration of 3 months. 'Swap' is a system where the players exchange currency on a certain date and agree to reverse the deal at a later set date. An 'option' gives a buyer the right to exchange money from one currency to another at an exchange rate agreed upon on a specific date. But he is under no obligation to do so, at the same time.

An outstanding quality of the Forex market is that no single individual can influence on the prices or deals. Although scams do take place worldwide affecting many people, websites and registered Forex dealers try to encourage players to take responsibility in discouraging unethical activities. On a daily basis, millions are made or lost. But it is the sheer instability of worldwide events itself which adds to its magnetism as can be summed up in this line- "Buy the rumour, sell the fact'.