

# FOREX MARKET

## TERMINOLOGY

FX

CAREERS

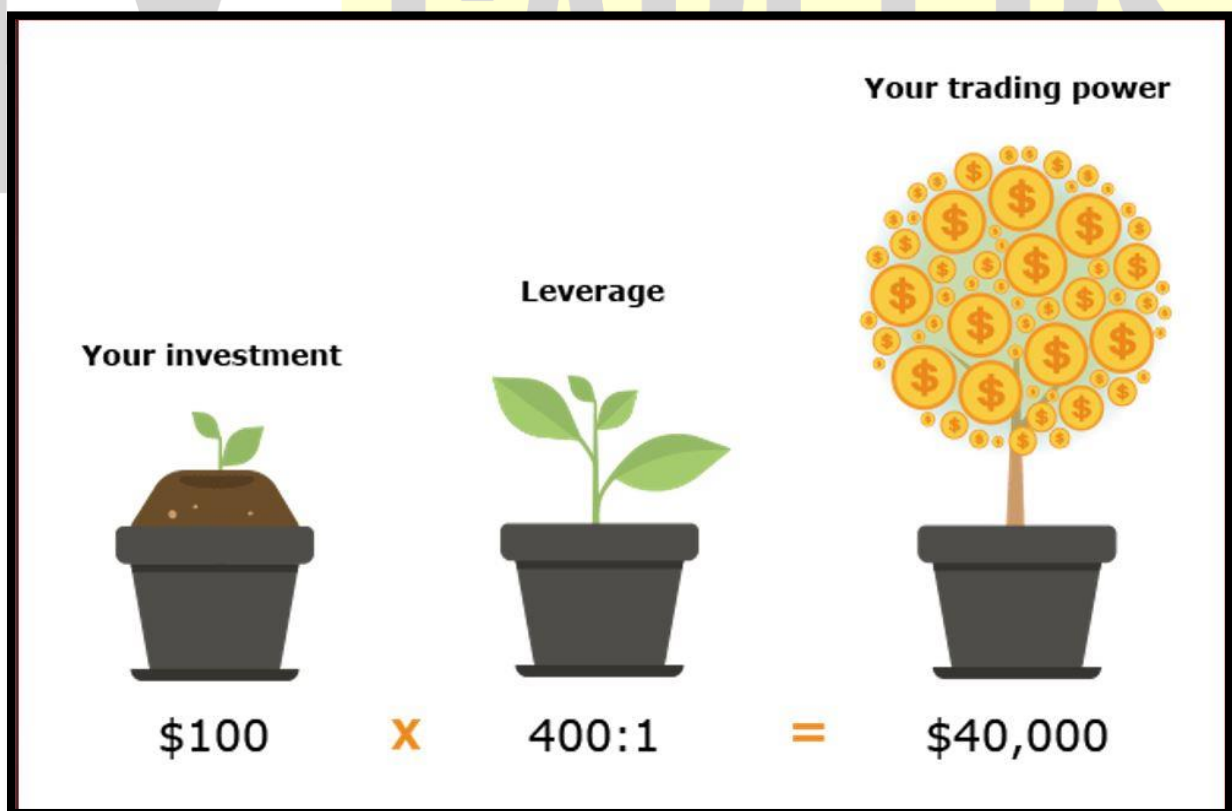
# TRADING TERMINOLOGY



The foreign exchange market, also known as Forex, is the world's largest and most liquid financial market. Sometimes Trading terms can get confusing, even more so with Forex trading, which has its own technical jargon. But here we will discuss Forex market terminology and introduce basic Forex terms that all traders should know in order to trade with confidence.

## Leverage

Leverage is the use of borrowed capital to increase your trade size. By controlling a large amount with a smaller amount, investors use leverage to magnify their purchasing power (trade size). While this amplifies potential profits, it also increases potential losses.



## Pips

Pip stands for “point in percentage”, which is a currency pair’s smallest unit of price movement. It is used to determine whether a trade has made a profit or lost money.

An example of a one-pip move is if the price of the EUR/USD currency pair rises from 1.2000 to 1.2001.

All currency pairs typically define a pip as the fourth decimal place, except the Japanese yen, which only has 2 decimal points (e.g. USD/JPY=150.50).

### What is PIP

EURUSD=1.19565

USDJPY=108.517

GBPUSD=1.39431

EURJPY=129.789

AUDUSD=0.77741

GBPJPY=151.321

Pip

Pipette

### Pip Value Calculation

### Understanding Pips

A pip is a basic concept of forex. Forex traders buy and sell a currency whose value is expressed in relation to another currency. Quotes for these forex pairs appear as bid and ask spreads that are accurate to four decimal places.

Movement in the exchange rate is measured by pips. Since most currency pairs are quoted to a maximum of four decimal places, the smallest whole unit change for these pairs is one pip.

### Calculating Pip Value

The value of pip depends on the currency pair, the exchange rate, and the trade value. When your Forex account is funded with U.S. dollars and USD is the second of the pair (or the quote currency), such as with the EUR/USD pair, the pip is fixed at .0001.

In this case, the value of one pip is calculated by multiplying the trade value (or lot size) by 0.0001. So, for the EUR/USD pair, multiply a trade value of, say, 10,000 Euros by .0001. The pip value is \$1. If you bought 10,000 euros against the dollar at 1.0801 and sold at 1.0811, you'd make a profit of 10 pips or \$10.

On the other hand, when the USD is the first of the pair (or the base currency), such as with the USD/CAD pair, the pip value also involves the exchange rate. Divide the size of a pip by the exchange rate and then multiply by the trade value.

For example, 0.0001 divided by a USD/CAD exchange rate of 1.2829 and then multiplied by a standard lot size of 100,000 results in a pip value of \$7.79. If you bought 100,000 USD against the Canadian dollar at 1.2829 and sold at 1.2830, you'd make a profit of 1 pip or \$7.79.

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## Lot

The Forex market is traded in a specific amount known as Lot Size. Basically a number of units traders buy or sell. A lot refers to a standardized measure of the amount of a financial instrument that can be traded. The size of a lot depends on the particular market and asset being traded, but generally, a lot represents a specific number of units of the asset. Buying or selling a lot means trading that specific number of units of the asset.

| LOT SIZE     | UNITS   | VOLUME |
|--------------|---------|--------|
| Standard Lot | 100,000 | 1.0    |
| Mini Lot     | 10,000  | 0.1    |
| Micro Lot    | 1,000   | 0.01   |
| Nano Lot     | 100     | 0.001  |

There are basically 4 kind of lot sizes which traded in forex market

1. Standard Lot
2. Mini Lot
3. Micro Lot
4. Nano Lot