FOREX MARKET ANALYSIS

Complete Study Program

MODULE 1

Forex Foundations

Beginner Level | All Instruments | Study Notes + Exercises + Quiz

Forex Majors	Minors & Exotics	Commodities	Sessions & Pips

Topics Covered in This Module

What is Forex • Market Participants • Trading Sessions • Currency Pairs
Commodities (XAU, XAG, USOIL, Copper) • Pips & Lots • Leverage & Margin
Spread, Swap & Commission • Order Types • Sample Trade Setup • Checklist • Quiz

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SECTION 1 What Is Forex?

1. What Is the Forex Market?

The Foreign Exchange market, commonly called Forex or FX, is the world's largest and most liquid financial market. It operates as a decentralised, over-the-counter (OTC) market where currencies are bought and sold against one another. Unlike stock exchanges, there is no single physical location; trading occurs electronically across a global network of banks, brokers, institutions, and individual traders.

> **KEY FACT: Info**
> Daily Forex turnover exceeds $7.5 trillion USD (BIS Triennial Survey, 2022).
> The Forex market operates 24 hours a day, 5 days a week, from Sunday 5:00 PM EST (Sydney open) to Friday 5:00 PM EST (New York close).
> No central exchange: all transactions occur between parties directly (OTC).

1.1 Why Trade Forex?

- Highest liquidity of any market: tight spreads, fast execution
- 24-hour market gives flexibility to traders across all time zones
- Low barriers to entry: micro accounts and fractional lot sizes available
- Opportunities in both rising and falling markets (long and short)
- Leverage allows controlling large positions with smaller capital
- Exposure to global macro events: interest rates, GDP, geopolitics

1.2 Forex vs. Other Markets

Feature	Forex	Stocks	Futures	Crypto
Trading Hours	24h/5d	Exchange hrs	Exchange hrs	24/7
Liquidity	Extremely High	High	Moderate	Variable
Leverage (typical)	Up to 500:1 (offshore); 1:30 regulated (EU/UK/AU)	Up to 2:1	Up to 20:1	Up to 100:1
Commission	Spread-based	Per trade	Per contract	Spread-based
Central Exchange	No (OTC)	Yes	Yes	No (mostly)
Volatility	Moderate	Moderate	Moderate-High	Very High

SECTION 2 Market Participants

2. Market Participants

The Forex market is not a level playing field; participants range from global central banks moving billions of dollars to retail traders executing micro-lots. Understanding who trades, why they trade, and how they influence price is foundational to becoming a better trader.

2.1 Participant Hierarchy

Tier	Participant	Volume Share	Primary Purpose
Tier 1	Central Banks (Fed, ECB, BoJ, BoE)	~20%	Monetary policy, FX reserves, currency intervention
Tier 1	Commercial Banks (JP Morgan, Citi, Deutsche)	~40%	Interbank dealing, client orders, proprietary trading
Tier 2	Hedge Funds & Institutional Investors	~15%	Speculation, carry trades, macro positioning
Tier 2	Multinational Corporations	~10%	Hedging FX risk on international revenues
Tier 3	Retail Brokers & Market Makers	~5%	Provide access to retail traders, earn spread
Tier 4	Retail Traders (You)	~5%	Speculation, income, portfolio diversification

CAUTION: Gold

Retail traders operate at the bottom of the liquidity pyramid. The largest participants (banks, hedge funds) have information advantages, faster execution, and can influence price direction.

As a retail trader, your edge must come from discipline, strategy, and risk management, not speed or information.

2.2 Central Banks: The Most Powerful Players

Central banks are the most powerful force in Forex. Their decisions on interest rates, quantitative easing, and direct market intervention can move currency pairs by hundreds of pips in seconds. Key central banks to monitor:

Central Bank	Country / Zone	Currency	Key Policy Tool
Federal Reserve (Fed)	United States	USD	Federal Funds Rate, FOMC Meetings, Dot Plot
European Central Bank (ECB)	Eurozone	EUR	Main Refinancing Rate, PEPP, Press Conferences
Bank of England (BoE)	United Kingdom	GBP	Bank Rate, MPC Minutes, Inflation Report
Bank of Japan (BoJ)	Japan	JPY	YCC (Yield Curve Control), Negative Rates
Swiss National Bank (SNB)	Switzerland	CHF	Policy Rate, FX Interventions
Reserve Bank of Australia (RBA)	Australia	AUD	Cash Rate Target, Quarterly Statement
Bank of Canada (BoC)	Canada	CAD	Overnight Rate, MPR (Monetary Policy Report)
Reserve Bank of New Zealand (RBNZ)	New Zealand	NZD	OCR (Official Cash Rate), MPS

SECTION 3 Trading Sessions

3. Global Trading Sessions

The Forex market is divided into four major trading sessions, each associated with a major financial hub. Each session has distinct characteristics in terms of liquidity, volatility, and the instruments that are most active. Understanding sessions is critical for timing entries and exits effectively.

3.1 Session Overview

Session	Open (UTC)	Close (UTC)	Open (EST)	Most Active Pairs
Sydney	22:00 Sun	07:00 Mon	5 PM Sun	AUD/USD, NZD/USD, USD/JPY, AUD/JPY
Tokyo	00:00	09:00	7 PM	USD/JPY, EUR/JPY, GBP/JPY, AUD/JPY
London	08:00	17:00	3 AM	EUR/USD, GBP/USD, EUR/GBP, USD/CHF
New York	13:00	22:00	8 AM	EUR/USD, GBP/USD, USD/CAD, USD/MXN

NOTE: Info

Times shift by 1 hour during daylight saving time (DST) adjustments in the US and Europe, which do not always coincide.

Most brokers display charts in their server time, always know your broker's UTC offset.

3.2 Session Overlaps: Peak Liquidity Windows

Overlap periods combine the liquidity and volume of two sessions simultaneously, producing the highest volatility and tightest spreads of the trading day.

Overlap	UTC Window	EST Window	Characteristics
Tokyo / London	08:00 – 09:00	3 AM – 4 AM	Moderate volume, EUR/JPY often active, signals London intent
London / New York	13:00 – 17:00	8 AM – 12 PM	HIGHEST volume of day, tightest spreads, major breakouts occur here
Sydney / Tokyo	00:00 – 02:00	7 PM – 9 PM	Lower overall volume, AUD and NZD pairs most active

BEST PRACTICE: Green

The London/New York overlap (8 AM – 12 PM EST) is considered the Golden Window for day traders. Approximately 70% of daily Forex volume occurs during the combined London and New York sessions.

For swing traders, session opens often produce false breakouts before the true directional move. Wait for a session's first 30 minutes before committing.

3.3 Session Characteristics by Asset

Instrument	Best Session	Reason	Avg Daily Range	Avoid
EUR/USD	London / NY Overlap	Highest EUR liquidity + USD news	80–120 pips	Asian session
GBP/USD	London Open	UK macro data at 8 AM UTC	100–160 pips	Late NY session
USD/JPY	Tokyo / London Open	JPY active in Asia, USD in NY	60–100 pips	Sydney session
AUD/USD	Sydney / Tokyo	RBA policy, China data during Asia	60–80 pips	London close
XAU/USD (Gold)	London Open + NY	Liquidity surge, USD inversely correlated	20–40 USD	Asian Sundays
USOIL (WTI)	NY Open + Midday	EIA Inventory (Weds, 10:30 AM EST)	1–3 USD	Sunday open

SECTION 4 Currency Pairs: Majors, Minors, Exotics

4. Currency Pairs

In Forex, all trades involve simultaneously buying one currency and selling another. A currency pair is always expressed as BASE / QUOTE. The base currency is the one being bought or sold; the quote currency is what you pay or receive. For example, in EUR/USD = 1.0850, buying 1 Euro costs 1.0850 US Dollars.

> **KEY CONCEPT: Info**
> Base Currency (left): The currency you are buying or selling.
> Quote Currency (right): The currency used to price the base.
> Exchange Rate: How much of the quote currency buys 1 unit of the base.
> Example: GBP/USD = 1.2650 means 1 GBP = 1.2650 USD.

4.1 Major Pairs

Major pairs all include the US Dollar (USD) on one side. They are the most traded pairs globally and offer the tightest spreads and deepest liquidity. There are 7 recognised Forex majors:

Pair	Base	Quote	Nickname	Avg Spread	Daily Range	Notes
EUR/USD	EUR	USD	Fiber	0.1–0.8 pips	80–120 pips	Most traded pair in the world (~22% daily volume)
GBP/USD	GBP	USD	Cable	0.3–1.2 pips	100–160 pips	High volatility; sensitive to UK data and BoE
USD/JPY	USD	JPY	Gopher / Ninja	0.2–0.8 pips	60–100 pips	Safe-haven JPY; BoJ intervention risk
USD/CHF	USD	CHF	Swissy	0.3–1.0 pips	60–90 pips	CHF is a safe-haven currency; inversely correlated to EUR/USD
AUD/USD	AUD	USD	Aussie	0.2–0.8 pips	60–80 pips	Commodity-linked (iron ore, coal); China-sensitive
USD/CAD	USD	CAD	Loonie	0.3–1.0 pips	70–100 pips	Oil-correlated (Canada = major oil exporter); inverse with WTI
NZD/USD	NZD	USD	Kiwi	0.3–1.2 pips	55–80 pips	Commodity-linked (dairy); RBNZ OCR sensitive

4.2 Minor Pairs (Cross Pairs)

Minor pairs do not include the US Dollar. They are formed by pairing two of the other major currencies. While spreads are slightly wider than majors, many minors offer excellent trading opportunities, especially during their regional sessions.

Pair	Nickname	Avg Spread	Daily Range	Key Driver / Notes
EUR Crosses				
EUR/GBP	Chunnel	0.5–2.0 pips	50–70 pips	Reflects UK vs Eurozone economic divergence; slow mover
EUR/JPY	Yuppy	0.5–1.5 pips	90–130 pips	Risk-on/risk-off indicator; high volatility
EUR/CHF	Euro-Swissy	0.8–2.0 pips	50–80 pips	Often range-bound; SNB peg history (2011–2015)
EUR/AUD	-	1.0–2.5 pips	100–140 pips	Wide range; AUD commodity link vs EUR rate differential
EUR/CAD	-	1.2–2.5 pips	90–130 pips	Oil exposure through CAD; ECB/BoC policy divergence
EUR/NZD	-	1.5–3.0 pips	110–160 pips	Large swings; less liquidity, use wider stops
GBP Crosses				
GBP/JPY	Geppy / Dragon	0.8–2.0 pips	130–200 pips	One of the most volatile pairs; popular with experienced traders
GBP/AUD	-	1.0–2.5 pips	120–170 pips	High volatility; UK vs Australian rate differential
GBP/CAD	-	1.5–3.0 pips	110–160 pips	Oil + UK data combo; less liquidity than majors
GBP/CHF	-	1.0–2.5 pips	90–130 pips	Safe-haven CHF vs high-beta GBP; trend-friendly
GBP/NZD	-	2.0–4.0 pips	150–220 pips	Extremely volatile; not recommended for beginners
JPY, AUD, NZD, CAD Crosses				
AUD/JPY	Aussie-Yen	0.5–1.5 pips	70–100 pips	Risk-on proxy; rises when global risk appetite is high
NZD/JPY	-	0.8–2.0 pips	65–90 pips	Similar to AUD/JPY; dairy + RBNZ rates vs BoJ
CAD/JPY	-	0.8–2.0 pips	65–90 pips	Oil price proxy through CAD; risk-on/off via JPY
CHF/JPY	-	1.0–2.5 pips	80–110 pips	Double safe-haven pair; moves on global risk events
AUD/NZD	-	1.0–2.5 pips	50–70 pips	Two commodity currencies; slow mover, range-bound

Pair	Nickname	Avg Spread	Daily Range	Key Driver / Notes
AUD/CAD	-	1.2–2.5 pips	55–75 pips	Two commodity-linked currencies; oil vs metals divergence
NZD/CAD	-	1.5–3.0 pips	55–80 pips	Dairy vs oil fundamentals; moderate volatility
NZD/CHF	-	1.5–3.0 pips	60–85 pips	Less common; RBNZ OCR vs SNB negative rate dynamics

WARNING: Red
Pairs like GBP/NZD, EUR/NZD, and GBP/AUD carry very wide spreads and can move 150–250 pips per day. Never trade these with a tight stop loss, you risk being stopped out by normal price noise.

4.3 Exotic Pairs

Exotic pairs combine a major currency with the currency of an emerging or smaller economy. They are characterised by wide spreads, lower liquidity, and higher geopolitical/economic risk. They are not recommended for beginners.

Pair	Region	Avg Spread	Risk Level	Notes
USD-Denominated Exotics				
USD/MXN	Latin America	30–100 pips	High	Mexican Peso; oil & US trade sensitive; high swap rates
USD/TRY	Middle East	100–400 pips	Very High	Turkish Lira; political risk, extreme inflation, lira devaluation trend
USD/ZAR	Africa	80–200 pips	Very High	South African Rand; gold-mining exposure, political risk
USD/BRL	Latin America	80–200 pips	High	Brazilian Real; agricultural commodity exposure
USD/SGD	Asia-Pacific	20–60 pips	Moderate	Singapore Dollar; MAS-managed currency; stable but wide spread
USD/HKD	Asia-Pacific	10–30 pips	Low-Moderate	Pegged to USD at 7.75–7.85; very limited movement
USD/SEK	Scandinavia	20–80 pips	Moderate	Swedish Krona; Riksbank rate decisions key driver
USD/NOK	Scandinavia	20–80 pips	Moderate	Norwegian Krone; heavily correlated with Brent Crude oil prices
USD/DKK	Scandinavia	15–50 pips	Low-Moderate	Danish Krone; pegged to EUR; limited directional movement
USD/PLN	Eastern Europe	40–120 pips	Moderate-High	Polish Zloty; EU accession dynamics, NBP rate decisions

Pair	Region	Avg Spread	Risk Level	Notes
USD/HUF	Eastern Europe	60–200 pips	High	Hungarian Forint; inflation volatility, political risk
USD/CZK	Eastern Europe	30–100 pips	Moderate	Czech Koruna; CNB rate policy; stable relative to HUF/PLN
EUR & GBP Exotics				
EUR/TRY	Middle East	150–500 pips	Extreme	Extremely wide spread; primarily used by institutional hedgers
EUR/PLN	Eastern Europe	40–130 pips	Moderate-High	ECB + NBP policy divergence; EU structural funds driver
GBP/PLN	Eastern Europe	60–160 pips	High	Post-Brexit UK–Poland trade dynamics + rate differentials
Asian Exotics				
USD/INR	South Asia	30–80 pips	Moderate	Indian Rupee; RBI interventions; seasonal capital flows
USD/CNH	East Asia	20–60 pips	Moderate	Offshore Chinese Yuan (not onshore CNY); PBoC policy-driven
USD/THB	Southeast Asia	30–100 pips	Moderate	Thai Baht; tourism-sensitive, BoT interventions
USD/IDR	Southeast Asia	100–300 pips	High	Indonesian Rupiah; commodity (coal, palm oil) exposure, BI interventions

CAUTION: Gold

Exotic pairs should only be traded by experienced traders with a deep understanding of the country's political and economic environment.

Swap costs (overnight financing) on exotic pairs can be extremely high, making them unsuitable for swing or position trading without careful cost calculation.

SECTION 5 **USD-Denominated Commodities**

5. USD-Denominated Commodities

Commodities are raw materials or primary agricultural products traded on global markets. In Forex, the most common commodities are priced in US Dollars, meaning they trade like currency pairs where the quote side is always USD. Commodity prices are influenced by supply/demand fundamentals, geopolitical events, currency strength (especially USD), and macroeconomic cycles.

KEY CONCEPT: Info

When the US Dollar strengthens (DXY rises), USD-priced commodities typically fall; it takes fewer USD to buy the same amount of the commodity.

When the US Dollar weakens (DXY falls), commodity prices typically rise.

This inverse correlation is not perfect but is one of the most reliable macro relationships in the markets.

5.1 Gold: XAU/USD

Gold is the most widely traded commodity in the Forex world. It is simultaneously a currency, a safe-haven asset, an inflation hedge, and a store of value. Gold trades virtually 24/5 and is deeply influenced by real interest rates (US 10-Year TIPS yields), the US Dollar Index (DXY), and global risk sentiment.

Attribute	Details
Symbol	XAU/USD
Quote	USD per troy ounce (oz)
Standard Contract	100 troy ounces (1 standard lot)
Mini Contract	50 oz (0.5 lot) | Micro: 10 oz (0.1 lot)
Pip Size	$0.01 per oz = $1.00 per standard lot
Typical Spread	0.20 – 1.50 USD
Average Daily Range	$20 – $40 (can spike to $80+ on macro events)
Key Drivers	Real US yields (TIPS), DXY, Fed policy, geopolitical risk, inflation expectations, ETF flows (GLD)
Safe-Haven Status	Yes: rises on uncertainty, war, financial crises, recession fears
Inverse Correlation	Strong inverse correlation with DXY and US 10yr real yields
Trading Hours	23:00 Sun – 22:00 Fri UTC (with short daily breaks on some platforms)
Best Trading Sessions	London Open, NY Open, London/NY Overlap

Attribute	Details
Key Resistance Levels	Round numbers ($1,900, $2,000, $2,100, $2,500) act as psychological S/R

GOOD PRACTICE: Green

Monitor the US 10-Year TIPS yield and DXY alongside gold price. When real yields fall, gold typically rises, and vice versa.

Central bank gold buying (especially by BRICS nations) is a major long-term driver of gold demand. Watch quarterly central bank gold reserve reports.

5.2 Silver: XAG/USD

Silver is often called 'Gold's Volatile Sibling'. It shares gold's safe-haven properties but also has significant industrial demand (solar panels, electronics, EV batteries), making it more sensitive to economic cycles than gold.

Attribute	Details
Symbol	XAG/USD
Quote	USD per troy ounce
Standard Contract	5,000 troy ounces (1 standard lot)
Pip Size	$0.001 per oz = $5.00 per standard lot
Typical Spread	0.02 – 0.05 USD
Average Daily Range	$0.40 – $0.80 (much higher % than gold)
Key Drivers	Gold price, industrial demand (EV, solar), DXY, manufacturing PMI, supply (Mexico, Peru)
Gold/Silver Ratio	Compares gold price to silver price. Historical avg ~55:1. High ratio = silver undervalued vs gold
Volatility vs Gold	Silver is typically 2–3x more volatile than gold, bigger swings both up and down
Best Sessions	NY Open, London/NY Overlap (follows gold timing)

CAUTION: Gold

Because of silver's high volatility relative to its price, position sizing must be carefully adjusted. A 1% move in silver can have a larger dollar impact than the same % move in gold, depending on your lot size.

5.3 WTI Crude Oil: USOIL

West Texas Intermediate (WTI) Crude Oil is the US benchmark for crude oil and one of the most traded commodities in the world. It is highly sensitive to OPEC+ production decisions, US weekly inventory data (EIA report), and global economic growth expectations.

Attribute	Details
Symbol	USOIL / WTI / CL (broker-dependent)
Quote	USD per barrel (bbl)
Standard Contract	1,000 barrels (1 standard lot on most CFD platforms)
Pip / Tick Size	$0.01 per barrel = $10.00 per standard lot
Typical Spread	$0.03 – $0.08 per barrel
Average Daily Range	$1.00 – $3.00 (up to $10+ on major events)
Key Drivers	OPEC+ decisions, EIA weekly inventory, US Rig Count (Baker Hughes), geopolitics, DXY
Weekly High-Impact Events	EIA Crude Inventories (Wednesday 10:30 AM EST), API Report (Tuesday 4:30 PM EST)
USD Correlation	Inverse with USD: weaker USD = more expensive oil in USD terms
Currency Correlations	CAD/USD positive (Canada exports oil), NOK positive, MXN positive
Contango / Backwardation	Futures curve shape affects CFD rollover costs; watch for expiry gaps
Best Session	NY Open (8 AM EST) especially on EIA Wednesday; London/NY overlap

WARNING: Red

Crude oil can gap significantly at the Sunday open following OPEC weekend announcements. Always check the news calendar before leaving oil positions open over the weekend.

WTI CFDs have rollover/expiry costs. Some brokers charge a significant spread at contract rollover, understand your broker's policy.

5.4 Copper: HG/USD (XCU/USD)

Copper is known as 'Dr. Copper' in financial markets because of its track record as an economic indicator. Its widespread use in construction, electrical infrastructure, and manufacturing means copper prices tend to rise in economic expansions and fall in contractions.

Attribute	Details
Symbol	COPPER / XCU/USD / HG (broker-dependent)
Quote	USD per pound (lb) on CME; some brokers use USD per metric tonne
Standard Lot (CME)	25,000 lbs per futures contract

Attribute	Details
Pip Size (per lb)	$0.0001 per lb = $2.50 per lot (CME standard)
Typical Spread	0.002 – 0.010 USD per lb (varies widely by broker)
Average Daily Range	$0.03 – $0.08 per lb
Key Drivers	China PMI, Global manufacturing PMI, LME warehouse inventory, supply disruptions (Chile, Peru), EV demand
Economic Indicator Role	Rising copper = global economic expansion; falling copper = contraction warning signal
China Correlation	China consumes ~55% of global copper; Chinese data dominates copper direction
Currency Correlations	AUD/USD positive (Australia = major copper exporter); CLP/USD positive
Best Session	Asian session open (China data), NY session (CME futures open at 8 AM EST)
Related Instruments	AUD/USD, AUD/JPY, USD/CLP, DXY (inverse)

5.5 Commodity Correlations Summary

Commodity	DXY	Equities	Key Currency	Macro Theme
XAU/USD (Gold)	Inverse (-)	Mixed / Inverse	USD	Risk-off, inflation hedge, real yield inverse
XAG/USD (Silver)	Inverse (-)	Mixed / Positive	USD	Dual: safe-haven + industrial (EV, solar)
USOIL (WTI)	Inverse (-)	Positive (+)	CAD, NOK	Growth, OPEC+ supply, geopolitics
Copper (HG)	Inverse (-)	Strong Positive (+)	AUD	Global growth, China PMI, infrastructure spend

SECTION 6 **Pips, Lots, Leverage & Margin**

6. Pips, Lots, Leverage & Margin

6.1 What Is a Pip?

A pip (Percentage In Point) is the smallest standard unit of price movement in a Forex pair. For most pairs, a pip is the 4th decimal place (0.0001). For JPY pairs, a pip is the 2nd decimal place (0.01). A pipette (or fractional pip) is 1/10th of a pip, represented at the 5th decimal (or 3rd for JPY).

Pair Type	Example	Pip Position	Pip Value	Pipette Position
Standard Forex	EUR/USD = 1.10854	4th decimal (0.0001)	$10 per lot	5th decimal (0.00001)
JPY Pairs	USD/JPY = 149.854	2nd decimal (0.01)	~$6.69 per lot*	3rd decimal (0.001)
Gold (XAU/USD)	XAU/USD = 2,341.50	2nd decimal ($0.01)	$1 per lot (100 oz)	N/A
Silver (XAG/USD)	XAG/USD = 29.435	3rd decimal ($0.001)	$5 per lot (5,000 oz)	N/A
WTI Crude	USOIL = 78.340	3rd decimal ($0.001)	$1 per 0.1 lot (~100 bbl)	N/A
Copper	COPPER = 4.0540	4th decimal ($0.0001)	Varies by contract size	N/A

*JPY pip value depends on current exchange rate. Formula: Pip Value = (0.01 / Exchange Rate) × Lot Size.

6.2 Lot Sizes

A lot is the standard unit of trade size in Forex. Trading in different lot sizes allows precise control of risk exposure.

Lot Type	Units (EUR/USD)	Pip Value (EUR/USD)	Min Margin (1:100)	Suitable For
Standard (1.0)	100,000 units	$10.00 per pip	~$1,000	Experienced traders, larger accounts
Mini (0.1)	10,000 units	$1.00 per pip	~$100	Intermediate traders

Lot Type	Units (EUR/USD)	Pip Value (EUR/USD)	Min Margin (1:100)	Suitable For
Micro (0.01)	1,000 units	$0.10 per pip	~$10	Beginners, strategy testing
Nano (0.001)	100 units	$0.01 per pip	~$1	Demo/prop firm micro accounts

FORMULA: Info

Pip Value (standard pairs) = (0.0001 / Quote Price) × Lot Size × 100,000

For EUR/USD at 1.0850 with 1 standard lot: (0.0001 / 1.0850) × 100,000 = $9.22 per pip (quoted in USD)

For most USD-quoted pairs, pip value ≈ $10 per standard lot (slight variation due to exchange rate).

6.3 Leverage & Margin

Leverage allows you to control a large position with a small amount of capital. Margin is the collateral required by your broker to open and maintain a leveraged position.

Leverage Ratio	Margin %	Margin for $100K trade	Control per $1,000	Risk Level
1:10	10%	$10,000	$10,000 position	Very Low
1:50	2%	$2,000	$50,000 position	Low-Moderate
1:100	1%	$1,000	$100,000 position	Moderate
1:200	0.5%	$500	$200,000 position	High
1:500	0.2%	$200	$500,000 position	Very High

WARNING: Red

Leverage amplifies BOTH profits AND losses equally. A 1:100 leverage means a 1% move against you wipes out your entire margin for that trade.

Regulators in the EU, UK, and Australia cap retail leverage at 1:30 for major Forex pairs and 1:20 for gold. Offshore brokers may offer higher leverage; this is not an advantage; it is additional risk.

Never use maximum available leverage. Most professional traders use effective leverage of 5:1 to 15:1 on any single trade.

6.4 Margin Terminology

Term	Definition
Required Margin	The amount of capital locked as collateral for an open trade
Used Margin	Total margin currently locked across all open positions
Free Margin	Account Balance + Unrealised P&L – Used Margin. Available for new trades
Equity	Current account value including unrealised P&L (Equity = Balance ± Open P&L)
Margin Level %	Equity / Used Margin × 100. Broker triggers Margin Call if this falls below threshold (e.g., 100%)
Margin Call	Broker alert when Margin Level drops below required threshold. You must deposit or close positions
Stop Out Level	If Margin Level falls below Stop Out % (e.g., 50%), broker auto-closes positions to protect margin

SECTION 7 **Spread, Swap & Commission**

7. Trading Costs: Spread, Swap & Commission

7.1 The Spread

The spread is the difference between the bid price (what the market will buy from you) and the ask price (what the market will sell to you). It is the primary cost of trading and represents immediate profit for the broker/market maker.

Spread Type	Example	When Applied	Best For
Fixed Spread	EUR/USD always 2 pips	Guaranteed, always same width	News traders who need certainty about costs
Variable Spread	EUR/USD 0.1–3.0 pips	Widens during low liquidity/news events	Day traders during active sessions (tight spreads)
Commission + Raw Spread	0.0 spread + $3.50/lot/side	Flat fee per round trip lot	High-frequency traders and scalpers

KEY CONCEPT: Info

Always calculate spread cost as part of your risk/reward ratio.

Example: EUR/USD spread = 1.2 pips, standard lot = $10/pip. Entering and exiting costs 2 × 1.2 × $10 = $24 round-trip.

For a $100 target (10 pip), $24 spread cost = 24% of your potential profit eaten by spread alone.

This is why scalping very tight setups with wide spreads is a losing proposition.

7.2 The Swap (Overnight Financing / Rollover)

When you hold a Forex position overnight (past 5 PM EST, the New York close), your broker applies a swap charge or credit. The swap is based on the interest rate differential between the two currencies in the pair. Holding a high-interest currency and selling a low-interest one earns a positive swap; the reverse is a negative swap.

Pair	Long Swap (typical)	Short Swap (typical)	Notes
USD/JPY	+$2.50 to +$5.00/lot/day	-$1.50 to -$3.00/lot/day	USD higher rates than JPY; long USD earns swap
EUR/USD	-$1.50 to -$3.00/lot/day	+$0.50 to +$1.50/lot/day	EUR lower rates; short EUR benefits
AUD/USD	+$0.50 to +$2.50/lot/day	-$2.00 to -$4.00/lot/day	AUD rates vary; RBA decisions affect this regularly

Pair	Long Swap (typical)	Short Swap (typical)	Notes
USD/TRY	Extremely Negative	Extremely Positive	TRY high inflation = extreme negative swap for TRY longs
XAU/USD (Gold)	-$3.00 to -$8.00/lot/day	+$1.00 to +$3.00/lot/day	Gold has no yield; long gold incurs financing cost
USOIL (WTI)	Negative (varies)	Positive (varies)	CFD oil incurs financing based on base rate + markup

CAUTION: Gold

On Wednesdays, brokers apply a TRIPLE SWAP to account for the weekend (Saturday + Sunday settlement days). This means Wednesday overnight is 3× the normal swap charge or credit.

For swing traders holding positions 3–7 days, swap costs can significantly erode P&L. Always calculate expected swap cost before entering a multi-day trade.

7.3 Commission

ECN/STP brokers with raw spreads charge a fixed commission per lot traded. This is typically expressed per 'round turn' (open + close) or per 'side' (open only).

Commission Structure	Typical Range	Notes
Per lot per side	$2.50 – $5.00	You pay on open AND on close separately
Per lot round turn	$4.00 – $10.00	Single charge covers both open and close of trade
Percentage-based	0.01% – 0.03% of notional	Common with institutional accounts; rare in retail Forex
No commission (spread-only)	$0	Broker profits from spread markup instead; often wider spreads

SECTION 8 **Order Types**

8. Order Types

Understanding order types is fundamental to trade execution. Using the correct order type for your strategy reduces slippage, manages risk, and ensures you enter/exit at your intended price, or only when specific conditions are met.

Order Type	Execution	Use Case	Key Considerations
Entry Orders			
Market Order	Immediate at current price	Enter/exit immediately when signal fires	Susceptible to slippage during news events; guaranteed fill
Limit Order (Buy Limit)	At or below specified price	Buy at a pullback to a lower price (retracement entry)	Will only fill if price reaches the level; may not fill at all
Limit Order (Sell Limit)	At or above specified price	Sell at a rally to a higher price (distribution zone)	Set above current price; waits for price to reach target area
Stop Order (Buy Stop)	At or above specified price	Enter long on breakout above resistance	Triggers when price moves up to your level; can gap over it
Stop Order (Sell Stop)	At or below specified price	Enter short on breakdown below support	Triggers when price falls to your level; confirms bearish break
Risk Management Orders			
Stop Loss (SL)	Market order when SL level hit	Limit maximum loss on a trade	Always use a stop loss: non-negotiable risk management rule
Take Profit (TP)	Limit order at target price	Automatically close trade at profit target	Set TP at logical price structure (S/R, swing high/low, Fib)
Trailing Stop	Stop moves with price in P&L direction	Lock in profits while letting winners run	Set in pips or %; stops adjust automatically as price moves
Conditional / Advanced Orders			
OCO (One Cancels Other)	Two orders; one execution cancels the other	Place both a buy stop and sell stop around consolidation	Useful for breakout trading without directional bias
GTC (Good Till Cancelled)	Order remains active until filled or cancelled	Pending order left at a level for days/weeks	Ensure you monitor it; old pending orders at irrelevant levels
GTD (Good Till Date)	Cancels automatically at specified date/time	Orders timed around specific events or sessions	Useful before high-impact news; auto-cancels if not triggered

SECTION 9 **Sample Trade Setup**

9. Sample Trade Setup: EUR/USD Long

Below is a structured example of a complete, documented trade setup for a beginner. Every trade, regardless of strategy, should follow this documentation format to build discipline and create a record for review.

Trade Element	Details
Instrument	EUR/USD
Bias / Direction	LONG (Buy)
Timeframe	H4 (4-hour chart) for setup; H1 for entry refinement
Session	London Open: entering between 08:00-10:00 UTC
Reason for Setup	Price pulled back to 1.0750 support zone (previous weekly resistance flipped support). Daily close above 200 EMA. RSI divergence on H4 showing bullish momentum shift.
Entry Price	1.07620 (Buy Limit placed at demand zone)
Stop Loss	1.07230 (below swing low at 1.0730, with 7 pip buffer) = 39 pips
Take Profit 1	1.08020 (previous minor resistance) = 40 pips (1:1 RR)
Take Profit 2	1.08640 (weekly resistance zone) = 102 pips (2.6:1 RR)
Risk/Reward Ratio	TP1 = 1.03:1 | TP2 = 2.62:1
Account Size	$5,000 USD
Risk Per Trade	1% = $50
Position Size Calc	$50 risk ÷ (39 pips × $10/pip) = 0.13 lots (micro: 0.1 lot for simplicity)
Lot Size	0.1 lot (Mini lot)
Actual $ Risk	39 pips × $1/pip (0.1 lot) = $39
Trade Management	At TP1: close 50% of position, move SL to breakeven. Let remainder run to TP2.
Invalidation Condition	4H candle close below 1.07300 (structural break). Cancel if NFP or CPI is this week without clear plan.
News Check	No red-folder news in next 24 hrs. ECB minutes on Thursday; plan to close before.
Spread Cost	1.2 pip × $1 = $1.20 (open) + $1.20 (close) = $2.40 round trip
Expected Profit (TP2)	102 pips × $1/pip = $102 gross, $99.60 net after spread

GOOD PRACTICE: Green

Always calculate position size BEFORE entering a trade; never adjust it to make a trade seem better.

The invalidation condition is as important as the entry. If the market proves your thesis wrong (by closing below a key structure), exit, even if the trade is still within your stop loss range.

Moving your stop to breakeven after TP1 is hit is a conservative but effective way to secure a risk-free trade.

SECTION 10 **Pre-Trade Checklist**

10. Pre-Trade Checklist

Use this checklist before every trade. A disciplined approach to pre-trade review eliminates emotional, impulsive entries and ensures every trade has a documented rationale.

	PRE-TRADE CHECKLIST: Module 1 Level
1. Market Context	
[ ]	I have identified the current session (Sydney / Tokyo / London / New York)
[ ]	I have checked the economic calendar for high-impact events in the next 24 hours
[ ]	I know the higher-timeframe (Daily/Weekly) trend direction for this pair
[ ]	I have identified key support and resistance levels on the daily chart
2. Instrument Selection	
[ ]	This instrument is appropriate for the current session (e.g., not trading AUD/USD during London late session)
[ ]	If trading a commodity, I have checked DXY direction and relevant reports (EIA for oil, Gold ETF flows)
[ ]	If trading an exotic pair, I have reviewed current spread and swap costs; they are acceptable
3. Trade Setup & Levels	
[ ]	I have a clear entry price with a logical reason (support zone, pattern completion, signal confluence)
[ ]	My stop loss is placed at a logical market structure level (not arbitrarily chosen)
[ ]	My take profit is at a logical target (resistance, 1:2+ RR minimum)
[ ]	Risk/reward ratio is at least 1:1.5 (ideally 1:2 or better)
4. Position Sizing & Risk	
[ ]	I have calculated my position size based on my defined risk per trade (e.g., 1% of account)
[ ]	I know exactly how much money I will lose if stopped out, and I am comfortable with that amount
[ ]	This trade does not push my total open risk beyond 3–5% of account equity
5. Execution Readiness	
[ ]	Order type selected is appropriate (limit, stop, market) and entry is pre-set where possible
[ ]	Stop loss and take profit orders are ready to place the moment the trade is triggered
[ ]	I have identified the condition under which this trade is invalidated (structural break level)
6. Psychology Check	
[ ]	I am not entering this trade to recover a previous loss (revenge trading)
[ ]	I am following my documented strategy, not chasing price or reacting to someone else's signal
[ ]	I am willing to miss this trade rather than enter with less than full confluence

SECTION 11 **Exercises**

11. Practice Exercises

Exercise 1: Identify the Pair

For each description below, write the currency pair or commodity symbol:

1. The most traded Forex pair in the world, nicknamed 'Fiber': ____________
2. The JPY cross that involves the British Pound, nicknamed the 'Dragon': ____________
3. Gold, quoted against the US Dollar: ____________
4. The USD pair strongly correlated with WTI crude oil prices: ____________
5. The exotic pair representing the Indonesian Rupiah vs USD: ____________
6. The NZD pair against the USD, nicknamed the 'Kiwi': ____________
7. Silver, quoted against the US Dollar: ____________

Exercise 2: Pip Value Calculations

Calculate the pip value and total dollar risk for each scenario. Use $10/pip for standard lots.

1. Trade: Buy EUR/USD, 0.5 lots. Your stop is 40 pips away. What is your dollar risk?
   - Pip value: 0.5 lots × $10/pip = $_____ per pip
   - Dollar risk: $_____ × 40 pips = $_____
2. Trade: Sell GBP/USD, 0.1 lots. Stop loss is 55 pips. What is your dollar risk?
   - Answer: $_____
3. Account: $2,000. Risk per trade: 2%. Stop: 30 pips (EUR/USD). What lot size should you trade?
   - Max risk: $2,000 × 2% = $_____ | Lot size = $_____ ÷ (30 × $10) = _____ lots

Exercise 3: Session Matching

Match each instrument/event to its most appropriate trading session:

1. USD/JPY: Tokyo data release; most liquid session = ____________
2. EUR/USD breakout trade: best session = ____________
3. WTI Crude: EIA inventory report (Wednesday 10:30 AM EST); best session = ____________
4. AUD/USD: RBA rate decision announced at 02:30 UTC; best session = ____________
5. XAU/USD scalp trade: preferred sessions = ____________

Exercise 4: Trade Documentation

Using the sample trade setup in Section 9 as a template, document a hypothetical trade on GBP/USD. Include: Direction, Timeframe, Entry, Stop Loss (in pips), Take Profit (in pips), RR Ratio, Account size $3,000, 1% risk, lot size calculation, and your invalidation condition.

Direction: _______ | Timeframe: _______ | Session: _______

Entry: _______ | SL: _______ pips | TP: _______ pips

RR: _______ | $ Risk: _______ | Lot Size: _______

Invalidation: ____

SECTION 12 Module Quiz

12. Module 1 Quiz: 15 Questions

Circle or write the correct answer. Answers are provided on the final page.

Q1. What is a pip in most standard Forex pairs?

A) The 2nd decimal place (0.01)
B) The 4th decimal place (0.0001)
C) The 5th decimal place (0.00001)
D) The 1st decimal place (0.1)

Q2. Which session is known for the highest daily Forex trading volume?

A) Sydney Session
B) Tokyo Session
C) London/New York Overlap
D) New York Session alone

Q3. EUR/USD = 1.0850. If you BUY 1 standard lot and the price moves up 25 pips, what is your approximate profit?

A) $25
B) $250
C) $2,500
D) $25,000

Q4. Which commodity is nicknamed 'Dr. Copper' due to its role as an economic indicator?

A) Crude Oil (WTI)
B) Silver (XAG/USD)
C) Gold (XAU/USD)
D) Copper (HG/XCU)

Q5. A 'Sell Limit' order is placed:

A) Below the current market price
B) Above the current market price
C) At the current market price immediately
D) At the stop loss level

Q6. What does 'Free Margin' represent?

A) Total account balance only
B) Capital locked in open trades
C) Equity minus used margin: available for new trades
D) Only unrealised profit on open trades

Q7. The USD/CAD pair is sometimes called 'Loonie'. Which commodity most strongly affects its direction?

A) Gold (XAU)
B) Copper (HG)
C) WTI Crude Oil
D) Natural Gas

Q8. On which day does a broker typically charge TRIPLE SWAP?

A) Monday
B) Tuesday
C) Wednesday
D) Friday

Q9. Which of the following is a JPY cross pair (does NOT contain USD)?

A) USD/JPY
B) GBP/JPY
C) AUD/USD
D) NZD/USD

Q10. You have a $10,000 account and risk 1% per trade. Your stop loss is 50 pips. What is the correct position size for EUR/USD?

A) 0.02 lots
B) 0.20 lots
C) 2.00 lots
D) 0.50 lots

Q11. The US Dollar Index (DXY) rises sharply. What is the most likely impact on Gold (XAU/USD)?

A) Gold price rises
B) Gold price falls
C) No relationship
D) Gold becomes more volatile but no direction

Q12. Which pair is considered the most volatile among the common GBP crosses?

A) GBP/EUR
B) GBP/CHF
C) GBP/NZD
D) GBP/AUD

Q13. Which central bank controls monetary policy for the Australian Dollar (AUD)?

A) Reserve Bank of New Zealand (RBNZ)
B) Reserve Bank of Australia (RBA)
C) Australian Securities Exchange (ASX)
D) Bank of Australia (BoA)

Q14. What does a 'Margin Call' mean?

A) Your trade has hit take profit

B) Your broker automatically opens a new hedged position

C) Your Margin Level has fallen below the required threshold; deposit more or close positions

D) Your leverage ratio has been increased by the broker

Q15. WTI Crude Oil is most affected by which weekly report released on Wednesdays at 10:30 AM EST?

A) Baker Hughes Rig Count

B) API Crude Inventory (American Petroleum Institute)

C) EIA Crude Oil Inventory (Energy Information Administration)

D) OPEC Monthly Oil Market Report (MOMR)

Quiz Answer Key

Q	Answer	Explanation
Q1	B	Most Forex pairs use 4 decimal places. The pip is 0.0001. JPY pairs use 0.01 (2nd decimal).
Q2	C	The London/New York overlap (8 AM–12 PM EST) generates ~70% of total daily volume.
Q3	B	1 standard lot EUR/USD = $10/pip. 25 pips × $10 = $250 profit.
Q4	D	Copper is nicknamed Dr. Copper for its role as a leading economic health indicator.
Q5	B	A Sell Limit is placed above current price, anticipating price will rise to that level before reversing down.
Q6	C	Free Margin = Equity – Used Margin. This is the capital available to open new trades.
Q7	C	Canada is a major oil exporter. When WTI falls, USD/CAD typically rises (CAD weakens).
Q8	C	Triple swap on Wednesday accounts for Saturday and Sunday settlement = 3 days' financing in one charge.
Q9	B	GBP/JPY is a cross pair (no USD). USD/JPY contains USD; AUD/USD and NZD/USD also contain USD.
Q10	B	$10,000 × 1% = $100 risk. $100 ÷ (50 pips × $10/pip) = $100 ÷ $500 = 0.20 lots.
Q11	B	Gold has an inverse relationship with the USD. A rising DXY typically pushes XAU/USD lower.
Q12	C	GBP/NZD is the most volatile GBP cross, average daily range of 150–220 pips.
Q13	B	The Reserve Bank of Australia (RBA) sets the Cash Rate Target that governs AUD monetary policy.
Q14	C	Margin Call is a broker alert/action when Margin Level falls below the required threshold.
Q15	C	The EIA Weekly Crude Oil Inventory report (Wednesday 10:30 AM EST) is the most market-moving oil data point.

MODULE COMPLETION

Congratulations on completing Module 1: Forex Foundations!

Score 12/15 or higher before proceeding to Module 2: Price Action & Candlesticks.

Review any topics where you answered incorrectly before moving on.

If you scored below 10/15, re-read sections 3–8 and redo the exercises.

Next: Module 2: Price Action & Candlesticks

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