CENTURY FINANCIAL BROKERS

Glossary of Forex Terms

An Introduction to the Language of the Forex Markets

A

Accrual - The apportionment of premiums and discounts on forward exchange transactions that relate directly to deposit swap (Interest-Arbitrage) deals , over the period of each deal.

Adjustment - Official action normally by either change in the internal economic policies to correct a payment imbalance or in the official currency rate or. Adjustment - Official action normally by either change in the internal economic policies to correct a payment imbalance or in the official currency rate or.

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.

Ask (Offer) Price - The price at which the market is prepared to sell a specific Currency in a Foreign Exchange Contract or Cross Currency Contract. At this price, the trader can buy the base currency. In the quotation, it is shown on the right side of the quotation. For example, in the quote USD/CHF 1.2627/32, the ask price is 1.2632; meaning you can buy one US dollar for 1.2632 Swiss francs.

At Best - An instruction given to a dealer to buy or sell at the best rate that can be obtained.

At or Better - An order to deal at a specific rate or better.

B

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

Bar Chart - A type of chart which consists of four significant points: the high and the low prices, which form the vertical bar, the opening price, which is marked with a little horizontal line to the left of the bar, and the closing price, which is marked with a little horizontal line of the right of the bar.

Base Currency - The first currency in a Currency Pair. It shows how much the base currency is worth as measured against the second currency. For example, if the USD/CHF rate equals 1.2615 then one USD is worth CHF 1.2615 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.

Bid Price - The bid is the the price at which the market is prepared to buy a specific Currency in a Foreign Exchange Contract or Cross Currency Contract. At this price, the trader can sell the base currency. It is shown on the left side of the quotation. For example, in the quote USD/CHF 1.2627/32, the bid price is 1.2627; meaning you can sell one US dollar for 1.4527 Swiss francs.

Bid/Ask Spread - The difference between the bid and offer price. Big Figure Quote - Dealer expression referring to the first few digits of an exchange rate. These digits are often omitted in dealer quotes.. For example, a USD/JPY rate might be 117.30/117.35, 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 desk's 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.

Bull Market - A market distinguished by rising prices.

Bundesbank - Germany's Central Bank.

C

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.

Cash Market - The market in the actual financial instrument on which a futures or options contract is based.

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.

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.

Cleared Funds - Funds that are freely available, sent in to settle a trade.

Closed Position - Exposures in Foreign Currencies that no longer exist. The process to close a position is to sell or buy a certain amount of currency to offset an equal amount of the open position. This will 'square' the postion.

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'.

Contingent order - An order which is to be executed only if another order is executed first. An example of a contingent order would be to sell one specific security if another specific security has been bought. Brokers often do not like to work with these orders, given the uncertainty and extra work involved.

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

Commission - A transaction fee charged by a broker.

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

Contract - The standard unit of trading.

Counter Currency - The second listed Currency in a Currency Pair.

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.

Cross Currency Pairs or Cross Rate - A foreign exchange transaction in which one foreign currency is traded against a second foreign currency. For example; EUR/GBP

Currency Symbols
AUD - Australian Dollar
CAD - Canadian Dollar
EUR - Euro
JPY - Japanese Yen
GBP - British Pound
CHF - Swiss Franc

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

Currency Pair - The two currencies that make up a foreign exchange rate.
For Example, EUR/USD

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

D

Day Trader - Speculators who take positions in commodities which are then liquidated prior to the close of the same trading day.

Dealer - An individual or firm that 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.

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.

E

Economic Indicator - A government issued statistic that indicates current economic growth and stability. Common indicators include employment rates, Gross Domestic Product (GDP), inflation, retail sales, etc.

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.

European Monetary Union (EMU) - The principal goal of the EMU is to establish a single European currency called the Euro, which will officially replace the national currencies of the member EU countries in 2002. On Janaury1, 1999 the transitional phase to introduce the Euro began. The Euro now exists as a banking currency and paper financial transactions and foreign exchange are made in Euros. This transition period will last for three years, at which time Euro notes an coins will enter circulation. On July 1,2002, only Euros will be legal tender for EMU participants, the national currencies of the member countries will cease to exist. The current members of the EMU are Germany, France, Belgium, Luxembourg, Austria, Finland, Ireland, the Netherlands, Italy, Spain and Portugal.

EURO - the currency of the European Monetary Union (EMU). A replacement for the European Currency Unit (ECU).

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

F

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

Federal Reserve (Fed) - The Central Bank for the United States.

First In First Out (FIFO) - Open positions are closed according to the FIFO accounting rule. All positions opened within a particular currency pair are liquidated in the order in which they were originally opened.

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.

Foreign Exchange - (Forex, FX) - the simultaneous buying of one currency and selling of another.

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.

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

Fundamental Analysis - Analysis of economic and political information with the objective of determining future movements in a financial market.

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 Contacts - ETC), versus forwards, which are considered Over The Counter (OTC) contracts. An OTC is any contract NOT traded on an exchange.

FX - Foreign Exchange.

G

G7 - The seven leading industrial countries, being US , Germany, Japan, France, UK, Canada, Italy.

Going Long - The purchase of a stock, commodity, or currency for investment or speculation.

Going Short - The selling of a currency or instrument not owned by the seller.

Gross Domestic Product - Total value of a country's output, income or expenditure produced within the country's physical borders.

Gross National Product - Gross domestic product plus income earned from investment or work abroad.

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

H

Hedge - A position or combination of positions that reduces the risk of your primary position.

"Hit the bid" - Acceptance of purchasing at the offer or selling at the bid.

I

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.

Intervention - Action by a central bank to effect the value of its currency by entering the market. Concerted intervention refers to action by a number of central banks to control exchange rates.

K

Kiwi - Slang for the New Zealand dollar.

L

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

Leverage - Also called margin. The ratio of the amount used in a transaction to the required security deposit.

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 117.00/05, then a limit order to buy USD would be at a price below 102. (ie 116.50)

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

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

Long position - A position that appreciates in value if market prices increase. When the base currency in the pair is bought, the position is said to be long.

Lot - A unit to measure the amount of the deal. The value of the deal always corresponds to an integer number of lots.

M

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

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 customer.

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.

N

Net Position - The amount of currency bought or sold which have not yet been offset by opposite transactions.

O

Offer (ask) - The rate at which a dealer is willing to sell a currency. See Ask (offer) price

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 - An active trade with corresponding unrealized P&L, which has not been offset by an equal and opposite deal.

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

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

Order - An instruction to execute a trade at a specified rate.

P

Pips - The smallest unit of price for any foreign currency. 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.

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.

Profit /Loss or "P/L" - The actual "realized" gain or loss resulting fromtrading activities on Closed Positions, plus the theoretical "unrealized" gain or loss on Open Positions that have been Mark-to-Market.

Q

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

R

Rally - A recovery in price after a period of decline.

Range - The difference between the highest and lowest price of a future recorded during a given trading session.

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.

Risk - Exposure to uncertain change, most often used with a negative connotation of adverse change.

Risk Management - the employment of financial analysis and trading techniques to reduce and/or control exposure to various types of risk.

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.

Round trip - Buying and selling of a specified amount of currency.

S

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 the actual physical exchange of one currency for another.

Short Position - An investment position that benefits from a decline in market price. When the base currency in the pair is sold, the position is said to be short.

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

Spread - The difference between the bid and offer prices.

Square - Purchase and sales are in balance and thus the dealer has no open position.

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.

Support Levels - A technique used in technical analysis that indicates a specific price ceiling and floor at which a given exchange rate will automatically correct itself. Opposite of resistance.

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

Swissy - Market slang for Swiss Franc.

T

Technical Analysis - An effort to forecast prices by analyzing market data, i.e. historical price trends and averages, volumes, open interest, etc.

Tick - A minimum change in price, up or down.

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

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

Transaction Date - The date on which a trade occurs.

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.

U

Unrealized Gain/Loss - The theoretical gain or loss on Open Positions valued at current market rates, as determined by the broker in its sole discretion. Unrealized Gains' Losses become Profits/Losses when position is closed.

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.

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

V

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 unfavorable price movements.

Volatility (Vol) - A statistical measure of a market's price movements over time.

W

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.

Glossary of Forex Terms: An Introduction to the Language of the Forex Markets has been prepared as a service to the investing public by:

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