

Trading The Foreign Exchange Markets

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Fixed Income, Currencies and Commodities

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- FX Market Characteristics
- Interpreting Data & News
- Key Inputs to Decision Making

FX Market Characteristics

What makes it tick?

- 24-hour, seamless trading
- Extremely liquid (daily turnover ~\$3.8 Trillion)
- Mainly traded OTC
 - Algorithmic/Robotic Trading
- Perfect market – instant news assimilation
- Low transaction costs
- Major centers – Sydney, Tokyo, Singapore, Hong Kong, Dubai, Frankfurt, London, and New York

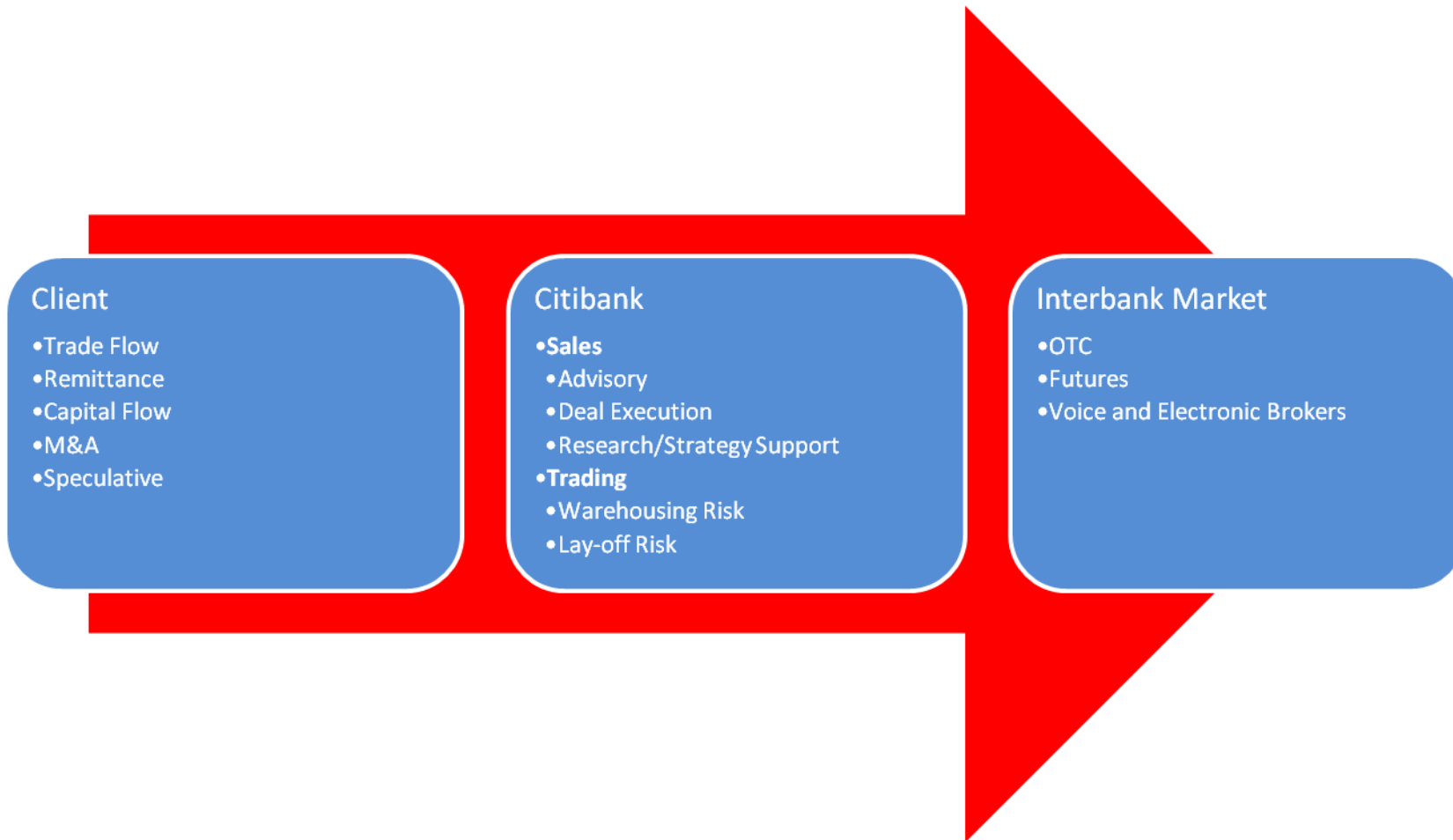
FX Market Characteristics

Market Evolution

- Barter system gave way to exchanging goods for precious metals like Gold and Silver
- Before WW1, Central Banks measured their currencies on the Gold Standard
 - But supply of money, without any gold backing led to inflation and political instability
- The US led the agreement to introduce Bretton Woods after WW2 in 1944
 - The system favoured a new currency system based on the USD
 - Regime of fixed exchange rates, with the dollar pegged to \$35/oz of gold
 - *1971 John Connolly: The dollar is our currency, but your problem*
- Nixon formally ended Bretton woods in 1971 after a string of economic problems in the 1960s
- This was the initial boom in FX volumes, as currencies were freed of many capital restrictions
- The Maastricht Treaty in 1992 paved the way for the introduction of Euro
 - Britain opted out after the *Black Wednesday*
 - Replaced 16 currencies at midnight of 01-Jan-1999

FX Market Characteristics

Typical Deal Flow



Interpreting Data & News

Macro-economic Framework

- GDP
- CPI and Interest Rates
- Current and Capital Account Balances
- Corporate Hedge Ratios
- Health Indicators
 - Industrial Production
 - Retail Sales
 - Personal Income & Employment, etc.

Interpreting Data & News

The Trilemma Dilemma

- Interplay of:
 - Monetary Policy
 - Fiscal Policy
 - Exchange Rate
- Role of the Central Bank
 - Market-maker of last resort
 - Regularly collating & providing economic data

Interpreting Data & News

Information Providers – An Example

B-Mail: +3 -ib.kof]

REUTERS File Edit View Insert Format Tools Object Window Help Contacts

FX 4Cast NEWS Credit Markets IMM

P09 BGC Int

ON ASIA	HK03118	PNDF
INDIAN RUPEE	PHIL PESO	CHINESE CNY
OUTRIGHT INR	OUTRIGHT PHP	OUTRIGHT CNY
10140/10180	6.8308/	
10151/10191	6.8285/6.8325	
10160/10260	6.8310/6.8325	
10220/10320	6.8290/6.8320	
10285/10385	6.8280/6.8320	
10460/10560	6.8180/6.8220	
10640/10740	6.8070/	
10880/10980	6.7950/6.7970	
	6.6950/6.7150	
	6.6900/6.6500	

1704 WORLD YIELD IN 1

O/N	US	JP	UK
3M	0.14	0.15	0.44
1YR	0.41	0.18	0.38
2YR	0.93	0.25	0.88
5YR	2.34	0.60	2.60
10YR	3.39	1.31	3.55
30YR	4.20	2.22	4.12
DISC	0.50	0.30	
PRIME	3.25	1.95	0.50
CPI	<G7DIARY1>	<G7DIA>	

16:04 02SEP09 TI

1YR	18MTH	2YR	3YR	4YR	5YR	6YR	7YR	10YR	12YR	15YR
1.190-1.135	1.405-1.335	1.615-1.550	1.950-1.900	2.205-2.140	2.400-2.330	2.580-2.480	2.650-2.580	2.930-2.860	3.130-3.030	3.310-3.195

	Last	NetChng	PctChng
/NSEI	4645.35	+20.00	0.43%
BSESN	15601.51	+50.32	0.32%
DJI	9310.60	-185.68	-1.96%
/DJc1	9318	+15	0.16%
/SPc1	999.50	+3.00	0.3%
/XIC			
/GSPC	998.04	-22.58	-2.21%
N225	10280.46	-249.60	-2.37%
PSI	2808.21	-44.72	-1.57%
FTSTI	2575.28	-21.11	-0.81%
/HSI	19596.17	-276.13	-1.39%
KS11	1613.16	-9.90	-0.61%
SETI	650.08	-4.04	-0.62%
/JKSE	2293.238	-33.676	-1.45%
/TWI	7039.77	+20.02	0.29%
SSEA	2849.201	+32.876	1.17%
/KLSE	1167.20	-4.08	-0.35%
Clc1	68.65	+0.60	0.88%
=USD	78.630	-0.131	-0.17%
/SSoc1	310.5	-1.0	-0.32%
/VIX	28.15	+3.14	12.07%

P AP (SINGAPORE) PTE

	Bid	Ask	High	Low
INR=D2	48.9700	48.9800	49.2100	48.9700
EUR=EBS	1.4239	1.4240	1.4247	1.4190
JPY=EBS	92.97	92.98	93.06	92.51
GBP=D2	1.6175	1.6176	1.6193	1.6115
CHF=EBS	1.0653	1.0655	1.0680	1.0649
AUD=D2	0.8330	0.8332	0.8343	0.8239
CAD=D2	1.1009	1.1011	1.1045	1.1007
NZD=D2	0.6768	0.6770	0.6779	0.6738
EURJPY=EBS	132.37	132.39	132.52	131.47
GBPJPY=EBS	150.37	150.41	150.56	149.33
EURGBP=D2	0.88035	0.88045	0.88150	0.87865
SEK=	7.2534	7.2649		
AUDNZD=R	1.2302	1.2318		
SGD=D2	1.4436	1.4440	1.4463	1.4431
KRW=KFTC	1249.6	1250.1	1253.4	1245.0
THB=D2	34.015	34.038	34.040	34.030
IDR=ID	10130	10140		
MYR=	3.5370	3.5400		
LKR=	114.73	114.93		
HKD=D2	7.7512	7.7514	7.7514	7.7508
PHP=PDSP	48.850	48.850	49.010	48.825
TWD=TP	32.885	32.890	33.005	32.835
VND=	17815	17825		
CNY=CFXS	6.8308	6.8309	6.8318	6.8306
INR1M=	9.00	10.00		
INR1Y=	115.25	117.25		
INR3M=	29.25	30.25		
MXN=D2	13.5760	13.5900	13.6500	13.5725
ZAR=D2	7.8550	7.8665	7.9120	7.8550
XAU=EBS	954.45	955.20	956.75	951.80
BRL=	1.9121	1.9149		
TRYTOM=D2	1.5131	1.5135	1.5220	1.5110
EURHUF=D2	275.200	275.550	276.500	274.250
EURPLN=D2	4.1555	4.1570	4.1775	4.1530
EURCZK=D2	25.560	25.610	25.700	25.600
RUB=	31.9320	31.9370		
PLN=	2.9181	2.9196		
ILS=D2	3.8065	3.8100	3.8125	3.8030

15:00 DJN-DJ MARKET TALK:USD/TWD Trades Higher; Clearer Cues Awaited-Traders=2

15:03 DJN-DJ MARKET TALK:USD/TWD Trades Higher; Clearer Cues Awaited-Trader

15:02 RTRS-SERVICE ALERT - RDF/RWS Services in Africa - PLANNED MAINTENANCE see page <ALERT2>

15:02 IFR-NORDIC BRIEFING: 8.7070 (last Wednesday's High) Weighs On Mkt

15:00 IFR-FX HIGH/LOWS: Updated Every 5 Minutes <TGM2371>&<TGM2372>

15:00 RTRS-TABLE-SNB offers 1-week funds in repo

15:00 RTRS-FINEWS-JGB 5-yr yield hits 4-yr low as banks buy

15:00 IFR-FX OPTIONS: Maturity Calendars Updated <TGM2369>&<TGM2370>

15:00 RTRS-SLOVAK STATS OFFICE SEES FY-2009 GDP AT -3.5 PCT YY

15:00 RTRS-SLOVAK Q2 GDP +2.2 PCT Q/Q SEASONALLY ADJUSTED

15:00 RTRS-SLOVAK Q2 GDP -5.3 PCT YY (FLASH ESTIMATE -5.3 PCT, Q1/09 -5.6)

15:04 DJN-DJ BMW FINANCIAL SERVICES TO INVEST \$50M IN INDIA OPS IN 2 YRS<BMWVG.DE>

15:03 DJN-DJ BMW FINANCIAL SERVICES TO START INDIA OPS BY JUNE 2010<BMWVG.DE>

15:00 DJN-DJ INDIA NEWS HIGHLIGHTS:Top Economic/Equities Stories Of The Day

14:53 RTRS-UPDATE 1-India's sugar demand dries up as NY spikes -traders

14:44 RTRS-Accor says to have 50 hotels in India by 2012

14:43 DJN-DJ Pakistan Last FY Fiscal Gap Narrowed To 5.2% Of GDP=2

14:35 RTRS-MARKET EYE-OMCs shrs up on govt's subsidy move, lower oil

14:34 RTRS-ACCOR <ACCP.PA> SAYS TO OPEN 18 HOTELS IN INDIA IN 2011, 19 IN 2012

14:34 RTRS-NEW DELHI-FRANCE'S ACCOR <ACCP.PA> SAYS TO OPEN 7 HOTELS IN INDIA IN 2010

14:32 RTRS-TABLE-Asia top CDS movers=2

14:32 RTRS-TABLE-Asia top CDS movers

14:31 RTRS-TOP NEWS*

14:30 OMF: China exports rise on improved demand

15:04 DJN-DJ BMW FINANCIAL SERVICES TO INVEST \$50M IN INDIA OPS IN 2 YRS<BMWVG.DE>

15:04 DJN-DJ Sri Lanka Stands Ground Over Jailing Of Journalist

15:04 MKW-Vestel to Demonstrate AMMON-Based Wireless 1080p HDTVs at the IFA 2009 Consumer Electronics Show

15:03 DJN-DJ MARKET TALK:USD/TWD Trades Higher; Clearer Cues Awaited-Trader=2

15:03 DJN-DJ MARKET TALK:USD/TWD Trades Higher; Clearer Cues Awaited-Trader

15:03 RNS-REG-Lyxor Intl Asset Mgt Net Asset Value(s)

15:03 DJN-DJ Dow Jones Asia-Pacific Top Stories Sked For September 2

15:03 RTRS-Hungary revises June trade surplus down to EUR 457 mln


15:03 RTRS-GOLDMAN SACHS RAISES INDEBIT COMPANY SPA <IND.MI> PRICE TARGET TO 5.90 EUR FROM 4.44 EUR; RATING NEUTRAL

15:03 DJN-DJ TURKISH CTRL BANK INVITES BIDS FOR TRY1B REPO AUCTION -IHA

15:03 RTRS: Moody's issues special report on credit rating of...

http://prod.sga.4castweb.com/pf/v/storytop.asp?InFv=1click=1rnd=0.9619532calsearch=TypedSearch=LID=(8EF59E4F-A760-4017-BD00-8FED33AFF1E)IX=ID=Link=5code=XBP1300Filter=

3:04 PM NUM REUTERS



Key Inputs To Decision Making

Attributing Risk Capital

- Factors to look at:
 - Economic Fundamentals
 - Technical Analysis
 - Flow Information
 - Momentum Trading

Key Inputs To Decision Making

Economic Fundamentals

- FX is a “relative value” trade
 - Plain vanilla or basket trades
- External factors versus internal factors
- Strength of the policy makers
 - China’s reserve accumulation versus *Black Wednesday*

Key Inputs To Decision Making

Technical Analysis

- Trendline Supports & Resistances



Key Inputs To Decision Making

Technical Analysis

- Head & Shoulders



Key Inputs To Decision Making

Technical Analysis

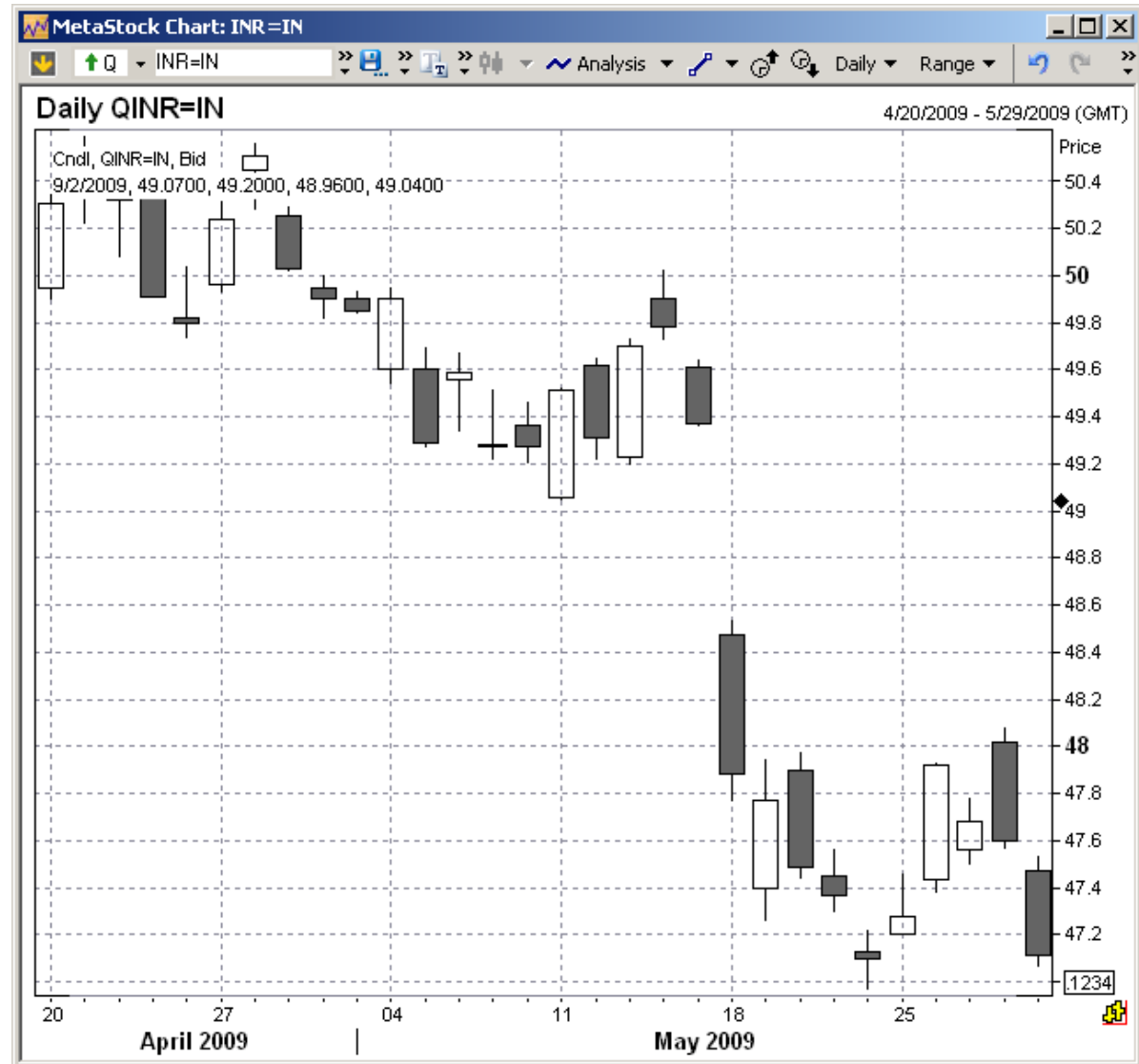
- Moving Averages (55, 100, 200)



Key Inputs To Decision Making

Flow Information

- Indian Elections – May 2009



Key Inputs To Decision Making

Flow Information

- Canadian companies on a buying binge abroad



Key Inputs To Decision Making

Momentum Trading

- Cross-Asset Correlation



Key Inputs To Decision Making

Momentum Trading

- Thematic Trading



Thank You.

EXPECT to win



Sources & Disclaimer

- All charts courtesy of Bloomberg and Thomson Reuters
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