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# Day Trading the Currency Market

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*Technical and  
Fundamental Strategies  
To Profit from Market Swings*

**KATHY LIEN**



**WILEY**

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# Preface

Looking for a good book on currency trading? After having taught seminars across the country on how to trade currencies, I am repeatedly approached by avid traders who are serious about learning the foreign exchange (FX) market and want recommendations for good currency trading books. *Day Trading the Currency Market* addresses this need by not only providing technical and fundamental strategies for trading FX, but also by giving traders a more detailed insight into how the currency market works. This book is designed for both the beginner and the advanced trader. There is something for every type of reader. In this book, I try to accomplish two major goals—to touch on the major FX market basics or currency characteristics that all traders and particularly day traders need to know, as well as to give you actionable strategies on which to actually base some of your trading strategies. *Day Trading the Currency Market* goes beyond what every other currency trading book covers and delves into such interesting topics as “What are the most market moving indicators for the U.S. dollar?” and “What are currency correlations and how do traders use them?”

Here’s a brief road map to whet your appetite on the topics covered.

## **FOREIGN EXCHANGE—THE FASTEST-GROWING MARKET OF OUR TIME**

If you are wondering whether you should get into the FX market, take a look at some of the reasons why the largest market in the world has always been the market of choice for the big players such as hedge funds and institutional investors. Learn about why the FX market has exploded over the past three years and the advantages that the FX spot market has

over the more traditional equities and futures markets—something that the most seasoned traders of the world have known for decades.

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## **HISTORICAL EVENTS IN THE FX MARKET**

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How can you trade the currency market without knowing some of the major milestones that helped to shape the market into what it has become today? There are countless events that are still talked about and brought up despite the many years that have passed since they occurred. This chapter covers Bretton Woods, the end of the Bretton Woods, the Plaza Accord, George Soros and how he came to fame, the Asian financial crisis, the launch of the euro, and the burst of the technology bubble.

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## **WHAT MOVES THE CURRENCY MARKET IN THE LONG TERM?**

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What moves the currency market is probably one of the best questions to ask for new traders. Currency movements can be dissected into short-term and long-term movements. This chapter covers some of the more macro longer-term factors that impact currency prices. The reason why this chapter was thrown in is to keep traders from losing sight of the bigger picture and how these longer-term factors on both a technical and a fundamental basis will always come back into play regardless of the shorter-term fluctuations. We also explore the different valuation models for forecasting currency rates, which can help more quantitative fundamental traders to develop their own methodologies for predicting currency movements.

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## **WHAT MOVES THE CURRENCY MARKET IN THE SHORT TERM?**

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For day traders, knowing which pieces of U.S. data move the market the most is extremely valuable. System traders need to know when it is worthwhile to turn their systems off, while breakout traders will want to know where to place their big bets based on what economic releases typically set off the largest movements. This section not only ranks the importance of U.S. data, but it also reports on the knee-jerk reaction in pip values and whether there is usually a follow-through over the remainder of the day.

## **WHAT ARE THE BEST TIMES TO TRADE FOR INDIVIDUAL CURRENCY PAIRS?**

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Timing is everything in currency trading. In order to devise an effective and time-efficient investment strategy, it is important to note the amount of market activity around the clock in order to maximize the number of trading opportunities during a trader's own market hours. This section outlines the typical trading activity of major currency pairs in different time zones to see when they are the most volatile.

## **WHAT ARE CURRENCY CORRELATIONS AND HOW DO TRADERS USE THEM?**

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Everything in the currency market is interrelated to some extent, and knowing the direction and how strong the relationships between different currency pairs are can be used to the advantage of all traders. When trading in the FX market, one of the most important facts to remember in creating a strategy is that no currency pair is isolated. Knowing how closely correlated the currency pairs are in your portfolio is a great way to measure exposure and risk. Many traders may find themselves thinking that they are diversifying their portfolios by investing in different currency pairs, but few realize that many pairs actually have a tendency to move in the same direction or opposite to each other historically. The correlations between pairs can be strong or weak and last for weeks, months, or even years, which makes learning how to use and calculate correlation data extremely important.

## **TRADE PARAMETERS FOR DIFFERENT MARKET CONDITIONS**

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The most important first step for any trader, regardless of the market that you are trading in, is to create a trading journal. However, the FX trading journal is not just any trading journal. Aside from the typical listing of your trade ideas and executed trades with targets and stops, the FX trading journal also teaches you how to create a currency pair checklist that takes approximately 10 minutes to fill out and gives you a near immediate insight on the exact technical picture for each currency pair. Trading effectively means having a game plan, and we systematically dissect a game plan for you in this chapter, teaching you how to first profile a trading environment and then know which indicators to apply for that trading environment.