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FOREX TRADING

Guide to Forex trading

Everything you need to know to start trading FX

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About the author

Desmond Leong runs the award winning research firm Everest Fortune Group, a finalist in 2019 and 2020 for Best FX Research and Best Equity Research in The Technical Analyst Awards.

Boasting a team of CFA, CMT and CFTe accredited traders who specialize in technical analysis (particularly Fibonacci, Elliott Waves and Correlation) and fundamental analysis, they regularly advise banks, brokers and hedge funds on where the markets are heading and how better to navigate them. Desmond also regularly shares his trading insights and theories on his personal site: The Forex Army.

Desmond is also known as the “mad coder”. He has developed several high grade MT4 indicators that are used to better interpret the markets. Throughout this eBook series, you’ll come across indicators Desmond has agreed to let Axi clients use as part of a joint collaboration.

DESMOND LEONG
MARKET ANALYST, AXI

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Introduction to Forex

1.1 Understanding Forex

Forex – also known as FX – is short for "Foreign Exchange". It represents a market where one can exchange and trade different currencies across the globe. To understand how forex works, let's use the example of overseas travel.

If you're from the United States and are travelling to Japan, chances are you would head to a local currency dealer before your trip to change some US dollars for the equivalent in Japanese yen. Let's say the rate you exchanged was 1 USD (US Dollar) to 110 JPY (Japanese yen). This means that for every 1 USD you give the money changer, you get 110 JPY in return.

Now you've headed off on your trip, had your lifetime's fill of sushi, taken way too many pictures of Mount Fuji and are now back in the US a month later. You still have some Japanese yen currency left which, of course, isn't of much use at American shops, so you decide to change it back to USD.

Once again you visit your local currency dealer and ask to change your JPY back to USD. The rate you're quoted is now 105 JPY to 1 USD.

Let's pause for a moment: you may not have realised, but you've just made a profit without even planning to!

Previously, every 1 USD got you 110 JPY, now you get that same 1 USD back for just 105 JPY. That, my friend, is a simplified explanation of how profit can be made by trading the fluctuation of currencies against each other. In this case, the JPY strengthened against the USD while you were holding onto it, resulting in you effectively making money when you returned to the US and decided to convert it back to USD.

Now, it's important to take note that when trading Forex, you always need to consider two currencies (hence, we call it a "currency pair"). In the above example, we were essentially trading the USD/JPY currency pair. It's not enough to think that one currency might strengthen – you have to think of which currency it would strengthen against.

Thanks to the globalisation of financial markets, when we trade on the FX market, we now have the luxury of trading a lot of different currencies against each other all from the comfort of your home. Think the yen is going to strengthen against the Euro (EUR)? Then buy the yen, sell the Euro (selling EUR/JPY)! This concept might seem a bit complicated right now, but just remember that when you're trading forex, you're essentially betting that one currency will strengthen against another currency.

1.2 Understanding CFDs

Now that you understand the general concept of Forex trading and how it works, let's expand to CFDs – also known as "contract for differences".

HOW DO CFDS WORK?

Essentially, CFDs are financial contracts between a broker and trader that pays for the difference in the settlement price between when you open and close a trade.

If a trader expects the currency to move higher, they will enter a long position with a specific lot size. Conversely, if the trader expects the currency to move lower, they will enter a short position, expecting to profit from it.

SO HOW WOULD THAT HELP US IN TRADING?

The benefit of CFDs is that there is no need to own the physical asset. Instead, traders speculate in the difference between opening and closing trade prices. While these contracts can be used to speculate on the foreign exchange markets, the same concept applies to other assets such as commodities, oil and indices.

To gain a better understanding of how CFDs work, let's look at Amazon stock as an example.

If you think Amazon shares are going to go higher, you would want to buy into this stock and profit from this opportunity. Hence, you purchase 10 CFDs on Amazon shares at $2,500, so the total value of the trade will be $25,000 (10 x $2,500). If Amazon appreciates to $3,000, you will make $500 per share, which is a $5,000 profit (10 x $500). In the next example, we'll look at how CFD concepts are applied to forex trading as well.

In terms of Forex trading, CFDs allow us to buy or sell the currencies without actually owning the physical asset. For example, let's say you live in Canada and, through your analysis, you expect CAD to depreciate and USD to appreciate. What could you do to hedge against the CAD dollar that you have on hand? Well, you can buy or "go long' on USD/CAD and profit from the movement in prices. By buying or entering a long position on USD/CAD, you are essentially buying the USD and selling CAD.

SO, WHAT IF YOU DECIDED TO TRADE WITHOUT THE USE OF CFDS?

This would mean going down to your local currency dealer and exchanging your physical Canadian dollars for US dollars, leaving you holding on to stacks of US dollars. When the value of the US dollar moves higher, you would once again head back to the currency dealer to exchange them into CAD. Now that the USD is stronger, you can exchange them for more CAD dollars than the initial amount you invested, thereby realising a profit.

SOUNDS LIKE A HASSLE?

It is. That's why CFDs are so popular for forex trading: it removes the need to hold those stacks of physical cash, making trading much more convenient.

1.3 Understanding Leverage

The next concept we'll explore is leverage.

Typically, trading forex tends to offer higher leverage when compared to other financial instruments, such as stocks. This is one of the key reasons why forex remains a popular financial market for traders.

SO WHAT EXACTLY IS LEVERAGE?

Essentially, leverage means borrowing funds from a broker to increase the size of your trading position beyond the cash balance you have. While leverage can present juicy profits from relatively small price changes in currency pairs, it can amplify losses as well. Hence, it is important to practice proper trade and risk management. In this way, you will be able to protect your capital and be profitable using a level of leverage appropriate to you.

AN EXAMPLE OF LEVERAGE

Let's say you have $1,000 in your account and you elect to open a $10,000 position. This means you will be trading with 10 times leverage on your account (10,000/1000).

In foreign exchange markets, it's not uncommon to see leverage going up to 100:1, meaning every $1,000 in your account allows you to trade up to $10,000 in value. In other words, your account now has a leverage ratio of 10:1.

Now let's say you have the option to open a trading account with a leverage of 500:1 –what does that mean? It essentially means that for every $1 of your own capital, the broker will lend you $500,. This in turn means that you're taking a much larger position then the initial amount you have, and it's for this reason that leverage can be a double-edged sword: it can amplify both profits and losses.

You may be wondering how this is possible. Many traders believe that forex market makers are willing to offer such high leverage because leverage is a function of risk. If the account is properly managed, the risk will also be very manageable. In other words, as long as the traders know how to properly manage risk in their accounts, it's reasonable to offer them high leverages. Also, since the spot cash forex markets are so large and liquid, they can enter and exit the markets at a desired level much more easily and quickly, as compared to more illiquid markets.

WHAT IS MARGIN?

When dealing with the leverage level of your account, you'll see the term "margin" and it's important to know what this means. Margin is simply the percentage of the full amount of your trade. From the above example, with a 10:1 leverage ratio, to open a $10,000 position, your margin will be $1,000, with a margin requirement of 10%.

CHOOSING THE RIGHT LEVEL OF LEVERAGE

The level of leverage that you should be trading at depends on the strategies you want to use and your view of upcoming market movements. Typically, scalpers and breakout traders prefer to use high leverage levels since they want to make the most profit from small price movements in the fastest way possible. On the other hand, position traders may prefer to use low leverage levels.

Before deciding on a level of leverage to trade at, you should decide on what sort of trading strategies you are likely to use. This is where a **Demo trading account** is invaluable as it allows you to practise trading with virtual funds, find your favourite strategies and identify what sort of trader you are before risking any real money.

Note: The leverage available is dependent on regulatory jurisdiction.

2

Common jargon in Forex trading

2.1 Terminologies

Let's explore some of the most common terms used by Forex traders and what they mean.

BULLISH

The term "Bullish" means that investors are expecting prices to rise. So when we hear that a trader is "bullish on EUR/USD", it means that he is expecting the EUR/USD chart to rise.

BEARISH

The term "Bearish" is the opposite of bullish. It basically meant that the investor is expecting prices to drop. So the term "I'm bearish on EUR/USD" means that the trader is expecting EUR/USD to drop.

SAFE-HAVEN

When you hear this, it usually means the assets that investors tend to turn to during times of market volatility and instability. These are perceived to be "safer" – especially amidst market turmoil. They tend to go up when the majority of other assets such as stocks are going down. Examples of this include the US dollar, gold and bonds. They can also include other currencies such as the yen (JPY) and franc (CHF).

HIGH BETA CURRENCIES

Although not as common as many other terms, it's important to know that when you hear someone mention "High beta currencies", they're referring to traditionally volatile currencies which have much larger price fluctuations. Examples of such currencies include AUD, NZD, CAD, EUR and GBP.

RISK-ON & RISK-OFF

Risk-on and risk-off environments are a reflection of investors' confidence in the markets, as well as their risk appetite. In a risk-off environment, investors are more cautious and risk averse, which means they are likely to seek out safe-haven currencies such as USD, JPY and CHF and sell high beta currencies such as AUD, NZD, GBP, EUR and CAD. Conversely, in a risk-on environment, investors have a larger appetite for risk which would benefit high beta currencies, while safe haven-currencies suffer.

BID & ASK PRICES

“Bid” and “Ask” are very common trading terms. Essentially, the bid price is what the broker is paying for a currency while the ask price is what the broker is selling for a currency. How does this apply to us as retail traders? Well, we always look at the ask price when buying a currency pair and the bid price when we want to sell a currency pair. To better understand this, let’s look at Aiden, an American visiting the United Kingdom. As he has no cash on hand, he needs to exchange his USD for GBP to spend. Upon arriving at the currency exchange, he found the rates as follows:

GBPUSD Bid Price: 1.2900	GBPUSD Ask Price: 1.3000

HOW DO WE INTERPRET THIS?

First, given that Aiden wants to buy GBP in exchange for his USD, we need to look at the ask price. The ask price of 1.3000 means that 1 GBP is equal to 1.3000 USD. Hence, if Aiden wants to buy GBP 30,000, he would have to pay the dealer USD 39,000 (1.3000 x 30,000).

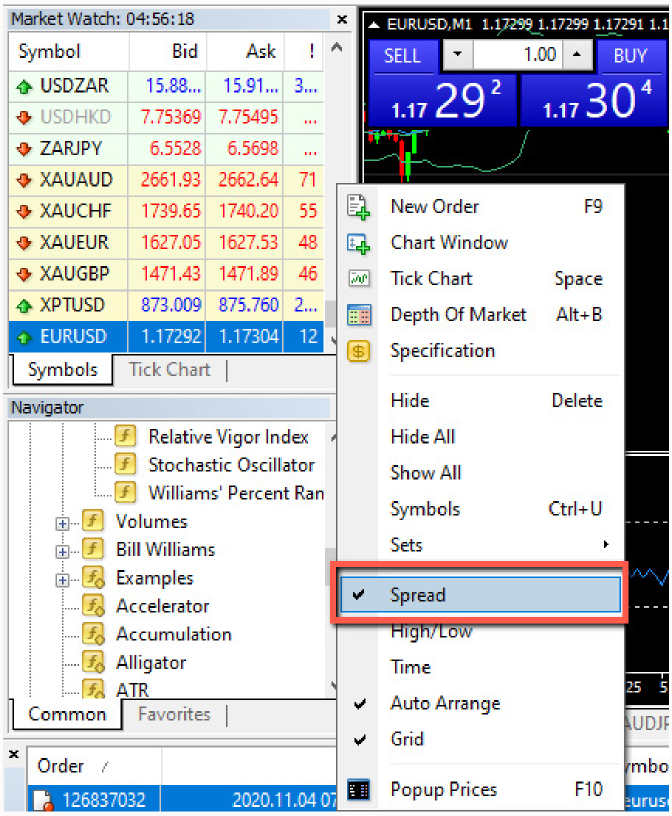
Suppose now that the next traveller, Jane, has just returned from her vacation in the UK. She has 30,000 GBP left and wants to exchange them back into USD. With reference to the rates above, she is intending to sell a currency pair, hence she should be looking at the bid price. A bid price of 1.2900 means that 1 GBP is equal to 1.2900 USD. So if Jane wants to sell 30,000 GBP, she would receive USD 38,700 (1.2900 x 30,000).

In both examples above, we saw that the same 30,000 GBP yields a different value in USD. This is because of the difference between the bid and ask prices, which is also known as the “spread”. Because of this spread, the dealer was able to make a profit of USD 300 from this transaction (USD 39,000 - USD 38,700). As we can see from above, the bid-ask spread is always advantageous for the market maker. How is the spread relevant to traders?

Wide spreads are the bane of the retail currency exchange market, since it increases your costs when trading. However, you can mitigate the impact of these wide spreads by researching brokerages that offer low bid-ask spreads.

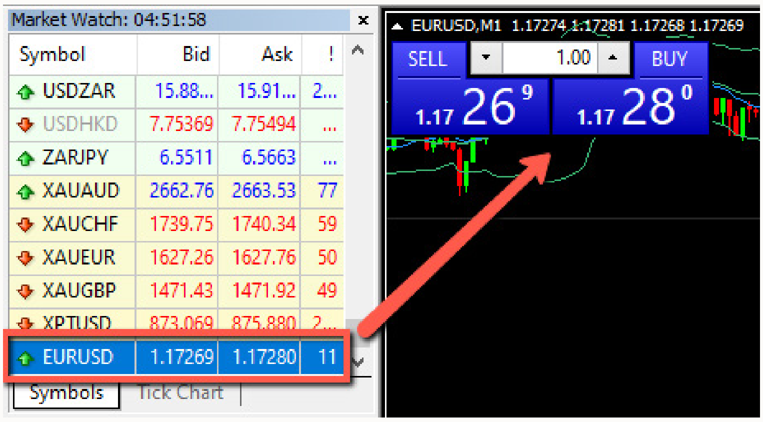
COMPARE AXI LIVE SPREADS HERE

Another way you can easily determine your bid-ask spreads is through your MT4 trading platform. We’ll explore the MT4 platform in detail in a later eBook in this series but, as shown below, when trading on your broker’s MT4 platform, you will be able to directly view the bid-ask spread of a specific market in the Market Watch window, as well as in a small window with One-Click Trading enabled. To see the spread, simply right click within the Market Watch window and click on “Spread”.



As you can see, the bid price (in the “Bid” column) is labeled as “Sell”, since it is the price the dealer will pay you for the currency. For example, when you decide to open a short position in the EURUSD market, you will then sell at the bid price. The ask price (in the “Ask” column) is labelled as “Buy”, since you pay this price when buying a currency from the dealer. For example, when you decide to open a long position in the EURUSD market, you will then buy at the ask price. The column labelled “!” refers to the spread.

Note: the spread is denoted in points. To see the spread’s size in pips, you will need to divide the spread numbers by 10 – see more on this in the following section.



In a nutshell, when faced with a standard bid and ask price for a currency, the higher price is what you would pay to buy the currency and the lower price is what you would receive if you were to sell the currency.

LIQUIDITY

Liquidity describes the degree to which an asset can be quickly bought or sold in the market. If a forex pair is liquid, it means that there is a high trading volume which also means that there are a lot of people buying and selling the currency at the same time.

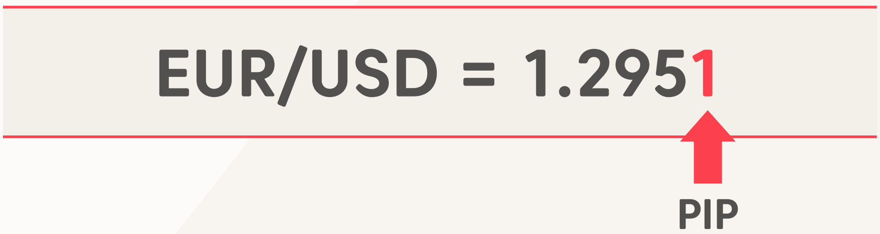
SLIPPAGE

Slippage is the difference between the expected price of the trade and the actual price at which the trade is executed. While it can occur at any time but is most prevalent during periods of higher volatility when market orders are used.

PIPS & POINTS

A pip is short for “Percentage in Point”. It is also the minimum price fluctuation possible in a forex transaction. It is typically the last decimal of a currency pair’s quoted exchange rate and is equal to 0.0001 for most currency pairs. Most pairs go out to 4 decimal places, but there are some exceptions like Japanese yen pairs that go out to 2 decimal places, also sometimes called a “point”.

For clarity, let’s look at an example using the GBP/USD pair. If GBP/USD moves from 1.2950 to 1.2951, that results in a 0.0001 change (1.2951 - 1.2950), which is equivalent to one pip.



The above scenario applies to almost all currency pairs except Japanese yen pairs. For Japanese pairs, one pip is equivalent to 0.01. As an example, if the EUR/JPY pair moves from 122.50 to 122.51, that results in a 0.01 change (122.51 - 122.50), which is equivalent to one pip.

For oil prices, consider a pip in crude oil to be $0.01. That means a $1 price fluctuation in the oil price is equal to 100 pips. Let's expand on that with the example of a 10-barrel contract:

10 barrels X $0.01 = $0.10. This is the pip value for trading accounts denominated in US dollars. Similarly for gold, it's better to think in dollars and cents, not pips. Technically, a pip is $0.01, or one cent. If you trade 0.01 lots and price goes $1.00 in your favor, you make $1.00.

In terms of indexes (or indices), let's assume you sell the SPX index at 2886.30 and close the position at 2694.10. This would leave us with 192.2 (2886.30 - 2694.10) points in profit. Given that 0.01 = $1/ point and 0.01 = $0.10/ pip, this trade would have made us $192.20 in profits, which is 1922 in pips.

So what about points? Well, a pip is the equivalent to one basis point. For example, the smallest move the USD/CAD currency pair can make is $0.0001, or one basis point.

LONG & SHORT

When investors hold a long position, it means they are buying a currency with the expectation that it will increase in value over time. Conversely, a short position involves selling a currency expecting its value to drop over time.

For example, If you buy, or go long, on GBP/USD, essentially you're buying GBP and selling USD. Conversely, if you sell or go short on GBP/USD, you're selling GBP and buying USD.

HAWKISH & DOVISH

Hawkish and dovish are basically terms used to describe the stance of a central bank. If a central bank is said to be hawkish, it means that it foresees higher future interest rates, which in turn cause the currency to move higher. On top of that, it also means they are positive about the economic growth and expect inflation to increase as well. Conversely, if a central bank is dovish, it means they foresee lower future interest rates, which in turn cause the currency to move lower.

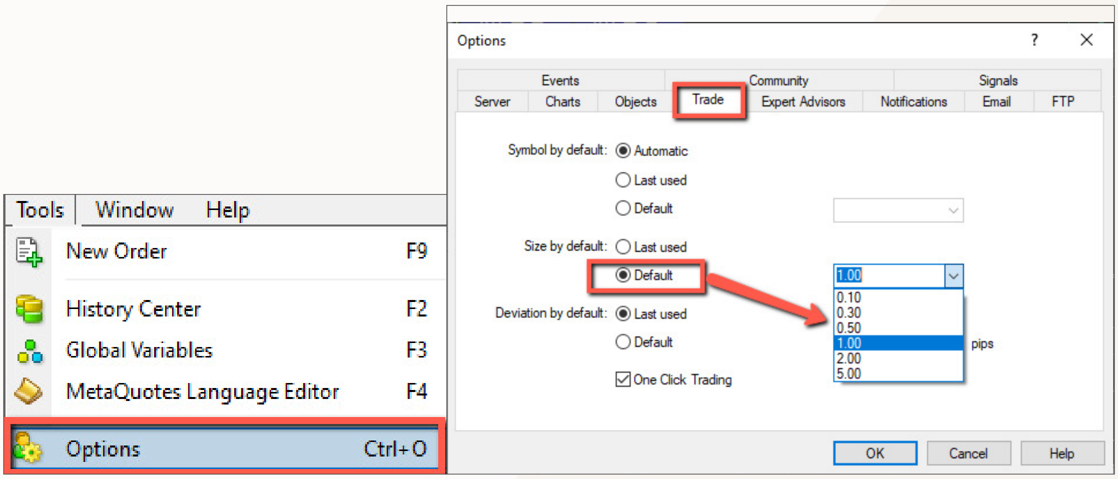
LOT SIZE

Trading on the FX market is usually conducted in specific amounts known as lots. These are units of the currency that you intend to buy and sell. The common lot sizes offered by brokers include standard, mini or micro-lot sizes. So what's the difference?

Well, a standard lot represents 100,000 units of any currency, whereas a mini lot represents 10,000 and a micro lot represents 1,000 units of any currency.

LOT	NUMBER OF UNITS
Standard	100,000
Mini	10,000
Micro	1,000

On the MT4 platform, you can select a default number of lots when you open a position, making it more convenient for placing same sized trades quickly. To set this up in MT4, simply hover over "**Tools**", and then click on "**Options**". Once there, select the "**Trade**" tab and check the "Default" bullet under "**Size by default**". Now, you can choose the specific number of lots you want to trade with all the time. Then click "**Ok**" once you're done.



PIP & PROFIT CALCULATION

Now that we have learnt how to calculate the number of pips, let us learn what these numbers mean in profits. First, we need to determine the value per pip here:

Value per pip in base currency = (One Pip * Lot size) / Exchange Rate

Assuming that you are trading 1 standard lot of USD/JPY,

Value per pip in USD = (0.01 * 100,000) / 110.673 = $9.03 per pip

Profit in base currency = value per pip * number of pips * lot size

Continuing from the example above, if we buy USD/JPY at 110.673 and close the trade position at 110.973, that gives us 30 pips of profit (110.973 - 110.673). To calculate its value in Dollars, here's how we can calculate it:

Profit in USD = $9.03 * 30 *1 = $270.90

For every currency pair that ends with USD, for example, EUR/USD, GBP/USD, AUD/USD, NZD/USD, the calculation is much simpler. These are the corresponding values per pip in USD, based on the different types of account :

PAIR	CLOSE PRICE	PIP VALUE PER:			
		Unit	Standard Lot	Mini Lot	Micro Lot
EUR/USD	Any	$0.0001	$10	$1	$0.1

So how can we apply this? Assuming that we are buying EUR/USD with the details as follow:

Entry : 1.0500

Take profit : 1.0800

Lot size : 0.50

Account type : Standard Lot

This gives us 30 pips in profit calculated as follows:

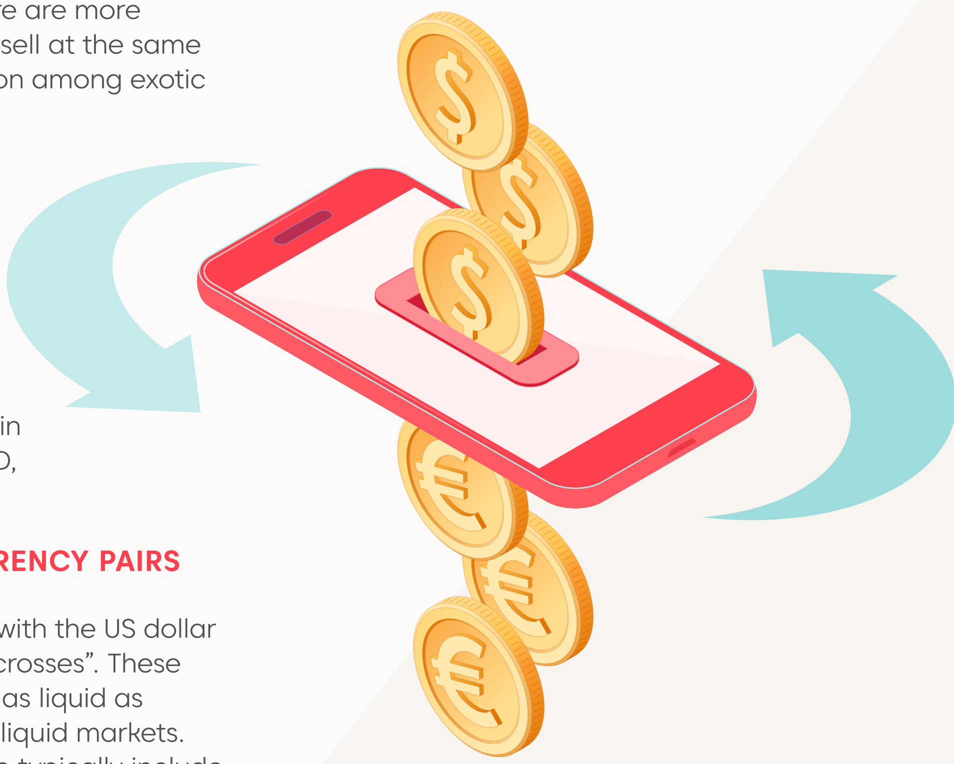
(1.0800 - 1.0500) / 0.0001 = 30 pips

Since the pip value is $10 for every pip in a standard lot account, that gives us a profit of $300 (30 pips * $10/ pip).

2.2 Major, Minor & Exotic currency pairs

MAJOR CURRENCY PAIRS

The major pairs are the most heavily traded currency pairs in the FX markets. Given the huge volume of transactions that occurs on a daily basis, the liquidity translates to lower bid-ask spreads for traders as well. At the same time, there is also a lower chance of slippage – or at least large slippage – occurring, as there are more people in the market willing to buy and sell at the same time. However, slippage can be common among exotic currency pairs as they are less liquid.



Major currency pairs include: EUR, USD, GBP, CHF, CAD, AUD, NZD and JPY. It also refers to any pair containing one of these currencies and the US dollar. They are also known as the G8 currencies due to high liquidity, which means that there is a huge volume of the currency being traded at any point in time. Examples include EURUSD, GBPUSD, USDCAD, AUDUSD, USDJPY and NZDUSD.

MINOR, EXOTIC & EMERGING CURRENCY PAIRS

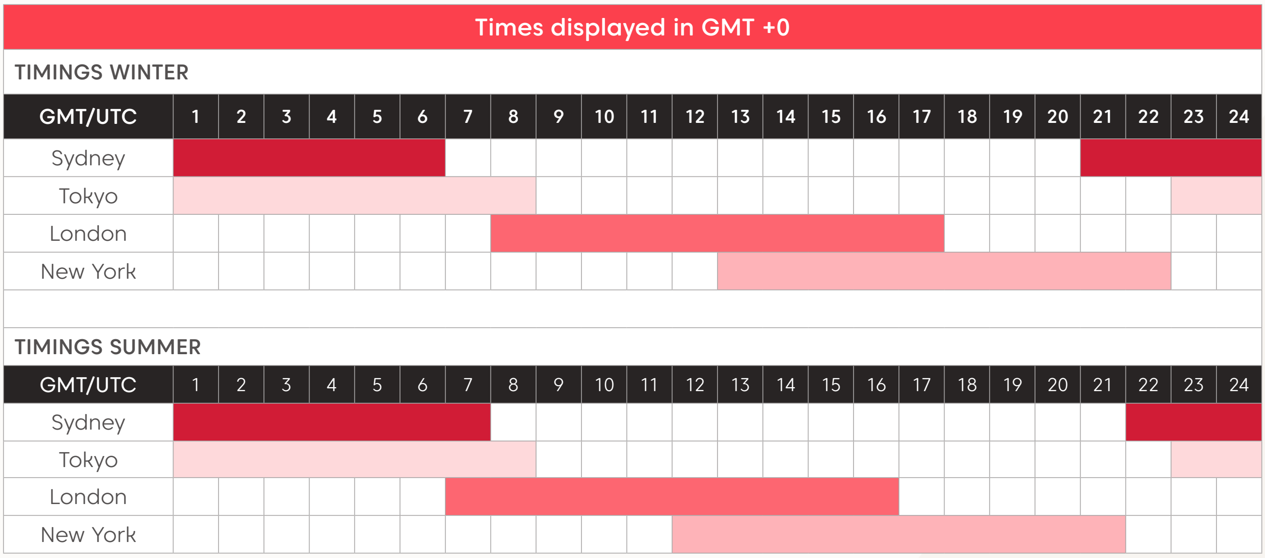
Currency pairs that are not associated with the US dollar are referred to as minor currencies or “crosses”. These have slightly wider spreads and are not as liquid as the majors, but they remain sufficiently liquid markets. Crosses that trade with the most volume typically include individual currencies that are also majors. Some examples of crosses include the GBP/JPY and EUR/JPY.

Exotic currencies are emerging market currencies. As these pairs are not as heavily traded as the G7 major currencies, they have much wider spreads as compared to major or minor currencies. Some examples of exotic and emerging currency pairs are CNH (Chinese Renminbi), ZAR (South Afraican Rand) and BRL (Brazilian Real).

2.3 Tokyo, London and New York sessions

One of the amazing things about the forex market is that it's open 24 hours a day, 5 days a week. A 24-hour forex market offers opportunities for traders worldwide because of its liquidity and trading opportunities.

There are three peak activity sessions in Forex trading: Tokyo, London, and New York sessions. These are known as the Asian, European and North American sessions because these three cities represent the major financial centres for each of the regions. With that in mind, let's delve deeper into each of the sessions.



TOKYO SESSION

First up, we have the Asian session welcoming the markets as we head into the start of a fresh week. There are many countries present during this period; some of the more notable countries include China, New Zealand, Australia and Russia. At the start of the week, Asian sessions are generally met with much lower liquidity as compared to the US and London sessions. The Asian session runs from 11 pm to 8am GMT.

LONDON SESSION

Just before the Asian trading hours come to a close, there will be an hour of overlap with the European trading session before the European traders take over. This trading period is also expanded with the presence of other capital markets (including Germany and France) before the official open in the UK, while the end of the session is pushed back as volatility holds until after the close. Hence, European hours typically run from 7am to 4pm GMT.

NEW YORK SESSION

This session runs from 12am to 8pm GMT. As the New York session traders join the market, it will be accompanied with high volatility given the few hours of overlap with the European session traders. The Western session is dominated by activity in the US, with contributions from Canada, Mexico and countries in South America.

3

Picking your broker

3.1 What to look for in a Forex Broker

LICENSE AND REGULATION

As traders are depositing real money, the first and most important characteristics to look for in a broker is a level of trustworthiness and security. After all, you wouldn't want to hand over your hard-earned money to a fraudulent broker and have them disappear into thin air.

These days it's easy to check the credibility of a broker – at a minimum it should be listed on their website. So what do we check for? To start with, we want to check if the broker is regulated. Each region has its own set of regulations which brokers must abode by in order to retain a financial trading license. Some of these include:

United States	National Futures Association (NFA) and Commodity Futures Trading Commission (CFTC)	**Switzerland**	Swiss Federal Banking Commission (SFBC)
United Kingdom	Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA)	**Germany**	Bundesanstalt für Finanzdienstleistungsaufsicht (BaFIN)
Singapore	Monetary Authority of Singapore (MAS)	**Cayman Islands**	Cayman Islands Monetary Authority (CIMA)
Canada	Investment Information Regulatory Organization of Canada (IIROC)	**Saint Vincent and the Grenadines**	Financial Services Authority (FSA)
Australia	Australian Securities and Investment Commission (ASIC)	**Dubai**	Dubai Financial Services Authority (DFSA)
France	Autorité des Marchés Financiers (AMF)	**New Zealand**	Financial Markets Authority (FCA)

Sometimes you'll notice brokers hold multiple licenses. This means the broker is accountable to multiple regulatory bodies, depending on the location of the trader. Axi operates under three regulatory licenses – ASIC, FCA, and DFSA with a further registered operation in SVG.

TRANSACTION COSTS

This is something that cannot be avoided. Transaction costs are incurred every time you enter a trade and are usually charged through spreads or commission. This is why it's important to choose a broker that offers low commission rates and bid-ask spreads so that transaction costs don't take up a significant chunk of your profits over time. What you want to look out for on a broker website are the terms "low spread" and "low commissions", and to verify these by looking at the actual cost of the live spreads. Of course, it's important never to sacrifice the safety of your money in the pursuit of lower cost!

WITHDRAWAL AND DEPOSITS

Before you deposit any money with a broker, check to see what payment systems they offer and how easy it is to make deposits and withdrawals. A reputable broker should offer a simple and transparent service – preferably online self-service – that indicates processing times, plus has a point of contact if you have any problems.

SAFETY OF FUNDS

Beyond the assurance of the regulatory bodies we discussed above, the safety of your funds – and subsequent accountability in the event of any issues – is paramount. Look for brokers that keep client money in a segregated account and maintain some form of insurance to protect you in case something happens to them. As an example, Axi holds client funds with a Tier 1 global banking institution, and through Axi Limited offers automatic Client Money Insurance (CMI) up to US$1,000,000.

4

Picking your research platforms

4.1 Axi Economic Calendar

As Forex traders, we need to stay on top of the key economic data releases to ensure we're not caught on the wrong side of a trade due to unexpected market volatility. So how do we keep up with these economic data releases? With a tool like the Axi economic calendar **here**.

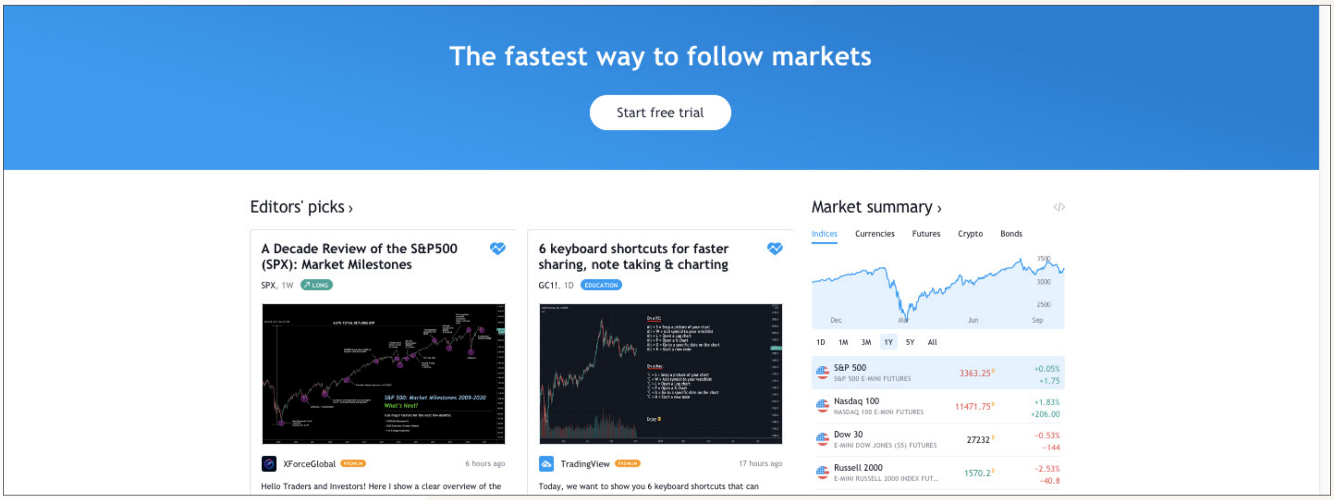
As well as showing the schedule for previous and upcoming data releases, there's a function which allows you to filter by different levels of impact and currencies that you want to focus on.

TUESDAY, NOV 03				
00:00	Eurogroup Meeting			
03:30	RBA Interest Rate Decision	0.10%	0.10%	0.25%
03:30	RBA Rate Statement REPORT			
05:00	RBA's Governor Lowe speech SPEECH			
24h	Presidential Election			
13:00	Purchasing Managers Index (Oct)	50.5	49.2	50.3
13:55	Redbook Index (MoM) (Oct 30)	1.2%		0.8%
13:55	Redbook Index (YoY) (Oct 30)	3.2%		1.2%
14:10	GDT Price Index	-2.0%		0.4%
14:45	ISM-NY Business Conditions Index (Oct)	65.1		56.1
15:00	Factory Orders (MoM) (Sep)	1.1%	1.0%	0.6%
18:00	52-Week Bill Auction	0.135%		0.140%
20:30	Total Vehicle Sales (Oct)	16.2M		16.3M
21:30	API Weekly Crude Oil Stock (Oct 30)	-8.01M		4.55M
21:30	AIG Performance of Construction Index (Oct)	52.7		45.2
21:45	Unemployment Rate (Q3)	5.3%	5.4%	4.0%
21:45	Employment Change (Q3)	-0.8%	-0.8%	-0.3%
21:45	Participation Rate (Q3)	70.1%	70.0%	69.9%

Source: Axi

4.2 TradingView

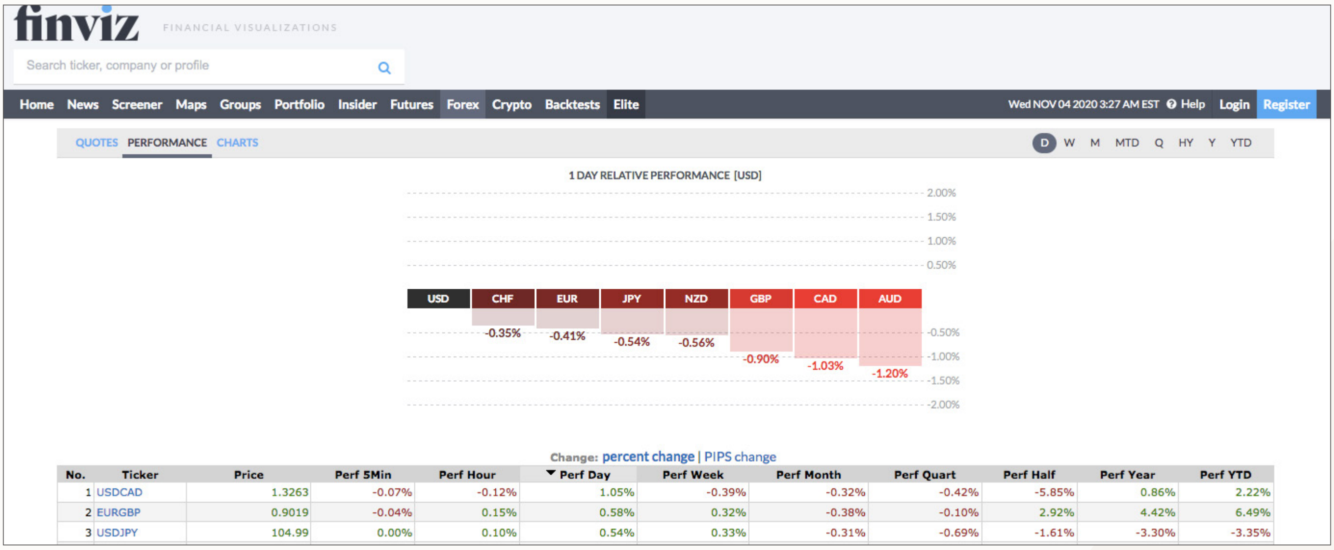
TradingView is another extremely popular platform among chartists. It's essentially a social community platform for traders to interact and share their trading ideas. Apart from the community aspect, TradingView is one of the best platforms for charting, coming with hundreds of pre-built studies, 50+ intelligent drawing tools and a set of tools for in-depth market analysis, covering the most popular trading concepts. It's also free to sign up, which you can do **here**.



Source: Trading View

4.3 FINVIZ

Finviz is a tool that's useful for scanning and tracking the performance of the markets. Essentially, this is a company research platform you can use to easily access market information. If you're trading forex, you may want to consider using this **tool** to give you an overview of how the different currencies fare against their peers.

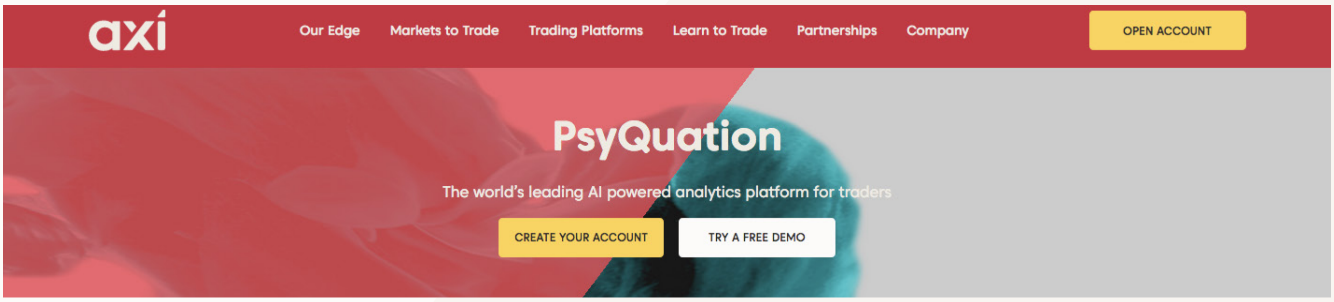


Source: FINVIZ

4.4 PsyQuation

Built with Artificial Intelligence and Machine Learning, PsyQuation works like your own private trading coach. It analyses your unique trading history and style then helps improve profitability of your trades by alerting you to potential mistakes, based on your likely trading behaviour. With advanced AI and algorithms constantly analysing your trading behaviour, you'll be alerted when you're entering a potentially risky trade.

Once you build a PsyQuation Score and can consistently prove your trading ability, your score can be used as a benchmark for significant funding and mentorship through the **Axi Select program**, helping you build a career as a professional trader. You can find out more about PsyQuation **here**.



5

Picking your trading platform

5.1 MetaTrader 4 Platform

MetaTrader 4 is the world's most popular platform for trading Forex, analyzing financial markets and using Expert Advisors (for automated trading); it's also the default trading platform for Axi clients. Key features that enhance your Forex trading experience include mobile trading, trading signals and an in-built market. Although most commonly associated with forex trading, MT4 can also be used to trade a range of markets including indices, cryptocurrencies and commodities, all via CFDs.

We've created a dedicated **Guide to MT4**, which you can download here.

Can't download MT4 (or don't want to)? Trade on the WebTrader MT4 platform here.

6

Fundamental Analysis vs Technical Analysis

6.1 Fundamental Analysis

Fundamental analysis is done by analysing the macroeconomic landscape, social and political forces and their impact on currency movements. Apart from looking at key economic indicators which could provide an insight into the health of the economy, market risk sentiment is a key driver of currencies as well.

For example, the USA's decision to impose tariffs on Chinese goods resulted in heightened geopolitical tensions and could cause investors to be more cautious. Hence, they would seek out safe-haven investments such as the gold and US dollar in times of uncertainty, which could in turn push the value of these assets higher. This is a demonstration of how supply and demand will ultimately determine price, or in our case currency exchange rates.

So what would you look out for when analysing factors that might affect the supply and demand of currency pairs? Here is a list of things that you might want to look at:

ECONOMIC INDICATORS

Economic indicators can be useful in providing an overview of the economic health of a particular country. Traders usually keep an eye on these commonly used indicators:

Consumer Price Index (CPI)	CPI measures the price changes in the economy; generally speaking, a higher CPI number is beneficial for the currency, and vice versa.
Gross Domestic Product (GDP)	GDP represents the total market value of all goods and services produced in a country during a given year. Generally speaking, an improvement in GDP numbers benefits the currency, and the inverse is also true.
Unemployment Rate	One of the most significant unemployment rate data is the US non-farm payroll numbers, released on the first Friday of every month. This gives an overall view of the labour market in the US, which is currently the world's largest economy. A low unemployment rate represents a healthy economy while a high unemployment rate could see a need for intervention by central banks. This brings us on to the next point on interest rates and inflation.

Interest Rates	The biggest factor influencing the Forex market is interest rate changes made by any of the eight global central banks. If there is an unexpected rate hike (an increase in interest rates), the currency will move higher. Conversely, if there is an unexpected rate cut (a decrease in interest rates), this could lead to traders selling the currency and buying currencies with higher interest rates. Hence, it's important to keep a close watch on the economic calendar for the different central banks' interest rate decisions.

Here is an example of the eight global central banks and their interest rate information:

Central Bank	Current Rate	Next Meeting	Last Change
Federal Reserve (FED)	0.00%-0.25%	Nov 05, 2020	Mar 15, 2020 (-100bp)
European Central Bank (ECB)	0.00%	Dec 10, 2020	Mar 10, 2016 (-5bp)
Bank of England (BOE)	0.10%	Nov 05, 2020	Mar 19, 2020 (-15bp)
Swiss National Bank (SNB)	-0.75%	Dec 17, 2020	Jan 15, 2015 (-50bp)
Reserve Bank of Australia (RBA)	0.10%	Nov 03, 2020	Nov 03, 2020 (-15bp)
Bank of Canada (BOC)	0.25%	Dec 09, 2020	Mar 27, 2020 (-50bp)
Reserve Bank of New Zealand (RBNZ)	0.25%	Nov 11, 2020	Mar 15, 2020 (-75bp)
Bank of Japan (BOJ)	-0.10%	Dec 18, 2020	Jan 29, 2016 (-20bp)

Source: Investing.com

MARKET RISK SENTIMENT

Market sentiment reflects investors' confidence towards the economy and market outlook. There are 3 categories when we talk about market sentiment; bullish (risk-on), bearish (risk-off) or neutral. But how are these categories applicable to our trading?

In a risk-on environment, we want to buy high beta currencies such as AUD, NZD, CAD, EUR or GBP and sell safe-haven currencies such as USD, JPY and CHF. Conversely, in a risk-off environment, we want to sell high beta currencies and buy safe-haven currencies instead.

So how do we determine market risk sentiment? Here are the four key indicators to look at:

VIX	The VIX is also known as the "fear index". A rising VIX would mean that investors are more risk averse and pessimistic about the market outlook. Hence, they would look to invest in safe-haven assets such as JYP, USD, CHF and Gold, thereby pushing their prices higher. On the other hand, a decreasing VIX means that investors are more optimistic about the market outlook and it could boost currencies such as AUD, NZD, CAD, EUR and GBP.
Dollar Index	The Dollar Index compares the value of the US dollar against a basket of currencies – namely the most significant trading partners of the US. Generally speaking, the Dollar Index will move higher in a risk-off environment and lower in a risk-on environment.

US 10 Year Treasury Yield:	The 10-Year Treasury Yield is a reflection of investors' confidence. Generally speaking, treasury yields move higher in a risk-on environment and push lower in a risk-off environment. This is because Treasury bills, notes and bonds are fully backed by the US government, thus they are perceived to be one of the most secure investments. So when investors are more risk-loving, demand for these safe-haven assets decrease, thereby pushing prices lower and yields higher.
S&P 500, Dow Jones Industrial Average (DJIA) & NASDAQ Composite	These are US stock market indices, which is also a measure of the global economic health. So how do we interpret them? When the stock indexes are rising, it signals a risk-on environment while a declining stock index signals risk-off market sentiment.

6.2 Technical Analysis

WHAT IS TECHNICAL ANALYSIS?

Technical analysis is a common form of analysis in trading that is used to read and attempt to forecast the markets. It is essentially price forecasting through recognizing repetitive shapes and patterns within historical price structures in charts, then determining the most viable time to enter and exit a trade. It follows the theory that historical price movements repeat themselves and that all current market information is reflected in prices.

In a nutshell, it is applying different studies (things like trend lines, moving averages, indicators, etc.) onto the chart and trying to understand what might happen next.

Technical analysis cannot accurately predict future price movement all the time. It is definitely not a crystal ball through which you can tell the future. Instead, you should try to see it as a guide that can help anticipate what is likely to happen to prices over time. When using technical analysis to trade, always think in terms of probabilities. From there, you can make more well-informed decisions about where and when you want to place your trades. However, it's important to note that technical analysis tends to works well when these 3 key points remain valid:

- **High Liquidity:** For technical analysis to be accurate, the asset must have reasonable liquidity (i.e. trading volume). This is because assets that are traded heavily are more resistant to manipulation by other investors, reducing the risk of dramatic price changes. On the other hand, thinly-traded assets can be more easily manipulated by investors, which would affect the accuracy of technical analysis. Thankfully, the forex market is one of the most liquid markets in the world, which is one of the reasons technical analysis tends to work well on it.

- **No Extreme News:** Technical analysis tends not to work well when there are high volatility news events that can swing the markets wildly. This is because these news events tend to be driven by strong emotions and panic.
- **Less Noise:** When you are on the lower time frames (e.g. 1 minute or 5 minute charts), there tends to be a lot more "noise". Any news event can cause prices to jump off your screen so, to avoid such situations, one can go to the higher time frames (such as 1 hour, 4 hour and even 1 day charts) where even bigger news events wouldn't cause prices to move too wildly.

WHAT TO LOOK OUT FOR IN TECHNICAL ANALYSIS?

Technical analysis is one of the most widely used types of analysis in Forex trading. However, it may be confusing for new traders to pick and choose when there are so many different technical analysis tools available.

So, when you're starting to use technical analysis, there are 3 main points to look out for..

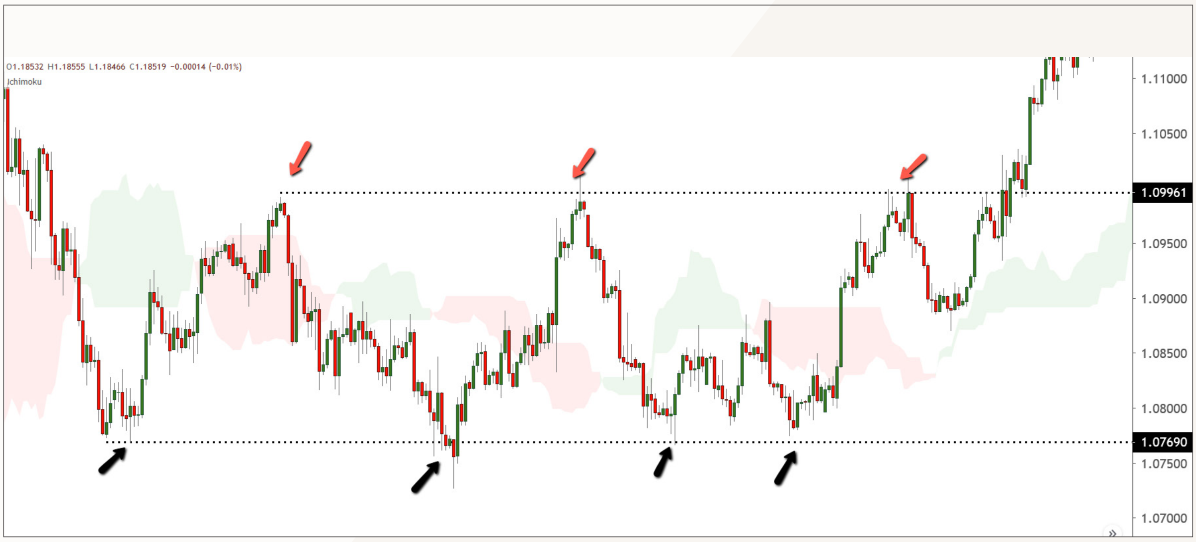
1. **Overall Trend:** Always remember this saying: The trend is your friend. Think of this as the big picture of the movement of a currency. There are 3 types of trends: uptrends, downtrends or sideways.
    - **Uptrends** are defined as a series of higher lows and higher highs - these rises should be obvious when viewed on a chart.
    - **Downtrends** are defined as a series of lower highs and lower lows. Similarly, we can easily see that prices are pushing lower.
    - **Sideways trends** (also known as ranging) are a series of highs and lows within a relatively flat or compressed range – these usually happen when there isn't a clear direction in the market.

Once you know the trend, it helps to trade in the direction of it (as its momentum would naturally help you). So in an uptrend, it tends to be better to look to buy on weakness (or dips). The same way in a downtrend, it tends to be better to look to sell on strength. This sounds a lot easier than it really is, though. But don't worry - we'll be going into the art of technical analysis in our upcoming ebooks.

2 **Strong Areas of Support or Resistance:** If a price level held at key support or resistance levels in the past, it's useful to keep an eye out for it and base your trades around that historical price level. This is because the very concept of technical analysis is that prices tend to respect patterns, and if prices tend to bounce nicely at a previous level in the past there's a higher chance that it

might do the same when history repeats itself. Of course, this is an oversimplification and we'll look into how to identify these support and resistance levels in more detail in our next ebooks.

3 **Indicators:** One of the most popular sets of tools used for technical analysis is indicators. There are oscillators (such as the Stochastic, RSI and MACD) and there are moving averages. These are "studies" you load onto your chart to help you better interpret the market. It's a great way to analyze the markets so we'll dive deeper into ways we can use various indicators to forecast the markets in our upcoming eBooks.



EXAMPLE OF TECHNICAL ANALYSIS

Here's a sample technical analysis of EUR/USD. You can see that the price bounced repeatedly off the horizontal line. This is a very simple analysis using simple support to look for levels that price might continue to bounce from.

7

Demo vs Live Trading

7.1 When are you ready to go live?

Now, one of the key questions traders tend to ask themselves is: should I continue trading on a demo account, or should I start live trading?

Personally, I go by the rule that you should use demo trading to make your trading mistakes that are platform related. But once you're familiar with how the trading platform (in this case, MT4) works, you should proceed to trade on a live account – albeit with a small amount to begin with.

The reason for this is that the psychological pressure in trading a $100 live account is much more beneficial to your growth as a trader versus trading a $100,000 demo account where there's no risk or stress. Quite simply, nothing replaces the feeling of trading a live account – even if it is only a small one. There have been many traders who trade amazingly well on a $100,000 demo account but fail the moment they make the transition to a $1,000 live account. The reason is the psychological difference between trading fake money and trading real money – it's like practicing diving in a swimming pool versus the wild unforgiving ocean.

7.2 Creating a Demo Account

Creating a demo account is the best way to become familiar with the MT4 platform. It gives you a chance to understand how it works, make mistakes and learn from them. If you were to make an error with lot sizes, for example, it's much better to make it on a demo account with virtual money, as opposed to a live account with your real money in it.

Axi offers a Demo account which is free for 30 days, or unlimited when you open a Live account.

TRY FREE DEMO

7.3 Transitioning to a Live trading account

Once you've become familiar with the MT4 environment, it's time to open a live account. It doesn't have to be funded with a lot of money (I personally recommend starting off a bit more conservatively) as a small amount will still give you an indication of your trading ability. Ultimately, if you can trade well with $100, you can do so with $1,000 or $10,000.

But it's important not to wait too long before taking that vital step into live trading – you don't want to waste six months practicing in a demo environment only to realize you can't replicate the performance in a live environment.

OPEN LIVE ACCOUNT

Have questions?

EMAIL

CALL US

CHAT

Ready to start trading?

Open your account. Trade within minutes.

OPEN ACCOUNT

TRY FREE DEMO

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