FOREX MARKET

Introduction to forex market: foreign exchange market is the most largest and liquid financial market in the world. It is referred to foreign currency market, where a party of a country purchase some quantity of a currency in exchange of paying some quantity of another currency. Basically large banks, speculator of currency, central banks, government and other financial institutes are involved in trading in foreign exchange market.

NEED TO FOREIGN EXCHANGE MARKET

The foreign exchange market is a crucial international market and is the world's most respected financial institution. On a daily basis, the forex exchange trades with approximately two trillion US dollars foreign exchange transaction are central to global commerce.

1)Protection of currency: to accumulate there serve governments protects the currency trade by the help of foreign exchange market. It affects by value of the currency. and it is easy to do payments. If economy changes then central bank can ensures the reserves are enough to face the situation.

2)Job opportunities: with the increased use of the internet, online forex exchange has become a prominent features in the foreign exchange market. Many people earn a living by trading currencies online on a daily basis which in turn increasing the job opportunities.

3)Hedging facilitator: forex is a hedging facilitator. Here heading means protecting the business from risk. It provides business owners with mechanism that guard them against incurring losses in the event that values of the currencies they trade in fluctuate.

4)Facilities international trade: the need for acquiring currency to trade arises when the business deal with other country investors. Transfer of purchasing is facilitated by foreign exchange among the countries. By acquiring capital purchasing power can be enhanced.

5)Currency liquidity: the foreign exchange market provides liquidity for currencies. Liquidity is the ease with which it can convert a foreign currency into a domestic currency.

6)Credit provision: it has a facility of credit provision. It helps to enhance the growth of foreign trade. Most investors dealing with international trade depend on the credit facilities that are advanced to them by forex markets.

CHARACTERISTICS OF FOREIGN EXCHANGE MARKETS:

1)Superior liquidity:- in a forex market, traders are free to buy and sell currencies of the own choosing. The superior liquidity of the forex market enables traders to easily exchange currencies without affecting the price of the currencies being traded.

2)Strong market trends: forex trader make money by getting accurate market data and then analysing the direction the markets takes.

3)Purchasing power:- foreign exchange market aims at transferring the purchasing power of one currency to another currency.

4)Lower trading costs:- any one can open a mini forex account by investing small amount of investment. Because the cost of trading is low comparing to other investment options. The lower trading costs in the forex market has made it possible for even small individual investors to make decent profits from forex trading.

5)Intermediary function:-buyers and sellers come to do business in foreign exchange market. So it gives a platform for business and foreign exchange market acts works as intermediary.

6)Electronic market: foreign exchange market transaction takes place through electronically linked network banks, where the buyers and seller come together to do foreign exchange.

7)Credit provision: forex provides the facility of credit provision to the buyers in the form of banker’s acceptance and letter of credit. It helps the trades in international market.

8)Best transparency: the excellent transpency of the forex market means that forex traders have more control over their investments and can decide what to do base on the information available.

FUNCTIONS OF FOREIGN EXCHANGE MARKETS:

1) Transfer of purchasing power:- forex allows transferring the purchasing power or conservation of one currency to another currency in the market to complete the business between two countries.

2)Provision of credit:- to promote foreign trade between the countries, foreign exchange market provides credit to the trade both national and international. It helps the trader to trade easily.

3)Minimizing foreign exchange risk:- foreign exchange market minimizing the risk of trade. Foreign transaction are done minimizes the risk of trade. Foreign transactions are done through the payment and receipts of foreign currency exchange.

PARTICIPANTS OF FOREIGN EXCHANGE MARKET:-

1)Retailers: basically retailers use foreign exchange for the purpose of operating their business. they buy or sale by placing orders with commercial banks.

2)Commercial banks:- commercial banks are directly involved in buying and selling of foreign currency in order of their retail clients and for their own proprietary trading for the purpose of structuring their assets and liabilities.

3)Foreign exchange brokers:- foreign exchange brokers play a good role in foreign exchange market. They collect number of quotations for different currencies from several banks and they places most favourable quotation to the banks.

4)Central banks: central banks play a good role in this. They frequently intervene to buy and sale the currency through bid which influences the rate at which the currency is traded.

5)Investors and speculators: investors and speculators require currency exchange whenever they deal in any foreign investments are it equity, bonds, bank deposit, or real estate.

6)Authorized dealer: a trader who buys and sells currencies for example, a foreign exchange dealer rate different exchange rate. The dealer profits from the difference in exchange rates between currencies.

7)Market make:- a market maker or liquidity provider can be company or an individual. They quote both a buy and sell price in a financial instruments or commodity held in inventory. A designated primary market maker(DPM) is a specialized market maker approved by an exchange to guarantee at the prong will take the position in a particular as signed security, option or option index.

8)Money changer: a money changer is a person who exchange the coins or currencies of one country for that of another. This trade is thought generally to be the origin of modern banking in Europe. Their work is to change in e-market, most large transaction were done not by cash /coins but by transfer order of funds on the books kept at the local money changer.