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EXECUTIVE SUMMARY

The main aim of the project is to gain a good knowledge in currency and commodity market in foreign exchange, how to trade in a foreign currency market, Procurement of new trading account, examining the risk and reward ratio. In this internship we were trained for 3 weeks on foreign exchange market and got a hands-on experience by trading in the Demo account. Finally, we procured a real trading account and started trading by analysing fundamental, technical and sentimental aspects of currency market.
CHAPTER – 1

INTRODUCTION
• **INTRODUCTION:**

Analytical studies on Foreign Exchange Market has three types of analysis-technical, fundamental and sentiment. Technical analysis is about the study on price movement based on the historical data using charts and determine current trading conditions. Fundamental analysis is predicting market by analysing on economic data, social, and political forces like unemployment rate, interest rate, inflation rate that may affect the supply and demand of an asset. The CFD markets do not simply reflect all the information out there because traders will all just act the same way. Traders go along with the trend and due to this market fluctuates.

• **OBJECTIVES:**

1. learning on international currencies and commodities.
2. Trading on virtual money.
3. Advising and acquiring new clients.
4. Trading on real account or Portfolio management.
5. Examining the risk and rewards ratio in trading.
6. To educate and advise individuals on investment decisions.
7. Understanding economic data and its impact.
8. Procurement of new De-mat and trading account.
9. Fix up appointments with HNI investors, make presentations, follow up and close the deals.
10. Handling calls in a consistently polite, professional and efficient manner.
11. Providing excellence service to customers through telephone.
12. Responsible for initiating calls.
13. Provide customers with product and service information.

• **METHODOLOGY:**

The project mainly deals with analytical and descriptive research. The study depends on past historical charts using candlestick patterns, indicators, fundamental news from websites like Forexfactory, Bloomberg, investing etc.

• **LITERATURE REVIEW:**

Money is traded in Foreign Exchange Markets. CFD (Contract for difference) is a financial derivative that allows traders to obtain profits from price movements of an asset without owning it. Trading a currency, say GBP (Great Britain Pound) is buying a share in the British Economy. Exchange rate of a currency versus other currencies reflects the
country’s economic strength as compared to other countries. An exchange rate is simply the ratio of one currency valued against another currency.

In Foreign Exchange Markets, there are several major currencies which include USD (United States Dollar), EUR(Euro), JPY(Japanese Yen), GBP(Great Britain Pound), CHF(Swiss Franc), CAD(Canadian Dollar), AUD(Australian Dollar), NZD(New Zealand Dollar). Foreign Exchange trading is simultaneously buying one currency and selling another. Trading is buying or selling in pairs. Currency Pairs not containing USD are called as called crosses/minors. Major currency paired with currency of an emerging economy is called an Exotic Pair. Most traded currencies include Dollar: 84.9%, Euro: 39.1%, Yen:19%. Currencies total 200% instead of 100% in this case since there is a currency pair. Foreign Exchange market enable huge trading volume to happen with very little price effect. Different types of ways to trade are SPOT Forex, Currency Futures, Currency Options and Currency ETFs (Exchange Traded Funds). There are various advantages of Foreign Exchange Trading. They include Low barriers to entry, High liquidity, 24hour market, Low barriers to entry, No fixed lot size, No commission, Low Transaction Cost, No Middlemen. Another concept is Leverage. Leverage gives the trader the ability to make nice profits and at the same time keep risk capital to a minimum. Without proper risk management, high degree of leverage can lead to large losses. Major players in the Foreign Exchange Market are The Super Banks followed by large commercial Companies, Government and Central Banks and the speculators respectively. There are various sessions in Foreign Exchange market that are called as forex trading sessions. The major time zones in these sessions are the Sydney, Tokyo, London and New York. The best time to trade is an overlap of two sessions. For example: Tokyo-London overlap and London-New York session (Detailed chart of Currency Market and their time zones is given in Chart1 below). A currency whose mentioning is before the other one is called a base currency. While the other is called a quote currency. For example, in GBP/USD, GBP is the base currency and USD is the quote currency. When BUYING, exchange rate tells how much one has to pay in quote currency in order to buy one unit of base currency. It’s the opposite in the case of SELLING. The base currency is always the basis for the buy/sell. Forex quotes are quoted with “Bid” and “Ask”. Bid is the price at which a broker is willing to buy the base currency for a quote currency and Ask is the price at which a broker is willing to sell a Base currency for a quote currency. The difference between bid and ask is called “SPREAD”. “SPREAD” is calculated in “PIPS”. While buying, ASK Price is used and while selling, BID price is used. There are various types of orders in a foreign exchange trade. They are Market Execution, Limit Entry Order, Stop Entry Order and Stop Loss Order. There are three types of analysis for a Foreign Exchange Market and a CFD Market. They are Technical Analysis, Fundamental Analysis and Sentimental Analysis. Fundamental analysis is looking at the social, economic and political factors that may affect the demand for a commodity or currency. Technical analysis involves studying price movements using candlestick patterns, bar charts, line charts, statistical operations and past patterns.
CHAPTER – 2
INDUSTRY AND COMPANY PROFILE
• **INDUSTRY PROFILE:**

The foreign exchange (or forex) market is for trading currencies, one pair against another. It’s the world’s largest market, consisting of almost $5.3 trillion in daily volume and is growing rapidly. The value of one currency is determined by its comparison to another currency via the exchange rate. The major currencies traded most often in the foreign exchange market are the euro (EUR), United States dollar (USD), Japanese yen (JPY), British pound (GBP) and the Swiss franc (CHF).

These combine to form the most commonly traded currency pairs:

- EUR/USD
- USD/JPY
- GBP/USD
- USD/CHF

The first currency of a currency pair is the base currency; the second currency in the pair is the counter currency. One can think of currency pairs as a single unit. When buying a currency pair, the base currency is being bought, while the counter currency is being sold. The opposite is true when selling a currency pair. Foreign currency trading is conducted without a central exchange, but instead is traded over-the-counter (OTC). Unlike other markets, this decentralization allows traders to choose from many different dealers or brokers with which to place trades. This also provides the means to compare prices and pip spreads before buying or selling. A number of tools and charts are used in forex currency trading and the educated trader uses these tools extensively to perform accurate analysis to determine whether to buy or sell a given currency pair. The forex market is operated in Europe, Asia and the United States in overlapping shifts, so currencies are constantly traded 24 hours a day. No single entity has the capability of influencing the market – at least for very long. Currency trading – at its most basic definition – is the act of buying and selling (trading) different currencies of the world. A typical scenario might go something like this: A trader is looking at the British pound (GBP) and U.S. dollar (USD). This is called a currency pair. The GBP is the base currency, and the USD is the secondary currency. News that the value of the GBP is up from previous reports creates a positive reaction and a spike in the value of the GBP. This, in turn, will cause a rally on the GBP/USD currency pair. If the opposite occurred, and a positive announcement for the USD was reported, then the GBP/USD currency pair will fall, or dip. Either scenario can offer up a profit, depending on which part of the currency pair is bought or sold. The price of each currency within the pair is determined by several factors, such as changes in political leadership, economic booms or busts, even natural disasters.
Predicting the Forex market:

The Forex market is very complicated and affected by many factors. Nevertheless, the price is always a result of all supply and demand forces. The demand and supply is influenced by several elements which can be put into three categories:

1. Economic Factors

This means the economic conditions and economic policy of a currency zone. The economic policy includes fiscal policy and monetary policy. The economic conditions consist of government budget deficits or surpluses, balance of trade levels and trends, inflation levels and trends and economic growth and health.

2. Political Conditions

This influence can be seen very strong during election time. Also in political unstable countries this is a major influence on the currency price.

3. Market Psychology

This is a major influence in day trading. Currency speculators immediately react to the announcement of a specific economic number. This often results in a market being ‘oversold’ or ‘overbought’.

• COMPANY PROFILE:

StarFing (Star Financial Group) is a leading share, stock, commodity and currency broking company which is headquartered in India. It has a diversified client base and operates on a unique retail focused stock trading model.

StarFing provides training with a simple aim to teach the investors how to invest money and earn profits. StarFing’s trading program offers a full range of financial training course; everything is based on price action trading. StarFing’s mission is to provide comprehensive and innovative brokerage solutions backed-up by reliable support services at extremely competitive prices to their clients.

StarFing’s vision is to remove complexity out of the trading equation and envisions becoming one of the leading financial service providers in the country. With a view to make bulk trading cost-effective, StarFing has strategically planned their pricing with no commission charges so that their customers benefit immensely without having to worry about excessive brokerage fees. They also offer personalized pricing plans to suit individual trader preferences. Therefore, the customers not only get rates at competitive prices, but also get the option to avail customized rate plans to suit their trading styles and requirements. With the help of such aggressive customized plans and cost-effective business model, StarFing provides substantial leverage to their customers.
The main motive of StarFing is to help the client in creating and enhancing their wealth. StarFing provides a variety of investment opportunities to its clients. Some of the best areas where clients can invest are:

- Insurance
- Real estate
- Financial Markets
- Bombay Stock Exchange
- National Stock Exchange
- MCX
- NCDEX
- CFD

StarFing’s approach is always clients’ benefit which comes first. Their success depends upon the fact that they understand the risk and objectives of each client and guide them.

StarFing provides the following guidance to their clients:

1. Financial Planning - As a person ascend newer highs in their life, their aspiration and needs grow proportionately. These ever-increasing needs are further compounded by inflation, which depreciates the purchasing power of people. Therefore, to achieve such dreams one must carefully plan their finances. This can be done via a sound financial planning that considers the persons current and future needs, their individual risk profile and individual income to chart out a roadmap to meet the anticipated needs.

2. Investment Planning - Placing of funds into the proper investment areas based on the investors future goals, time horizon and priorities by considering the security of the investment as well as the liquidity and level of return. Proper investment planning will allow the investor’s funds to produce financial rewards over time.

3. Risk Management – Risk management is a continuous process to identify, analyse evaluate and treat loss exposures and monitor risk control to mitigate the adverse effects of loss. While a variety of different strategies can mitigate or eliminate risk, the process for identifying and managing the risk, threats and the vulnerability towards the asset to be assessed first is the most important task.
CHAPTER – 3
THEORETICAL BACKGROUND
History of Financial Markets

Financial markets began to emerge as early as the 12th century in France because people wanted to manage and regulate the debts of agricultural on behalf of banks. The first “brokers” were men who traded with debts for the banks. Some men gathered in a building called “Van der Beurze” in what is now Antwerp, Belgium. This became their primary place for trading and also institutionalizing a formal way of trading. This idea spread around neighbouring countries and it opened in different places across Europe. In Venice bankers began to trade government securities, something which was possible because these bankers were in independent city states ruled by influential citizens. Italian companies were the first to issue shares and all other companies in England and Netherlands followed suit. The Dutch East India Company which was founded in 1602 was the first joint-stock company (corporation/partnership of two or more individuals who own shares of that company) to get a fixed capital stock and consequently, continuous trading in company stocks started on the Amsterdam Exchange. This created room for active trading in various derivatives. Since then there are stock markets developed in most developing economies.

Emergence of the Foreign Exchange Market

Money exchange has been around in different forms for thousands of years. Evidently, its practice has been evolving throughout time. The first currency traders were the moneychangers from the Middle East introducing the coin exchange between cultures. A different form of currency was first utilized by the Babylonians who utilized paper bills and receipts. However, this idea was later implemented during the middle ages to ease the foreign money exchange trading for merchants.

Long before the foreign exchange market was created in 1973 as it is known today, it went through several alterations during its early stages. At the end of World War I, it stopped being a quite stable market. The volatility as well as the speculative activity increased which was not as promising for many institutions at the time. Moreover, the elimination of the gold standard
in 1913 along with the Great Depression caused the market to lose activity. Changes made to the market from 1931 to 1973 extremely affected the global economies and speculative activity was nearly null.

The WWII had an enormous effect in the development of the forex market and some currencies. After the stock market crash of 1929 the US dollar was but an unsuccessful currency until the WWII turned it around making it the most popular benchmarking currency. While on the contrary, the Great British Pound was tremendously affected by the Nazis losing its popularity as a major currency. It was not until the end WWII that in efforts to support the global economies Great Britain, France and the United States joined forces. Due to the United States was the only untouched country by war, the three nations met in Bretton Woods, New Hampshire, at was it was called the United Nations Monetary and Financial Conference. At the conference the Bretton Woods Accord was established to provide a safe setting in which global economies could reinstate themselves. The pegging of currencies and the International Monetary Fund (IMF) were established by the Bretton Woods Accord. Major currencies pegged to the United States currency given its strength at the time, and fluctuation of one percent on both sides of the set standard was allowed for these currencies. In case a currency’s exchange rate would reach the limit on either side of the standard, the banks were responsible for bringing the rate back into the range. The agreement failed eventually, but brought back stability for Europe and Japan’s economy.

Similar agreements were established with a greater fluctuation band for currencies such as the Smithsonian Agreement in 1971 and The European Joint Float in 1972. This last agreement was an attempt by the European society to be independent form the United States currency. Yet, in 1973 both agreements failed committing similar mistakes to the Bretton Woods Accord, and the free floating-system emerged as a result. This system was officially accredited in 1978 allowing currencies to freely peg or float. During the same year a second effort for independence from the US dollar was made by Europe presenting the European Monetary System which shared the same faith of prior agreements failing in 1993.

Since then the free-floating system has been used world-wide allowing currencies to move freely from other currencies and letting anyone to become a trader. Speculative activity
has increased from all types of traders, from bank to just an individual trader. Sporadically central banks would interfere to move currencies to their levels. However, the forex market working on supply and demand has been the main factor that caused its success since the global free-floating system.

This great market was only open to banks and big corporations; nevertheless, thanks to the advances in technology it became available to everyone in 1995. Unlike traditional trading in which traders were required to meet in a single location called trading rooms to perform the transactions, the Internet allowed individuals to trade from home at any time. These advantages allowed the foreign exchange market to become the fastest and most profitable trading market world-wide.

**What is Forex?**

So, what is FOREX? This is the acronym used for Foreign Exchange Market. This is the largest financial market in the world with an estimated $1.5- $4 trillion in currencies traded daily. To grasp the vast size of the volume in this market, it would take the (NYSE) New York Stock Exchange at least three months to reach the amount traded in one day on the Forex market. One of the reasons for this vast volume is that unlike other financial markets, forex is not tied to an actual stock exchange, it is an over the counter (OTC) market. Also, this is a 24-hour market, meaning there is no closing time or opening time and individuals/institutions can trade the whole day if they wanted to. (3) However, because of the different time zones, there are different trading sessions, which are shown below.

![Figure 1. Trading Sessions](image)

In today’s interdependent global economy, countries are not producing all the goods they need themselves. They have learned that there are other more convenient ways of getting what
they want from another nation in exchange for something else. Whether is labour, electronics, food, machines etc… some countries are the best at this sort of things than others and that is why we have this exchange, because it benefits both economies to get “things” they both need. To carry out these trade transactions, there must be some sort of payment from one country to the other, and more times than not there is money involved. This is when currency trading comes in. One country pays the other in a certain currency and the value of this currency is determined by the stability or strength of the payer. Currency strength “expresses the value of the currency” this is also known as the purchasing power. The value, or what people perceive to be the value or a certain currency is related to many factors in the fundamental data, economic performance and stability and it is also calculated in relation to other currencies. Notice the fact of “perceived value” because this is one of the biggest tools traders use to place their positions.

This like other markets is driven by speculators who see financial/economic performance, their political stability and other issues to determine how much a certain currency is worth related to others. People and institutions interpret this news differently, thus some may think a currency is oversold or overbought and it is this thinking that creates gaps between what people believe and what actually is and creates opportunity to make money.

Through this market currencies are valued relative to another and exchanged. Currencies are not limited to paper currency, precious metals, energy resources and the value of other financial markets can also be traded through this mechanism. There are various players in the foreign exchange market; however, this was not always the case. Since early in the baby steps of the market, the only players were big institutions like investment companies, banks, corporations and the government. However, with the internet boom at the end of the 90s exchanging currency became available to the public also known as “retail traders”. Now, these retail traders are responsible from most of the volume in the market. There are other reasons for participating in the market, such as facilitating commercial transactions (a company based in the US paying for labour in China, hedging for future price change). Speculation has become the most popular motive for Forex trading participants.

In forex, traders make entries by speculating or predicting the value of a certain currency in comparison to another. You would buy the currency which seems to gain value and sell the
other. People “predict” the value of a currency because, that value represents the condition of that country’s economy with respect to other economies. Thus, if there are good economic news, or it is predicted that good news will come out and the price does not necessarily represent this information correctly, traders will look to buy that currency to make profit and vice versa when selling. However, information is interpreted in different ways and leads to people making different decisions. So, if an economy is performing well or not, a trader can make money on it by buying or selling it, depending on his judgment.

In Forex you can virtually exchange any currency that you want, however, there are major currencies that represent the biggest economies in the planet, and they are: USD (United States), EUR (European Union), GBP (Great Britain), CAD (Canada), AUD (Australia), CHF (Switzerland) and JPY (Japan).

2.4 Forex Trading

Although currency trading is very much like stock market, and other markets it has some differences from them, some of the differences are going to be explained briefly. Banks and other financial institutions are known as the “market makers” because they are the ones that pour billions of dollars in the market and move it up or down. The benefit of the foreign exchange market is that it is not tied to one country’s economy, but it is a global market and that is why it is very difficult for these “market makers” to manipulate the price in their favour, this is one of the biggest markets in the world, having a volume of up to 4 trillion dollars a day, which offers a lot of liquidity. There are very few institutions with the buying (or selling) power to affect the market. However, there are some “big players” that are in the market, not necessarily to make money but to intervene if they feel the value of their currency is affecting the local economy. An example of this is the multiple Japanese interventions last year when the yen was getting “too expensive” for their liking. Another intervention was the Swiss Bank’s when they decided to peg their currency to the euro to control their currency. Other participants are multinationals/corporations that expand overseas who should pay wages in different currencies. These kinds of participants do not really care about making money in the market.

A very important factor that differs the foreign exchange market from other markets is the risk. This is in most people’s opinion the riskiest trading one can do because of several
reasons. One of them is that the leverage is greater here. While in the stock market you may get a 20:1 leverage, foreign exchange leverage may go up to 500:1 in some countries. This means bigger gains, however, if you do not know what you are doing more likely than not your account will be wiped out in a single trade. The volatility in the currency market is huge and the price may swing violently, especially around news times, which is why people recommend to only investing 10-20 percent of a portfolio in the currency market.

Trading is not for the faint of heart, a trader must realize that this is not certain science and that he will lose as well, the trick is to minimize those losses, and maximize the winnings. Having said that, depending on your objectives, there are various ways one can trade. One of them is doing technical analysis, reading the charts to forecast the direction of prices through the study of past market data. Another form of trading is fundamental analysis; in currency trading is analysing the financial, economic or political health of a country to determine the value of their currency.

In addition to the two different types of analysis, there are also diverse styles of trading. Day trading is one of them and this is what most people that trade for a living and as a career do. This is trading for relatively short periods of time, holding positions for several minutes to a couple of hours, in rare occasions keeping positions open for more than a day. In this type of trading is better to use technical analysis, because it can help you predict price direction more accurately than fundamental analysis. Fundamental analysis is for long term trading, companies placing probably one or two trades per year that will yield them huge amounts of points. This works because although the problems for a certain economy may be visible today, its effects may not be seen weeks or months from now.

MAJOR CURRENCIES:

Currency symbols are represented by three alphabets where the first two letters represent the name of the country and the third alphabet represents the currency name of that country.

For Example: GBP GB stands for Great Britain while P stands for Pound.
THE IDEAL TIME TO TRADE IN DIFFERENT MARKETS:

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<th>Sr No.</th>
<th>Timing</th>
<th>Markets</th>
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| 1.     | 5.30 AM – 12.30 PM| Asian Markets are active at this time. Trader can trade in the following markets:  
<p>|        |                   | • Gold                                        |
|        |                   | • JPY                                         |
|        |                   | • Singapore Dollar                            |
| 2.     | 12.30 PM – 6.30 AM| European market is active at this time. Currency to be traded GBP. |
| 3      | 6.30 PM – 8.30 PM | At this time huge volatility happens. Currencies to be traded are EUR, GBP, USD. |</p>
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<th></th>
<th>8.30 PM – 9.30 PM</th>
<th>At this time the currencies to be traded are GBP and USD.</th>
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<tr>
<td>5</td>
<td>9.30 PM – 1.30 AM</td>
<td>At this time the currencies to be traded is USD.</td>
</tr>
<tr>
<td>6</td>
<td>2.30 AM – 4.30 AM</td>
<td>At this time the currencies to be traded is CAD</td>
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Table 1. Ideal Time Chart
### MARKET TIMINGS

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<td>New Zealand</td>
<td>New Zealand Dollar</td>
<td>NZD</td>
<td>9.00 AM – 5 PM</td>
<td>1.30 AM – 9.30 AM</td>
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<td>2.</td>
<td>Australia</td>
<td>Australian Dollar</td>
<td>AUD</td>
<td>9.00 AM – 5 PM</td>
<td>3.30 AM – 11.30 AM</td>
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<td>3.</td>
<td>Japan</td>
<td>Japanese Yen</td>
<td>JPY</td>
<td>9.00 AM – 5 PM</td>
<td>5.30 AM – 1.30 PM</td>
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<tr>
<td>4.</td>
<td>China</td>
<td>Yuan Renminbi</td>
<td>CNY</td>
<td>9.00 AM – 5 PM</td>
<td>6.30 AM – 2.30 PM</td>
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<td>Singapore</td>
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<td>SGD</td>
<td>9.00 AM – 5 PM</td>
<td>6.30 AM – 2.30 PM</td>
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<td>India</td>
<td>Indian National Rupee</td>
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<td>9.00 AM – 5 PM</td>
<td>9.00 AM – 5 PM</td>
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<td>7.</td>
<td>Switzerland</td>
<td>Franc</td>
<td>CHF</td>
<td>7 AM – 3 PM</td>
<td>11.30 AM – 7.30 PM</td>
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<td>Germany</td>
<td>Euro</td>
<td>EUR</td>
<td>7 AM – 3 PM</td>
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<td>1.30 PM – 9.30 PM</td>
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<td>6.30 PM – 2.30 AM</td>
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<td>11.</td>
<td>Canada</td>
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<td>CAD</td>
<td>7 AM – 3 PM</td>
<td>8 PM – 2.30 AM</td>
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Table 2. Market Timings
Trading Terms

For a better understanding of the Forex market a brief explanation on the most commonly used terms in this market will be given.

Base/Quote Currency

This is the first currency written in a pair. For example, if the currency pair is EUR/USD, the Euro would be the base currency and the US dollar would be the quote currency.

Pip

A pip or basis point is the smallest measure of change in a currency. For example, in the US based pairs it represents one hundredth (1/100) of a cent.

Spread

The spread is the difference between the bid and ask. When you bid, you are buying and when you ask you are selling. The bid price is always greater than the ask price.

Hedging

Ability to hold both long and short positions at the same time.

Lot

Standard unit of a transaction. Usually, this is equal to 100,000 units of the base currency.

There is also a mini-lot = 10,000 units and a micro-lot = 1,000 unit.

Rollover/Swap

If you keep a position open for more than one trading day, you would have to pay/receive interest, depending on the currency pair you are trading. The rollover price represents the interest rate difference for the two currencies involved.

Leverage

The used of various financial instruments or borrowed capital, such as margin, to increase the potential return of an investment.
**Ask**
Denotes the higher price in the Quote at which “Buy” order can be placed.

**Bid**
Denotes the lower price in the Quote at which “Sell” order can be placed.

**Base Currency**
Denotes the first currency in the currency pair.

**Currency Pair**
Denotes the object of the transaction based on the change in the value of one currency against the other.

**Long**
The buying of a security such as stock, commodity or currency, with the expectation that the asset will rise in value.

**Short**
The sale of a borrowed security, commodity or currency with the expectation that the asset will fall in value.

**Margin Call**
A broker’s demand on an investor using margin to deposit additional money or securities so that the margin account is brought up to the minimum maintenance margin. Margin calls occur when your account value depresses to a value calculated by the broker’s particular formula. It is sometimes called “fed call” or “maintenance call.”

**Transaction Size**
Denotes the lot size multiplied by number of lots.

**Pips**
It is the Smallest Price change in the Currency price. It is usually the 4\textsuperscript{th} decimal place.

**Downtrend**
It represents a “Bearish” Market which means the Prices are going down.

**Uptrend**
It represents a “Bullish” Market which means the Prices are going up.
CHAPTER – 4
DATA PRESENTATION AND ANALYSIS
There are two types of placing orders in the Currency Market

1. Market Execution
   - The traders enter at the Current Market price, keep the Stop loss or Take profit as per their wish and close the order or exit from the market once they have earned their desired profits.

2. Pending Orders

   The following kinds of pending orders may be executed while trading:

   1) **Buy Limit** – An order to open a “Buy” position if Ask price becomes lower or equal to the order price. The current price at the moment of placing an order is higher than the Buy Limit order price.

   2) **Buy Stop** – An order to open a “Buy” position if Ask price becomes higher or equal to the order price. The current price at the moment of placing an order is lower than the Buy Stop order price.

   3) **Sell Limit** – An order to open a “Sell” position if Bid price becomes higher or equal to the order price. The current price at the moment of placing an order is lower than the Sell Limit order price.

   4) **Sell Stop** – An order to open a “Sell” position if Bid price becomes lower or equal to the order price. The current price at the moment of placing an order is higher than the Sell Stop order price.

   5) **Stop Loss** – An order to close and open position at a certain price in case the position generates losses.

   6) **Take Profit** – An order to close an open position at a certain price in case the position generates profits.

**Pending Orders Execution:**

1) **Buy Limit Order** – Whenever current Ask Price becomes Lower or equal to the order price.

2) **Buy Stop Order** – Whenever current Ask Price becomes Higher or equal to the order price.

3) **Sell Limit Order** – Whenever current Bid Price becomes Higher or equal to the order price.

4) **Sell Stop Order** – Whenever current Bid Price becomes Lower or equal to the order price.
5) **Stop Loss Order for a “Buy” Position** – Whenever current Bid Price becomes Lower or equal than the order price.

6) **Stop Loss Order for a “Sell” Position** – Whenever current Ask Price becomes Higher or equal than the order price.

7) **Take Profit order for a “Buy” Position** – Whenever current Bid Price becomes Higher or equal than the order price.

8) **Take Profit order for a “Sell” Position** – Whenever current Ask Price becomes Lower or equal than the order price.

**The Concept of Support and Resistance:**

- **Resistance:** When the Currency Market is in an Uptrend, where the Prices move up and then pulls back the highest point reached before it pulled back is known as Resistance.

- **Support:** As the Currency Market continues to move up, the Lowest point reached before it started back is called as Support

Both Support and Resistance are applied similarly in Downtrend also.

![Figure 3. Resistance and Support](image-url)
TECHNICAL ANALYSIS

Technical analysis is the method used to study graphs to determine price movement. The theory behind this is that a trader can look at historical price movements to determine future prices since the market tends to repeat itself. Basically, what this means is that if a price level held as a key support or resistance in the past, the market (traders) will remember this level and base their trades accordingly. This way you can find probable directions of price by looking in the past for similar patterns.

A very popular way to find trends is by localizing the peaks and troughs in the charts. A peak is the exchange rate’s highest value in a specified period of time and a trough is the lowest value taken by the price on the same period of time. Downtrends and uptrends are established by a several number of troughs and peaks in the chart. Figure 1 below provides an example of the trendline from several troughs. Having a trendline facilitates a trader’s decision on whether to go long or short on a price. While an uptrend signals to buy, a downtrend means to sell.

Reversals of a trend are also very important while analysing a chart. Peaks and troughs are used to identify these reversals as well. While local troughs are known as support levels, local
peaks are resistance levels (see figure 1 above). If the price touches an uptrend’s resistance level and does not go beyond it, it is a clear signal of a reversal. However, if the price breaks through the resistance level there is a stronger possibility of a reversal. Similarly, this behavior applies to the support levels and downtrends.

In the world of currency trading, when someone says technical analysis, the first thing that comes to mind is a chart. Technical analysts use charts because they are the easiest way to visualize historical data. Traders can look at the past data which helps to spot trends and patterns which provides great trading opportunities.

It is also important to note that technical analysis is very subjective. So there are high chances that your analysis will go wrong. To make the analysis stronger, few tools are used. Those tools are:

- Candlestick patterns.
- Support and resistance.
- Indicators.

These above tools are discussed further in details.

**Candle Sticks:**

Candle stick pattern is used in technical analysis of currency price patterns. It was developed in 18th century by Munehisa Homma, a Japanese rice trader of financial instruments. It was introduced to western world by Steve Nison in his book “Japanese Candle Sticks Charting Techniques”.

Candle stick chart is an effective way of visualizing the price movements in the currency market. The candle stick chart consists of bullish or bearish candle sticks.

![Figure 5. Candlestick basics](image-url)
- **BULLISH CANDLE STICK** – usually green or white in colour, shows that the price of base currency is in the uptrend.

- **BEARISH CANDLE STICK** – usually red or black in colour, shows that the price of the base currency is in the down trend.

There are three main parts in a candle stick. They are:

- **UPPER SHADOW** – The vertical line between the highest price of the day and close price (in case of bullish candle) or open price (in case of bearish candle).

- **REAL BODY** – Difference between the open and close prices.

- **LOWER SHADOW** – Vertical line between the lowest price of the day and open price (in case of bullish candle) or close price (in case of bearish candle).

There are different candle stick patterns, when these patterns are formed a trader can anticipate the coming trend in the currency market. There are many types of Japanese candlestick patterns, but they can be categorized into how many bars make up the candlestick pattern. There are single, dual, and triple candlestick formations. The most important patterns of candle sticks are stated in the below table:

<table>
<thead>
<tr>
<th>NUMBER OF BARS</th>
<th>JAPANESE CANDLE STICK PATTERN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>Spinning Tops, Doji, Marubozu, Inverted Hammer, Hanging Man, Shooting Star.</td>
</tr>
<tr>
<td>Double</td>
<td>Bullish and Bearish Engulfing, Tweezer Tops and Bottoms.</td>
</tr>
<tr>
<td>Triple</td>
<td>Morning and Evening Stars, Three Black Crows, Three White Soldiers, Three Inside Up and Down</td>
</tr>
</tbody>
</table>

Table 3. No. of Bars
The Candle Stick Patterns are explained in detail below:

1. **Spinning Tops:** Candle stick with a long upper shadow, long lower shadow and small real bodies are called as spinning tops.

   ![Figure 6. Spinning tops](image)

   This pattern indicates that there is indecision between the buyers and the sellers. The small real body indicates there is little movement from the opening price to the closing price. The shadows indicate that both the buyers and sellers are fighting but nobody gained the upper hand. If a spinning top formed during an uptrend, this means there are less buyers left and if it is formed during a downtrend, this means there are less sellers left in the market. In both these cases a possible reversal in the trend direction may occur.

2. **Marubozu:** These types of candles do not have any shadows formed. A Bullish Marubozu depicts that the open price equals to the lowest price and the close price equals to the highest price. It shows that buyers are in control and it is usually formed as the first part of bullish reversal pattern. A Bearish Marubozu depicts the open equals to the highest price and the lose price equals to the lowest price. It shows that sellers are in control and it usually formed as the first part of bearish reversal.
3. **Doji** – These candlesticks bodies are extremely short and have the same open and close price. It has a very small body that appears as a thin line. It looks like a cross, inverted cross or plus sign. Neither buyers nor sellers gain control as a result there is no decision between them. Prices move above and below the open price but closes at or very near the open price. There are FOUR special types of Doji candlesticks. They are shown in the diagram:

![Doji Candlesticks Diagram](image)

**Figure 7. Doji**

4. **Hammer and Hanging Man**: These two candlesticks look exactly alike but have totally different meanings depending on the past currency prices. Both have small bodies, long lower shadows and short or no upper shadows.
Figure 8. Hammer and Hanging man

Hammer is formed during a bullish reversal pattern which forms during a down trend. When price is falling and a hammer is formed, it indicates that the price of the currency will start rising again. The long lower shadow indicates that the sellers pushed the prices lower but the buyers overcame this situation and closed near the opening price.

Hanging man is formed during a bearish reversal pattern and can help the traders to mark a strong resistance level. The formation of a hanging man indicates that sellers are beginning to increase and outnumber the buyers. The lower shadow indicates that sellers have pushed the prices down but buyers were able to push the price back up to some extent near the opening price.

5. Inverted Hammer and Shooting Star: The inverted hammer and shooting star looks identical. The difference between them is when they are formed that is during the uptrend or the downtrend. An inverted hammer is a bullish reversal candlestick whereas shooting star is a bearish reversal candlestick. Both have small bodies, long upper shadow and small or no lower shadow.
6. **Engulfing Candles**: There are two types of engulfing patterns, they are either bullish or bearish. The bullish engulfing pattern is a two-candlestick pattern that indicates a strong upward trend. It appears when a bearish candle is immediately followed by a large bullish candle. This bullish candle engulfs the bearish candle. This indicates a strong upward trend forming after a recent down trend.

![Figure 9: Inverted hammer and Shooting star](image)

The bearish engulfing pattern is exactly the opposite of the bullish pattern. This type of candlestick pattern occurs when the bullish candle is immediately followed by a bearish candlestick and this bearish candle stick engulfs the bullish candles. This indicates that the sellers are very strong and a downtrend is going to occur after an upward trend.

![Figure 10: Engulfing Candles](image)
7. **Tweezer Bottom and Tweezer Top:** These are dual candlestick reversal patterns. This type of pattern is usually spotted after an extended uptrend or downtrend which indicates that soon a reversal will occur. The most effective Tweezers have the following characteristics:
   - If price is increasing, then the first candlestick is bullish.
   - If price is moving up, then the second candlestick is bearish.
   - The shadows of the candle are of equal length.

   Tweezer Tops should have the same high prices, whereas Tweezer Bottoms should have the same low prices.

8. **Evening and Morning Stars:** The morning and evening stars are a form of triple candle stick patterns that is usually formed at the end of a trend.

   ![Figure 11: Evening and Morning Stars](image)

   The first candlestick is bullish, which is a part of the uptrend. The second candle stick has a small body which indicates that there is indecision in the market and this candle can be either bullish or bearish. The third candlestick is a confirmation candle that indicates that there will be reversal in the trend and the candle closes beyond the midpoint of the first candlestick.

9. **Three White Soldiers and Black Crows:** The three white soldiers are formed which three long bullish candles are indicating a reversal has occurred. This candlestick pattern is an indication of a strong bullish signal. It occurs after a long downtrend.

   The first three soldiers is called reversal candle. It indicates that the downtrend will end. The second candlestick must be bigger than the previous candle’s body and should close near its high. The last candlestick must be either the same size as the have a small or no shadow.
Figure 12: Three White Soldiers and Black Crows

The three black crows candlestick pattern is opposite of the three white soldiers pattern. It is formed when three bearish candles follow a strong uptrend which indicates that a reversal will occur. The second candle’s body must be bigger than the first candle and it should also close very near to its lowest price. The third candle should be same size or larger than the size of the second candle’s body with a very short or no lower shadow.

<table>
<thead>
<tr>
<th>NUMBER OF BARS</th>
<th>CANDLESTICK NAME</th>
<th>BULLISH OR BEARISH</th>
<th>WHAT IT LOOKS LIKE?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Morning Star</td>
<td>Bullish</td>
<td><img src="image" alt="Morning Star" /></td>
</tr>
<tr>
<td></td>
<td>Evening Star</td>
<td>Bearish</td>
<td><img src="image" alt="Evening Star" /></td>
</tr>
<tr>
<td>TRIPLE</td>
<td>Three white soldiers</td>
<td>Bullish</td>
<td><img src="image" alt="Three white soldiers" /></td>
</tr>
<tr>
<td></td>
<td>Three Black Crows</td>
<td>Bearish</td>
<td><img src="image" alt="Three Black Crows" /></td>
</tr>
<tr>
<td></td>
<td>Three Inside Up</td>
<td>Bullish</td>
<td><img src="image" alt="Three Inside Up" /></td>
</tr>
<tr>
<td></td>
<td>Three Inside Down</td>
<td>Bearish</td>
<td><img src="image" alt="Three Inside Down" /></td>
</tr>
</tbody>
</table>
INDICATORS:

Different indicators are used by the traders which helps them to anticipate the future market trend. Few of the most important indicators are explained below:

1. **Bollinger Bands**: It is used to measure the volatility of the market. They help in determining the support and resistance levels. When price hits the lower Bollinger band, traders buy the currency similarly when the price hits the upper Bollinger band, traders sell the currency. When the Bollinger bands “squeeze” that means the market currently does not have volatility but a break out is going to happen soon.

![Bollinger Bands Diagram]

**Figure 13**: Bollinger Bands

2. **MACD** – It consists of two moving averages, one is the fast-moving average and the other is the slow-moving average. There is also a vertical line which is called as histogram and that helps to measure the distance between the two moving averages. To use MACD the traders must wait for the fast-moving average line to cross over or cross under the slow-moving average line. When this happens, only then the trader should enter the market as it is a clear indication of new trend.
3. **Parabolic SAR**: Parabolic Stop and Reversal (SAR) is an indicator to detect trend reversal. This indicator is easy to interpret because it only gives bullish or bearish signal. Parabolic SAR is shown as a series of dots. When the dots are above the candlesticks, it gives a signal to sell the currency. Similarly, when the dots are below the candlesticks, it gives a signal to buy the currency.
4. **Stochastic**: This indicator is used to indicate overbought and oversold situations. When the moving average line is above 80 that indicates an overbought situation. Traders must sell the currency at this time. Similarly, when the moving average lines are below 20 that indicates an oversold situation. Traders must buy the currency then.

![Figure 16: Stochastic](image)

5. **Relative Strength Index (RSI)**: RSI is like stochastic indicator which indicates overbought and oversold situations. When RSI is above 70 it indicates that the market is overbought and the traders should sell the currency. Similarly, when RSI is less than 30 it indicates oversold situation and the traders should buy the currency. RSI can also give good indication of trend change.

![Figure 17: Relative Strength Index](image)
6. **Ichimoku Kinko Hyo (IKH):** It is an indicator that helps to anticipate future price momentum and helps to determine the future support and resistance levels. If the candle sticks are above the grids, that shows a bullish market and if the candle sticks are below the grids then it shows a bearish market. Based on the placement of the candle sticks a trader can take a buy or sell decision.

![Ichimoku Kinko Hyo](image)

**Figure 18:** Ichimoku Kinko Hyo

**FUNDAMENTAL ANALYSIS:**

Fundamental analysis is the study that focuses on the economic, social, and political issues that affect the currency of a country. The more difficult part is analysing what factors affect supply and demand. These factors determine whether the economy of a country is either strong or weak, thus showing this in its currency. In a nutshell, a good economy produces a higher currency value and a bad economy. However, there are some exceptions, countries that rely heavily on exports might intervene in the foreign exchange market to manipulate their currency, because even though they may have a strong economy they may not want their money too expensive because it will drive their exports down.

During the implementation of the project we were required to use fundamental analysis. To make profitable entries while trading, we needed good understanding on the current
economic, social and politic issues around the world. As previously mentioned, from the beginning of the project we studied the daily Gartman Letter. A sample of this letter is included in Appendix B. In addition, we were able to look if the news could possibly affect our trading by going online to forexfactory.com. As an instance, this website provides the current news related to unemployment, statements recently created or big events going on and signals the viewer the level of impact it would have in the forex market. Another useful website used for a fundamental analysis was babypips.com. This website provides the most current news that facilities the trader’s decisions while taking positions.

There are several factors that affect the strength of a currency relative to others. Depending on the type of economy of the country this will have different levels of impact in the economy. For example, in an economy where the major source of income are its exports, if the actual levels are below the forecast that is going to have a huge negative impact on the currency. For a country that has other means of producing income this might not have such a big effect. In addition, there are some currencies that are “related” to certain commodities, being as they are big exporters of them, or they are correlated to one another. For example, the Australian dollar is correlated with the gold and the Canadian dollar is inversely correlated to oil. There are also, currency pairs that have correlated one another, for example currently the EUR/USD and EUR/JPY are highly correlated with one another. Thus, for our own purposes we are going to see some indicators that contribute to these issues and the effect it has on them.

**GROSS DOMESTIC PRODUCT (GDP)**

This is the mother of all indicators, as it is the broadest of them all. This encompasses every sector of the economy and it represents the total value of the country’s production during the period and consists of the purchases of domestically produced goods and services by those individuals, business, foreigners and government entities. The GDP also has nominal and real value. The Nominal Gross Domestic Product measures the value of all the goods and services
produced expressed in current prices. On the other hand, Real Gross Domestic Product measures the value of all the goods and services produced expressed in the prices of some base year.

There are several ways of measuring the Gross Domestic Product but by far the most widely used approach is the expenditure method where:

\[ \text{GDP} = \text{consumption} + \text{investment} + \text{government spending} + (\text{exports} - \text{imports}) \]

In currency terms, the GDP level of different countries may be compared by converting their value in national currency, either by using the current currency exchange rate, where the GDP is calculated by exchange rates prevailing on the international currency markets. This method offers better indications of that country's international purchasing power and relative economic strength. Another method of comparison is using the purchasing power parity exchange rate, whereby the GDP is calculated by the PPP (purchasing power parity) of each currency relative to a selected standard, i.e. the US dollar. This method offers a view of the actual living standards of lesser developed countries as it compensates for the weaknesses of the local currencies in world markets.

This is important in trading because is the ultimate measure of economic activity. Investors closely monitor the economy because it usually dictates how investments will perform. The stock market likes to see healthy economic growth because that translates to higher corporate profits. The bond market doesn't mind growth but is extremely sensitive to whether the economy is growing too quickly and paving the road to inflation. The GDP report contains a treasure-trove of information, which not only paints an image of the overall economy, but also tells investors about important trends within the big picture. GDP components like consumer spending, business and residential investment, and price (inflation) indexes are good indicators of future market direction. Knowing this, the usual effect of this is that if the actual value is greater than the forecasted one, then that is good for the currency and vice versa. Also, there are 3 versions of this report, which are advance (1st), preliminary (2nd) and final (3rd). The Advance release being the first is usually the one with the highest impact.
Data is typically released during the final week of the month. The first or advance estimate is released during the final week of the month immediately following the end of a calendar quarter.

**CONSUMER PRICE INDEX**

This indicator measures inflation as experienced by consumers in their day-to-day living expenses. The increase in the CPI is what most people think of as the "inflation rate." It is used by retailers in predicting future price increases, by employers in calculating salaries and by the government in determining cost-of-living increases for Social Security. Signs of inflation means the central bank has to raise interest rates. The most widely used indicator of inflation is CPI. If CPI is increasing, then it gives a central bank such as the Fed the necessary supportive data to hike rates. Higher interest rates are bullish for the country’s currency.

The CPI is a measure of the change over time in the prices paid by consumers for a market basket of goods and services. These goods and services include food, clothing, shelter, newspapers and CDs. Items on which the average consumer spends a great deal of money, such as food, are given more weight, or importance, in computing the index than items such as toothpaste and movie tickets, on which the average consumer spends comparatively less.

The CPI is measured by economic assistants that record the prices of over eighty thousand items each month. The recorded information is sent to the national office of BLS where commodity specialists, who have detailed knowledge about the particular goods or service priced, review the data. These specialists check the data for accuracy and consistency and make any necessary corrections or adjustments.

**NEW & EXISTING HOME SALES**

These are two different reports but are highly correlated with one another and they tend to have the same effect, which is why I have put them together in one category. This indicator measures the number of single family homes that were sold during the previous month. It is released monthly, about 25 days after the month ends. For what I have explained, new home sales tend to have more impact when released before the existing home sales (as they are highly correlated). This is important for traders because the sale of new/existing homes triggers a wide-
reaching ripple effect. For example, furniture and appliances are purchased for the home, a mortgage is sold by a financing bank, and brokers are paid to execute the transaction. Thus, this is a leading indicator of economic health. It makes sense once you think about it, since the recession back in late 2007 started because of a failure in the real estate market.

**PRODUCER PRICE INDEX**

Traders mainly use the PPI as an indicator of price inflation over time. Although the similarly-functioning Consumer Price Index (CPI) is considered to be a more useful measure of present inflation, the PPI's inclusion of goods in production makes it a potential leading indicator of future price inflation in certain industries.

One key drawback of the PPI for foreign exchange market applications: the PPI excludes all data on imported goods, making it difficult to detect the influence of one country's market on another with respect to currency prices. The report expresses prices through a percentage index of a baseline level of production (rather than through a dollar amount), and it divides its data into three broad categories: stage-of-processing, industry-based, and commodity-based. The report also expresses changes in the index from month to month and the index change from the previous year. The industry and commodity-based indexes are extremely extensive, allowing a high level of specificity when looking for data on an asset.

**RETAIL SALES**

This is an estimate of the total sales of goods by all retail establishments in the US for the month prior of the release of the report. Data is presented in nominal dollars, which means inflation is not considered. However, the data is adjusted for seasonal, holiday and trading day differences between the months of the year.

The use of the Retail Sales report in trading is clear, since the report provides extremely specific data about which industries and commodities consumers are spending most of their
money on. However, one major drawback of the report is that it only reflects sale prices without considering inflation within the prices of certain volatile industries (gas and other energies in particular). The report also doesn't provide any data on service industry sales, making the Personal Income and Spending report more useful in this area. Still, traders consider the Retail Sales report one of the most generally useful of the economic indicators, with a wide range of applications for various asset markets.

This indicator is important because the Personal Consumption Expenditures or PCE represent about two thirds of the GDP. By monitoring retail sales, policy makers can assess the growth of PCE for current and future quarters. This reports’ source is the U.S. Department of Commerce and it is released monthly.

**TRADE BALANCE**

This indicator measures the ratio of imports to exports for the country’s economy. If there are more exports, that means there is a trade surplus and the trade balance will be positive. On the other hand, if imports are higher there is a trade deficit, and the trade balance will be negative.

The importance of this indicator is obviously critical for any forex trader because the information on the net exports can help to predict future trends in inflation and foreign investment and can give clues to the future behaviour of the currency market.

The trade balance is primarily composed of three factors: the price of goods, tax and tariff levies on imported or exported goods and the exchange rate between two currencies. This last factor is fundamental to foreign exchange trading. Since trade balance depends heavily on current exchange rates, this is a key indicator for the state of a foreign exchange asset market. (That is why Japan has recently intervened so much in the yen, since so many people are buying it is making it stronger, something that Japan does not want because is detrimental to their main source of income, their exports).

There are many measures for trade balance, but one of the chief sources of information on the state of trade in the US is the International Trade report released monthly by the Census
Bureau and the Bureau of Economic Analysis. This report is released around the third week of every month and details the performance of several exported goods and services in various sectors of the economy.

**ISM MANUFACTURING SURVEY**

The ISM Manufacturing Survey is used as an economic indicator of the market. It is felt that this survey is very important in determining what the market is likely to do, and it is published by the Institute for Supply Management, on a monthly basis. The report will indicate information from the previous month’s historical data, and is released on the first business day after the close of the month.

This indicator provides details in the manufacturing aspect of the economy, and therefore is considered a strong indicator of the economy’s movement. It is also the very first report that is provided as an economic indicator for the month, therefore it perhaps has more significant attention and benefit than might otherwise be the case. The survey deals specifically with the manufacturing industry in the country. ISM provides a wide range of other reports as well that help to define risk in the market at any given time. This has been talked about greatly in the Gartman Letter, Mr. Gartman made every effort to emphasize the importance of that 50 level, where if the report is below it, it means contraction and if it is above it means expansion of the economy.

**PERSONAL CONSUMPTION EXPENDITURE PRICE INDEX**

Personal Consumption Expenditure, or PCE, is an inflation index like the Consumer Price Index. In the United States, it is released by the Bureau of Economic Analysis of the Department of Commerce and it is the preferred gauge of inflation by the Federal Reserve.

**INDUSTRIAL PRODUCTION AND CAPACITY UTILIZATION**

This indicator is affects both the inflation part and the GDP part of the economy, an explanation of why is as follows Industrial Production and Capacity Utilization (IPCU) is a measure of economic activity, released monthly by the United States Federal Reserve. The IPCU report for each month contains data for previous months (for example, June's report releases information on May) about the total amount of US industrial production for that month,
expressed as a percentage of the gross production for a previous baseline year. The report also
gives information about percentage changes from month to month and year to year, as well as a
detailed breakdown of production by industry grouping, most broadly for manufacturing, mining
and utilities. The data in the report is based on employment records that detail the total hours
worked by industrial-sector employees.

The report also includes a measure of capacity utilization, meaning the percentage ratio
of actual production to potential production. The report presents data about average capacity over
many years, a record of percentage change in capacity from month to month, and a breakdown
of capacity measures by industry and by stage of completeness (from crude to finished materials).

Traders consider the IPCU report important as a gauge for the future performance of
assets in the marketplace. Because of this, the report can also function as a "trigger" to increase
buying or selling pressure in certain industries. A capacity utilization percentage of 85% or more
can also be considered a signal for imminent inflation, but the inherent difficulty of measuring
industrial capacity implies that this measure shouldn't be exclusively relied on to predict market
behaviour.

This is an index designed to measure changes in the level of output in the industrial sector of the
economy. The index is grouped by both products (consumer goods, business equipment,
intermediate goods, and materials) and industry (manufacturing, mining, and utilities).

SENTIMENT ANALYSIS

Sentiment analysis focuses on identifying the patterns of movement investors take on a
subjective basis. The theory goes that when a crowd is leaning too far in one direction, it is a
sign that a change is about to occur.

Traders who utilize sentiment analysis look to investors to see what they are talking
about, and how they are reacting to the market. In order to see what investors are talking about,
those who research investor sentiment conduct surveys asking them what they believe the
current market outlook is. They then act contrary to the results: if less than 25% of the
investors surveyed are confident in the future profitability of a market, sentimental analysts
will often increase a bet in the market with the expectation that a buying opportunity might be near.

To find out how investors are feeling, sentiment analysts look for indicators such as proprietary bank flow, COT data, and other special research like Market Vane. If the actions of investors seem to indicate that a currency will rise, those who use sentiment analysis will often sell, preparing for a fall in price instead.

**Trading Plan**

Having a trading plan is essential, is as they say, “If you fail to plan, you plan to fail”. In this case, if you do not have a trading plan, you might as well go to a casino. The difference between trading and gambling is having some guidelines to stick to and make you accountable for the type of entries you make. Having this in mind, we have come up with some “guidelines” of our own. Remember that a trading plan is created based on the risk factor that each person possesses, thus, trading plans should be customized to each person’s needs.

- Look at any important news during the day to account for volatility, preferably stay away from trading during news. (trade news few times).

  - Trade only in high volume hours, from 8am-10:30am. Once or twice a week get up at 3am to trade during the London session.
  - Work using the 5, 15 and 30minute chart, to enter a trade these time frames have to agree more or less on the same direction.
  - Use the bigger time frames to look for market direction, especially the 1hour chart.
  - CONSISTENCY
  - Trade primarily using moving averages, elephant bars, TT, BT, highs and lows, double tops, support and resistance levels and especially do NOT trade against the moving averages.
  - Learn how to use other indicators, such as the MACD.
- Do not trade when level already passed or when max loss is reached. In this case, look at the charts and keep an eye on prices to possibly look for set ups when I can return to trade.
- If weekly max loss reached, use the time off to consider making adjustments to trading plan.
- Make 4 to 6 trades a day! (PATIENCE) Don’t have to trade everything.
- Put a “take profit” on trades that I cannot monitor and use a trailing stop.

**Trade Set Ups**

Trading is risky business, however, the level of risk you are exposed to depends on the aggressiveness of the trader. There are different set ups that are riskier than others, thus to be able to execute these trades effectively and to get the most profit possible, we are going to adjust our position size depending on the risk of the trade. We are going to define high and low risk trades and our approach to them as we understand them. We are experimenting with different ways of trading and this is still a work in progress.

- We have determined the following trades of being low risk because their probability of success has been high when back testing them. The following is a list of the conditions that we believe will produce high probable trades: (Assume examples are for both long and short entries)

  - Whenever the 8ma and 20ma cross above the 200ma we will look to go long if the price stays above the 200ma with at least two consecutive green bars closing above, that shows us that the price it is ready to move up. Then, we will go one-time frame lower to look for an “actionable event” a good place to enter the trade. As shown in the picture below.

![Figure 19: Moving Averages](image-url)
During the trade, if there is a strong trend, there will be some pull backs to the moving averages, which we could use to add to our position or enter the trade. These entry points would be bottoming tails off the moving averages. Another entry point is when there is a big solid bar, either green or red (green for buying red for selling) after a period of consolidation. These types of bars are usually ignition for big trends shown highlighted in picture in picture.

We should be careful though on where these big bars occur, if there is an existing trend already and one appears is usually an exhaustion bar. Then, it would be a better idea to switch direction.

-When there are higher highs and higher lows look to go long. This means price is consolidating and is getting ready to get higher. The same is true for lower lows and lower highs High Risk Trades

-We have determined that there are two types of high risk trades. One is countertrend trades and the other is trading volatile markets such as gold, S&P500 etc.

-When trading these high volatility markets, we have decided to cut our standard position to a half. So, for example, if our regular position is 5 mini lots, we would reduce it to 2.5 minis. These trades are going to be executed the same way as our lower risk trades, but because of the volatility and high spread (up to 10 pips) we have put them as high risk.
When doing counter-trend trades we are also going to cut our positions to a half. We know that price does not move smoothly, it tends to retest support and resistance levels, especially after a big move. It could be just one big bar or multiple bars in the same direction, we know that when price is far away from the moving averages it tends to retrace back to them to find support to keep moving on the same direction. Because it is difficult to determine when the move has ended and price is ready to retrace, we are only going to enter when price has reached a major resistance or support level on the daily or weekly chart and/or when price is far away from the 200 ma.

**Risk Management**

Risk management is another important part of trading. Along with the trading plan, it helps you to stay on track, so you do not gamble. This sets the limits of how much “damage” or losses you can take because there are going to be bad-losing days. On those days, you need a risk “rule book” to define when you will stop trading. Again, this is a customized plan based on each person’s trading style. Below is our own:

- Risk 10-20 pips per trade
- Once daily target has been reached stop trading… In case I want to keep on going do more conservative on entries (i.e. they should be of higher probability of winning and narrowing the stop loss gap. If I make a losing entry, stop for the day
- Three losing trades= stop trading for the day
- If two consecutive losing trades minimize the lot size by 25-50%, until I get two or three winning trades in a row.
- Do not trade on emotional days.
- DO NOT OVERTRADE