A Quick Introduction to Forex Terminology

The foreign exchange can be intimidating to newcomers, but it is really simple when you understand the basics. By understanding the basic Forex terms, you will start to see trough the clutter and start understanding what the Forex is all about. Let me give you a quick rundown of some of the most important terms you'll come across when beginning in the field of Forex trading:

Currency pairs

Currencies are always traded in pairs. Per instance, if you want to trade your US dollars(USD) for British pounds(GBP) then your currency pair will be USD/GBP, the currency on the left being the base currency.

The most important currencies being traded on the Forex market right now are the Japanese yen, the US dollar, the British pound, the Swiss frank, the Euro, the Canadian dollar, the Australian dollar and the New Zealand dollar.

These currencies are what most pairs comprise of. The US dollar will be part of most pairs, but if you would like to trade, let's say, Australian dollars for Japanese yens, such a pair would be called an exotic pair and should only be traded by experts in these markets.

Pips

Pips, or price interest points, are the most important components of Forex trading. Pips are the smallest denomination a currency can go up or down depending on the currency's performance in comparison to another one.

Let's say you want to trade British pounds for US dollars and the price quote for the GBP/USD pair is 1.7901, that means that it would take 1.7901 US dollars to buy a single British pound. But if later during the day, the same pair is priced at 1.7961, then that would be a move of 60 pips, or 0.6 cents. You could then say that the US dollar lost 70 pips to the pound or that the British pound gained 70 pips on the US dollar.

Lots

Lots are the quantity of any given currency that you control. A standard lot would be 100 000 units. Mini lots would be between 10 000 units and 100 000 units and micro lots are anything below 10 000 units. If you're dealing with 100000 USD units, each pips would be the equivalent of 10$, 1$ for a 10000 unit lot and 10 cents per pip for a 1000 unit lot.

Leverage

Let's say you only have 500$ worth of usd to invest but would like to yield the same type of returns people trading 100000 unit lots get, your broker might give you the opportunity to trade at that level starting with your small investment as a guarantee deposit. This is what's called leverage. So you would be able to get a 10 dollar per pip return on every fluctuation, but you would also lose 10 dollars for every pip lost. That would mean that you would have a

50 pip losing margin on your account, which is not enough. So be wary of brokers that offer too much leverage on your investment…

Conclusion

This article should help you demystify some of the seemingly confusing Forex lingo. With these keys in hand, you should be on a good start on your Forex trading journey. Good luck and I wish you all the best on your quest to financial freedom!