Major Currency Pairs: Forex Market

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Abstract: To analyze the Foreign exchange market on needs to use fundamental, technical and sentimental analysis. This paper majorly focuses on technical analysis the study of charts patterns from the past data. The paper focused on the trends of the FOREX Market to predict the future price by past actions and also to determine the factors influencing the drastic changes. The paper analyzes the most highly traded currency at which time as well as the profit and loss ratio in FOREX Market trading. The analysis of currency pairs takes in view of 3 points:

- Price takes into account everything
- The price is a subject to a trend
- History repeats itself.

Keywords: Technical analysis, Fundamental analysis, Sentimental analysis, interest rate and inflation rate.

I. INTRODUCTION

Forex market is an OTC market where traders don’t have to be present physically everything is done using online platforms. The Forex market is like a wholesale segment where the dealing directly takes place between the customers and banks. The basis of Forex market is trading one country’s currency pairs towards other currencies. The world’s largest market, Forex growing swiftly and day trades is $5 million.

The exchange rate is determined by comparison between two currencies where major currencies traded are the Euro (EUR), Japanese Yen (JPY), British Pound (GBP) United States Dollar (USD) and the Swiss Franc (CHF). Commonly traded, major currency pairs are

- EUR/USD
- GBP/USD
- USD/JPY
- USD/CHF

In a currency pair, first currency known as BASE CURRENCY; second currency known as QUOTE CURRENCY. The base currency is bought and the quote currency is sold, while buying the currency pair. Visa-Versa, the base currency is sold and the quote currency is bought while selling the currency pair. In order to carry out the analysis of Forex market, number of tools/indicators are used to determine whether given currency pair to be buy or sell such as candle stick pattern, Relative strength index, Bollinger band, Moving average.

II. OBJECTIVE OF THE STUDY

- To learn on international currencies with virtual money.
- To determine the factors influencing the drastic changes
- To determine which currency pairs has more/less volatility

III. RESEARCH METHODOLOGY

To understand the changes in FOREX Market trends by using candlestick charts and statistical indicators like Relative strength index, Bollinger bands, stochastic indicator and moving averages are used. The historical data is collected from Meta Trader 4 trading platform from 5-06-2019 to 5-07-2019.

IV. ANALYSIS

Currencies are traded in the 3 categories of time

1. Hourly
2. Midday
3. Daily.

Timing Range and Duration:

1. Less than 12 hours between opening and closing position, traded category is hourly.
2. Between 12 and 24 hours, category placed in midday
3. More than 24 hours, category belongs to daily.

No Manual closure, automatically terminated by hitting the stop loss or profit as performed on the trading platform. Moreover, in each position 40 pips are determined for taking profit and stop loss where positions are taken by signals using indicators, tools and patterns.
A. **Stochastic Oscillator**

- The oscillator follows the speed or momentum of price.
- The stochastic oscillator can play an important role in identifying overbought and oversold levels.
- In this, it can be seen that there are two lines, red and blue. The blue line is for the buyers and red line is for the sellers. When blue line is above red line then, it is said that the market is strong for buyers as compare to sellers.

One of the methods of using the stochastic oscillator, to look for overbought areas (above 80) as well as oversold areas (below 20). Above chart shows stochastic oscillator below 20 which is an oversold reading.

B. **Relative Strength Index**

- It is the best indicator to identify whether currency is overbought or oversold.
- When overbought currency shows the uptrend in the market the traders buy the currency for long time.
- When the oversold currency shows the downtrend the traders sell the currency for long time.
- RSI is limited between 0 to 100 (above 70 overbought, below 20 oversold).
- One should not take the position only by RSI signals. It should be combined with supplement signals sent by other indicators.
C. Moving Averages

![Figure 3: Moving Averages](image)

This indicator helps to determine the potential direction of the currency. This indicator helps to determine the future prices. Among traders, the basic and popular moving average Uptrend is observed when the price moves higher and higher above moving average Below moving average, as price falls down which shows an average is higher than the price. In the above figure, the bearish trend can be seen which shows the supply is more than the demand.

D. Bollinger Bands

![Figure 4: Bollinger Bands](image)

- It has three lines they are simple moving average, upper band and lower band.
- This tool tell us whether the market is quite or loud, when the market is quite it contract, when it’s loud it expands.
- Bollinger has set 22 rules to follow while trading with these bands.

<table>
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<th></th>
<th>Number of positions</th>
<th>Positions (%)</th>
<th>Number of positive results</th>
<th>Positive result (%)</th>
<th>Number of negative result</th>
<th>Negative result (%)</th>
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<tr>
<td>Daily</td>
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<td>25.93</td>
<td>14</td>
<td>12.96</td>
<td>14</td>
<td>12.97</td>
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</tbody>
</table>

Table 1: Summary of Trading Categories
Major Currency Pairs: Forex Market

Interpretation: Table 1 shows 108 executed positions during JUNE 2019 50% of all transactions are hourly basis; rest either midday basis or daily basis. Categories Dispersion mentioned below:

![Figure 5: Dispersion of Categories](image)

Table 1 illustrate, 71% of hourly positions are executed successfully (37 out of 52), 46% of midday positions (13 out of 28) ended with profit and 50% of daily positions (14 out of 28) are closed satisfactory.

The result shows, hourly positions success with technical analysis while, daily & midday stand at second & third places respectively. Moreover, 57.9% of total the positive positions belongs to hourly category (37 out of 64) whereas midday category at 20.31% (13 out of 64) & daily category at 21.79% (14 out of 64) respectively.

64 transactions out of 108 all transactions are terminated with profit. In percentile 58% of all transactions hit take profit and closed successfully. The result is depicted below.

![Figure 6: Profit and Loss %](image)

![Figure 7: Dispersion of Currency](image)

Table 2 illustrate, GBP/USD at 19.44% out of 58.33% has most success technical analysis. USD/JPY are placed next with 15.74%, 12.96% & 10.19% respectively. Moreover, an even positive position among currency pairs is GBP/USD with 33.33% (21 out of 63). USD/CHF, EUR/USD and USD/JPY stands next, 26.98% (17 out of 63), 22.22% (14 out of 63) & 17.46% (11 out of 63) respectively.

GBP/USD placed first among other currency pairs, reason high economic stability in Great Britain as compare with European countries.

Euro zone is facing problem like debt, challenge for Euro zone countries. Resultant, Euro acts as a sensitive currency and traders are encouraged to trade with more stable currency.

![Figure 7: Dispersion of Currency](image)

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V. CONCLUSION

2018, Bank for international settlements (BIS) global results shows that trading in foreign exchange markets averaged per day is $5.3 trillion. Among four major currency pairs of FOREX market i.e. EUR/USD, GBP/USD USD/JPY & USD/CHF. GBP/USD pair, most preferred trader’s currency pair due to stability and reliability on Great Britain economy then stands USD/CHF, EUR/USD and USD/JPY respectively. Due to market volatility, hourly category is more sensation technically moreover probability of volatility and rapid movement become less, decrease in the length of position category.

REFERENCES


AUTHORS PROFILE

Dr. Ritu Kothiwal, presently working as Controller of Assessment & Evaluation, VISHWA VISHWANI INSTITUTE OF SYSTEMS & MANAGEMENT, Hyderabad She is Post Graduate in Commerce and Business Management & done her PhD from Ch. Charan Singh University, Meerut (U.P.) In her 20 years of both Industry & Academic experiences, participated, presented and published more than 25 research papers in national and international seminars & conferences. Her areas of research are Financial Markets, Banking & Insurance, Direct Taxation and Investment Banking, acting as PhD guide of Mewar University Rajasthan.