

# Foreign exchange market



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What is really foreign exchange market and how does it work Foreign Exchange Market is a market where people trade in money of different currencies (Schenk, \_\_\_\_). It is also defined as a nonstop cash market where currencies of nations are traded via brokers. This is where foreign currencies are constantly and simultaneously bought and sold across local and global markets and traders' investments increase or decrease in value based upon currency movements (www. easy-forex. com). So foreign exchange markets deals with each nation's currency. Its value then depends on how the selling and buying activities of the said currency. Say for example, peso has a lower value than dollar. The value of peso depends on how much dollars have been exchanged into peso. So the more dollar exchanged the greater the value of the peso has. The value of each currency is not really fixed; it may start with a bigger value at the beginning of the day and may decrease as the day ends.

The market of foreign exchange however can be analyzed in terms of supply and demand. So as mentioned in the first paragraph, the more of that currency is supplied to a country, the lower its value. So for example, when someone buys a product of a different country in their locality doesn't really deal with foreign exchange. It's the person who bought the currency of that certain country to buy that product and sell that product to their locality. So if an American buys a Japanese doll, it's the person who is selling that doll in their locality that bought yen who dealt with foreign exchange market because he will be purchasing that doll in yen and not in their own currency. That's why the more investors in your country are, with that certain currency, the lower the value of their currency is in your own country.

So what are the basics in foreign exchange market First is the forex trading

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or what we also call as currency trading is always done in pairs. Say for example, the exchange rate of PESO/US\$ on November 2, 2007 is 43.22 and this figure is also called as the forex rate or just "rate". So if an American had his US\$100 exchanged in the Philippines, he would have P4322 as an exchange. The investor's goal in this forex trading now is to profit from foreign currency movements. If ever the value changes in the next days, the investor would either profit or loose from that trade. If the value is higher, then the investor profits and if not he loses. But most investors have their exchange when they can gain profit. We also have the exchange rate. Since it is done in pairs, the first currency is called as base currency and the second currency as the counter or quote currency ([www. easy-forex. com](http://www.easy-forex.com)). This is then calculated as counter or quote currency over the base currency to be able to compute of how much a buyer needs in order to purchase the base currency. Another term in foreign market is the margin. This is also called as the collateral wherein some banks and on line trading providers require to assure payment in case of a loss. It is also sometimes called as minimum security in Forex markets. Then we also have the leveraged financing. This is with the use of credit and very common in the foreign market. The loan or the leveraged in the margined account is collateralized by your initial deposit. So when you join the forex trading, you make your initial deposit as your margin.

So this is what foreign market is. It is a field wherein you either win or loose. As it may lead to profitability it also eposes an investor to certain risks including exchange rate risks, that the currency he has may not regain its high value. Interest rate risk, when an investor uses a margin he would be paying interest rates if he loses. Then we have the credit risks that if you

loose in the forex trading there is a risk you might be in debt already because of the investment that you made.

Works Cited:

Schenk, R. The Market for Foreign Exchange. <http://ingrimayne.com/econ/Financial/ForeignExchange.html>

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<http://www.easy-forex.com/en/Forex.WhatIsTrading.aspx>

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<http://www.treas.gov/education/faq/markets/foreignex.shtml>